

**Testimony to the House Committee on Economic Revitalization
and Business**

Tuesday, February 8, 2012

8:30 AM

Conference Room 312

RE: HOUSE BILL NO. 2408 RELATING TO TAXATION

Chair McKelvey, Vice Chair Choy, 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 House Bill No. 2408, Relating to Taxation.

The measure proposes to change the sunset date of the temporary suspension of the general excise tax exemptions for high technology research and development (R&D) and for ship building and repairs as provided for in Act 105, Session Laws of Hawaii 2011.

The Chamber's Military Affairs Council (MAC) serves as the liaison for the state in matters relating to the U.S. military and provides oversight for the State's multi-billion dollar defense industry.

The proposal is vital to ongoing efforts to restore the competitiveness of the public-private contractor in providing ship repair services at Dry Dock 4 in the Pearl Harbor Naval Shipyard (PHNSY). Under a public-private contract, the Navy authorizes the contractor use of Dry Dock 4 to bid for and work to repair naval surface ships as well other military, Coast Guard and commercial vessels. The current contractor employs about 650 skilled technicians. Enabling the contractor to compete successfully with competing contractors outside Hawaii would keep the work in Hawaii and protect against job losses.

Of particular concern is the competitiveness of the public-private sector operation in gaining work in the Navy's ongoing 10-year, \$1.0 billion cruiser modernization program for surface ships based at Pearl Harbor. The exemption

of the state GET is key to reducing operating costs, and keeping cruiser modernization work in Hawaii. This would enable the public-private contractor to gainfully employ its 650 local workforce, and possibly result in increasing the number of workers for the larger modernization projects.

The approval of this measure would protect and sustain Hawaii's largest industrial work site with a federal workforce of nearly 4,800 highly skilled employees and the 650 employees of the public-private contractor.

We also support the GET credit for Hawaii's high tech research and development businesses. The large presence of military commands and attendant presence of the top prime defense contractors in Hawaii, and the UARC at the UH, provide a unique opportunity to establish a sustainable ecosystem for high tech R&D. This should provide a firm foundation for diversifying the economy beyond the tourism and defense industries, both of which are mature industries that have less potential for diversifying the economy. Moreover, high tech would attract greater opportunities for the return of residents educated and trained in science, engineering, and research.

It is important to note that research and development in high tech has the potential to stimulate innovation and lead to the commercialization of a myriad of new products and services and create abundant new jobs for the workforce.

In light of the critical importance of diversifying the economy, recommend that HB 2408 be passed.

Thank you very much for the opportunity to testify.

Written Statement
of
YUKA NAGASHIMA
Executive Director & CEO
High Technology Development Corporation
before the
HOUSE COMMITTEE ON ECONOMIC REVITALIZATION AND BUSINESS
Tuesday, February 14, 2012
8:30 AM
State Capitol, Conference Room 312

In consideration of
HB 2408 RELATING TO TAXATION

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

The High Technology Development Corporation (HTDC) supports the portion of HB 2408 related to high technology research and development grants (Section 1, line item 15). We offer no position on the portion related to ship building.

HB 2408 repeals the temporary suspension of tax exemptions for high technology research and development grants. The exemption is important for Hawaii small businesses looking to advance their intellectual property and commercialize these technologies.

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



Ship Repair Association of Hawaii

**P.O. Box 29001, Honolulu HI 96820
Ph# (808) 848-6211 Fax# (808) 848-6279**

February 13, 2012

The Honorable Representative Angus McKelvey, Chair
The Honorable Representative Isaac Choy, Vice Chair
House Committee on Revitalization and Business

Hawaii State Capitol, Conference Rm. 312
415 South Beretania Street
Honolulu, HI 96813

TESTIMONY TO Committee on Revitalization and Business
Tuesday, February 14, 2012
8:30 AM
Conference Room 312
Hawaii State Capitol

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

On behalf of HSI-Electric Boat, a member organization of the Ship Repair Association of Hawaii (SRAH), I am submitting this written testimony in response to House Bill 2408. HSI-Electric Boat, along with the full membership of the SRAH, **strongly supports HB 2408**, changing the sunset date of the temporary suspension of the General Excise Tax (GET) pertaining to Shipbuilding and Ship Repairs provided for in Act 105, Session Laws of Hawaii, 2011. HB 2408 would restore our industry's GET exemption, effective June 30, 2012.

