

TESTIMONY BY DAVID SHIMABUKURO  
ADMINISTRATOR, EMPLOYEES' RETIREMENT SYSTEM  
STATE OF HAWAII  
TO THE HOUSE COMMITTEE ON ECONOMIC REVITALIZATION,  
BUSINESS, & MILITARY AFFAIRS  
ON  
SENATE BILL NO. 2290, S.D. 2  
RELATING TO ECONOMIC DEVELOPMENT

MARCH 11, 2010

Chair McKelvey and Members of the Committee:

The ERS Board of Trustees opposes a provision in S.B. 2290, S.D. 2 which requires the ERS' Chief Investment Officer (CIO) to serve on the State Private Investment Fund Board of Directors.

The ERS Board of Trustees recognizes the importance and value of the proposed State Private Investment Fund to support the emerging high technology and performing arts products industries. However, the CIO's participation as a State Private Investment Fund Board Director could present a potential misalignment of interests and a conflict of responsibilities already assigned to the ERS' CIO.

Thank you for the opportunity to testify on this measure.

# TAXBILLSERVICE

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**SUBJECT:** MISCELLANEOUS, State private investment fund

**BILL NUMBER:** SB 2290, SD-2

**INTRODUCED BY:** Senate Committee on Ways and Means

**BRIEF SUMMARY:** Amends HRS section 211G-12 to delete the limit of the amount of tax credits that may be issued and transferred by the Hawaii strategic development corporation (HSDC). Tax credits issued to the corporation shall be freely transferable by the corporation to transferees and by transferees to subsequent transferees provided that the tax credits transferred by the corporation shall not be exercisable before July 1, \_\_\_ nor after July 1, \_\_\_\_\_. Deletes the provision requiring the legislature's authorization to allow the HSDC to transfer tax credits. The tax credits claimed shall be refundable tax credits. HSDC shall limit the transfer of tax credits that may be claimed and used to reduce the tax otherwise imposed by chapters 235 or 241 or section 431:7-202 for one fiscal year to not more than an aggregate total of \$\_\_\_\_\_ per fiscal year. Also allows insurance companies to utilize tax credits of the state private investment fund to offset insurance premiums taxes.

Makes other nontax amendments relating to the state private investment fund.

**EFFECTIVE DATE:** July 1, 2050

**STAFF COMMENTS:** The legislature by Act 215, SLH 2004, created the state private investment fund within the Hawaii Strategic Development Corporation (HSDC) to provide additional financing options including the use of tax credits to reduce the tax liability of taxpayers subject to HRS chapters 235 or 241. The proposed measure extends these provisions to insurance companies subject to HRS chapter 431 which is imposed in lieu of the net income tax and the general excise tax. The proposed measure would also increase the amount of tax credits that may be issued and transferred by deleting the limitation on the amount of tax credits that may be issued.

Looking back over the past 20 years, state government has a poor track record in trying to spur investment and job growth using taxpayer funds. While this measure would perpetuate the use of tax credits, it should be noted that the state has not tracked the cost-benefits of these tax credit programs a recommendation of the most recent Tax Review Commission. The state has not ascertained if taxpayer dollars spent have gotten any economic returns. There is sparse data on how these credits affect the equity of the overall tax system. At best, the portion of the technology business that this measure impacts remains a small part of the employment pie while commanding a comparatively large share of state resources. The bottom line is that this measure represents an outflow of real dollars from the state treasury with very little accountability. In order to document outcomes, lawmakers should require those who wish to claim the credits to reveal how much will be claimed and how many jobs these credits will help create and identify themselves so taxpayers know who they are subsidizing.

While proponents of this measure may argue that there are models of such a fund in other states like Utah, the question is whether or not the state should be in the business of favoring one industry over another at the expense of all other taxpayers. Although it may look like this measure will not cost the state as much as the Act 221 and Act 88 tax credits, it will, nonetheless, require administration and oversight utilizing state resources. Resources that are being diverted away from core services of government like education, health and human services. As a result, to maintain those core services, taxes must remain high on all other taxpayers. Thus, instead of improving the business climate for all taxpayers, such programs contribute to high cost of living and doing business in Hawaii.

