STATE OF HAWAII 1959

DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

LINDA LINGLE
GOVERNOR
THEODORE E. LIU
DIRECTOR
PEARL IMADA-IBOSHI
DEPUTY DIRECTOR

No. 1 Capitol District Building, 250 South Hotel Street, 5th Floor, Honolulu, Hawaii 96813
Mailing Address: P.O. Box 2359, Honolulu, Hawaii 96804
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Statement of
THEODORE E. LIU
Director
Department of Business, Economic Development, and Tourism
before the
HOUSE COMMITTEE ON FINANCE

Wednesday, February 17, 2010
3:00 p.m.
State Capitol, Conference Room 308

in consideration of

HB 2867
RELATING TO TAXATION

Chair Oshiro, Vice Chair Lee, and Members of the Committee.

The Department of Business, Economic Development, and Tourism (DBEDT) understands the intent of this measure, however, due the downturn in Hawaii's economy, the closing of so many businesses and the loss of thousands of jobs, we have serious concerns about the impact of this measure as it would repeal many of the tax incentives that were designed to stimulate business in the state. As this measure relates to Creative Industries, energy activities, and the development of Hawaii's economy, we oppose the repeal of sections: 1) Section 235-7.3, HRS, Royalties derived from patents, copyrights, or trade secrets excluded from gross income; 2) Section 235-9, HRS Exemptions; 3) Section 235-17, HRS, motion picture, digital media, and film production income tax credit; 4) Section 235-12.5, HRS, renewable energy technologies income tax credit; and 5) Section 235-110.3 ethanol facility tax credit.

As an example of impact, the repeal of Section 235-17, HRS, motion picture, digital media, and film production income tax credit (Act 88), would not only suspend all tax incentives for film, television and digital media production, but as a result, Hawaii would lose a major tool in attracting and developing production activity in this highly competitive marketplace. The Act 88 tax incentive has helped to attract more than $462 million in direct production expenditures in our state since its effective date of July 1, 2006. The tax credit has played, and continues to play a significant role in attracting productions to Hawaii, driving economic development and developing our workforce.

As another example, the repeal of Section 235-7.3, HRS, Royalties derived from patents, copyrights, or trade secrets excluded from gross income. The heart of Hawai`i's creative industry is driven by intellectual property creation. Such products as music, software, art, engineering designs, literature and inventions – are all examples of the type of businesses that would be serious compromised by the repeal of this section. Many of these represent current and future businesses for Hawaii we should be encouraging to grow and startup.

Tax credits are invaluable and have been responsible for attracting substantial business investment to the Hawaiian Islands - spurring economic activity, and supporting high-paying job creation while recognizing their direct affect on providing economic stimulus necessary for Hawaii's short- and long-term recovery.

Hawaii's $4 billion dollar creative sector is part of the solution to the economic challenge we are currently facing. Not only does this sector provide skilled, well-paying jobs, it works to support the State's visitor industry infrastructure and provides valuable exposure the State might not otherwise be able to afford. Further, in times of economic downturn, many of the industries in this sector continue to thrive. Studios will continue to spend millions of dollars to produce film and television projects in locations around the world, however, production decisions are still driven by the bottom line. To the extent we can maintain Hawaii's competitive tax incentive program we will continue to attract multi-million dollar production business to our islands that support industry growth and workforce development.

The repeal of the ethanol facility tax credit, Section 235-110.3, would reduce the likelihood of the construction of local ethanol production facilities. Some may be misled to view the proposed change as a means to remedy the current budget situation. That interpretation would be incorrect. The actual amount of this credit that has been used is $0, and will continue to be $0, until fuel production facilities have been built and are in production. Since the ethanol production facilities are required to file notices in advance of facility construction, and again upon commencement of ethanol production, and the tax credit is not available until after the facility has produced at least 75% of its nameplate capacity (i.e. at least 9 months after start of production), there is significant advance notice before any funds are paid out for this incentive. These provisions provide lead time for the State to plan for anticipated expenditures under this program. To eliminate the incentive at this date would put potential projects in jeopardy; signal to those in the investment community a lack of our commitment to the goals of diversification of energy supplies and use of renewable fuels; and weaken our progress towards the energy and economic diversification objectives of the State.

The renewable energy technologies income tax credit was evaluated and found to have a positive revenue impact, with the State realizing an internal rate of return on the tax credit (due to increased economic activity) of approximately 18.1%. The installation of renewable energy systems also improves Hawaii's energy security; diversifies our energy mix; creates jobs; and reduces emissions.

Thank you for the opportunity to provide these comments.

Linda Lingle
GOVERNOR

KAREN SEDDON
EXECUTIVE DIRECTOR

STATE OF HAWAII
DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT AND TOURISM
HAWAII HOUSING FINANCE AND DEVELOPMENT CORPORATION
677 QUEEN STREET, SUITE 300
Honolulu, Hawaii 96813
FAX: (808) 587-0600

IN REPLY REFER TO

AMENDED Statement of
Karen Seddon
Hawaii Housing Finance and Development Corporation
Before the

HOUSE COMMITTEE ON FINANCE
February 17, 2010, 3:00 p.m.
Room 308, State Capitol

In consideration of
H.B. 2867
RELATING TO TAXATION.

The HHFDC ***opposes*** sections 2, 26, 32, and 34 of H.B. 2867, which all relate to the State Low-Income Housing Tax Credit (LIHTC). These sections amend or repeal sections 201H-15, 235-110.8, 241-4.7, and 431:7-208, Hawaii Revised Statutes (HRS), until December 31, 2015. We defer to the Department of Taxation with respect to the merits of the remainder of this bill.

The State Low Income Housing Tax Credit (LIHTC), established in section 235-110.8, HRS, has been an effective financing tool for the development or preservation of affordable rental housing projects. The State LIHTC is coupled with the Federal LIHTC, which is heavily regulated and monitored by the Internal Revenue Service. Without the State LIHTCs, additional state subsidies will be required to support the development of rental housing for low-income households. As of the end of Fiscal Year 2009, a total of 6,610 affordable rental housing units affordable to families at or below 60 percent of the area median income have been placed in service or are in development with the assistance of State LIHTCs.

Section 201H-15 establishes the HHFDC as the State of Hawaii's housing credit agency.

Section 241-4.7, HRS, makes the State LIHTC applicable to banks and financial corporations. As local financial institutions have been the primary investors for the State LIHTCs, the repeal of this section would also hinder the development or preservation of affordable rental housing.

Section 431:7-209, HRS makes the State LIHTC applicable to insurance companies. The repeal of this section would similarly limit the market for State LIHTCs and hinder affordable rental housing development and preservation.

Thank you for the opportunity to testify.

HTDC Cultivating Hawaii's tech sector
HIGH TECHNOLOGY DEVELOPMENT CORPORATION

Written Statement of
YUKA NAGASHIMA
Executive Director & CEO
High Technology Development Corporation
before the
HOUSE COMMITTEE ON FINANCE
Wednesday, February 17, 2010
3:00 PM
State Capitol, Conference Room 308

In consideration of
HB 2867 RELATING TO TAXATION.

Chair Oshiro, Vice Chair Lee, and Members of the House Committee on Finance.

The High Technology Development Corporation (HTDC) respectfully opposes HB 2867, which repeals various income tax credits and deductions.

While we are aware of the budgetary constraints and the economic challenges we face, and we appreciate the legislature's attempts to address this fiscal gap, repealing existing tax credit legislation that is already sun setting for example, would generate concerns about the State government's ability to offer a stable business environment.

Further, HTDC agrees with the details presented in the testimony of Mr. Karl Fooks of the Hawaii Strategic Development Corporation.

Thank you for the opportunity to submit testimony on this bill.

2800 Woodlawn Drive, Suite 100, Honolulu, HI 96822 | Ph: (808) 539-3806 | Fax: (808) 539-3611 | info@htdc.org | www.htdc.org

LINDA LINGLE
Governor

SANDRA LEE KUNIMOTO
Chairperson, Board of Agriculture

DUANE K. OKAMOTO
Deputy to the Chairperson

State of Hawaii
DEPARTMENT OF AGRICULTURE
1428 South King Street
Honolulu, Hawaii 96814-2512

WRITTEN TESTIMONY OF SANDRA LEE KUNIMOTO
CHAIRPERSON, BOARD OF AGRICULTURE

BEFORE THE HOUSE COMMITTEE ON FINANCE
WEDNESDAY, FEBRUARY 17, 2010
3:00 P.M.
ROOM 308

HOUSE BILL NO. 2867
RELATING TO TAXATION

Chairperson Oshiro and Members of the Committee:

Thank you for the opportunity to testify on House Bill 2867, which proposes to repeal various income tax credits and deductions. While we are sensitive to the economic situation facing the State, we are opposed to the repeal of Section 235-110.93, Hawaii Revised Statutes, found in Section 29 of HB2867.

The repeal of this section would effectively eliminate one of the most important of all of the incentives created in the 2008 session to start the process to designate and protect important agricultural lands (IAL) as mandated by the State constitution. It took 30 years since Article XI, section 3 was added to the constitution to begin the process of protecting the state's important agricultural lands. During that period, thousands of prime agricultural acres were lost to development and the remaining prime lands continue to be sought after for non-agricultural purposes.

The incentives are working. Within six months of the passage of the incentives, a landowner initiated the IAL process and now there are over 31,000 acres on Maui and Kauai designated as IAL. We are aware that a number of other landowners are considering designating a portion of their lands as IAL and to eliminate this incentive at this time would destroy the momentum created by the first designation and cast doubt on the state's commitment to preserving important agricultural lands. It will also unfairly penalize the one landowner who already voluntarily designated 31,000 acres as IAL.

Now, more than ever, in these uncertain times, we need to ensure that the state will have a minimum level of food self-sufficiency which requires the utilization of our most productive lands. In both the short and long-term, protecting and using our important agricultural lands will contribute to our economic recovery and growth. Using our important agricultural lands to grow food for local and visitor consumption rather than rely on imports can make a significant impact on our economy. It has been estimated that using our agricultural lands to replace just 10% of the food we import could generate an economy-wide impact of $188 million in sales, $47 million in earnings, $6 million in state tax revenues, and more than 2,300 jobs.

LINDA LINGLE
GOVERNOR

BARBARA E. ARASHIRO
ACTING EXECUTIVE DIRECTOR

EXECUTIVE ASSISTANT

STATE OF HAWAII
DEPARTMENT OF HUMAN SERVICES
HAWAII PUBLIC HOUSING AUTHORITY
1002 NORTH SCHOOL STREET
POST OFFICE BOX 17907
Honolulu, Hawaii 96817

Statement of
Barbara E. Arashiro
Hawaii Public Housing Authority
Before the

HOUSE COMMITTEE ON FINANCE

February 17, 2010 3:00 P.M.
Room 308, Hawaii State Capitol

In consideration of
H.B. 2867
RELATING TO TAXATION

The Hawaii Public Housing Authority (HPHA) opposes H.B. 2867 which would, in part, eliminate the Low Income Housing Tax Credit (LIHTC) for the next 5 years.

The LIHTC is a vital tool in plans for redeveloping HPHA properties in need of significant rehabilitation, in addition to its role in the development and rehabilitation of non-governmental affordable housing. Financing plans for redevelopment of public housing and other affordable housing projects include use of the LIHTC to attract private investment. Without the LIHTC additional low-income affordable housing projects will be delayed and in many cases will not be started at all. The social and financial costs of homelessness due to lack of affordable housing will likely, in the end, be larger than the cost of continuing the LIHTC.

DEPARTMENT OF COMMUNITY SERVICES
CITY AND COUNTY OF HONOLULU
715 SOUTH KING STREET, SUITE 311 ● HONOLULU, HAWAII 96813 ● AREA CODE 808 ● PHONE: 768-7762 ● FAX: 768-7792

MUFI HANNEMANN
MAYOR

DEBORAH KIM MORIKAWA
DIRECTOR

ERNEST Y. MARTIN
DEPUTY DIRECTOR

February 16, 2010

The Honorable Marcus R. Oshiro, Chair,
and Members of the Committee on Finance
State Capitol
Honolulu, Hawaii 96813

Dear Chair Oshiro and Members:

Subject: House Bill 2867

House Bill 2867 repeals various income tax credits and deductions to take effect upon approval through December 31, 2015. The Department of Community Services (DCS) strongly opposes Section 2 and 26 of House Bill 2867 which would repeal the State Low-Income Housing Tax Credit (LIHTC).

It is fiscally prudent to provide State LIHTCs to support the development of privately-owned affordable housing. LIHTCs are often a critical component of gap financing that is needed by developers of affordable housing in order to have a feasible project. Without the development of such projects, many of our senior citizens and families would be forced to double-up with relatives. The worst case scenario would be homelessness which places a tremendous financial strain on the public support system. Although eliminating the LIHTC may save the State money in the short-run, the long-term consequences would be a greater cost burden to the State and an affordable housing crisis that is even worse compared to the present situation. We respectfully suggest the State should be looking at incentives and/or alternative financing tools to stimulate the development of affordable housing which, in turn, will provide direly needed jobs for our construction industry.

Thank you for the opportunity to provide this testimony. We respectfully request your filing of House Bill 2867.

Sincerely,

Deborah Kim Morikawa

Deborah Kim Morikawa
Director

DKM:dw

HSDC HAWAII STRATEGIC DEVELOPMENT CORPORATION

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250 South Hotel Street, Suite 508
P.O. Box 2359
Honolulu, Hawaii 96804
Telephone: (808) 587-3830

Written Statement of
Karl Fooks
President
Hawaii Strategic Development Corporation

Before the
HOUSE COMMITTEE ON FINANCE

February 17, 2010
3:00 PM
State Capitol, Conference Room 308

In consideration of

HB 2867 RELATING TO TAXATION

Chair Oshiro, Vice Chair Lee and Members of the Committee:

The Hawaii Strategic Development Corporation (HSDC) opposes Section 4 of HB 2867 as it effectively cripples the intent of Section 211G, the State Private Investment Fund (SPIF) without generating any budgetary impact. HSDC also opposes Section 27, Section 33, and Section 35 of HB 2867.

There are currently no tax credits allocated to the SPIF and therefore, no budgetary benefit to be gained by eliminating the provisions in 211G allowing for the sale and transfer of tax credits.

However, the financing mechanism intended by 211G will require the ability to sell and transfer tax credits and by eliminating the provisions in 211G relating to the sale and transfer of tax credits, the purpose of 211G is effectively negated.

Sections 27, 33 and 35 repeal what is popularly known as the Act 221 tax credits and the R&D tax credits. These tax credits sunset at the end of 2011 and were the subject of significant alternation in last year's legislative session. The repeal of Act 221, coming on the heels of last year's changes, and in light of its scheduled sunset at the end of 2011, will only reinforce investors' perception that the State of Hawaii does not stand behind its legislative commitments to support the technology sector.

Understanding the budgetary pressures confronting the State, perhaps a better solution would be to cap the amount of tax credits that can be claimed under the remaining life of the statute.

Thank you for the opportunity to submit testimony.

L E G I S L A T I V E

TAXBILLSERVICE

126 Queen Street, Suite 304 TAX FOUNDATION OF HAWAII Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, GENERAL EXCISE, BANKS AND OTHER FINANCIAL INSTITUTIONS, INSURANCE PREMIUMS, Repeal tax credits, exemptions

BILL NUMBER: HB 2867

INTRODUCED BY: Say

BRIEF SUMMARY: Repeals the following on January 1, 2010:

211G-12	Tax credits of the state private investment fund
235-4.5	Credit for taxes paid by the trust to another state
235-5.5	Individual housing accounts
235-7(a) (9-11)	Exclusion for prepaid legal plans
235-7(a)(13)	Exclusion for 100% of the gain realized by a fee simple owner from the sale of a leased fee interest of a condominium project to the association of owners or residential cooperative corporation of the leasehold units
235-7(g)	Deduction for political contributions
235-7.3	Exclusion for royalties derived from patents, copyrights, or trade secrets
235-9.5	Exclusion for stock options from qualified high technology businesses
235-12	Energy conservation income tax credit
235-12.5	Renewable energy technologies income tax credit
235-15	Child passenger restraint systems
235-17	Motion picture, digital media, and film production income tax credit;
235-19	Exception trees tax deduction
235-55.91	Vocational rehabilitation referral tax credit
235-110.2	Credit for school repair and maintenance
235-110.3	Ethanol facility tax credit
235-110.51	Technology infrastructure renovation tax credit
235-110.6	Fuel tax credit for commercial fishers
235-110.7	Capital goods excise tax credit
235-110.8	Low income housing tax credit
235-110.9	High technology business investment tax credit
235-110.91	Tax credit for research activities
235-110.93	Important agricultural land qualified agricultural cost tax credit
241-4.5	Capital goods excise tax credit
241-4.6	Renewable energy technologies income tax credit
241-4.7	Low-income housing tax credit
241-4.8	High technology business investment tax credit
431:7-208	Low income housing tax credit
431:7-209	High technology business investment tax credit

Amends Act 166, SLH 2007, to provide that the income tax exclusion of 100% of the gain derived by a fee simple owner resulting from the sale of a leased fee interest in units within a condominium project, cooperative project, or planned unit development to the association of apartment owners or the residential cooperative corporation of the leasehold units shall terminate on December 31, 2009 instead of December 31, 2012.

Amends HRS section 209E-11 to provide that a qualified business shall be entitled to the credit only if it operated as a qualified business in an enterprise zone before July 1, 2009.

Makes conforming amendments to HRS sections 201H-15, 211G-1, 211G-13, 235-2.3, 235-9.

This act shall be repealed on December 31, 2015; provided that: (1) any provision in this act repealed by operation of law on or before December 31, 2015, shall not be deemed to be reenacted; and (2) HRS sections 201H-15, 209E-10, 211G-1, 211G-13, 235-2.3, 235-4.5, 235-7, and 235-9, shall be reenacted in the form in which they read on the day prior to the effective date of this act.

EFFECTIVE DATE: Tax years beginning after December 31, 2009

STAFF COMMENTS: This measure repeals various tax credits and exemptions in state tax law. With everything from investments in high technology to ethanol producing plants to tax credits for hotel construction and home renovation and construction, taxpayers have been asked to pay for projects for which there are just promises that jobs will be created or new businesses will be attracted to provide those jobs. At the end of the day, while the beneficiaries laugh all the way to the bank with their profits, the taxpayer is left empty-handed. It should be remembered that giving tax breaks to one select group of taxpayers comes at the expense of all other taxpayers. As such, it is an insult to all other taxpayers that they are not deserving of such tax preferences. Rather than singling out a particular area for tax relief, concurrent efforts must be made to improve Hawaii's business climate to enhance the economic prospects for all businesses.