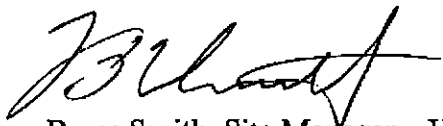
The ship repair industry in Hawaii has been fighting to maintain our industrial base since the mid 1990s. Owing to a number of unique economic factors that exist in Hawaii, our industry struggles to keep Hawaii's military and commercial home ported vessels in the State for ship modernization and repair requirements. Hawaii is the only Island State in the Union. We have a unique, encapsulated economy which restricts our ability to import the material and resources necessary to maintain our industry.

Our ship repair businesses are also significantly engaged in critical industrial services to our community (other than ship repair), including electric motor and generator repairs and service; welding and metal manufacturing and repairs; ventilation and air conditioning, among others. Imposing a GET on the ship repair portions of our businesses, even for the intended limited duration of Act 105 imposed in 2011, critically impacts our businesses in an already difficult economy, constituting a very real threat to a unique component of our community's fragile industrial base.

The employees and families of HSI-Electric Boat, along with the rest of our Ship Repair Association of Hawaii constitute a significant industrial benefit to our community, with sound skills, technology and employment, good wages and a positive input to the State's tax base. Their jobs and the taxes they pay – as well as the substantial taxes our companies pay on the non-ship repair revenues of our businesses - are imperiled by the continued imposition of GET on ship repair in Hawaii.

We ask you to support HB 2408 to expeditiously restore the GET exemption normally afforded Hawaii's Shipbuilding and Ship Repair industry, to help level the playing field for Hawaii-based ship repair businesses in a highly competitive global industry.

Respectfully yours,



Bruce Smith, Site Manager – Hawaii
HSI-Electric Boat
Ship Repair Association of Hawaii

Member Firms

AMSEC, LLC Algas Caspro American Industrial Insulation Anawai & Associates Arise Wave Scaffolding
BAB Hawaii Shipyards C & S Services Cresser Rand Hawaii Marine Cleaning Honolulu Marine, LLC
HSI Electric Boat HSI Mechanical, Inc. International Paint IMIA, LLC ICI Metal Products Jo Kell, Inc.
Kraton Defense & Security Solutions Mansco, Ltd. NEC Technologies Oceanair Inc.
Pacific Shipyards International Phoenix International Potter Electric, Inc. Propulsion Control Engineering



NSC Technologies
4510 Salt Lake Blvd. Suite D-10
Honolulu, HI 96818
February 13, 2012

Honorable Representative Angus L.K. McKelvey, Chair
Honorable Representative Isaac W. Choy, Vice Chair
Committee on Economic Revitalization & Business

Testimony to Committee on Economic Revitalization & Business
Tuesday, February 14, 2012
8:30am
Conference Room 312
Hawaii State Capitol

Dear Chair Angus L.K. McKelvey, Vice Chair Isaac W. Choy, and Members of the Committee:

On behalf of NSC Technologies, I am submitting this written testimony in response to Bill # HB2408. NSC Technologies opposes the temporary suspension of the GET exemption proposed by HB2408:

“Changes the sunset date of the temporary suspension of the general excise tax exemptions for high technology research and development and for shipbuilding and ship repairs provided for in Act 105, Session Laws of Hawaii 2011. Effective June 30, 2012.”

The suspension of GET exemptions for ship repair stands to enhance the cost disadvantages related to this industry in Hawaii. While current competitive challenges exist in recruiting, training and retaining skilled labor for marine repairs, as well as costs associated with the manufacturing and shipping of required material, the additional cost associated with this suspension serves to further our state’s competitive disadvantages.

As a labor provider for the naval ship repair industry, NSC Technologies currently maintains a roster of 50 skilled and trained individuals in Hawaii prepared to support local shipyard labor contracts. A direct negative impact on Hawaii’s employment rate can be anticipated should Hawaii lose the ability to competitively bid for and win contracts in ship repair.

Representing NSC Technologies, we respectfully request you delete existing Shipbuilding and Ship Repair GET exemptions from the range of exemptions proposed for the suspension and tax imposition by this bill.

Sincerely,

Troy K. Ochiai
General Manager Hawaii

**ALAN S. HAYASHI
207-4 KAWAIHAE STREET
HONOLULU, HAWAII**

**Testimony to the House Committee on Economic Revitalization
and Business**

Tuesday, February 8, 2012

8:30 AM

Conference Room 312

RE: HOUSE BILL NO. 2408 RELATING TO TAXATION

Chair McKelvey, Vice Chair Choy, and members of the committee.

My name is Alan Hayashi, employed by a large defense contractor, but due to time limitations I am testifying as an individual in support of this measure HB 2408.

