

Written Testimony of

James P Karins,
President Pukoa Scientific
before the

HOUSE COMMITTEE ON ECONOMIC REVITALIZATION AND BUSINESS

February 8, 2011

8:00 AM

State Capitol, Conference Room 312

In consideration of

HB 1642 RELATING TO HIGH TECHNOLOGY

Chair McKelvey, Vice Chair Choy, and Members of the Committee on Economic Revitalization and Business:

Pukoa Scientific supports this bill. Pukoa Scientific recommends eliminating the cap because of the costs of administration of a cap and historically the R&D tax credit has been very stable.

This bill will create and retain jobs while increasing the state's revenues. We cannot afford to overlook the prime opportunity to promote this growing sector in our state. This is the opportune time to support our small local companies in the R&D industry so that it can continue to flourish and provide jobs for our talented citizens and ensure that our keiki have a viable option to move back or stay in Hawaii and obtain quality jobs. Furthermore, this measure will strengthen the industry's effort to compete with other players in the national and international arena. Finally, supporting the R&D industry will help broaden and diversify Hawaii's economic base.

Role of the Research and Development Industry in Hawaii

The R&D technology industry can and will play a vital role in stabilizing the state's economic climate. One of the best ways for the industry to help is to maintain and grow the workforce. Without job creation, cost cutting and tax increases will only create a downward spiral, requiring more costs and more tax increases. The state must maximize its return by spending money that generates multiples of increased spending, garnering the most return from the least amount of tax dollars.

Research and development is one of those areas. In comparing the R&D tax credit to other credits, we observe that the R&D tax credit is one of the most effective in generating and maintaining jobs per tax dollar, generating higher tax revenues for dollar spent, and stimulating measurably more economic activity in the state per dollar of tax credit. Additionally, companies leveraging the R&D tax credits tend to be more mature companies; many on the cusp of significant expansion, which will accelerate the hiring of new employees and concomitant tax revenue.

Additionally, research and development is a highly critical component to a sustainable economy. R&D provides well-paying jobs to highly-educated employees. These employees pay significant taxes back to the state and spend considerable amounts of income within the state for goods and services. Additionally, as the R&D matures it creates product companies that increase the number of jobs and tax base significantly.

Some important facts related to R&D tax credits are:

- (1) R&D employees are highly paid and pay income taxes at high rates and generate significant other economic activity within the state. For example, the average salary for technology jobs is \$66,000.
- (2) R&D funds are highly leveraged by imported monies, thus generating more economic activity than economic activities that just move money from one in-state entity to another,
- (3) R&D tax credits are only received after the company has expended the funding, generating tax revenues to the state first,
- (4) R&D tax credits typically go back into additional R&D through additional salaries,

While these positive aspects are fairly defined, some have expressed concerns about the competitiveness of Hawaii's R&D tax credit levels and their refundability. However, several factors that are not considered in those concerns include:

- (1) Comparisons are only made to other states and not to other countries. R&D is becoming a economic driver worldwide and Hawaii companies compete worldwide,
- (2) The entire cost of doing R&D is the most important factor. Hawaii has a number of competitive disadvantages such as high income tax rates, high cost of living, high unemployment insurance costs, and high transportation costs, and
- (3) R&D returns are highest after several years when R&D turns into products, resulting in significant growth in job opportunities, increased intellectual property owned by Hawaii residents, and increased travel to the state by customers and technology related conferences.

Summary

In summary, the Hawaii R&D tax credit has been effective in generating new taxes, creating new companies and employing a number of residents. Therefore, it is important that a gap does not exist in the R&D tax credit while the administration and legislature addresses the longer term impact of R&D on the state. Companies need to make long term plans when doing R&D. It is critical to the industry that the tax credit be in place long enough to encourage R&D and its commensurate high paying jobs, job growth, and its direct impact on the sustainability of the state's economy.

Therefore, we urge the committee to **pass this measure**. Thank you for the opportunity to express our views.