While there is no doubt that many of the income tax credits deserve to be repealed care should be exercised that such repeal does not have unexpected consequences. The repeal of the capital goods excise tax credit under HRS section 235-110.7 and the fuel tax credit for commercial fishers under HRS section 235-110.6 would result in higher operating costs for businesses that, no doubt, will be passed on to consumers in the form of higher prices of goods. In the case of the capital goods excise tax credit, the credit was to offset the cost of the general excise tax imposed on the acquisition of capital goods that are key to the creation of new jobs. The fuel tax credit for commercial fishers is supposed to refund the fuel tax paid on the fuel purchased, but the tax credit is taken against the income tax which is a resource of the state general fund. Given the concern over the lack of affordable housing, consideration might be given to the retention of the low-income housing tax credit which mirrors the federal provisions. On the other hand, repeal of other provisions, such as the child passenger restraint tax credit, are justified due to the state's seat belt law is now mandatory.

While this measure proposes to implement a recommendation of not only the most recent Tax Review Commission, but previous Commissions as well, that is to minimize or eliminate all tax exemptions and credits, the elimination of these exemptions may cause more inequities and problems. Thus, the Tax Review Commission's recommendation deserves a measured and learned response.

Digested 2/16/10

TO : COMMITTEE ON FINANCE
Representative Marcus R. Oshiro, Chair
Representative Marilyn B. Lee, Vice chair

FROM: Eldon L. Wegner, Ph.D.
Policy Advisory Board for Elder Affairs (PABEA)

HB 2867 RELATING TO TAXATION

2:00 pm Wednesday, February 10, 2010
Conference Room 308, Hawaii State Capitol

PABEA supports passage of HB 2867.

for Elder Affairs has a statutory obligation to advocate on behalf of the senior citizens of Hawaii. While we advise the Executive Office on Aging, we do not speak on behalf of the Executive Office of Aging.

During this time of economic crisis and revenue shortfalls for our state government, we need to find alternative revenue in a way that assures that everyone shares in the cost rather than to further cut the programs and services needed by our most vulnerable populations.

- Maintaining needed human services and health services is essential to our future and to preventing expensive social problems and health consequences.

- HB 2867 looks to repealing tax credits and deducations which privilege particular groups at a time when everyone needs to contribute their share to our common public responsibilities.

Thank you for allowing me to testify.

Hawaii Farm Bureau
FEDERATION
2343 Rose Street, Honolulu, HI 96819
Phone: (808) 848-2074; Neighbor Islands: 1-800-482-1272
Fax: (808) 848-1921; e-mail: info@hfbf.org

TESTIMONY

RE: HB2867 RELATING TO TAXATION

Chair Oshiro and Members of the Committee:

Hawaii Farm Bureau Federation on behalf of our member farm and ranch families and organizations **strongly opposes the deletion of HRS 235-110.93, provisions of the IAL tax credits,** proposed in HB2867.

HFBF worked for nearly 30 years to finally begin the implementation of Hawaii's Constitutional Mandate regarding Important Agricultural Lands. It was a historical action by the legislature, recognizing that agriculture is a viability issue not just a land use issue. The measure emphasized that support mechanisms to ensure viable farms and ranches was what is needed ....and thereby Hawaii will have Important Agricultural Lands. These lands would be productive, not just sitting, waiting for a farmer or rancher ..but adding to Hawaii's ability to provide for itself.

These tax credits are a cornerstone to this measure. HFBF is aggressively working with landowners to designate their lands as IAL. This voluntary designation will mean there are no "takings" issues or other private property rights disputes.

We strongly request your reconsideration of deleting the sections providing tax credits to designated IAL lands. Agriculture has stepped forward volunteering fees and other mechanisms to address budgetary shortfalls. The majority of these self imposed fees will not be felt by the average person in Hawaii ...they will only affect the bottom line of our regulated farmers and ranchers. We cannot continue to give to the effort **and** measures taking away opportunities leaving the industry at a double loss.

We respectfully request to remove HRS 235-110.93 from the list of tax credits to be repealed. If there are any questions, please contact Luella Costales at 848-2074. Thank you.

ALEXANDER & BALDWIN, INC.

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HB 2867
RELATING TO TAXATION

PAUL T. OSHIRO
MANAGER – GOVERNMENT RELATIONS
ALEXANDER & BALDWIN, INC.

FEBRUARY 17, 2010

Chair Marcus Oshiro and Members of the House Committee on Finance:

I am Paul Oshiro, testifying on behalf of Alexander & Baldwin, Inc. (A&B) and Hawaiian Commercial & Sugar Company, one of its agricultural companies, on HB 2867, "A BILL FOR AN ACT RELATING TO TAXATION."

Temporary Repeal Of The IAL Tax Credit

After over twenty five years of debate, negotiation, and compromise, the IAL Law was finally implemented in July 2008. After years of pursuing a land-use approach to this constitutional mandate, the IAL law that was successfully passed was one premised on the principle that the best way to preserve agricultural lands is to preserve agricultural businesses and agricultural viability. As such, the IAL Law not only provides the standards, criteria, and processes to identify and designate important agricultural lands (IAL) to fulfill the intent and purpose of Article XI, Section 3 of the Hawaii State Constitution, it also provides for a package of incentives designated to support and encourage sustained, viable agricultural activity on IAL. With the enactment of this comprehensive package of IAL incentives, the long awaited IAL identification and designation process was finally started in July 2008.

The present IAL Law authorizes the identification and designation of IAL in one of two ways --- by voluntary petition by the farmer/landowner to the State Land Use Commission (LUC); or subsequently by the Counties filing a petition to designate lands as IAL pursuant to a County identification and mapping process—and provides incentives to the landowner and/or farmer to conduct agricultural activities on IAL lands. In either case, the LUC must find that the lands qualify for IAL designation pursuant to the standards, criteria, objectives, and policies set forth in the IAL Law prior to designation.

This bill, which will apply to tax years beginning after December 31, 2009, repeals until December 31, 2015, the IAL Qualified Agricultural Cost Tax Credit. The bill also includes a provision stating that any tax credit repealed by operation of the law on or before December 31, 2015 shall not be reenacted on December 31, 2015. In that the present IAL Tax Credit requires the certification of qualified agricultural costs from January 2010 through December 2014 prior being claimed as an IAL Tax Credit, we understand that this bill, as presently written, would permanently repeal the IAL Tax Credit.

The IAL Tax Credit is an integral part of the comprehensive package of IAL incentives enacted in July 2008. This tax credit serves an important role in encouraging investment in agricultural infrastructure and operations on IAL, which will greatly assist farmers with the basic costs of farming and enhance their viability which is particularly key as many have been badly weakened financially by the impacts of the past two years of unprecedented drought in Hawaii. Furthermore, this tax credit, as part of the comprehensive package of IAL incentives, is central to the IAL law—intended to encourage farmers and landowners to consider the voluntary designation of their agricultural lands as IAL, a process that is currently ongoing and will provide for much quicker designation of IAL.

To date, the present IAL Law, primarily in part to its comprehensive incentive package which includes this tax credit, has resulted in the designation by the LUC of over 30,000 acres of agricultural lands as IAL from voluntary petitions for Alexander & Baldwin owned lands on Maui and Kauai and we believe significantly more acreage will be designated IAL over the next few years through the voluntary landowner and County petition process. It would be very problematic if, after voluntarily offering our lands to be designated as IAL, A&B's agricultural operations would not be able to benefit from this IAL tax credit incentive.

While we understand the fiscal constraints that the Legislature must deal with, we believe that impacting the core aspects of the IAL Law may negatively impact its outcome. We also believe that the IAL Law should be given a chance to work, the way the Legislature intended it to work when it passed the law. We respectfully request that the provision that suspends the IAL tax credit be deleted from this bill.

Ethanol Facility Tax Credit

Hawaiian Commercial & Sugar Company (HC&S) has been in operation for over 125 years. While Hawaii's many other sugar companies have shut down over the years, HC&S has been fortunate, through significant investments in our agricultural infrastructure and operations and the implementation of our diversified bio-production program, to have sustained our operations and continue as a major employer in the State of Hawaii. Despite a current uptick in sugar prices, history has proven that commodity sugar prices will remain relatively flat, as they have over the last few decades, despite increasing production costs. Thus, HC&S has for a number of years been pursuing, and investing in, a transition from a primary producer of commodity sugar to the production of specialty sugar and bio-based products. In addition to being the main supplier of Sugar In The Raw, the little brown packets of sugar seen at restaurants and coffee shops across the nation, HC&S is also expanding production and sales of our specialty Maui Brand Sugar.

HC&S also generates biomass produced electricity for its sugar milling, irrigation pumping, and other internal operations and provides electricity to Maui Electric Company (MECO) for general community use. The source of fuel for this biomass electricity is bagasse, the residual fiber of the sugar cane plant. Not only does HC&S provide approximately 6% of MECO's total electricity, HC&S is a firm power source to MECO (i.e. committed power delivery, not on an 'as available' basis), and has played a significant role in the restoration of MECO's electrical service during power outages.

Looking to the future, HC&S has accelerated its efforts to define a new strategic direction that continues to be rooted in farming, but possibly placing a greater emphasis on the production of energy. Ideally located and with irreplaceable resources to support greater renewable energy production for the State, HC&S is actively exploring a future as an energy farm --- producing ethanol from sugar or other plant feedstock, and generating electricity from bio-fuels, solar, and wind.

This bill repeals until December 31, 2015, the Ethanol Facility Tax Credit. This tax credit is an important component in the determination of the financial feasibility for the inclusion of ethanol in HC&S's new strategic direction. Our preliminary research has shown that ethanol will likely be an integral component of this new strategic direction, which will enable HC&S to continue its operations into the future. Should this ethanol facility tax credit not be available to HC&S, it will significantly reduce the likelihood that our entry into the production of ethanol would prove to be an economically feasible endeavor. We respectfully request that the provision that suspends the ethanol tax credit be deleted from this bill.

Thank you for the opportunity to testify.