This HB 2408 measure proposes to change the sunset date of the temporary suspension of the general excise tax exemptions for ship building and repair, and high technology research and development (R&D) grants as provided for in Act 105, Session Laws of Hawaii 2011.

Ship repair is an industry that is global in its market. Because the ships are transitory, the repair work can be done in many areas around the world. Hawaii ship repair competes with Asia and the west coast of the United States for work and is at a disadvantage because of the cost of shipping of replacement parts and often labor in certain skill sets. Any additional costs increase the disadvantage for Hawaii.

Hawaii's geography is strategic to private shipping and military, as a repair facility in the mid-Pacific and the need for battle readiness close to the Asian theater. However, cost is always a factor, and is more so in these difficult economic times. If Hawaii is to retain its share of the ship repair market, the cost structure must be conducive to competitive pricing. The GET tax adds a burden to the industry that is already at a disadvantage on the global market.

The Ship Repair Association of Hawaii (SRAH) also possess members who provide critical repair skills to other industries in Hawaii (electrical; mechanical repair capability). If the ship repair work diminishes to a critical point, some of these repair capabilities will be lost and it will take years to rebuild these skill sets.

If Hawaii is to build a more diverse economy, ship repair is a sector that can become a foundation for some of the necessary skill sets to help us broaden the "industrialized" base. We are currently collaborating with other companies in the state of Hawaii to expand the training of critical skill sets (basic and specialty welding, heavy mechanics, others, etc) to ensure a more robust and skilled workforce. However, the repair work must exist for these skill sets to be put to use. The GET burden makes it more difficult to secure global ship repair work in this worldwide repair market.

I do support the reinstatement of High Technology R&D tax exemption on Grants. It is important to note that research and development in high technology has the potential to stimulate innovation and lead to the commercialization of a myriad of new products and services and create an abundance of new jobs for the Hawaii workforce. It is usually the "smaller" high tech companies that are the innovators and beneficiaries of this specific exemption. Therefore, I will defer to testimony by HTDC / HSDC, and others on this matter of grant impact.

In light of the critical importance of diversifying the economy, I respectfully recommend that HB 2408 be passed.

Thank you very much for the opportunity to testify.



13 January 2012

The Honorable Rep. Angus L.K. McKelvey, Chair
The Honorable Rep. Isaac W. Choy, Vice Chair
House Committee on Economic Revitalization & Business

Hawaii State Capitol, Conference Room 312
415 South Beretania Street
Honolulu, HI 96813

TESTIMONY TO House Committee on Economic Revitalization & Business
Tuesday, February 14, 2012
8:30 a.m.
Conference Room 312
415 South Beretania Street
Honolulu, HI 96813
Hawaii State Capitol

Dear Chair Rep. Angus L.K. McKelvey, Vice Chair Rep. Isaac W. Choy and Members of the Committee:

On behalf of Marisco, Ltd., I am submitting this written testimony in response to HB2408. Marisco, Ltd. strongly supports the modification of Act 105 regarding the suspension of the General Excise Tax (GET) pertaining to;

...Gross proceeds received from shipbuilding and ship repairs as described under section 237- 28.1;

The ship repair industry in Hawaii has been fighting to maintain our industrial base since the mid 1990s. Owing to a number of unique economic factors that exist in Hawaii, our industry struggles to keep Hawaii's military and commercial home ported vessels in the State for ship modernization and repair requirements. Hawaii is the only Island State in the Union. We have a unique, encapsulated economy which restricts our ability to import the material and resources necessary to maintain our industry.

Because of our encapsulated economy and the resultant costs of having to ship all material needed from the mainland, along with the necessity to provide an appropriate and livable wage to our skilled island workforce, the Hawaii ship repair industry is, and has been, at a significant cost competitive disadvantage with mainland and foreign repair entities for years. Compounding the matter are the challenges of fluctuating workflows in the marine industry and the difficulties of recruiting, training and retaining the skilled workforce necessary to perform marine repairs. It is worthy to note that the U.S. Navy is pressed through intense necessity, to reduce ship repair costs for work conducted on U.S. Navy ships, including those home ported in Pearl Harbor. To that end, the Navy instituted the Multi-Ship Multi-Option (MSMO) contracting concept to consolidate commercially contracted Pearl Harbor surface ship repairs under central (prime contractor) management, with a principal goal of improving the cost effectiveness of ship maintenance.

