



**DEPARTMENT OF BUSINESS,  
ECONOMIC DEVELOPMENT & TOURISM**

LINDA LINGLE  
GOVERNOR  
THEODORE E. LIU  
DIRECTOR  
MARK K. ANDERSON  
ACTING DEPUTY DIRECTOR

No. 1 Capitol District Building, 250 South Hotel Street, 5th Floor, Honolulu, Hawaii 96813  
Mailing Address: P.O. Box 2359, Honolulu, Hawaii 96804  
Web site: [www.hawaii.gov/dbedt](http://www.hawaii.gov/dbedt)

Telephone: (808) 586-2355  
Fax: (808) 586-2377

Statement of

**THEODORE E. LIU**

**Director**

Department of Business, Economic Development, and Tourism

before the

**HOUSE COMMITTEE ON FINANCE**

Friday, February 22, 2008

10:00 AM

State Capitol, Conference Room 308

in consideration of

**HB 2040**

**RELATING TO HAWAII'S ECONOMY**

Chair Oshiro, Vice Chair Lee and Members of the House Committee on Finance.

DBEDT offers these comments on HB 2040, which would appropriate funds for an independent study and analysis of Hawaii's economy by an out-of-state entity.

There have been a number of studies of Hawaii's economy in recent years by both local and mainland-based organizations and some studies are going on right now. We have attached an addendum to our testimony highlighting the more significant studies.

Most of the recent studies come to similar conclusions about the status, challenges and recommendations regarding Hawaii's economy. These studies have also had an impact on our policies and approaches to economic development. Last year and again this year the Administration, working with the legislature, submitted a number of proposals to address the common conclusions of these studies, such as improving the education system, developing a more effective workforce system and supporting new industries.

Also last year the legislature approved SB 709, which was signed into law as Act 148. This law provided funds and staffing for DBEDT to measure and analyze the growth, nature, and policy needs of emerging economic activity. We are now embarked on a series of studies and data gathering under that Act.

We also have concerns with the cost implications of the proposal. For instance, a current, study of just the technology sector by a consultant to the Hawaii Science and Technology Council is costing about \$135,000. Given the number of studies completed recently and in progress, as well as the issues of cost, diversion of staff resources and short time frame, we do not feel that a new project of this nature is needed at this time. However, we agree that DBEDT would be the appropriate agency to oversee such a study if the legislature intends to fully fund it and provide adequate time.

Thank you for the opportunity to provide comments on this bill.

## ADDENDUM

### Significant Studies of Hawaii's Economy in Recent Years and In Progress

- One of the most significant efforts to identify emerging economic activity and support policies was the Comprehensive Economic Development Strategy (CEDS) completed in 2004. This involved targeted industry identification by each county economic development board.
- Another important study was conducted by a National Governor's Association sponsored project in 2004-2005 called Pathways to Advancement. This study assessed Hawaii's workforce and economic situation and identified numerous problems and solutions related to transitioning Hawaii's economy to one that is more high-wage and technically based.
- In 2003 and 2005 the Hawaii Institute for Public Affairs (HIPA) prepared comprehensive studies on Hawaii's economic structure and challenges, and provided metrics and recommendations to improve that structure.
- In 2005 the Economic Momentum Commission assessed Hawaii's economic condition and submitted three dozen recommendations for improving our economy and prospects for the future.
- An extensive study, commissioned by DBEDT, was the 2005 Sustainable Tourism Study. This series of studies featured an analysis of tourism's impact on the economy using the more recent techniques of Computerized General Equilibrium Modeling. DBEDT is using techniques developed in that project to explore the impact of other industries, changes and shocks to Hawaii's economy.
- DBEDT has also conducted and published a number of analyses of the economy in recent years ranging from technical reports on inter-industry trade, to long-range economic and population projections.

There also have been studies by organizations outside Hawaii that have contributed to our understanding of the economy.

- In 2002 Professor Michael Porter, of the Harvard Institute for Strategy and Competitiveness, produced an analysis of Hawaii's industries based on the emerging cluster analysis approach. That approach has been updated several times since by various studies.
- Over the last two years the National Center for Higher Education Management Systems (NCHEMS) has conducted research and presented several analyses of Hawaii's labor force and how educational institution can better produce skilled and work-ready graduates for emerging high skilled industries.
- During the first half of this year, the University of Minnesota's Capstone Project will study Hawaii's economy to update the Michael Porter analysis and look at emerging opportunities.

- Again, during the first half of this year, the national consultant organization, Council for Community and Economic Research (C2ER) will be studying clusters, workforce and policy prescriptions for the Innovation sector, including technology and other creative industries. C2ER has been engaged by the Hawaii Science and Technology Council with the help of a state grant-in-aid and DBEDT is participating fully in the project.