HAWAII FOOD INDUSTRY ASSOCIATION (HFIA)
1188 Bishop St., Suite 608, Honolulu, Hawaii 96813
Phone (808)533-1292 - Fax (808)599-2606 - Email: hawaiifoodind@aol.com

February 17, 2010 @ 1:30 p.m. in CR 308

To: House Committee on Finance
Rep. Marcus R. Oshiro, Chair
Rep. Marilyn B. Lee, Vice Chair

By: Richard C. Botti, President
Lauren Zirbel, Government Relations

Re: HB2850 RELATING TO THE LIQUOR TAX

Chairs & Committee Members:

We oppose this tax increase.

While liquor seems to always be an easy target when it comes to spending someone else's money, we suggest that government learn to live within its budget as taxpayers must do.

Business doesn't have the option of raising prices whenever things get tough. Instead, we lay off employees, file for bankruptcy, or go out of business.

TESTIMONY OF WILLIAM G. MEYER, III

HEARING DATE/TIME: Wednesday, February 17, 2010
3:00 p.m. in Conference Room 308

TO: House Committee on Finance

RE: Testimony in Opposition of HB 2867

Dear Chair, Vice-Chair and Committee Members:

My name is William G. Meyer, III. I am an intellectual property attorney who has been practicing law in Honolulu for over 30 years. I represent both locally based and national and international motion picture and television production companies and high technology businesses.

Simply put, the repeal of the tax incentives contemplated by this measure will destroy Hawaii's motion picture and television production industries.

I strenuously oppose HB 2867.

Respectfully submitted,

/s/ William G. Meyer, III

William G. Meyer, III

PACIFIC WEST ENERGY LLC
1212 NUUANU #1704
HONOLULU, HI 96817
Tel. 808-927-0619

February 16, 2010

Representative Marcus Oshiro, Chair
Representative Marilyn Lee, Vice Chair
And Members of the Committee on Finance
Hawaii State Capitol
415 S. Beretania
Honolulu, HI 96813

Re: HB 2867– Relating to Taxation

Dear Chair Oshiro, Vice Chair Lee, and Members of the Committee,

My name is William Maloney and I am the President and Chief Executive Officer of Pacific West Energy LLC, the developers of the integrated sugarcane to ethanol and green power project on Kauai. I testify today in opposition to HB 2867, and specifically as it relates to Section 22, the repeal of the Ethanol Facility Tax Credit, Section 235-110.3 of the Hawaii Revised Statutes.

Pacific West Energy LLC intends to construct a fuel ethanol production facility on Kauai. The facility will include a green energy cogeneration facility. The total project cost is $150 million. We intend to expand sugar cane cultivation on Kauai and develop lands in other energy-related crops. In addition to producing fuel ethanol for the local Hawaiian motor fuel market we intend to export 150 million kWh's per year of green electricity to Kauai Island Utility Cooperative ("KIUC"), one-third of the island's electricity requirement. Our technology is proven and would involve a process that will yield an energy conversion ratio in excess of 9:1, including cogenerated electricity. To date, we have expended over $10 million and several years of effort in reliance on the Hawaii Ethanol Facility Tax Credit. HB2867, as currently drafted to include the Ethanol Facility Tax Credit, would likely render unviable local ethanol production and have the effect of our project being unable to source any further equity or debt for biofuels production, placing our overall project, with its more than 300 jobs, tens of millions of dollars of economic activity, and significant displacement of imported energy, in jeopardy.

As some of you may recall, in 2000 and again in 2004 the legislature passed the Ethanol Facility Investment Tax Credit. As part of its consideration of the ethanol facility tax credit the legislature and administration undertook comprehensive reviews that included a detailed fiscal and economic analysis commissioned by DBEDT and prepared for the legislature by Decision Analysts Hawaii Inc. ("DAHI"), as well as studies by Stillwater Associates and BBI International that examined the impacts from a Hawaiian ethanol industry. The two cost / benefit analysis we were required to provide included a presentation of all our capital and operating budgets to DAHI. The finding of the DAHI analysis was that the incentive would be revenue positive for the State. At that time the project was to be primarily a molasses based facility – today it is a fully integrated sugar cane based facility preserving and creating hundreds of jobs. The fiscal and economic benefits to the State from our project that were positive in 2004 are far greater today with the expanded project capital cost and scope. Further, the benefits from the tax credit are front-loaded, i.e., over the next two years, while no tax credits would be paid out, millions in tax revenue would be collected by the State in the form of excise and payroll taxes during the $150 million development period. To eliminate this tax credit would reduce revenues in the next two years and exacerbate the near-term fiscal challenge the State faces. The sunset of the repeal would not likely have a positive impact on our project, as the production of ethanol is critical to the near-term viability of the project, and delaying the installation of ethanol production facilities until the latter half of this decade is not a viable option.

Our project has taken much longer to develop than we originally envisaged. There have been many challenges, including the recent turmoil in the financial sector, volatility in energy markets, and securing lands suitable for sugar cane against competing uses. However, we have now overcome many of these obstacles, including recently concluding new definitive agreements for the acquisition of the Gay & Robinson sugar mill facility, and expect to now be in a position to move forward at an accelerating pace. Our project is a model for an integrated bio-energy refinery. It is the cornerstone of Kauai's sustainable energy plan and will displace more than 500,000 barrels per annum of imported petroleum. It is the embodiment of the legislature's and State's goals of energy self-sufficiency.

Therefore, I urge you to maintain the Ethanol Facility Tax Credit and to not include a Section 22, the repeal of Section 235-110.3, as part of HB 2867.

Sincerely,

William Maloney
William Maloney
President & Chief Executive Office
Pacific West Energy LLC

COLLEGE OF SOCIAL SCIENCES
HAWAII ENERGY POLICY FORUM
UNIVERSITY OF HAWAI'I AT MĀNOA

Testimony of
Mark Duda
Co-Chair – Renewable Energy Working Group
Hawai'i Energy Policy Forum

House Committee on Finance
Wednesday, February 17, 2010
3:00 pm
Conference Room 308

IN STRONG OPPOSITION OF HB 2867 – Relating to Taxation

I am Mark Duda, Co-Chair of the Renewable Energy Working Group of the Hawaii Energy Policy Forum. The Forum is comprised of 47 representatives from the electric utilities, oil and natural gas suppliers, environmental and community groups, renewable energy industry, and federal, state and local government, including representatives from the neighbor islands. We have been meeting since 2002 and have adopted a common vision and mission, and a comprehensive "10 Point Action Plan," which serves as a framework and guide for meeting our preferred energy vision and goals.

The Forum strongly opposes the passage of HB 2867 The Hawaii Solar Energy Association opposes the effort in this measure to eliminate Hawaii's Energy Conservation Tax Credits in Section 15 (pages 44-51) and Renewable Energy Technologies Income Tax Credit (RETITC), which is contained in Section 16 (pages 51-59) of HB2867. These credits are the basis of our State's ongoing efforts to address its energy security vulnerabilities and grow its renewable energy economy.

The industries supported by these bills employ thousands of workers in Hawaii are just getting started. A loss of these incentives now would undo the gains they have made to date and leave Hawaii's homeowners and business owners exposed to global oil prices for the foreseeable future, while putting workers out of work in very challenging economic curcumstances.

Based on the foregoing, the Forum strongly opposes HB 2867 and respectfully does not urge passage of the bill.

Thank you for the opportunity to testify.

2424 Maile Way • Saunders Hall 723 • Honolulu, HI 96822 • Telephone (808) 956-4237 • Fax (808) 956-6870

COLLEGE OF SOCIAL SCIENCES
HAWAII ENERGY POLICY FORUM
UNIVERSITY OF HAWAI'I AT MĀNOA

This testimony reflects the position of the Forum as a whole and not necessarily of the individual Forum members or their companies or organizations.

2424 Maile Way • Saunders Hall 723 • Honolulu, HI 96822 • Telephone (808) 956-4237 • Fax (808) 956-6870

Hawaii Solar Energy Association
Serving Hawaii Since 1977

February 17, 2010 **3:00PM**	**HOUSE** **COMITTEEE ON FINANCE** **HB 2867**	**Mark Duda** **President**

TESTIMONY IN STRONG OPPOSITION TO SPECIFIC PROVISIONS

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

The Hawaii Solar Energy Association opposes the effort in this measure to eliminate Hawaii's Renewable Energy Technologies Income Tax Credit (RETITC), which is contained in Section 16 (pages 51-59) of the HB2867. Solar energy is one of Hawaii's primary defenses against energy security challenges and the economic development problems associated with fossil fuel based electrical system.

Currently, the solar industry in Hawaii employs more than 2,000 workers and is set to grow substantially in 2010. A loss of the Section 235-12.5 tax credit would put most of these people out of work during a very difficult time for the construction industry.

Hawaii's solar industry is particularly concerned about this issue because we have lived through several periods in which the tax incentives that help homeowners and business owners install solar systems have been reduced or repealed. In each case, the impact of the loss of the incentive has been an immediate and nearly complete stop to virtually all construction activity. I have attached a graph to my written testimony showing this relationship between the availability of the incentives and the level of activity I Hawaii's solar market. This graph shows unambiguously that the quality of the incentive continues to drive the strength of the market.

Finally, HSEA would like to point out that a study conducted in 2002 showed that the RETITC has a net positive impact on State tax revenues. That is, the State receives more in tax revenues triggered by the availability of the RETITC than it spends on the incentive itself. HSEA is currently updating this study this study through 2009 and will make results available as soon as the study is complete.

Thank you for the opportunity to testify on this measure.

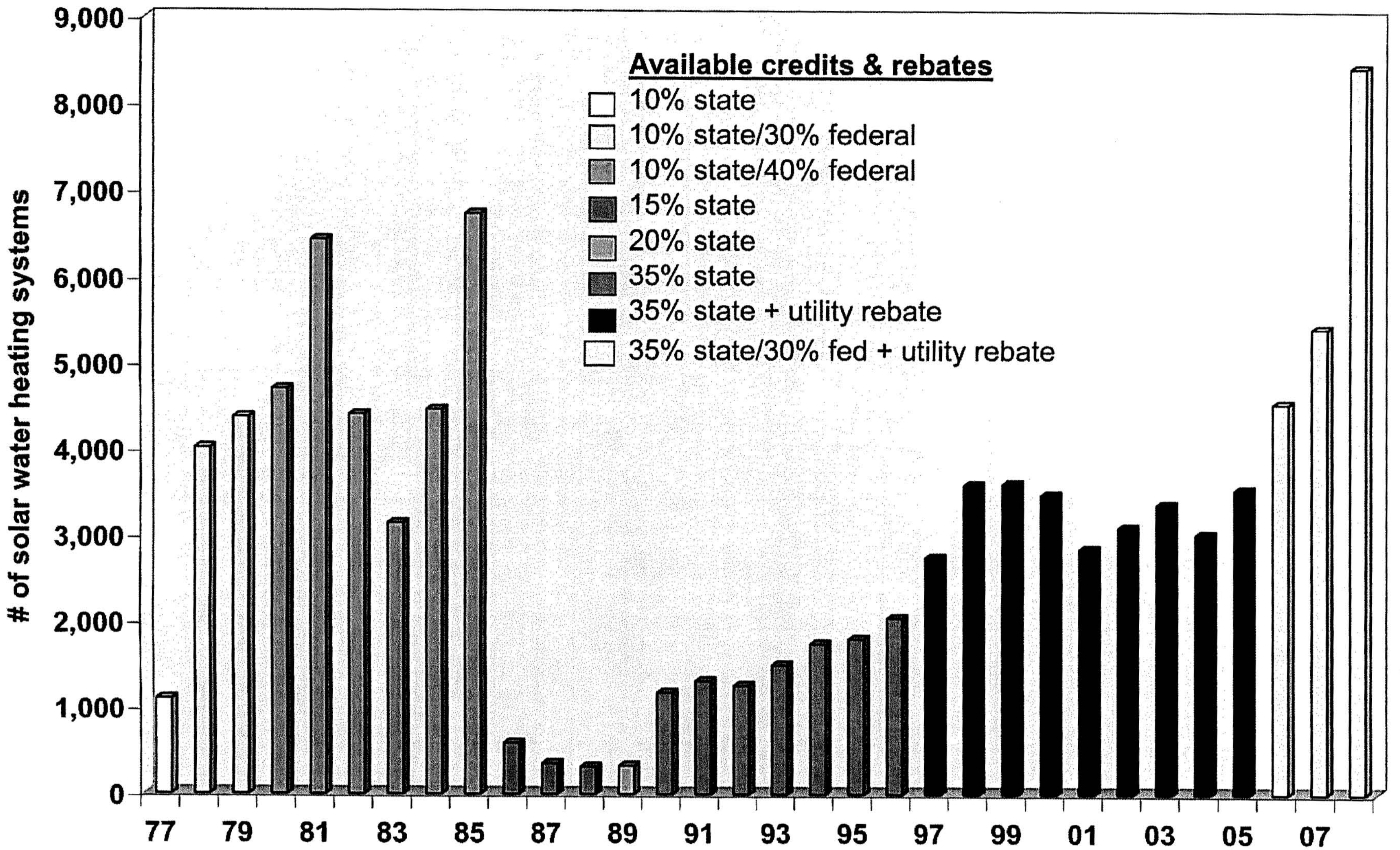
Mark Duda
President, Hawaii Solar Energy Association

About Hawaii Solar Energy Association
Hawaii Solar Energy Association (HSEA) is comprised of installers, distributors, manufacturers and financers of solar energy systems, both hot water and PV, most of which are Hawaii based, owned and operated. Our primary goals are: (1) to further solar energy and related arts, sciences and technologies with concern for the ecologic, social and economic fabric of the area; (2) to encourage the widespread utilization of solar equipment as a means of lowering the cost of energy to the American public, to help stabilize our economy, to develop independence from fossil fuel and thereby reduce carbon emissions that contribute to climate change; (3) to establish, foster and advance

P.O. Box 37070 Honolulu, Hawaii 96837
SOLAR HOTLINE (808)521-9085

the usefulness of the members, and their various products and services related to the economic applications of the conversion of solar energy for various useful purposes; and (4) to cooperate in, and contribute toward, the enhancement of widespread understanding of the various applications of solar energy conversion in order to increase their usefulness to society.

Effect of Incentives for Solar Water Heating Systems in Hawaii



Hawaii
ANIMATION STUDIOS

HOUSE OF REPRESENTATIVES
THE TWENTY-FIFTH LEGISLATURE
REGULAR SESSION OF 2010

COMMITTEE ON FINANCE
Date: Wednesday, 2/17/10
Time: 3:00 PM
Place: Room 308, State Capitol
Testimony Opposed to HB 2867

Rep. Marcus R. Oshiro Chair
Rep. Marilyn B. Lee Vice-Chair

Hawaii Animation Studios is a new company located in downtown Honolulu at 1132 Bishop St. and is dedicated to building a world class animation infrastructure in Honolulu.

Co-founded by 4 industry leaders and a team of visionary investors in Hawaii, the studio is ideally suited to performing full-production CGI features, TV episodic shows, and direct to DVD work. By bringing together leading creative, technical and production talents, Hawaii Animation Studios is capable of providing topnotch, cost-effective, digital visual images for feature films, commercials, television, multimedia and direct-to-video features.

Hawaii Animation Studios offers a creative, supportive environment for both staff and clients. Our goal is to utilize our experience and knowledge to enable young and burgeoning talent to gain the most from our own collective, substantial and diverse experience.

We have recently hired 20 people in Hawaii on full-time staff positions to complete productions currently in-house. We have a hiring requirement for 25 more people to place prior to the end of April.

Our business plan calls for additional hires over the next 12 months, up to as many as 150 employees. In an effort to achieve this goal we have entered into a contract with UH and associated campuses to supply internships for 10 students that are currently enrolled at our facility on Bishop St. It is our intent to mentor the youth on the island and give them a primary opportunity to gain valuable employment experience in the digital arts without leaving the island.

My partners and I decided to come to Hawaii and start this business as a result of 3 factors. We are an act 221 company and forged an alliance with Hawaiian investors that believed in our 23 year track record of computer animation. The investment opportunity made Hawaii a very attractive destination for us. The second factor was geographic location. At one time Hawaii was considered in the middle of nowhere. Today, in the digital world, it is in the middle of everywhere!! 80% of the world's population surround the islands within a ten hour flight, but more importantly all the international cables and data infrastructure cross through Hawaii. Strategically, we are the center of the digital world. Finally, after a visit to the island, my partners and I fell in love with the people, the culture and the spirit of the State. It is a seamless blend of Asian, Polynesian and mainland cultures that result in a unique culture all it's own in the world of business.

Repealing all of the benefits derived from Act 221 and Act 88, will cause a major backlash against companies like ours that intend to foster real growth measured by real jobs and the result will be a mass exodus of these jobs and a loss of a major industry opportunity. The end result to the state will be a loss of new revenue that will be a direct result from the new jobs created by a financially responsible corporation.

In summary, we at Hawaii Animation studios strongly oppose HB 2867. These counter-productive measures will drastically reduce the incentives required to develop a vibrant digital media industry and force industry leaders that are already here to leave the state and conduct their business elsewhere. HB 2867 is a digital media industry killer.

Sincerely,

Daniel J. Krech
President
Hawaii Animation Studio

THE CHAMBER OF COMMERCE OF HAWAII
1132 Bishop Street, Suite 402
Honolulu, HI 96813

Testimony to the House Committee on Finance
Wednesday, February 17, 2010
4:30 PM
Conference Room 308
Agenda #4

RE: HOUSE BILL NO. 2877, RELATING TO TAXATION

Chair Oshiro, Vice Chair Lee, and members of the committee.

My name is Charles Ota and I am the Vice President for Military Affairs at The Chamber of Commerce of Hawaii (The Chamber). I am here to state The Chamber's support of the intent of House Bill 2877, Relating To Taxation, **with expressed reservations on SECTION 6** regarding a temporary suspension of exemptions from October 1, 2010 through June 30, 2015 for ship building and ship repair (237-B (39)) and gross income on affordable housing projects (237-B, (40)).

The Chamber's Military Affairs Council (MAC) serves as the liaison for the state in matters relating to the US military and its civilian workforce and families, and has provided oversight for the state's multi-billion dollar defense industry since 1985.

The measure proposes to temporarily suspend the exemption for certain persons and amounts of gross income or proceeds from the general excise tax and requires payment of the tax at a one-half percent rate. Measure is to take effect on October 1, 2010 and sunset on June 30 2015.

We share the concerns of the state on the continuing declines being reported in state tax revenues. The budget deficit is unprecedented and has placed the state in a precarious financial condition where drastic measures may have to be taken.

We would like to note that Hawaii's defense industry has had significant impact in providing some stability to Hawaii's economy. Military spending continues at a good pace, stimulating jobs for the workforce and providing contracts for hundreds of small businesses. It behooves the state to encourage increased defense spending in support of Hawaii's small businesses and workforce.

While we agree that measures must be taken to balance the state budget, we ask for the committee to review our concerns on the following two paragraphs under SECTION 6, which proposes to amend Chapter 237, Hawaii Revised Statutes, 237-B by temporarily suspending the exemptions for ship repair and low-income housing.