Proponents may argue that programs like this one help to diversify the economic base and create quality jobs. What good are those jobs if such programs steal money from education to the point where, like California, one out of four students doesn't graduate from high school? Do lawmakers ever ask themselves why businesses cannot survive in Hawaii or why these favored businesses need subsidies from state government? If lawmakers want to improve the prospects for Hawaii's future, more attention must be paid to improving the business climate, for without thriving businesses, the outlook for employment and the creation of jobs needed by future workers will be dim. In turn, a poor economic outlook translates into a shrinking tax base which in the long run will come home to roost on state government. Thus, proposals such as this one cannot be reviewed in a vacuum, it does come with costs that, in turn, mean that other programs must suffer and taxes must remain high for other taxpayers.

Digested 3/9/10

Written Statement of  
**YUKA NAGASHIMA**  
**Executive Director & CEO**  
High Technology Development Corporation  
before the  
**HOUSE COMMITTEE ON ECONOMIC REVITALIZATION, BUSINESS, &  
MILITARY AFFAIRS**  
Thursday, March 11, 2010  
8:30 AM  
State Capitol, Conference Room 312

In consideration of  
**SB 2290 SD2 RELATING TO ECONOMIC DEVELOPMENT.**

Chair McKelvey, Vice Chair Choy, and Members of the House Committee on Economic Revitalization, Business, & Military Affairs.

The High Technology Development Corporation (HTDC) is in support of the intent of SB 2290 SD2, to amend the State Private Investment Fund (SPIF) legislation, in order to further Hawaii's capital formation activities.

The merits of SPIF and funding mechanisms for capital formation vehicles such as SPIF have been thoroughly discussed before this legislative session with national and local experts, and industry supporters and professionals supporting the tech sectors, including the members from both chambers of the State legislature. HTDC respects the State's position to limit spending. We also recognize that fiscal responsibility needs to be exercised not only in reduction of expenditures, but to ramp up efforts to increase our revenues, because there are only so many cuts we can make. Economic development practitioners have seen again and again that sound investments made (whether in policy, resources, or in dollars) during recession periods is what affects the magnitude of success the community enjoys out of the recession. Ideas contained in SB 2290 SD2 can be crafted to leverage more opportunities with minimal investment by the State, by deferring the cost to future years, if and when the actual issuance of the State tax credit is necessary.

The current draft of the bill has several technical problems. We defer to our colleague, Mr. Karl Fooks of the Hawaii Strategic Development Corporation (HSDC), with whom we worked to correct the technical problems with this bill, so that it may address the original intent of the bill effectively. HTDC respectfully asks the House Committee on Economic Revitalization, Business, & Military Affairs to consider HSDC's detailed amendment recommendations and ensure safe passage of the bill as SB2290 SD2 HD1.

Thank you for the opportunity to submit testimony.



700 Bishop Street, Suite 2000 Honolulu, HI 96813

Written Statement of  
**TRACI H. DOWNS**  
**President & COO**  
Archinoetics, LLC  
before the  
**HOUSE COMMITTEE ON ECONOMIC REVITALIZATION,  
BUSINESS, & MILITARY AFFAIRS**

Thursday, March 11, 2010  
8:30 AM  
State Capitol, Room 312

In consideration of  
**SB 2290 SD2 RELATING TO ECONOMIC DEVELOPMENT**

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

Thank you for the opportunity to testify on this bill. Archinoetics supports SB 2290 SD2 to promote venture capital investing within Hawaii that is revenue-neutral to the State. This measure allows companies, like Archinoetics, to attract kama'aina for employment and add to Hawaii's economic activity, create and support high wage jobs, and provide incentives to our children to pursue technology-related education and career goals.

Archinoetics, LLC is a woman-owned world class technology company located in downtown Honolulu. It is focused on the research and development of human-centered technologies. Our current projects include functional brain imaging systems, human fatigue and performance monitoring devices, intelligent algorithms based on genetic programming and biometric sensors, remote sensing, and specialized computing platforms. Today we employ 34 software and hardware engineers and scientists from varying backgrounds at Archinoetics and have spun off a subsidiary company, Fatigue Science, which now employs 5 employees and is growing. Over ½ of our employees are kama'aina who left Hawaii and never dreamed that they would be able to work in their profession and raise their children back here at home. We also have created high school and college level internships and in doing so we currently mentor 3 students who are pursuing education and careers in the technology industry.

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

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**From:** mailinglist@capitol.hawaii.gov  
**Sent:** Tuesday, March 09, 2010 3:20 PM  
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**Cc:** alan.hayashi@baesystems.com  
**Subject:** Testimony for SB2290 on 3/11/2010 8:30:00 AM

Testimony for EBM 3/11/2010 8:30:00 AM SB2290

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Testifier position: support  
Testifier will be present: No  
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Comments: