

DAVID Y. IGE
GOVERNOR

JOSH GREEN M.D.
LIEUTENANT GOVERNOR



LINDA CHU TAKAYAMA
DIRECTOR

DAMIEN A. ELEFANTE
DEPUTY DIRECTOR

**STATE OF HAWAII
DEPARTMENT OF TAXATION**

830 PUNCHBOWL STREET, ROOM 221

HONOLULU, HAWAII 96813

<http://tax.hawaii.gov/>

Phone: (808) 587-1540 / Fax: (808) 587-1560

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To: The Honorable Angus L.K. McKelvey, Chair
and Members of the House Committee on Economic Development & Business

Date: Wednesday, March 13, 2019

Time: 10:00 A.M.

Place: Conference Room 309, State Capitol

From: Linda Chu Takayama, Director
Department of Taxation

Re: S.B. 972 S.D. 1, Relating to Ship Repair Industry

The Department provides the following comments regarding S.B. 972, S.D. 1, for your consideration.

S.B. 972, S.D. 1, repeals the capital infrastructure tax credit and in its place establishes the ship repair industry income tax credit, utilizing a non-profit entity, to construct and place into service purpose-built floating drydocks at Pearl Harbor for use by the United States Navy. The measure has a defective effective date of July 1, 2050, but would otherwise apply to taxable years beginning after December 31, 2019.

First, the Department appreciates that the Senate Committee on Ways and Means adopted the Department's recommendation to specifically repeal the capital infrastructure tax credit and enact the ship repair industry tax credit in a new section rather than by amending section 235-17.5, Hawaii Revised Statutes, as well as including language setting an overall cap on the amount of the credit that an eligible entity, along with all of its special purpose entities, investors, and partners may claim.

Second, the Department notes that while this measure allows distribution of the credit notwithstanding Internal Revenue Code sections 704 and 706 (which would otherwise require distribution of a credit in proportion to the ownership in the partnership or other pass-through entity), it is not clear how the distribution of the credit will occur since this measure allows the credit only to a non-profit entity, and as the entity generating the credit, would cause the credit to be trapped at that level since a non-profit does not have owners or investors.

Finally, if the Committee wishes to insert a non-defective effective date, the Department notes that it would be able to administer this credit for taxable years beginning after December 31, 2019 as currently written.

Thank you for the opportunity to provide comments.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Ship Repair Industry Tax Credit

BILL NUMBER: SB 972, SD-1

INTRODUCED BY: Senate Committee on Ways & Means

EXECUTIVE SUMMARY: Establishes the ship repair industry income tax credit for non-profit entities to offset costs incurred to construct and put into service purpose-built floating drydocks at Pearl Harbor for use by the United States Navy. Claims for the ship repair industry income tax credit can be made annually after the drydock is put into service and until the credit is exhausted. Repeals the capital infrastructure tax credit (which was scheduled to sunset on Dec. 31, 2019 anyway).

SYNOPSIS: Adds a new section to HRS chapter 235 to become the ship repair industry tax credit.

Allows a credit of ___% of the ship repair industry costs paid or incurred by a qualified entity to design and construct the purpose-built floating dry dock to be used by the United States Navy in Pearl Harbor. A qualified entity may form a special purpose entity to raise investor capital and claim the credit on behalf of the qualified entity. The qualified entity, together with all of its special purpose entities and its partners and members, shall not claim a credit in any one taxable year that exceeds \$____. A qualified entity shall become eligible to claim a credit under this section only after construction of the floating drydock has been completed and the floating drydock has been placed into service.

Defines "ship repair industry costs" as capital expenditures, as used in section 263 of the Internal Revenue Code and the regulations promulgated thereunder, or capital expenditures for real property, fixtures, structures, machinery, equipment, or capital assets that are paid or incurred in connection with the construction of a purpose-built floating drydock; provided that the ship repair industry costs shall not include amounts for which another credit is claimed or any amounts received in any form from the State.

Defines "qualified entity" as a not-for-profit entity with the principal purpose of facilitating and enhancing the ship repair business in Hawaii and that is involved in the design and construction of a purpose-built floating drydock to be used by the United States Navy in Pearl Harbor.

The credit allowed under this section shall be claimed against the net income tax liability for the taxable year. Credits in excess of a taxpayer's income tax liability may be used as a credit against the taxpayer's net income tax liability in subsequent years until exhausted. All claims, including amended claims, for a tax credit shall be filed on or before the end of the twelfth month following the close of the taxable year. Failure to comply with the foregoing provision shall constitute a waiver of the right to claim the credit.

In the case of an entity taxed as a partnership, credit shall be determined at the entity level, but distribution and share of the credit may be determined notwithstanding section 704 or section 706 of the Internal Revenue Code.

Any taxpayer claiming a tax credit under this section shall, within ninety days of the end of the calendar year, submit the following information to the department of taxation: (1) the amount of the eligible costs [for that year] for which the tax credit may be claimed; and (2) the qualified entity which incurred the costs. Failure to timely submit the information shall be subject to a penalty of \$5,000 per month or a fraction thereof, not to exceed \$25,000.

Sunsets on December 31, ____.

Repeals HRS section 235-17.5 (which now defines the capital infrastructure credit that is set to sunset on Dec. 31, 2019).

EFFECTIVE DATE: This Act, upon its approval, shall apply to taxable years beginning after December 31, 2019. Effective 7/1/2050.

STAFF COMMENTS: Tax credits generally are designed to reduce the tax burdens of certain groups by refunding a portion of taxes paid on purchases of essential items and services. The credit proposed by this measure amounts to nothing more than a subsidy of state funds as there is no obvious undue burden of taxes. And as with any subsidy, this one needs to be paid for. Either government needs to shrink, or the cost of government must be borne by all other taxpayers who do not qualify for the subsidy.

Here, the idea apparently is that public money is going to be used to pay for a substantial part of a floating drydock that is going to be used to make money and in which the State will have no ownership or other rights.

One technical difficulty in the bill as now drafted is defining the proper claimant(s). Who would be eligible to claim the credit, the qualified entity (a nonprofit), its investors, its special purpose entities, or some combination of the above? The bill as now drafted appears to say that all of them are, subject to an aggregate cap of \$____. It seems that this provision would be difficult for the Department to enforce, because it would need to keep track of the qualified entity, special purpose entities, and their investors.

Digested 3/8/2019



Ship Repair Association of Hawaii

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

11 March 2019

COMMITTEE ON ECONOMIC DEVELOPMENT & BUSINESS

Representative Angus L.K. McKelvey, Chair

Representative Lisa Kitagawa, Vice Chair

Testimony for SB972

DATE: Wednesday, March 13, 2019

TIME: 10:00 a.m.

PLACE: Conference Room 309

State Capitol, 415 South Beretania Street

Dear Representative Angus L.K. McKelvey, Chair; Representative Lisa Kitagawa, Vice Chair; and members of the Economic Development & Business Committee:

The Ship Repair Association of Hawaii (SRAH) Strongly Supports the establishment of the ship repair industry income tax credit but requests one amendment. The SRAH requests the “not-for-profit” language listed on page 6, line 10 be replaced with “business.”

Respectfully yours,

A handwritten signature in black ink that reads "Iain S. Wood". The signature is written in a cursive, flowing style.

Iain S. Wood, President

Ship Repair Association of Hawaii

Page 1 of 1
Member Firms

Aerotek - Airgas Gaspro – AMP United - Anawati & Associates - BAE Hawaii Shipyards - C & S Services - CB Tech Service - Dresser-Rand - EMS Ice Epsilon Systems – Fortior Solutions - Hawaii Marine Cleaning - HSI-Electric Boat - HSI Mechanical, Inc. - IMIA, LLC. - Inspec Testing - Jo-Kell, Inc. Leeward Marine, Inc. - Marisco, LTD. - Oceaneering International, Inc. - Pacific Shipyards International - PCE Hawaii, LLC. - Penco - Phoenix International Q.E.D. Systems, Inc. - Regal Service Co. - Safway Services, LLC. – Signal – SureID – The American Equity Underwriters, Inc. Trident Maritime Systems TY Realty Hawaii - UTS Maritime Services - Wardlaw Maritime

SB-972-SD-1

Submitted on: 3/11/2019 8:42:46 PM

Testimony for EDB on 3/13/2019 10:00:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Alan S. Hayashi	Ship Repair Association Hawaii (SRAH)	Support	No

Comments:

Chair McKelvey, Vice Chair Kitagawa, and members of the Committee on Economic Development and Business:

Chair McKelvey, Vice Chair Kitagawa, and members of the Committee on Economic Development & Business:

Thank you for the opportunity to make a very short presentation on behalf of the SHIP REPAIR ASSOCIATION HAWAII (SRAH), its 33- member companies, and 7,000 plus Maritime sector employees.

My name is Alan S. Hayashi and I am here representing the Ship Repair Association Hawaii (SRAH). The SRAH member Companies are listed below:

Aerotek â™™ Airgas Gaspro â™™ AMP United â™™ Anawati & Associates â™™ BAE Systems Hawaii Shipyards â™™ C&S Services â™™ CB Tech Service Inc. â™™ Dresser-Rand â™™ EMS ICE â™™ Epsilon Systems â™™ Hawaii Marine Cleaning â™™ HSI Electric Boat â™™ HSI Mechanical â™™ Inspec Testing â™™ International Marine & Industrial App â™™ Jo-Kell Inc. â™™ Leeward Marine Inc. â™™ Marisco Ltd. â™™ Oceaneering International, Inc. – Marine Services Division â™™ Pacific Shipyards International â™™ Phoenix International â™™ PCE Hawaii, LLC â™™ QED Systems Inc. â™™ Safway Services, LLC â™™ Signal Mutual Indemnity â™™ SureID, Inc. â™™ The American Equity Underwriters â™™ Tradesmen International LLC â™™ Trident Maritime Systems US Joiner â™™ Ty Realty, Inc. â™™ UTS Maritime Services

I rise in strong support of SB972, SD1.

Last year’s Legislative Session saw the need for a Grant in Aid funded study to determine the adequacy of Pearl Harbor Navy Ship Yard (PHSNY) facilities to retain Navy Surface ship repair in Hawaii, rather than send the surface ships to the US West Coast for repair. I will summarize the findings as follows:

“This study addresses the anticipated economic and industrial impacts to the State of Hawaii as a result of the U.S. Navy’s current plan to move surface fleet maintenance from Pearl Harbor to the West Coast. The Ship Repair Association of Hawaii (SRAH) offers a mitigation strategy that avoids the adverse economic impacts of displaced ship repair activities over the next seven years: loss of nearly \$1.31 billion in Hawaii GDP, \$351 million in labor earnings, and an annual average of 900 jobs each year. (Paul Brewbaker). The proposed strategy will not only protect private-sector maritime jobs that are expected to be lost, but will stimulate overall job growth of this sector, prevent the erosion of Hawaii’s private ship repair capability and provide greater strength and stability to the Navy’s Mid-Pacific Surface Force. This study offers a shared solution for the industry, State of Hawai‘i, and Navy that results in a fifth drydock; a new, mobile, floating asset in place by 2022. Given its 50+ year life cycle, this additional Pearl Harbor drydocking capacity will provide economic gains well beyond the outyears projected in this study.”

- **This study concludes that the impact of losing surface vessel repair work would be far-reaching, well beyond the loss of direct military jobs associated with surface ships leaving the area.**
- **The loss of Navy surface ship drydock maintenance to the PH private-sector ship repair community would significantly shrink the local industry and be unrecoverable. Hawaii will lose its heavy industrial repair capability.**
- **The analysis demonstrates that constructing a purpose-built floating drydock capable of accommodating any of the submarines and surface ships currently in and planned for at Pearl Harbor represents the best mitigating solution for the State of Hawai‘i and the U.S. Navy. This study confirms the need and requirement for this floating drydock asset.**

We respectfully request this Legislature pass a Grant in Aid to further the progress toward acquiring the floating dry dock asset, prior to the urgent need in 2022.

Thank you for the opportunity to testify.

SB-972-SD-1

Submitted on: 3/12/2019 8:15:12 AM

Testimony for EDB on 3/13/2019 10:00:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Michael Buelsing	Pacific Marine & Supply, Co.	Support	No

Comments:

This testimony is in strong support of SB972, with one amendment requested: to delete "not-for-profit" from page 6 line 10.

SB-972-SD-1

Submitted on: 3/12/2019 8:26:25 AM

Testimony for EDB on 3/13/2019 10:00:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Steven Loui	Pacific Marine & Supply	Support	No

Comments:

I strongly support this bill.

A & B Electric Co., Inc.

March 13, 2019

To: House Committee on Economic Development & Business
Rep. Angus L.K. McKelvey, Chair
Rep. Lisa Kitagawa, Vice Chair

From: Malcolm Barcarse, Jr.
Vice President of A & B Electric Co., Inc.

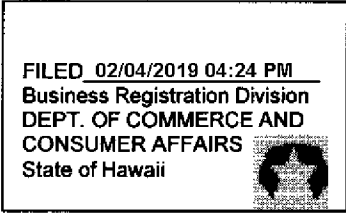
RE: **OPPOSITION** to SB 972 S.D. 1 Relating to Ship Repair Industry

Chair McKelvey, Vice Chair Kitagawa and members of the Committee,

A & B Electric Co., Inc. is an electrical contractor who has been in business since 1986, servicing commercial, industrial, and marine customers. One of the industries that we service is the ship year industry as an electrical subcontractor to the ship repair industry in Hawaii. We stand in **OPPOSITION** to this bill which seems to solely benefit a company that does not current currently exist (as this bill appears to be a companion bill to SB 985 (Relating to Special Purpose Revenue Bonds to Assist Pearl Harbor Floating Drydock LLC) which is also being heard today) and would give them a competitive edge in the marketplace with state assistance.

Currently there are 3 private drydocks in the State that provide docking repairs to for Private, State, and military vessels. With the upcoming expiration of the Multi Ship Multiple Option (MSMO) contract, which is currently being held by BAE Hawaii Shipyards. It will give the various companies in the ship repair industry in Hawaii an opportunity to compete for the various repairs to the nine homeported destroyers at Pearl Harbor. Some of these availabilities will require drydock services some of them will not. The availabilities that require drydock services will require the existing ship repair companies to upgrade their drydocks for these future availabilities

We **OPPOSE** this bill as it appears that the legislature is appearing to favor one entity in a competitive local marketplace. We feel that it is an inappropriate use of tax payer dollars in the form of tax credits to benefit one company in a competitive marketplace. We would also note that this measure is supposed to be for the benefit of a non-profit entity however according to the business registration of Pearl Harbor Floating Drydock LLC, it appears that they are a wholly owned subsidiary of Pacific Shipyards International. Upon an IRS nonprofit entity search on March 12, 2019 it appears that neither entity is currently a nonprofit entity that can benefit from this bill. See attachments showing DCCA registration dated 2-5 and non profit entity searches dated 3-12-19. We ask that this bill be **HELD**.



STATE OF HAWAII
DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS
Business Registration Division
335 Merchant Street
Mailing Address: P.O. Box 40, Honolulu, Hawaii 96810
Phone No.(808) 586-2727



ARTICLES OF ORGANIZATION FOR LIMITED LIABILITY COMPANY
(Section 428-203 Hawaii Revised Statutes)

PLEASE TYPE OR PRINT LEGIBLY IN BLACK INK

The undersigned, for the purpose of forming a limited liability company under the laws of the State of Hawaii, do hereby make and execute these Articles of Organization:

I

The name of the company shall be:

PEARL HARBOR FLOATING DRYDOCK LLC

(The name must contain the words *Limited Liability Company* or the abbreviation *L.L.C.* or *LLC*)

II

The mailing address of the initial principal office is:

705 NORTH NIMITZ HIGHWAY, HONOLULU, HI 96817 USA

III

The company shall have and continuously maintain in the State of Hawaii a registered agent who shall have a business address in this State. The agent may be an individual who resides in this State, a domestic entity or a foreign entity authorized to transact business in this State.

- a. The name (and state or country of incorporation, formation or organization, if applicable) of the company's registered agent in the State of Hawaii is:

PACIFIC SHIPYARDS INTERNATIONAL, LLC

5151C5

HAWAII

(Name of Registered Agent)

(State or Country)

- b. The street address of the place of business of the person in State of Hawaii to which service of process and other notice and documents being served on or sent to the entity represented by it may be delivered to is:

705 NORTH NIMITZ HIGHWAY, HONOLULU, HI 96817 USA

IV

The name and address of each organizer is:

5151C5
PACIFIC SHIPYARDS INTERNATIONAL, LLC

705 NORTH NIMITZ HIGHWAY, HONOLULU, HI 96817 USA

02/04/201957081

V

The period of duration is (check one):

At-will

For a specified term to expire on: _____

(Month Day Year)

VI

The company is (check one):

a.

Manager-managed, and the names and addresses of the initial managers are listed in paragraph "c", and the number of initial members are: 1

b.

Member-managed, and the names and addresses of the initial members are listed in paragraph "c".

c.

List the names and addresses of the initial managers if the company is Manager-managed, or List the names and addresses of the initial members if the company is Member-managed.

PACIFIC SHIPYARDS INTERNATIONAL, LLC

705 NORTH NIMITZ HIGHWAY, HONOLULU, HI 96817 USA

5151C5

02/04/201957081

VII

The members of the company (check one):

Shall not be liable for the debts, obligations and liabilities of the company.

Shall be liable for all debts, obligations and liabilities of the company.

Shall be liable for all or specified debts, obligations and liabilities of the company *as stated below*, and have consented in writing to the adoption of this provision or to be bound by this provision.

We certify, under the penalties set forth in the Hawaii Uniform Limited Liability Company Act, that we have read the above statements, I am authorized to sign this Articles of Organization, and that the above statements are true and correct to the best of our knowledge and belief.

04

FEBRUARY 2019

Signed this

_____ day of _____

PACIFIC SHIPYARDS INTERNATIONAL, LLC - IAIN
WOOD, MANAGER

(Type/Print Name of Organizer)

(Type/Print Name of Organizer)

IAIN WOOD

(Signature of Organizer)

(Signature of Organizer)

GT



Results for Tax Exempt Organization Search

Select Database

Search By

Search Term

City

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Additional information

- [Frequently asked questions - Exempt Organizations Select Check](#)
- [Revocations of 501\(c\)\(3\) Determinations](#)



Results for Tax Exempt Organization Search

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Additional information

- [Frequently asked questions - Exempt Organizations Select Check](#)
- [Revocations of 501\(c\)\(3\) Determinations](#)

SB-972-SD-1

Submitted on: 3/9/2019 12:51:27 PM

Testimony for EDB on 3/13/2019 10:00:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Ann Chung	Individual	Support	Yes

Comments:

We STRONGLY SUPPORT SB972 with one request for an amendment.

Pearl Harbor Naval Shipyard, one of four Naval shipyards in the U.S., is a significant part of federal military value-added comprising 6 percent of Hawaii GDP. While the submarine footprint in Pearl Harbor will continue to grow slightly by 2025, the surface combatant fleet currently homeported in Pearl Harbor is planned to be significantly reduced and surface ships will be relocated to San Diego for deep maintenance, and most are at risk for not returning.

Surface vessel repairs are typically outsourced to private-sector ship repair companies, a major part of the estimated \$180-200 million in civilian ship repair activities in Hawaii during 2018.

The impact of losing surface vessel repair work would be far-reaching, well beyond the loss of direct military jobs associated with surface ships leaving the area. The Navy's drydock capacity shortfalls will refocus nearly 100% of the current PH drydock capacity on submarine maintenance and displace nearly all surface ship drydock maintenance and modernization to the west coast. **THE LOSS OF NAVY SURFACE SHIP DRYDOCK MAINTENANCE TO THE PH PRIVATE-SECTOR SHIP REPAIR COMMUNITY WOULD SIGNIFICANTLY SHRINK THE LOCAL INDUSTRY AND BE UNRECOVERABLE.**

There will be drastic adverse economic and industrial impacts to the State of Hawaii as a result of the U.S. Navy's current plan to move surface fleet maintenance from Pearl Harbor to the West Coast. A mitigation strategy is needed that avoids the adverse economic impacts of displaced ship repair activities over the next seven years: **LOSS OF NEARLY 1.31 BILLION IN HAWAII GDP, \$351 MILLION IN LABOR EARNINGS, AND AN ANNUAL AVERAGE OF NEARLY 1000 JOBS EACH YEAR.**

The construction of a purpose-built floating drydock capable of accommodating any of the submarines and surface ships currently in and planned for at Pearl Harbor represents the best mitigating solution for the State of Hawaii. This floating drydock will not only protect private-sector maritime jobs that are expected to be lost, but will stimulate overall job growth of this sector, prevent the erosion of Hawaii's private ship repair capability and provide greater strength and stability to the Navy's Mid-Pacific

Surface Force. This offers a shared solution for the industry, State of Hawaii, and Navy that results in a fifth drydock; a new, mobile, floating asset in place by 2022. Given its 50+ year life cycle, this additional Pearl Harbor drydocking capacity will provide economic gains well into the future.

WE REQUEST ONE AMENDMENT ON PAGE 6, LINE 10 TO DELETE THE WORD "NOT-FOR-PROFIT" AND REPLACE WITH THE WORD "BUSINESS." We humbly request you to make this amendment and to pass this bill.

TESTIMONY FROM William F Clifford, CDR USN (ret)

FOR SB972 RELATING TO SHIP REPAIR INDUSTRY

COMMITTEE ON ECONOMIC DEVELOPMENT & BUSINESS

Rep. Angus L.K. McKelvey, Chair

Rep. Lisa Kitagawa, Vice Chair

DATE: Wednesday, March 13, 2019

TIME: 10:00 a.m.

PLACE: Conference Room 309

I STRONGLY SUPPORT SB972 with one request for an amendment.

As a retired Naval Engineering Duty Officer stationed in Pearl Harbor for 7 years, and as a private sector shipyard senior manager for 26 years responsible for managing shipyards across the United States, including Hawaii, I am keenly aware of the critical strategic and economic importance of Pearl Harbor Naval Shipyard (PHNSY). As one of four Naval shipyards in the U.S., PHNSY is a significant part of the federal military value-added equation comprising 6 percent of Hawaii GDP. While the submarine footprint in Pearl Harbor will continue to grow slightly by 2025, the surface combatant fleet currently home ported in Pearl Harbor is planned to be significantly reduced and surface ships will be relocated to San Diego for deep maintenance, and most are at risk for not returning.

Surface vessel repairs are typically outsourced to private-sector ship repair companies, a major part of the estimated \$180-200 million in civilian ship repair activities in Hawaii during 2018.

The impact of losing surface vessel repair work would be far-reaching, well beyond the loss of direct military jobs associated with surface ships leaving the area. The Navy's drydock capacity shortfalls will refocus nearly 100% of the current PH drydock capacity on submarine maintenance and displace nearly all surface ship drydock maintenance and modernization to the west coast. THE LOSS OF NAVY SURFACE SHIP DRYDOCK MAINTENANCE TO THE PH PRIVATE-SECTOR SHIP REPAIR COMMUNITY WOULD SIGNIFICANTLY SHRINK THE LOCAL INDUSTRY AND BE UNRECOVERABLE.

There will be drastic adverse economic and industrial impacts to the State of Hawaii as a result of the U.S. Navy's current plan to move surface fleet maintenance from Pearl Harbor to the West Coast. A mitigation strategy is needed that avoids the adverse economic impacts of displaced ship repair activities over the next seven years: LOSS OF NEARLY 1.31 BILLION IN HAWAII GDP, \$351 MILLION IN LABOR EARNINGS, AND AN ANNUAL AVERAGE OF NEARLY 1000 JOBS EACH YEAR.

The construction of a purpose-built floating drydock capable of accommodating any of the submarines and surface ships currently in and planned for at Pearl Harbor represents the best mitigating solution for the State of Hawaii. This floating drydock will not only protect private-sector maritime jobs that are expected to be lost, but will stimulate overall job growth of this sector, prevent the erosion of Hawaii's private ship repair capability and provide greater strength and stability to the Navy's Mid-Pacific Surface Force. This offers a shared solution for the industry, State of Hawaii, and Navy that results in a fifth drydock; a new, mobile, floating asset in place by 2022. Given its 50+ year life cycle, this additional Pearl Harbor drydocking capacity will provide economic gains well into the future.

WE REQUEST ONE AMENDMENT ON PAGE 6, LINE 10 TO DELETE THE WORD "NOT-FOR-PROFIT" AND REPLACE WITH THE WORD "BUSINESS."

Thank you and I strongly and humbly request that you make this amendment and pass this bill.

SB-972-SD-1

Submitted on: 3/12/2019 8:21:42 AM

Testimony for EDB on 3/13/2019 10:00:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Ken Loui	Individual	Support	No

Comments:



MARINE AND INDUSTRIAL SERVICE COMPANY

91-607 MALAKOLE STREET • KAPOLEI, HI 96707 • TELEPHONE: (808) 682-1333 • FAX: (808) 682-5848

March 12, 2019

LATE

To: House Committee on Economic Development & Business
Rep. Angus L.K. McKelvey, Chair
Rep. Lisa Kitagawa, Vice Chair

From: Fred Anawati
President/Owner Marisco Ltd.

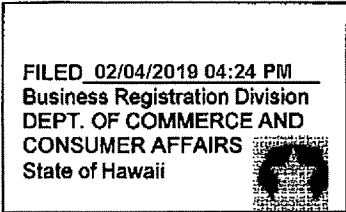
RE: **OPPOSITION** to SB 972 Relating to Ship Repair Industry

Chair McKelvey, Vice Chair Kitagawa and members of the Committee,

Marisco, Ltd is a Ship Repair business that has been in business in Hawaii since 1974, servicing Navy, Army, Air Force, Coast Guard, Commercial and other businesses in Hawaii. Marisco, Ltd. is a member of the Ship Repair Association of Hawaii and continues to serve both Commercial clientele as well as Federal clientele as both a Prime contractor and sub-contractor. Marisco **OPPOSES** SB 972 (as this Bill is a companion to Bill SB 985) as this bill is written with the intentions to provide tax credit/funding to a for-profit LLC (Pearl Harbor Floating Drydock, LLC, a subsidiary company owned by Pacific Shipyards International LLC) that will provide a competitive edge in the Hawaii marketplace with State assistance.

Due to changes in the size of the newer submarines being homeported in Pearl Harbor, and the subsequent drydock constraints of Pearl Harbor Naval Shipyard, the Ship Repair Association of Hawaii's intent is to explore options for the Hawaii Ship Repair Industry to provide an avenue to keep homeported Navy's Surface Ships and Submarines Maintenance in Hawaii, however, a separate dialog between the Navy and Ship Repair members has been discussed and is continuing discussion presently. Even if the State funding for construction of a large Floating Drydock is provided, there is no commitment at this time that Pearl Harbor Naval Shipyard will allow the drydock to be moored or operated in Pearl Harbor. If another means of keeping the maintenance in Hawaii is preferred by the Navy, what will any monies spent for design or construction of a Floating Drydock amount to? Where, in what State Harbor would the Floating Drydock be moored? How could the State assisted competitive edge gained by the company that owns and controls the Floating Drydock be mitigated so as to not have a negative and lasting impact to the Hawaii Ship Repair Industry?

Marisco, Ltd. **OPPOSES** this bill as it appears that the legislature is appearing to favor one entity in a competitive local marketplace. We feel that it is in an inappropriate use of tax payer money to construct a Floating Drydock without an agreement from the US Navy that the Drydock will be moored and used in Pearl Harbor Naval Shipyard and that it will solely benefit a LLC that is not currently registered with the State of Hawaii Department of Commerce as a non-profit company (see attached DCCA registration search dated 2-4-2019), providing it a State assisted competitive edge which may negatively impact the Hawaii Ship Repair Industry.



STATE OF HAWAII
DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS
Business Registration Division
335 Merchant Street
Mailing Address: P.O. Box 40, Honolulu, Hawaii 96810
Phone No.(808) 586-2727



ARTICLES OF ORGANIZATION FOR LIMITED LIABILITY COMPANY
(Section 428-203 Hawaii Revised Statutes)

PLEASE TYPE OR PRINT LEGIBLY IN BLACK INK

The undersigned, for the purpose of forming a limited liability company under the laws of the State of Hawaii, do hereby make and execute these Articles of Organization:

I

The name of the company shall be:

PEARL HARBOR FLOATING DRYDOCK LLC

(The name must contain the words *Limited Liability Company* or the abbreviation *L.L.C.* or *LLC*)

II

The mailing address of the initial principal office is:

705 NORTH NIMITZ HIGHWAY, HONOLULU, HI 96817 USA

III

The company shall have and continuously maintain in the State of Hawaii a registered agent who shall have a business address in this State. The agent may be an individual who resides in this State, a domestic entity or a foreign entity authorized to transact business in this State.

- a. The name (and state or country of incorporation, formation or organization, if applicable) of the company's registered agent in the State of Hawaii is:

PACIFIC SHIPYARDS INTERNATIONAL, LLC

5151C5

HAWAII

(Name of Registered Agent)

(State or Country)

- b. The street address of the place of business of the person in State of Hawaii to which service of process and other notice and documents being served on or sent to the entity represented by it may be delivered to is:

705 NORTH NIMITZ HIGHWAY, HONOLULU, HI 96817 USA

IV

The name and address of each organizer is:

5151C5

PACIFIC SHIPYARDS INTERNATIONAL, LLC

705 NORTH NIMITZ HIGHWAY, HONOLULU, HI 96817 USA

02/04/201957081

V

The period of duration is (check one):

At-will

For a specified term to expire on: _____
(Month Day Year)

VI

The company is (check one):

a. Manager-managed, and the names and addresses of the initial managers are listed in paragraph "c", and the number of initial members are: 1

b. Member-managed, and the names and addresses of the initial members are listed in paragraph "c".

c. List the names and addresses of the initial managers if the company is Manager-managed, or List the names and addresses of the initial members if the company is Member-managed.

PACIFIC SHIPYARDS INTERNATIONAL, LLC

705 NORTH NIMITZ HIGHWAY, HONOLULU, HI 96817 USA

5151C5

VII

The members of the company (check one):

Shall not be liable for the debts, obligations and liabilities of the company.

Shall be liable for all debts, obligations and liabilities of the company.

Shall be liable for all or specified debts, obligations and liabilities of the company *as stated below*, and have consented in writing to the adoption of this provision or to be bound by this provision.

We certify, under the penalties set forth in the Hawaii Uniform Limited Liability Company Act, that we have read the above statements, I am authorized to sign this Articles of Organization, and that the above statements are true and correct to the best of our knowledge and belief.

04

FEBRUARY 2019

Signed this _____ day of _____

PACIFIC SHIPYARDS INTERNATIONAL, LLC - IAIN
WOOD, MANAGER

(Type/Print Name of Organizer)

IAIN WOOD

(Signature of Organizer)

(Type/Print Name of Organizer)

(Signature of Organizer)

02/04/2019 57081

BT



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United States



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Organization Name



Search Term

Pacific Shipyards International

City

Enter City

State

HI



Country

United States



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PEARL HARBOR FLOATING DRYDOCK LLC

DOMESTIC LIMITED LIABILITY COMPANY (LLC)

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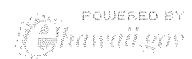
MASTER NAME	PEARL HARBOR FLOATING DRYDOCK LLC
BUSINESS TYPE	Domestic Limited Liability Company (LLC)
FILE NUMBER	208887 C5
STATUS	Active
PLACE INCORPORATED	Hawaii UNITED STATES
REGISTRATION DATE	Feb 4, 2019
MAILING ADDRESS	705 N NIMITZ HWY HONOLULU, Hawaii 96817 UNITED STATES
PARTNER TERM	AT-WILL
MANAGED BY	MANAGER(S)
AGENT NAME	PACIFIC SHIPYARDS INTERNATIONAL, LLC
AGENT ADDRESS	705 N NIMITZ HWY HONOLULU, Hawaii 96817 UNITED STATES



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C&S SERVICES INC.

P.O. Box 970100, Waipahu, Hawaii 96797
Tel: 808.681.8330 Fax: 808.681.8331
www.caliedoandsons.com

LATE

March 13, 2019

To: House Committee on Economic Development & Business
Rep. Angus L.K. McKelvey, Chair
Rep. Lisa Kitagawa, Vice Chair

From: Ian J. Caliedo
President of C&S Services, Inc.

RE: **OPPOSITION** to SB 972 S.D. 1 Relating to Ship Repair Industry

Chair McKelvey, Vice Chair Kitagawa and members of the Committee,

C&S Services, Inc. (C&S) is a Maritime & Industrial Contractor who has been in business in Hawai'i since 1990, performing requirements for Federal, State, and Commercial clientele in both the Prime and Subcontractor capacity. C&S is a founding member of the Ship Repair Association of Hawaii (SRAH). We stand in **OPPOSITION** to this bill which seems to solely benefit one company (as this bill appears to be a companion bill to SB 985 (Relating to Special Purpose Revenue Bonds to Assist Pearl Harbor Floating Drydock LLC) which is also being heard today) which would give them a competitive advantage in the marketplace with state assistance.

Federal procurement policy in Pearl Harbor Naval Shipyard & Intermediate Maintenance Facility (PHNSY & IMF) is currently in transition from a single-contractor to a multiple-contractor environment. The current incumbent single-contractor is a large corporation not based in the State of Hawai'i. Resulting in the use of out-of-state labor personnel which is not only detrimental to the tax contribution of our industry but more importantly the long-term viability of Hawai'i's industrial labor base. Out-of-state contractors not only leave with their finances but also invaluable trade skill that can only be acquired with on the job training. The new multiple-contractor environment will give local small business in the Hawaii ship repair industry an opportunity to compete for the various repairs to the nine homeported destroyers at PHNSY & IMF. More importantly it will result in more higher paying jobs for local families.

We **OPPOSE** this bill as it appears that the legislature is favoring one entity in a competitive local marketplace. We feel that it is an inappropriate use of tax payer dollars in the form of tax credits to benefit one company in a competitive marketplace. We would also note that this measure is supposed to be for the benefit of a non-profit entity however according to the business registration of Pearl Harbor Floating Drydock LLC, it appears that they are a wholly owned subsidiary of Pacific Shipyards International. Upon an IRS nonprofit entity search on March 12, 2019 it appears that neither entity is currently a nonprofit entity that can benefit from this bill. See attachments showing DCCA registration dated 2-5 and nonprofit entity searches dated 3-12-19. We ask that this bill be **HELD**.



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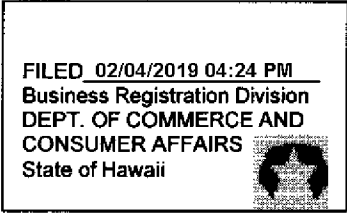
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STATE OF HAWAII
DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS
Business Registration Division
335 Merchant Street
Mailing Address: P.O. Box 40, Honolulu, Hawaii 96810
Phone No.(808) 586-2727



ARTICLES OF ORGANIZATION FOR LIMITED LIABILITY COMPANY
(Section 428-203 Hawaii Revised Statutes)

PLEASE TYPE OR PRINT LEGIBLY IN BLACK INK

The undersigned, for the purpose of forming a limited liability company under the laws of the State of Hawaii, do hereby make and execute these Articles of Organization:

I

The name of the company shall be:

PEARL HARBOR FLOATING DRYDOCK LLC

(The name must contain the words *Limited Liability Company* or the abbreviation *L.L.C.* or *LLC*)

II

The mailing address of the initial principal office is:

705 NORTH NIMITZ HIGHWAY, HONOLULU, HI 96817 USA

III

The company shall have and continuously maintain in the State of Hawaii a registered agent who shall have a business address in this State. The agent may be an individual who resides in this State, a domestic entity or a foreign entity authorized to transact business in this State.