1. Regarding Section 6, 237-B (39): This applies to exemptions for certain ship building and ship repair businesses. Hawaii is an island state that must rely on maritime shipping for its basic and survival needs, making the ship repair industry a vital part of our business sector. Global competition from lower cost ship repair businesses from as far away as China has had significant impact on Hawaii's ship repair businesses. Taking away this exemption will be an added burden in sustaining the remains of the ship repair industry. Currently, the exemption has enabled our ship repair businesses to compete favorably for defense contracts offered by the US Navy. A repeal of this exemption will force the Navy to seek other contractors on the West Coast as opposed to awarding contracts to local businesses that are fully qualified and capable. The question here is whether the state desires to force the Navy to seek contractors on the West Coast and cause irreparable damage to Hawaii's ship repair businesses.
2. Regarding Section 6, 237-B (40): This applies to exemptions for low-income housing projects. This provision, coupled with section 201H-36, Hawaii Revised Statutes, serves as the catalyst in providing for low income or affordable housing in Hawaii. We believe that a repeal of this provision could result in unintended consequences in providing adequate planning for a large segment of our community. Affordable housing continues to be a quality of life concern not only for Hawaii residents but to a large number of military members who qualify as well. This impacts not only the quality of life for an important segment of our

community, but with revenues for small businesses, jobs for residents, and tax revenues from businesses and employed residents.

We believe that imposing a tax rate of one-half percent would provide additional needed revenues to the state and help to balance the budget, but we are not able to testify on the potential impact it would have on the affected businesses. Accordingly, we are hopeful that these businesses are sufficiently informed to submit appropriate testimony to assist the committee determine the appropriate tax rate.

For these reasons, we respectfully request that the committee measure the impact the proposed tax rate of one-half percent would have on the ship repair and low-income housing businesses that would be affected by this measure.

Thank you for the opportunity to testify.

COMMITTEE ON FINANCE

Rep. Marcus R. Oshiro, Chair Rep. Marilyn B. Lee, Vice Chair

Rep. Henry J.C. Aquino Rep. Scott Y. Nishimoto Rep. Karen Leinani Awana Rep. Roland D. Sagum, III Rep. Tom Brower Rep. James Kunane Tokioka Rep. Isaac W. Choy Rep. Jessica Wooley Rep. Denny Coffman Rep. Kyle T. Yamashita Rep. Sharon E. Har Rep. Lynn Finnegan Rep. Gilbert S.C. Keith-Agaran Rep. Gene Ward Rep. Chris Lee

2/17/2010, State Capitol, Room 308, 3:00p

TESTIMONY AGAINST HB 2867

By Chris Lee, Founder and Director, Academy for Creative Media University of Hawaii Feb. 17, 2010

Chair Oshiro, Vice Chair Lee, members of the committee, thank you for the opportunity to testify in strong opposition to HB 2867.

Hotel revenue is down. Businesses are closing or being auctioned off. Furlough Fridays have become the new normal. Yet unlike almost every other sector of our economy, creative media is hiring local people with living wage jobs that generate tax revenues.

While everyone's been wondering how Hawaii builds a sustainable alternative to our government/construction/service-employee economy, it's time to recognize that Hawaii is already generating and keeping an indigenous creative workforce that happens to be the most coveted kind in the world. This bill would effectively kill the economic progress of the last ten years.

In 2010, Maui has already enjoyed production on Clint Eastwood's "Hereafter," Oahu and Kaua'I will see months of shooting by Johnny Depp's "Pirates of the Carribbean 4" and George Clooney's "The Descendants," Universal's "Battleship" is coming, "Lost" is in its final season, but "Hawaii Five-0" is rebooting, the Bethany Hamilton story "Soul Surfer," is in production, Korea's "Divine Hero" pilot is underway, numerous reality shows continue to flock here, Hawaii-based scripted pilots are in the works and local production companies like Talk Story ("The Tempest"), Island Film Group ("Princess Ka'iulani"), and Hawaii Film Partners ("Flight 29 Down"), have kept up a steady stream of films and tv shows. This represents hundreds of millions of dollars being spent in Hawaii and it's only February.

Meanwhile, digital media – animation, video games and visual effects -- is growing, too. UH grad Henk Roger's Tetris is the most successful video game in history and his Hawaii-based company has launched their Avatar Reality Blue Mars massive multi-player with scores of skilled local employees. Further up Bishop Street, Hawaii Animation Studio just opened with 30 animators – most of them local graduates of the University of Hawaii's media programs -- with plans to grow to 150 employees as they expand from series like "Veggie Tales" to animated features.

When was the last time you heard of a company planning to hire 150 local people with permanent jobs that are not in the service sector? And yet this bill proposes to repeal the very measures that brought all of these jobs to Hawaii in the first place.

Creative media production in all its forms, movies, television, software, video games, internet multi-players, animation, music, visual effects, even Apple iphone applications, is Hawai'i's best chance to soften the cyclical blows of our aviation fuel-based service economy.

As both a producer and former studio head, I can tell you that the first thing we take into consideration in deciding where to shoot or establish a production or post production facility is what incentives are being offered. The second is infrastructure and workforce.

Here are some examples where measured incentives have worked before: New Mexico in 2001 had only $1.5 million in annual production. In 2007, New Mexico enjoyed $476 million in spending in the film and digital industry and opened the $75 million Albuquerque studios which is now adding a media school. There are also new visual effects firms located in New Mexico like Sony Imageworks and even their supercomputer is being used by Dreamworks Animation.

Louisiana started tax incentives for film in 2001 when there were only two low budget pictures shot in the entire state. By 2006, 21 low budget films and 5 big budget pictures combined for $450 million in production spending. Their incentives have also made possible the building of multiple studios.

Electronic Arts is the biggest video game company in the world and last year various states competed for their new quality assurance center offering 200 jobs for students and 20 for adults. Where did it go? The Louisiana State University campus thanks to a specific Digital Media Tax Credit.

Singapore has determined that creative media is a desirable, sustainable industry and is investing hundreds of millions of dollars in infrastructure and incentives to realize their goal of 10,000 new jobs in their media sector by 2015.

Their targeted incentives have been used to move George ("Star Wars") Lucas's animation and video game division from San Francisco to Singapore, training a local work force which recently added 120 employees to their first 280. Lucas joined visual effects companies from London and video game companies from the US as the city state builds a "Mediapolis" of studios, post production houses and a feeder system of nine film schools.

New Zealand's film and television industry is estimated by Price Waterhouse Coopers to generate $2.5 billion a year for their economy. Most recently, the bulk of "Avatar" was produced there, spending $307 million dollars and generating $50 million in taxes for the Kiwi nation.

Asked in December why New Zealand was chosen as the film's production location, "Avatar" producer Jon Landau said: "to be honest, we went for the tax credit."

Hawaii is finally becoming a creative media hub and yet this bill would immediately and effectively end that momentum and our best chance to keep our talented kids here working here in Hawaii with globally desired jobs. I urge you to reconsider.

HVCA
SINCE 1988
HAWAII VENTURE CAPITAL ASSOCIATION
805 Kainui Drive
Kailua, Hawaii 96734

DATE: February 17, 2009
TIME: 3:00pm
PLACE: Conference Room 308

TO: House Committee on Finance
Representative Angus McKelvey, Chair
Representative Isaac W. Choi, Vice Chair

FROM: Bill Spencer, President, Hawaii Venture Capital Association

RE: Testimony In Strong Opposition to HB 2867

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

On behalf of the 2,000 members and friends of the Hawaii Venture Capital Association, let me express our strong opposition for HB2867.

This bill would eliminate §235 110.9 The High Technology business investment tax credit, not due to sunset until December 31, 2010. This would undermine investor confidence and hurt many businesses that depend on annual investment from local investors.

This bill would also compromise other legislative efforts such as HB2945 which amend certain provisions creating a State Private Investment Fund.

The Hawaii Venture Capital Association is one of Hawaii's oldest economic development trade associations devoted to diversifying Hawaii's economy, capital formation and Hawaii's entrepreneurs for last 22 years.

Thank you for your kind consideration of this testimony.

Sincerely,

/s/
Bill Spencer
President
Hawaii Venture Capital Association

HB 2867

RELATING TO TAXATION

JOEL K. MATSUNAGA
CHIEF OPERATING OFFICER & EXECUTIVE VP
HAWAII BIOENERGY

FEBRUARY 17, 2010

Chair Oshiro and Members of the House Finance Committee:

I am Joel Matsunaga, testifying on behalf of Hawaii BioEnergy on HB 2867, "Relating to Taxation."

SUMMARY

This bill would temporarily repeal incentives that would help foster biofuels production on the islands, allowing these provisions to sunrise on January 1, 2016. Hawaii BioEnergy ("HBE") asserts that the Ethanol Facility Tax Credit (Section 235-110.3) and the High Technology Business Investment Tax Credit (Section 235-110.9) contained in this bill are critical in order to jumpstart Hawaii's bio-based economy. However, HBE is aware of and sensitive to the budget deficits and fiscal constraints afflicting the state government. Should the legislature find that the temporary repeal of the aforementioned tax credits to be absolutely necessary, the company respectfully requests that the provisions sunrise January 1, 2013 as opposed to January 1, 2016, in order to not adversely impact biofuel development plans currently underway.

BENEFITS FROM LOCAL BIOFUEL AND BIOENERGY PRODUCTION

Hawaii BioEnergy is a local company dedicated to strengthening the state's energy future through sustainable biofuel production from locally grown feedstocks. Among its partners are three of the larger land owners in Hawaii controlling over

430,000 acres of land. HBE and its partners would like to use significant portions of their land to address Hawaii's its existing and growing energy needs. Since its inception in 2006, HBE has been researching various biofuels alternatives to clearly evaluate each biofuel's relative suitability and sustainability based on Hawaii's natural resource base, climate, market and infrastructure.