LATE TESTIMONY

Written Statement of
L.P. Neenz Faleafine
Community Developer
Oceanit
before the
HOUSE COMMITTEE ON ECONOMIC REVITALIZATION & BUSINESS
February 8, 2011
8:00 AM
State Capitol, Conference Room 312
In Support of
HB 1642 RELATING TO HIGH TECHNOLOGY.

TO: Chair McKelvey, Vice Chair Choy, and Members of the Committee

From: L.P. Neenz Faleafine, Community Developer

Re: Testimony in Support of HB1642

Honorable Chair, Vice-Chair and Committee Members:

Thank you for the opportunity to submit testimony in **support of HB1642.**

Oceanit currently employs about 160 scientists, engineers and support staff. We regularly host interns, school classes, and conduct numerous outreach activities for elementary thru college level kids to introduce them to science and engineering careers. We let kids know that there are exciting, decent paying jobs for them in Hawaii if they pursue these careers. Many of them have returned to us, equipped with college degrees, wanting to work in science and engineering.

I hope that we can continue to offer an alternative to kids that want to work in an industry that is growing nationally as well as internationally - and to show them that world class technical work can thrive in Hawaii.

The R&D credit has helped to jump-start an industry that is in its infancy in Hawaii. The R&D credit has been responsible for job creation, as well as long-term investments that will set the stage for growth into the future. The R&D credit has enabled us to compete on a national level for R&D dollars that we bring in to Hawaii.

We urge you to maintain the momentum that has started and to keep this new sector of the economy growing at this critical juncture.

Thank you for your continued support of the R&D tax credit and for your support of the industry.

Sincerely,

L.P. Neenz Faleafine

Written Statement of

Kaiali'i Kahele

before the

HOUSE COMMITTEE ON ECONOMIC REVITALIZATION & BUSINESS

February 8, 2011

8:00 AM

State Capitol, Conference Room 312

In Support of

HB 1642 RELATING TO HIGH TECHNOLOGY

TO: Chair McKelvey, Vice Chair Choy, and Members of the Committee

From: Kaiali'i Kahele

Re: Testimony in Support of HB1642

Honorable Chair, Vice-Chair and Committee Members:

Thank you for the opportunity to submit testimony in support of HB1642.

The R&D credit has helped to jump start an industry that is in its infancy in Hawaii. The R&D credit has been responsible for job creation, as well as long term investments that will set the stage for growth into the future. I believe the technology industry is an important pillar in Hawaii's economy. I urge you to maintain the momentum that has started and to keep this new sector of the economy growing at this critical juncture. Thank you for your continued support of the R&D tax credit and for your support of the industry.

Sincerely,

Kaiali'i Kahele

LATE TESTIMONY



LATE TESTIMONY

Written Statement of
Scott Otake
Electrical Engineer
Oceanit
before the
HOUSE COMMITTEE ON ECONOMIC REVITALIZATION & BUSINESS
February 8, 2011
8:00 AM
State Capitol, Conference Room 312
In Support of
HB 1642 RELATING TO HIGH TECHNOLOGY.

TO: Chair McKelvey, Vice Chair Choy, and Members of the Committee

From: Scott Otake, Electrical Engineer

Re: Testimony in Support of HB1642

Honorable Chair, Vice-Chair and Committee Members:

Thank you for the opportunity to submit testimony in **support of HB1642.**

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We urge you to maintain the momentum that has started and to keep this new sector of the economy growing at this critical juncture.

Thank you for your continued support of the R&D tax credit and for your support of the industry.

Sincerely,

Scott Otake



LATE TESTIMONY

Written Statement of
Edward Pier
Senior Scientist
Oceanit
before the
HOUSE COMMITTEE ON ECONOMIC REVITALIZATION & BUSINESS
February 8, 2011
8:00 AM
State Capitol, Conference Room 312
In Support of
HB 1642 RELATING TO HIGH TECHNOLOGY.

TO: Chair McKelvey, Vice Chair Choy, and Members of the Committee

From: Edward Pier, Senior scientist

Re: Testimony in Support of HB1642

Honorable Chair, Vice-Chair and Committee Members:

Thank you for the opportunity to submit testimony in **support of HB1642.**

Oceanit currently employs about 160 scientists, engineers and support staff. We regularly host interns and school classes, and conduct numerous outreach activities for elementary through college level kids to introduce them to science and engineering careers. We let kids know that there are exciting, decent paying jobs for them in Hawaii, if they pursue these careers. Many of them have returned to us, equipped with college degrees, wanting to work in science and engineering.

I hope that we can continue to offer an alternative to kids that want to work in an industry that is growing nationally as well as internationally - and to show them that world class technical work can thrive in Hawaii.

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We urge you to maintain the momentum that has started and to keep this new sector of the economy growing at this critical juncture.

Thank you for your continued support of the R&D tax credit and for your support of the industry.

Sincerely,

Edward A. Pier



LATE TESTIMONY

Written Statement of
ANDREW P. KEANE
CIVIL ENGINEER
Oceanit
before the
HOUSE COMMITTEE ON ECONOMIC REVITALIZATION & BUSINESS
February 8, 2011
8:00 AM
State Capitol, Conference Room 312
In Support of
HB 1642 RELATING TO HIGH TECHNOLOGY.

TO: Chair McKelvey, Vice Chair Choy, and Members of the Committee

From: Andrew P. Keane, Civil Engineer

Re: Testimony in Support of HB1642

Honorable Chair, Vice-Chair and Committee Members:

Thank you for the opportunity to submit testimony in **support of HB1642.**

Oceanit currently employs about 160 scientists, engineers and support staff. We regularly host interns, school classes, and conduct numerous outreach activities for elementary thru college level kids to introduce them to science and engineering careers. We let kids know that there are exciting, decent paying jobs for them in Hawaii if they pursue these careers. Many of them have returned to us, equipped with college degrees, wanting to work in science and engineering.

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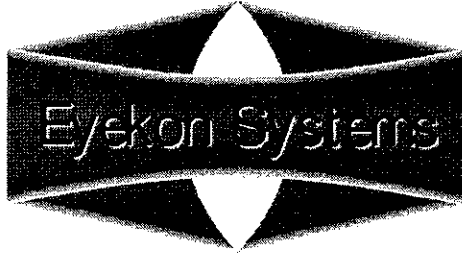
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We urge you to maintain the momentum that has started and to keep this new sector of the economy growing at this critical juncture.

Thank you for your continued support of the R&D tax credit and for your support of the industry.

Sincerely,

LATE TESTIMONY



EYEKON SYSTEMS, LLC

MILILANI, HAWAII 96789

PHONE: 808.366.4256

FAX: 808.744.7602

Written Statement of
Dr. Paul Konkola
Principal
Eyekon Systems LLC
before the
HOUSE COMMITTEE ON ECONOMIC REVITALIZATION AND BUSINESS

February 8, 2011
8:00 AM
State Capitol, Conference Room 312

RE: HB 1642 RELATING TO HIGH TECHNOLOGY -- SUPPORT

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

Thank you for the opportunity to submit testimony in support of HB1642.

Eyekon Systems is part of Hawaii's emerging defense and dual-use technology sector, which supplies high skilled local jobs. Our company began operations in 2008, and since then we have received significant funding through the Department of Defense to develop innovative electrical-optical-mechanical technologies that have significant market potential.

Our company's R&D investment provides relatively high-paying jobs to highly educated and skilled employees. These employees pay substantial payroll taxes and spend significant amounts on local goods and services. Sustained R&D investment is the key to our ability to succeed in the competitive global marketplace.

It is hard to start a technology company anywhere and right now it is even harder in Hawaii. Fortunately the good news is the payoff can be big and Hawaii is an attractive place to work. Without Hawaii's R&D tax credit, we will have fewer funds to reinvest in our company's R&D efforts, and our company will face a slower road ahead. By extending the R&D tax credit, you will be investing in the future by supporting fledgling dual-use technology companies like ours.

We urge you to support the extension of the R&D tax credit through HB1642. Thank you for the opportunity to testify.