- a. The name (and state or country of incorporation, formation or organization, if applicable) of the company's registered agent in the State of Hawaii is:

PACIFIC SHIPYARDS INTERNATIONAL, LLC

5151C5

HAWAII

(Name of Registered Agent)

(State or Country)

- b. The street address of the place of business of the person in State of Hawaii to which service of process and other notice and documents being served on or sent to the entity represented by it may be delivered to is:

705 NORTH NIMITZ HIGHWAY, HONOLULU, HI 96817 USA

IV

The name and address of each organizer is:

5151C5

PACIFIC SHIPYARDS INTERNATIONAL, LLC

705 NORTH NIMITZ HIGHWAY, HONOLULU, HI 96817 USA

02/04/201957081

V

The period of duration is (check one):

At-will

For a specified term to expire on: _____

(Month Day Year)

VI

The company is (check one):

a.

Manager-managed, and the names and addresses of the initial managers are listed in paragraph "c", and the number of initial members are: 1

b.

Member-managed, and the names and addresses of the initial members are listed in paragraph "c".

c.

List the names and addresses of the initial managers if the company is Manager-managed, or List the names and addresses of the initial members if the company is Member-managed.

PACIFIC SHIPYARDS INTERNATIONAL, LLC

705 NORTH NIMITZ HIGHWAY, HONOLULU, HI 96817 USA

5151C5

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04

FEBRUARY 2019

Signed this

_____ day of _____

PACIFIC SHIPYARDS INTERNATIONAL, LLC - IAIN WOOD, MANAGER

(Type/Print Name of Organizer)

(Type/Print Name of Organizer)

IAIN WOOD

(Signature of Organizer)

(Signature of Organizer)

02/04/201957081

GT



Chamber of Commerce HAWAII

The Voice of Business

**Testimony to the House Committee on Economic Development and Business
Wednesday, March 13, 2019 at 10:00 A.M.
Conference Room 309, State Capitol**

LATE

RE: SB 972 SD1, RELATING TO SHIP REPAIR INDUSTRY TAX CREDIT; PEARL HARBOR; INCOME TAX

Chair McKelvey, Vice Chair Kitagawa, and Members of the Committee:

The Chamber of Commerce Hawaii ("The Chamber") **supports** SB 972 SD1, which establishes the ship repair industry income tax credit for non-profit entities to offset costs incurred to construct and put into service purpose-built floating drydocks at Pearl Harbor for the use by the United States Navy. Claims for the ship repair industry tax credit can be made annually after the drydock is put into service and until the credit is exhausted. The bill would also repeal the infrastructure tax credit. The Chamber would also recommend an amendment be made on page 6, line 10 to change "not-for-profit" to business.

The Chamber is Hawaii's leading statewide business advocacy organization, representing about 2,000+ businesses. Approximately 80% of our members are small businesses with less than 20 employees. As the "Voice of Business" in Hawaii, the organization works on behalf of members and the entire business community to improve the state's economic climate and to foster positive action on issues of common concern.

Pearl Harbor Naval Shipyard, one of four Naval shipyards in the U.S., is a significant part of federal military value-added comprising 6 percent of Hawaii GDP. While the submarine footprint in Pearl Harbor will continue to grow slightly by 2025, the surface combatant fleet currently homeported in Pearl Harbor is planned to be significantly reduced and surface ships will be relocated to San Diego for deep maintenance, and most are at risk for not returning.

Surface vessel repairs are typically outsourced to private-sector ship repair companies, a major part of the estimated \$180-200 million in civilian ship repair activities in Hawaii during 2018.

The impact of losing surface vessel repair work would be far-reaching, well beyond the loss of direct military jobs associated with surface ships leaving the area. The Navy's drydock capacity shortfalls will refocus nearly 100% of the current PH drydock capacity on submarine maintenance and displace nearly all surface ship drydock maintenance and modernization to the west coast. The loss of Navy surface ship drydock maintenance to the Pearl Harbor private-sector ship repair community would significantly shrink the local industry and be unrecoverable.



Chamber of Commerce HAWAII

The Voice of Business

There will be drastic adverse economic and industrial impacts to the State of Hawaii as a result of the U.S. Navy's current plan to move surface fleet maintenance from Pearl Harbor to the West Coast. A mitigation strategy is needed that avoids the adverse economic impacts of displaced ship repair activities over the next seven years: **LOSS OF NEARLY 1.31 BILLION IN HAWAII GDP, \$351 MILLION IN LABOR EARNINGS, AND AN ANNUAL AVERAGE OF NEARLY 1000 JOBS EACH YEAR.**

The construction of a purpose-built floating drydock capable of accommodating any of the submarines and surface ships currently in and planned for at Pearl Harbor represents the best mitigating solution for the State of Hawaii. This floating drydock will not only protect private-sector maritime jobs that are expected to be lost, but will stimulate overall job growth of this sector, prevent the erosion of Hawaii's private ship repair capability and provide greater strength and stability to the Navy's Mid-Pacific Surface Force. This offers a shared solution for the industry, State of Hawaii, and Navy that results in a fifth drydock; a new, mobile, floating asset in place by 2022. Given its 50+ year life cycle, this additional Pearl Harbor drydocking capacity will provide economic gains well into the future.

Thank you for the opportunity to testify.