One of those biofuel alternatives that HBE is pursuing is the production of jet fuel and other oil derivatives from micro-algae and is already engaged in two Hawaii-based, DARPA-funded algae projects. In addition to providing a local, renewable, and lower-carbon fuel source, algae-based biofuel production benefits the agriculture industry by providing a local source of protein for animal feed, fertilizers and other products. In addition to HBE's on-going algae-based biofuel projects, the company is also considering plans to develop locally produced ethanol and high density fuels from sugar cane, sweet sorghum, and/or other dedicated energy crops. The feedstocks and conversion production pathways under consideration hold tremendous potential to displace fossil fuels imports given their relatively low input requirements, exceptionally high yields, and capacity to produce a portfolio of products including liquid fuels for transport and for power generation, feed, and other bio-based co-products.

REPEAL OF INCENTIVES WILL JEOPARDIZE BIOFUEL AND BIOENERGY PROJECTS

Repealing the Ethanol Facility Credit for five years would substantially delay if not terminate HBE's plans to move forward with ethanol production in the State, as the company would be forced to compete against foreign producers whose land, labor and other costs, including adherence to environmental and other regulations are lower. The current Ethanol Facility Tax Credit helps to offset those cost disparities as well as a portion of the risk that first-movers must assume in the establishment of a new industry. Based on an independent analysis commissioned by HBE, a large-scale ethanol facility could provide up to 1,400 new jobs and over $115 million in added value in the State. However, without that credit it would be very difficult, if not impossible, to justify investment in ethanol production facilities in Hawaii.

In addition to ethanol, HBE is also developing other renewable energy sources which will help contribute to a more secure and sustainable energy future for Hawaii. The Company has expended a considerable amount of its investors' funds to date to conduct the research and development necessary to be able to move projects forward. The availability of the High Technology Business Investment Tax Credit helps HBE to maximize our investors' funds in conjunction with other state incentives. Without the credit, it is possible that HBE's projects that incorporate advanced technology, as well as the benefits they will provide to Hawaii's residents, will be delayed. The economic and job creation benefits that these credits could bring to bear will be delayed for each year that the suspension of the High Technology Business Investment Tax Credit and the Ethanol Facility Credit are in effect.

CONCLUSION

HBE is moving forward with bio-based renewable energy projects that will help to bring greater energy, environmental, and economic security to the state of Hawaii. The temporary repeal of both the Ethanol Facility Tax Credit and the High Technology Business Investment Tax Credit will jeopardize those benefits by either significantly delaying or terminating projects under consideration. Should the legislature find that a temporary repeal is absolutely necessary due to the state's budget deficit and corresponding fiscal constraints, HBE respectfully requests that the aforementioned tax credits sunrise January 1, 2013 as to not adversely impact project planning which is currently under way.

Thank you for the opportunity to testify.

Mutual Housing Association of Hawai'i, Inc.
MHAH

CENTRAL OFFICE

Pioneer Plaza
900 Fort Street Mall, Suite 1690
Honolulu, Hawai'i 96813

Tel: (808) 550-0804
Fax: (808) 550-0607
E-mail: mhah@mutual-housing.org

February 16, 2010

Honorable Marcus Oshiro, Chair
And Members of the Finance Committee
State House of Representatives
Hawai'i State Capitol
415 South Beretania Street; Room 308
Honolulu, Hawai'i 96813

Dear Chair Oshiro and Members:

Subject: House Bill No. 2867
Related to Taxation

The Mutual Housing Association of Hawai'i, Inc. ("Mutual Housing") strongly opposes the portions of House Bill No. 2867 which repeal the State Low Income Housing Tax Credit ("LIHTC"). We specifically oppose language in Sections 2 and 26 of the proposed bill.

As Hawai'i faces an affordable housing crisis, we have seen our number of homeless growing, while even working families find it necessary to double-up with family or friends. New rental housing production has not kept pace with the loss over the years of affordable housing units through demolition, speculation, and conversion to for-sale units.

As an owner and developer of affordable rental housing, we can attest to the critical need for a permanent and dedicated source of funding to build new rental housing. The equity funding provided by the State's LIHTC program allows developers to leverage other funding programs such as tax-exempt bonds, the Rental Housing Trust Fund, the Dwelling Unit Revolving Fund, HOME program and conventional bank loans to make affordable projects financially feasible. Without the State LIHTC, future construction of affordable rental housing will be even more difficult, and Hawai'i will fall further behind in addressing its shortage of rental housing units for our families.

It will take years to develop the projects to meet all of the need in the state. The State LIHTC program is a critical tool in helping organizations like Mutual Housing address our affordable rental shortage.

Thank you for the opportunity to provide this testimony.

Sincerely,

David M. Nakamura
Executive Director

February 16, 2010

Representative Marcus R. Oshiro, Chair
Representative Marilyn B. Lee, Vice Chair
Members of the House Committee on Finance
State Capitol, Room 308
415 South Beretania Street
Honolulu, Hawaii 96813

Subject: HB 2867; Hearing February 17, 2010 at 3:00 P.M.; Testimony in Opposition

Dear Chair Oshiro and Members of the House Committee on Finance:

EAH Housing strongly opposes HB 2867 along with any other initiative that would have a negative impact on the low-income house tax credit (LIHTC) program. EAH Housing is a non-profit public benefit corporation dedicated to developing, managing, promoting and preserving affordable rental housing. EAH in its 42 year history has never sold a property, and is dedicated to permanently affordable and high quality housing.

We depend on the LIHTC program to help finance new affordable rental projects and the acquisition and rehabilitation of existing affordable rental projects. Sections 2 and 26 of HB 2867 would repeal the State LIHTC effective July 1, 2010 through June 30, 2015. This repeal would, in effect, bring to a halt the production and preservation of affordable rental housing in the State at a time when we have a critical need for more affordable housing.

Affordable housing creates jobs. New construction of affordable rental housing and the preservation and rehabilitation of existing affordable rental housing means badly needed jobs for our construction industry as well as jobs for the continued operation of these projects.

We should be thinking of ways to hasten the development of affordable rental housing; of ways to reduce construction costs and we should be creating incentives to developers. HB 2867 will do exactly the opposite in removing a critical financing tool. Please do not take any action that could jeopardize the LIHTC program.

Thank you for this opportunity to submit our thoughts.

Sincerely,

Kevin R. Carney, (PB)
Vice President, Hawaii

Hawaii Regional Office
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ISLAND
FILM GROUP

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February 16, 2010

Rep. Marcus R. Oshiro, Chair
Rep. Marilyn B. Lee, Vice Chair
Committee on Finance

Re: Testimony in Opposition to HB 2867

My name is Ricardo Galindez and I am co-founder of Island Film Group (IFG), a local independent producer of film and television projects in Hawaii. Since 2007 has produced or co-produced three television movies, a television series, three feature films and numerous national and international television commercials. During that time our companies have used Hawaii's film incentives to help employ hundreds of local residents, spend tens of millions in the local community, purchase thousands of room nights from local hotels and broadcast the beauty of Hawaii to millions of people worldwide.

TAX INCENTIVES WORK...

Currently, there are at least five film and television productions slated to be produced in Hawaii in 2010, all of which would not have come to Hawaii without tax incentives:

"Soul Surfer" a feature film about Hawaii's own Bethany Hamilton
"Hawaii 5-0" a television pilot remake of Hawaii's best-known television series
"The Descendants" a feature film based on a novel written by Hawaii's own Kaui Hart
"Battleship" a feature film set in Hawaii and featuring the Mighty Missouri
"Pirates of the Caribbean" one of the highest-grossing theatrical franchises in history

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TAX INCENTIVES WORK...

While I am clearly biased regarding the benefits of Hawaii's film incentives, I am at a loss to understand the House of Representatives' bias against tax credits. For years, critics have bemoaned the lack of data regarding our tax incentives (even thought the data was within their power to obtain). Once the data was provided it was distorted and manipulated to suggest that the incentives were not working. As a taxpayer I expect my representatives to fully and honestly

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evaluate the legislation that they will enact or repeal. In the area of tax credits, I do not feel that this happens often enough.

TAX INCENTIVES WORK…

Finally, if the House of Representatives decide that the path to economic recovery begins with the repeal of tax incentives, then please explain how economic recovery is to be achieved. While it easy to point to the "cost" of tax incentives and declare the elimination of such "cost" to be the answer to our fiscal problems, history tells us otherwise. We elect you to make the hard decisions for us. We also elect you to make the right decisions for us. Please make the effort to do both.

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FINTestimony

‾rom: mailinglist@capitol.hawaii.gov
ent: Wednesday, February 17, 2010 1:57 PM
ſo: FINTestimony
Cc: mbutay@aol.com
Subject: Testimony for HB2867 on 2/17/2010 3:00:00 PM
Attachments: Final Letter - HI HB 2867 02-17-10.docx

Testimony for FIN 2/17/2010 3:00:00 PM HB2867

Conference room: 308
Testifier position: support
Testifier will be present: No
Submitted by: Melody Butay Dacanay
Organization: Capitol Consultants of Hawaii, LLP
Address: 222 S Vineyard Street, Suite 401 Honolulu, HI
Phone: 8085314551
E-mail: mbutay@aol.com
Submitted on: 2/17/2010

Comments:
Attached is a testimony from Entertainment Software Association regarding HB2867.

entertainment software association

February 17, 2010

The Honorable Marcus R. Oshiro, Chair
The Honorable Marilyn B. Lee, Co-Chair
House Finance Committee
Hawaii State Capitol
415 South Beretania Street
Honolulu, HI 96813

Dear Chairman Oshiro, Representative Lee and Members of the Committee:

On behalf of the Entertainment Software Association (ESA) and its members[1], I am writing you in support of Hawaii's current incentive program to encourage entertainment industry growth including digital media development and production (Hawaii Revised Statutes §235-17). The ESA is the U.S. trade association representing companies that publish computer and video games for video game consoles, personal computers, and the Internet.

