



Written Testimony of

James P Karins,  
President Pukoa Scientific  
before the

**LATE TESTIMONY**

**House Committee on Finance  
Wednesday, March 2, 2011 at 10:00 a.m.  
Conference Room 308, State Capitol  
Agenda #1**

**RE: HOUSE BILL NO. 1642 HD1 RELATING TO HIGH TECHNOLOGY**

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

Pukoa Scientific strongly 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. Pukoa Scientific is a small dual-use company located in the Manoa Innovation Center. It has 7 full-time employees working on image processing technologies. Since it was founded in 2004 Pukoa has utilized the R&D tax credit to pursue and win very competitive contracts that otherwise would have been nearly impossible to obtain, to write and file patents for its novel algorithms, and to fund part-time students.

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.

WILLIAMS AEROSPACE INC.

phone (808) 626-5259

fax (808) 626-5207

website <http://www.williamsaerospace.com>

2115 Kalia Road, Suite 100

Honolulu, HI 96816

Williams Aerospace

## LATE TESTIMONY

V P and COO

Williams Aerospace Inc.

RE: Testimony in Strong Agreement to HB1642

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

Thank you for the opportunity to testify on this bill. Williams Aerospace strongly AGREES HB1642.

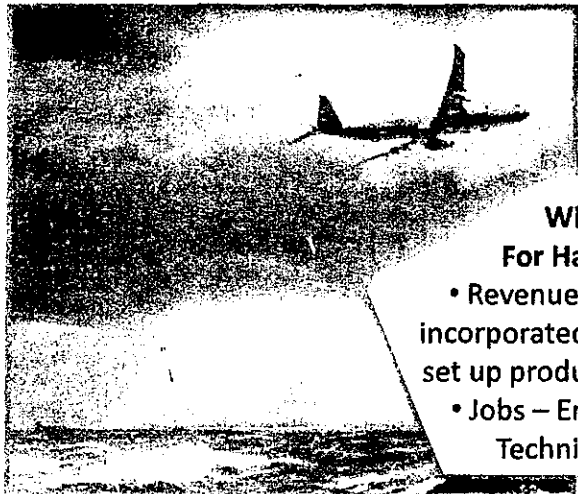
Williams Aerospace is still a small company, with only 5 employees yet we bring more than that to Hawaii, with every grant we have been blessed with, we have made sure that we have engaged other Hawaii companies to help in our development and have made great partnerships that will continue on into transition as well as manufacturing. WA is also working on a BAA with a large prime and because of what our product is **Hawaii** will be the place for all testing and evaluation for the project for phase II. . At this time WA has submitted several SOW for transition of our UAS (unmanned Aerial Systems), WA has a verbal that a minimum of one of those will be turning into a PO with out side dollars coming into Hawaii in the area of \$486,K. These will be dollars that will be for labor, building, testing and evaluation of our product. This will also have GET dollars for the state. Without the the tax credits WA could have never gotten to this point. WA had a great idea but no real means to get it to market the tax incentives were key in our success as well as the success for the State of Hawaii. Our UAS are the next generation, for UA Systems, we are very confidant that they will be deployed all over the world, we are currently working with South of Africa as well as India we are currently waiting on our ITAR to be approved so that we can move forward on those projects. What WA found was as you start a business especially a research and development company, there are so many variables you don't know such as Attys. fees, accounting fees, insurance (etc.) Some of which you do not know until you are in the project, we survived paying for all of those and are now transitioning because we were able to recover some of our R&D credits to help with those fees. We have also increased the amount of students to UH for classes that will benefit our company as well as our state.

Sincerely,

Leilani C. Williams

VP and COO

[lwilliams@williamsaerospace.com](mailto:lwilliams@williamsaerospace.com)



**Win For Hawaii**

- Revenues – WA is incorporated in HI, may set up production here
- Jobs – Engineers, Technicians

**Transition/Mass Production**

P-3C/P-8A

NAVAIR – PMA 264

GAPS SBIR Phase 3

- Phase 3 Objectives:**
1. Develop a production design
  2. Conduct integrated engineering and operational testing
  3. Demonstrate full operational functionality

**Program Objective:** Develop a mod kit for the SSQ-53 sonobuoy that gives it a guidance & glide capability. Will deploy from high aircraft altitudes to precise water-entry locations up to 25nm away

\$24K - **Where will the investment go?**

**Trade / Technical Studies**  
Hire consultants to study P-3C/P-8A integration & flight test procedures

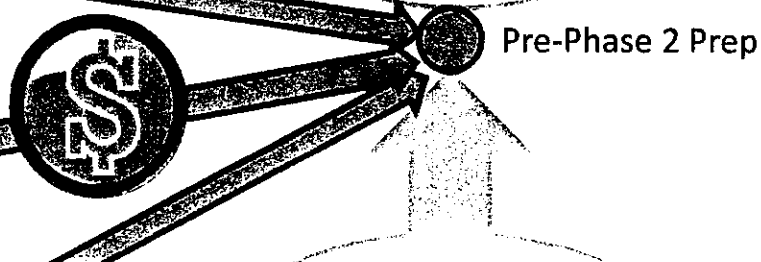
**Accounting Preparations**  
Need to meet Gov. DCAA accounting standards – hire outside firm (Mike McNew & Associates)

**Travel**  
Will travel to NAVAIR PMA-264 to discuss specifics of Phase 2 effort and detail development & flight test plans

GAPS SBIR Phase 2

\$ 750 K +

- Phase 2 Objectives:**
1. Develop and finalize component design
  2. Develop and fabricate prototype unit(s) for testing
  3. Define field test objectives and conduct limited prototype testing



GAPS SBIR Phase 1

\$ 78K

- Phase 1 Objectives:**
1. Develop and demonstrate technical feasibility
  2. Generate preliminary hardware design
  3. Develop prototype plan

Investment

## FINTestimony

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**From:** mailinglist@capitol.hawaii.gov  
**ent:** Wednesday, March 02, 2011 7:52 AM  
**To:** FINTestimony  
**Cc:** lcwilliams@williamsaerospace.com  
**Subject:** Testimony for HB1642 on 3/2/2011 10:00:00 AM

Testimony for FIN 3/2/2011 10:00:00 AM HB1642

Conference room: 308  
Testifier position: support  
Testifier will be present: Yes  
Submitted by: Leilani Williams  
Organization: Williams Aerospace  
Address:  
Phone:  
E-mail: [lcwilliams@williamsaerospace.com](mailto:lcwilliams@williamsaerospace.com) Submitted on: 3/2/2011

**LATE TESTIMONY**

Comments:  
WILLIAMS AEROSPACE INC.

phone (808) 626-5259  
Fax (808)3561697  
Web site <http://www.williamsaerospace.com>  
91-1006 Uouoa St  
Ewa Beach, Hi 96706  
Williams Aerospace  
VPand COO  
Williams Aerospace Inc.  
RE: Testimony in Strong Agreement to HB1642

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

Thank you for the opportunity to testify on this bill. Williams Aerospace strongly AGREES HB1642.