

HB 277

HD2, SD1

WRITTEN ONLY

TESTIMONY BY KALBERT K. YOUNG
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE SENATE COMMITTEE WAYS AND MEANS
ON
HOUSE BILL NO. 277, H.D. 2, S.D. 1

April 1, 2011

RELATING TO MILITARY AFFAIRS

House Bill No. 277, H.D. 2, S.D. 1, establishes the Military Affairs Liaison Trust Fund as a separate fund of a non-profit entity to support its role in serving as liaison in matters relating to the military and to provide oversight for the military's presence in Hawaii and the impact defense spending has on Hawaii's economy. This trust fund would receive general funds through legislative appropriations. House Bill No. 277, H.D. 2, S.D. 1, appropriates an unspecified amount from the general fund in Fiscal Year 2012 and Fiscal Year 2013 for deposit into the trust fund.

The department recognizes the valuable intent of this bill. However, as a matter of general policy, the Department of Budget and Finance expects the creation of any trust fund would meet the definition of a trust fund as defined by Section 37-62, Hawaii Revised Statutes, and demonstrate the capacity to be financially self-sustaining. In regards to House Bill No. 277, H.D. 2, S.D. 1, it is difficult to determine whether the Military Affairs Liaison Trust Fund meets the definition of a trust fund and will be self-sustaining.

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

Testimony to the Senate Committee on Ways and Means
Thursday, April 1, 2011
9:00 a.m.
Conference Room 211
Hawaii State Capitol

RE: HOUSE BILL NO. 277, HD 2, SD1 RELATING TO MILITARY AFFAIRS

Chair Ige, Vice Chair Kidani, 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 strong support of House Bill 277, HD 2, SD1, Relating To Military Affairs.

The 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 establish a military affairs trust fund as a separate fund of a nonprofit corporation, to support the nonprofit corporation in its duties as the state liaison in matters relating to the military. The measure proposes to appropriate funds for the trust fund.

By way of background, the importance of having an agency under the state to protect and preserve military presence in Hawaii and to provide oversight for the state's defense industry was recognized many years ago.

Since 1985, at the request of the then Governor of Hawaii, The Chamber of Commerce of Hawaii agreed to serve as the liaison for the state on matters relating to the military. The Military Affairs Council (MAC) was then established as an unencumbered affiliate of the Chamber to perform the functions of liaison for the state on military matters. The MAC subsequently established a subcommittee called the Armed Services Committee to assist in maintaining a strong and viable relationship with the military.

It should be made clear that the MAC is affiliated with the Chamber, but is not a committee of the Chamber. It serves as the liaison for state in matters relating to the military for the benefit of the state of Hawaii and all of Hawaii's businesses, institutions, and residents.

The state provided appropriations from the general fund to support the work of the MAC. This state funding was discontinued during the economic recession in the late 1990s, but then resumed in the early to mid 2000s until the current financial crisis. The Chamber membership absorbed the financial burden of the MAC during periods when state funding was discontinued because of the relative importance of the defense industry to Hawaii's economy.

The Chamber has also been administering the affairs of the O`ahu Council, which was established in 1947 to discuss and act on issues that impacted the military and the State. The O`ahu Council is a high level group that is co-chaired by the Governor and the senior military commander in Hawaii and meets once or twice a year at the call of the co-chairs. Membership includes the President of the State Senate; Speaker of the State House; Mayor of Honolulu; senior commanders of the US Navy, Army, Air Force, Marine Corps, and Coast Guard; Hawaii's Adjutant General; and local business leaders.

This measure proposes to recognize the state-level function that has been administered by the Chamber for the past 26 years, and formalizing state support in providing oversight for the state's second major source of revenues and jobs, the defense industry.

This is comparable to the oversight that the Hawaii Tourism Authority exercises over the tourism industry.

Defense expenditures in Hawaii are responsible for generating more than \$10.1 billion in revenues for the state's economy, second only to tourism. Equally important is that defense expenditures have accounted for creating nearly 100,000 jobs for residents who report annual household earnings of more than \$6.4 billion. It is imperative that the state take measures to protect and grow this vital source of jobs and revenues.

Moreover, the military's large presence in Hawaii has attracted the nation's large defense contractors to establish offices in Hawaii. This significant presence of military commands and defense contractors has created an ideal opportunity for Hawaii to diversify its economy by establishing a research and development industry. Similar successes have been experienced in San Diego and other communities that enjoy significant presence of military commands and defense contractors.

Passage of this bill is timely as the US defense industry is facing dramatic budget cuts that will translate into decreasing expenditures in defense communities such as Hawaii. The US Department of Defense has already announced steps to reduce the size of the force, cutback planned defense procurement programs, restructure and rebalance the force, and several other cost-cutting initiatives.

Recognizing this potentially dire situation, it would be prudent for the state to prepare to not only protect and preserve the defense industry, but to plan for and initiate actions to enhance the military's presence.

With the base closure actions taken by the Congress in the 1990s and later in 2005, states that benefit from military presence have long established military affairs departments to better plan and strategize their efforts. Military presence has become a highly competitive challenge among these states, and Hawaii should place itself in position to prevail over competing states such as Washington, Alaska, California, Colorado, Texas, Virginia, Georgia, Kentucky, and Florida.

The measures proposed in this bill are a positive step towards strengthening state oversight for the defense industry. It will enable the state to continue existing military partnerships both in Hawaii and in Washington, DC. Working with Hawaii's congressional delegation and senior military commanders and key defense officials in the Pentagon, the state will be in good position to convince defense leaders on the distinct advantages of Hawaii continuing to serve as the hub of military operations for the entire Asia Pacific region.

And we must not forget that the presence of military commands and the nation's large defense contractors serve as a catalyst in diversifying Hawaii's economy through innovation in technology, which could become the third pillar in Hawaii's economy and stimulate growth in other areas such as energy and agriculture.

We strongly support passage of this bill as a means of strengthening oversight of the defense industry, and leveraging the benefits the defense industry to help establish a sustainable high tech industry in Hawaii.

Thank for the opportunity to testify on this important bill.