DRY DOCK ★ SHIP REPAIR
91-607 MALAKOLE ROAD
KAPOLEI, HAWAII 96707
TELEPHONE (808) 682-1333
FACSIMILE (808) 682-5848

As a near term example of the undermining effect removing the GET exemption and imposing a tax would have on our industry in Hawaii: MSMO contractors in general and Hawaii based ship repair contractors specifically are working to maintain the Navy's commitment to conduct Navy Aegis Cruiser (CG) and Guided Missile Destroyer (DDG) modernizations and upgrades here in Pearl Harbor over the next 10 years. The first such conversion is in progress now aboard USS CHOSIN in Pearl Harbor Naval Shipyard. If the Navy were required to pay GET on these projects, the added costs to the Navy would constitute a substantial element on the side of the ledger in favor of relocating these maintenance availabilities – and other significant Navy ship repair availabilities planned to take place - to the West Coast of the U.S.

Hawaii based Coast Guard vessels are similarly pressed, and have already opted to conduct a number of scheduled maintenance availabilities on the West Coast in recent years, predicated on cost differential. Our association continues to take cost-limiting measures to remain in the running to service Coast Guard, U.S. Army and other government marine vessels here in Hawaii.. Imposing GET on our ship repairs would further exacerbate the challenges we face, resulting in further lost work and lost revenue for our industry and this State.

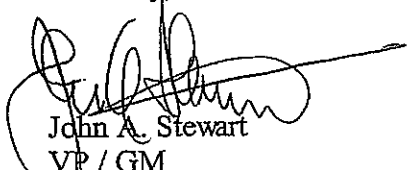
Similarly, with respect to commercial operators, we see the effects of this cost analysis on large repair projects where commercial operators are not as impacted by the politics of their decisions. As it stands, we have seen these operators take their vessels to the mainland or to foreign competitors. Imposing a GET on ship repair will further exacerbate this dilemma.

Marisco's ship repair business is significantly engaged in critical industrial services to our community, including welding and metal manufacturing and repairs, pipefitting, blasting and painting and all types of rigging and mechanical repairs. Imposing a GET on the ship repair portions of our businesses would critically impact our community in an already difficult economy, constituting a very real threat to a unique component of our community's fragile industrial base.

The 115 employees of Marisco, Ltd. constitute a significant industrial benefit to our Leeward Coast community, with sound skills, technology and employment, good wages and a positive input to the State's tax base. Their jobs and the taxes they pay – as well as the substantial taxes our companies pay on the non-ship repair revenues of our businesses - would all be imperiled by imposing GET on ship repair in Hawaii.

Representing Marisco, Ltd., I ask you to approve Bill HR2408 which includes ending the suspension of the existing Shipbuilding and Ship Repair GET exemption.

Sincerely,



John A. Stewart
VP / GM
Marisco, Ltd.

From: mailinglist@capitol.hawaii.gov
Sent: Monday, February 13, 2012 9:40 AM
To: ERBtestimony
Cc: cperrino@qedsysinc.com
Subject: Testimony for HB2408 on 2/14/2012 8:30:00 AM

Testimony for ERB 2/14/2012 8:30:00 AM HB2408

Conference room: 312
Testifier position: Support
Testifier will be present: No
Submitted by: Carl Perrino
Organization: Ship Repair Association of Hawaii
E-mail: cperrino@qedsysinc.com
Submitted on: 2/13/2012

Comments:

From: mailinglist@capitol.hawaii.gov
Sent: Monday, February 13, 2012 12:05 PM
To: ERBtestimony
Cc: swiggins@phnx-international.com
Subject: Testimony for HB2408 on 2/14/2012 8:30:00 AM

Testimony for ERB 2/14/2012 8:30:00 AM HB2408

Conference room: 312
Testifier position: Support
Testifier will be present: No
Submitted by: Steve Wiggins
Organization: Phoenix International Holdings, Inc
E-mail: swiggins@phnx-international.com
Submitted on: 2/13/2012

Comments:

As the Phoenix Hawaii Operations Manager who oversees in excess of \$3.0 million dollars of ship repairs that are conducted on federally owned vessels, it is apparent the implementation of the Hawaii GET has had a negative impact on funds the federal government has to allocate for maintaining and modernizing it's pacific fleet's ship and boat inventory.

Phoenix primarily performs in-water operations for our customers. We employ seven full time employees and two part time employees. Our operations impact the industrial base in Hawaii along with the retailers associated with providing goods and services to that base.

I desire to show my full support along with the employees of Phoenix to reinstate the GET exemption for ship repair. Thank you very much.

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