**The Chamber of  
Commerce of Hawaii**

Since 1850

TESTIMONY TO THE HOUSE COMMITTEE ON FINANCE  
FRIDAY, FEBRUARY 22, 2008 AT 1:00 P.M.  
ROOM 308, STATE CAPITOL

RE: H.B. 2040 Relating to Hawaii's Economy

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

My name is Christine H. Camp, Chair of The Chamber of Commerce of Hawaii, Land Use and Transportation Committee. The Chamber of Commerce of Hawaii supports H.B. No. 2040, with a proposed amendment.

The Chamber is the largest business organization in Hawaii, representing 1100 businesses. Approximately 80% of our members are small businesses with less than 20 employees. 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.

H.B. No. 2040, provides an appropriation to the Department of Business, Economic Development, and Tourism to contract with an out-of-state entity to conduct an independent study and analysis of Hawaii's economy, including recommendations for public policy changes that will begin to address the cost of living, affordability, and quality of life issues that Hawaii residents face.

We support the intent of the bill to provide some public policy focus on improve the economy for the future; however, we believe that the bill needs to include specific quantitative goals or milestones to provide some context for measuring the qualitative outcomes such as "quality of life."

In identifying factors that impact the quality of life for existing and future residents in Hawaii, the bill should also contain specific improvement goals for the study such as:

- Problem: Steep housing and property costs that have resulted in commercial, industrial, and tenant rentals among the highest in the fifty states;
  - Goal: What is the root cause of the high rents for commercial and industrial properties in Hawaii, and what can the legislature do to lower or stabilize these rents? Or is the problem of regulating supply to meet demand in the short term?
- Problem: Increased out-of-state investments that result in earnings leaving the State;
  - Goal: What can the legislature do to reinvest the out-of-state investments in Hawaii, or provide incentives for more in-state investments? Establish a benchmark of improving investment opportunities specific percentage over the prior year.

Page 2

The Chamber of Commerce of Hawaii Testimony on HB 2040  
February 22, 2008

- Problem: The resulting cost of living, which is one of the nation's highest, has led to an increased exodus of Hawaii residents in recent years;
  - Goal: How should the legislature improve the employment opportunities in Hawaii to provide residents with more choices of higher paying, knowledge based opportunities? Establish measurable performance goals for the state to attract new employers such as providing an educated workforce.
- Problem: Various government entities in Hawaii provide services that are among the most extensive in the United States, yet these same government agencies face rising operating and repair and maintenance costs that must be passed on to the public;
  - Goal: Reassess government's role in Hawaii and refocus on basic government services of providing for public health, safety and welfare for it's residents. Identify those services that are currently provided and are not considered public health, safety and welfare programs. Identify the amount of money funding these programs and prioritize based on basic public health, safety and welfare.
- Problem: Hawaii's tax structure affects businesses and consumers alike and has been linked to the difficulty of attracting new investment to the State.
  - Goal: What can be done to improve Hawaii's tax and employment structure to provide more incentives for existing and new businesses to invest in Hawaii? Establish a benchmark of improving investment opportunities specific percentage over the prior year.

Thank you for this opportunity to express our views.

**Rike Weiss  
P. O. 37346  
Honolulu, Hawai`i 96837**

Date: February 21, 2008

To: Representative Marcus R. Oshiro, Chair  
Committee on Finance

Re: Testimony in support of HB 2040

I am testifying in support of HB 2040 that would authorize and fund an independent study and analysis of Hawai`i's economy.

Hawai`i has been my home of choice for more than forty years, during which time I have seen many changes. Undeniably, the Islands have some of the highest cost of living in the U.S., while wages and salaries are low. I've seen friends and neighbors move to the continental U.S. for lack of affordable housing (residents spend more than 35 percent of their income on housing) and schooling. Worse, I've seen my children's contemporaries leave for the same reasons, plus a lack of opportunity. We cannot afford to keep losing our brightest.

With more investment coming from outside rather than from local investors, we not only have a brain drain, we have a financial drain.

My children were born and raised here. One daughter feels she cannot return home due to the poor state of public schools and her inability to pay for private school for her child. One more educated tax payer lost to our state. I'm fortunate that my second daughter, although she cannot work here in her chosen field, has returned with her family.

A thorough study of why our cost of land, cost of government services, cost of living are so exorbitantly high, could help us address and begin to resolve these issues in a constructive way. Where are we headed? What do we want to be as a community, a society? The SuperFerry controversy and Stryker Brigade are raising quality of life issues, which could also be addressed in such an independent study. I urge your support.