This program has been successful in helping to grow the entertainment industry in the state. According to the Hawaii Department of Business, Economic Development and Tourism, the creative sectors in the state, including digital media, have grown 14% since 2002 and in 2008 they contributed $4 billion to Hawaii's gross domestic product.

Hawaii should continue to offer incentives for digital media production. States are aggressively competing for the highly-skilled, high-tech jobs that the entertainment software industry creates. Currently, nineteen states offer tax incentives for video game development and production. This year, eleven states are considering legislation that would either create or increase tax incentives for computer and video games and digital media development and production.

Not only are these states looking to grow this industry and the new and innovative products it creates, but they also see the significant contributions it makes to other sectors of the economy such as health care, human resources, and defense. Increasingly, these sectors are using video games and game technology to train physicians, emergency medical personnel and the military, as well as provide workforce training.

Incentive programs are increasingly important for growing the entertainment software sector since the costs of conducting business have increased substantially. The average cost to develop a video game in the 1990's was roughly $40,000. In the 2000's that figure has climbed to an average of $10 million, and is expected to increase further to between $15-25 million in the next few years.

[1] ESA's members: 505 Games; Capcom USA, Inc.; Crave Interactive; Deep Silver; Disney Interactive Studios, Inc.; Eidos Interactive; Electronic Arts; Epic Games, Inc.; Her Interactive, Inc.; KOEI Corporation; Konami Digital Entertainment; Microsoft Corporation; MTV Games; Namco Bandai Games America Inc.; Natsume Inc.; Nintendo of America Inc.; Playlogic Entertainment, Inc.; SEGA of America, Inc.; Slang; Sony Computer Entertainment of America; Sony Online Entertainment, Inc.; SouthPeak Interactive Corporation; Square Enix, Inc.; Take-Two Interactive Software, Inc.; THQ, Inc.; Trion World Wide Network, Inc.; Ubisoft Entertainment, Inc.; Warner Bros. Interactive Entertainment Inc.; and XSEED Games.

Incentives for computer and video game production are providing significant economic returns. According to a recent analysis by the Texas Film Commissioner, the state's return on investment (ROI) from video game development and production incentives is 31.4%, far exceeding that for film, television and commercials. [2] According to another analysis of the program by the Texas Comptroller of Public Accounts, video game production has a ripple-effect spreading technological innovations to other industries, such as defense and medicine.[3]

To help Hawaii remain competitive with other states, we urge you to maintain the current successful tax credit program to help encourage the growth of the entertainment industry in the state.

Thank you for your time and consideration.

Sincerely,

Sally Jefferson
Vice President, State Government Affairs

[2] See *Texas Moving Image Industry Incentive Program Status Report: January 15, 2009*
[3] See *The Current and Potential Economic and Fiscal Impacts of Texas' Moving Media Industry Report*: December 2008

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Hon. Marcus R. Oshiro, Chair
Hon. Marilyn B. Lee, Vice Chair
House Finance Committee
Hawaii State Legislature
Hawaii State Capitol
415 S. Beretania Street
Honolulu, Hawaii 96813

Subject: HB 2867 "Relating to Taxation"

Chari Oshiro, Vice Chair Lee, and members of the committee, my name is Alan Hayashi and I am testifying as an individual in **opposition to HB 2867**, as drafted.

The State and the Legislature is in a very difficult position during these challenging economic times. However, to eliminate all credits in my opinion is unwise. Difficult choices must be made and you are the one who must choose. I believe the choices should be driven by your vision of the economy 5 to 10 years in the future. What do you foresee as economic drivers of Hawaii? The Military, Technology, diversified Agriculture, and Tourism sectors are our current pillars, with Tourism suffering the downturn in discretionary spending. An industry that you have helped develop is **Technology** and it now is a major contributor to the Hawaii economy.

My suggestion is to support the technology industry by **passage of HB 2984 HD1**, or as amended to accommodate the capital formation sector with a form of SPIF. Technology is not an industry that you can turnoff and on readily. If Hawaii technology firms are forced to close (some will) the talented employees will gravitate to the mainland cities where technology is embraced with credits and other forms of relief to entice companies to relocate there. We will lose the very asset (human capital) that you have been attempting to develop thru your STEM initiatives...which are working well with STEM and robotics programs in almost every school in Hawaii and the University of Hawaii. Where will these bright young problem solvers go with out an industry to employ them. We need more than service industries; we also need a strong growing technology sector to take us into the future.

I respectfully request you **file HB 2867** and selectively choose industries / sectors you want to encourage for Hawaii's economic future. The passage of a form of HB 2867 will help accomplish this.

Thank you for the opportunity to testify on this measure.

Alan S. Hayashi

H.B. 2867 Relating To Taxation

Dear Mr. Chairman and Members of the Committee:

We respectfully testify in opposition to H.B. 2867 Relating to Taxation, specifically those sections intended to repeal tax credits and deductions related to:

1. Royalty income (Sec. 235.7.3)
2. Stock option income from QHTBs (Sec. 235.9.5)
3. Investment tax credits for investment in high technology companies (Sec. 235.10.9)
4. R&D tax credits for qualified QHTB research (Sec. 235.10.91)

These tax credits and deductions play an important role in fostering the formation and continuation of high technology business activities in Hawaii. The repeal of these tax credits and deductions reduce the ability of Hawaii to compete as a location for such businesses against areas such as California.

Thank you for this opportunity to submit testimony.

Bradley J. Mossman

Vice President

Convergence CT, Inc.

PACIFIC HOUSING ADVISORS

SEATTLE
SAN DIEGO
HONOLULU

House Committee on Finance
Testimony Regarding HB 2867

Relating to Taxation

Testimony Submitted by:	Makani Maeva, Director of Pacific Housing Advisors
Hearing Date:	Wednesday, February 17, 2010
Time:	3:00 p.m.
Room:	Conference Room 308

Dear Honorable Chair Oshiro, Chair Lee & Committee members:

Thank you for this opportunity to submit **testimony in strong opposition of Sections 2 and 26 of SB 2867**. These sections would repeal the State Low Income Housing Tax Credit effective July 1, 2010 through June 30, 2015. The state LIHTC is a crucial tool necessary to produce affordable housing in the state of Hawaii. This repeal would significantly hamper if not make it impossible to develop affordable housing within our state.

My name is Makani Maeva, the Director of Pacific Housing Advisors ("PHA"), a private affordable housing developer. PHA owns and manages over 4,600 affordable housing rental units nationwide, including 36 units at Kekaha Elderly Plantation on the island of Kauai. We are a few months away from completing construction on Lokahi Apartments, which will add 306 new affordable rental units to the Kailua-Kona area.

We closed on the financing of the Lokahi Apartments and began construction in November of 2008 Today, construction is 95% complete and we have 103 affordable units occupied. Construction of these new affordable units was financed, in part, by the sale of federal and **state LIHTCs**. The sale of State IHTC's raised nearly $5,000,000 from a nationwide institutional investor.

The state LIHTC is a critical financing tool but the effects on the overall economic picture should not be overlooked.

This $61,000,000 project brought a total of $26,000,000 of outside investment in 2009 to the Kona community. This occurred at a time when the economy of the Big Island shrunk dramatically, unemployment doubled and the need for affordable housing was at an all time high. Hard construction costs for Lokahi were $42,000,000. Using DBEDT's econometric model from the Research & Economic Analysis Division Lokahi produced 337 Direct Jobs and 818 Indirect Jobs. Those jobs generated $39,370,000 of Income and those taxpayers paid State Taxes of $7,175,000 in the first year.

We expect the Lokahi to be fully-occupied by the end of summer, 2010. All 306 of the units will be rented only to individuals and families that earn 60% or less of the area median income which means tenants are paying rent of $675/studio $727/One Bedroom $833/Two Bedroom.

The State LIHTC is critical resource to financing affordable housing, creating jobs and building communities. We thank the Committee for considering our testimony and urge you to give it you to oppose **Sections 2 and 26 of SB 2867**.

www.lokahiapartments.com

LINDA LINGLE
GOVERNOR

JAMES R. AIONA, JR.
LT. GOVERNOR

KURT KAWAFUCHI
DIRECTOR OF TAXATION

STANLEY SHIRAKI
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HOUSE COMMITTEE ON FINANCE
TESTIMONY REGARDING HB 2867
RELATING TO TAXATION

TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)
DATE: FEBRUARY 17, 2010
TIME: 3:00PM
ROOM: 308

This measure temporarily repeals various income tax credits, exemptions, and deductions, such as the renewable energy tax credit, the child safety seat tax credit, and the research tax credit.

The Department of Taxation (Department) **is concerned about the wholesale repeal of income tax credits, exemptions and deductions**.

The Department of Taxation (Department) believes it is necessary to ensure that income tax credits, exemptions, and deductions are effective in promoting the various social and economic goals they were originally designed to promote. However, the Department expresses concern regarding a repeal as contemplated by this legislation.

As a general consideration, income tax credits, exemptions, and deductions repeals contemplated by this legislation should be handled cautiously. The Department points out that all of these credits, exemptions, and deductions were important at some point and served some purpose.

The current bill contains a number of items that are listed as credits, exemptions, and deductions probably do not merit repeal. These credits, exemptions, and deductions are necessary for the income tax to have a sensible structure that minimizes economic distortions.