

## Election Means More Fiscal Woes for Hawaii

The November 6, 2012 elections—nationally and locally—guarantee greater fiscal uncertainty and long term economic problems for the Nation... and in Hawaii.

Total registration was up in Hawaii to 705,668. Only 62% or 436,520 voted, up from 48% in 2010 but lower than the last Presidential election in 2008.

The election presented two clear philosophies and paths to an economic future: extending the last four years of excessive taxation, spending, debt, increasing entitlements and demonizing the wealthy and producers, vs. a reduced role for government, a return to responsibility, accountability, elimination of subsidies and incentives for work and achievement. The voters chose door number one.

Without any significant Congressional action by the end of this month, everyone is in for more taxes, costs and a reduced standard of living, beginning January 1, 2013. The fiscal



outlook will worsen since nothing has been done to change our path.

In Hawaii, carried by the Obama local boy wave, Democrats swept the 3 Congressional seats up for election, along the way crushing former Republican Governor **Linda Lingle** for Senate and former Congressman **Charles Djou**; both of whom claimed they were “bipartisan,” “centrist” and “moderate,” not like

those other Republicans. Democrat **Tulsi Gabbard** will go to Congress from CD-2.

In Honolulu, **Kirk Caldwell** swamped **Ben Cayetano** for Mayor, pushed along the way by a \$3 million smear campaign against the former Governor led by the Pacific Resources Partnership and other unions. The unions and Caldwell are heavy supporters of costly heavy rail.

In the Hawaii State Legislature, Republicans slipped from 8 to 7 of 51; in the Senate, the lone Republican remains among 24 Democrats. Even before a vote was taken in the General, 9 of 25 Democrat Senators were automatically elected: Kahele, Tsutsui, English, Chun Oakland, Kim, Wakai, Nishihara, Espero and Tokuda.

In the House, 19 of 51 members were elected without contest: Mark Nakashima,

*Continued on page 3.*

### Jack Steinfeld: Outstanding Business Leader

A leading Hawaii business leader, and long time loyal SBH member, **Jack Steinfeld** died on November 4. He was 70.

Jack was born in Marysville Tennessee and raised in Cleveland Ohio. He received his MBA from Carnegie Mellon. He arrived in Hawaii in 1970 by way of Viet Nam. He took his R&R in Hawaii and liked it so much he decided to get discharged here. He worked for Xerox and IBM selling electric typewriters and copy machines. Jack married Surita Savio. He left IBM in 1979 to start his own printing and copying business, Professional Image Inc.

He was an active and fun loving person who was a member of Small Business Hawaii, Downtown Exchange Club, Blues Goose Society, Happy Hookers Golf Club, bowling teams, baseball teams and all in all a man who enjoyed people.

He received the Small Business Person of the Year award in 1986 for his work with this organization. He was gravely injured in September 1986 and became disabled. Even though not able to get out as much as before he still kept involved with others.

Jack is survived by his wife, **Surita** and two daughters **Marissa** and **Krista** who he collectively referred to as “his girls”. He will be missed.

### SBH MEMBER CALENDAR

PHONE 396-1724 • FAX: 396-1726

Happy Holidays!

Wednesday, January 9, 2013  
**37th Smart Business Hawaii  
Business & Investment Conference**  
Ala Moana Hotel • 8 am – 1:30 pm

Wednesday, January 16, 2013  
**27th State Legislature Begins**  
State Capitol • 10:00 a.m.

Thursday, January 31, 2013.  
**SBH Sunrise Networking Breakfast**  
Macys' Pineapple Room  
Ala Moana Center I 7:00 a.m.

SmartBusiness  
HAWAII

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# Smart Business Views

By Sam Slom, President – Smart Business Hawaii

**Election 2012 is over** and the pundits have been analyzing it. There are plenty of

opinions. The fact of the matter is that President Obama, his strategists and his biggest ally—the media—did a masterful job for re-election. Many high profile Republicans, nationally and in Hawaii, ran away from being Republican or the loyal opposition. In the process, the economy, taxes, energy independence, and the work ethic were left by the wayside, run over in the crosswalk. Hard work, ingenuity was replaced with entitlement. “It’s the rich who aren’t paying their fair share.” But SBH will not retreat or give up. We must continue to aggressively advocate for the free market, independent business and true competition.

**Jack Steinfeld.** Anyone who knew him, loved him. The passing of **Jack Steinfeld** early last month, was a shock to all of us in the business community. It was Jack who started Professional Image, was on the verge of franchising the printing business to Asia, when he was attacked, injured, and disabled 25 years ago. Jack was also an SBH Small Business Person of the Year in 1986. We will all miss him and send our best to his family.

**No Volunteering in NYC** As New York and New Jersey continued to try and dig out, rebuild and move on from Hurricane Sandy and the Northeast storm that followed, it recently came to light that: (1) some volunteer construction workers from the South were barred from helping out in NJ and NY because they were non-union; (2) NYC Mayor **Michael Bloomberg** banned volunteers from giving food to the homeless in NYC because he did not have enough inspectors to see if the food, for the homeless and those impacted by the storms, met his standards for salt and fat content (it’s true), (3) Some unions reportedly control the distribution of water to the desperate, and (4) Con Edison, the major electric power provider in the NY, NJ area, is filing for a rate increase because of all the revenues it lost for not providing power. Only in America, folks.

**Conference Coming.** Smart Business Hawaii (SBH) will hold its 37th Annual Business and Investment Conference, Wednesday, January 9, 2013. The Conference will be held in the Ala Moana Hotel, Garden Lanai and Hibiscus Ballroom. The conference will take place from 9 am to 1:30 pm. Full Agenda in the January *SB News*.

**Donate?** Still time to make a contribution to the business advocacy efforts and projects of **Smart Business Hawaii** (a 501(c)(6) non profit or to the **SBH Foundation** (a (501(c)(3) tax exempt organization. You can always count on SBH. Please make payment to “SBH” in any amount and mail to 6600 Kalaniana’ole Hwy., 212, Honolulu, HI 96825. You can have a business tax deduction for the year and we will be very grateful. Mahalo!

**Hawaiian at 83.** Hawaiian Airlines celebrated its 83rd anniversary last weekend. It is Hawaii’s premiere air carrier and continues to expand and add more jobs. It also continues to enjoy the best on time schedule in the U.S.

**Solar Tax Credits.** The Governor and State Tax Director released administrative rules that will change and reduce Hawaii solar tax credits. See page 6 for details.

**FBI Comes Through on UH Scam.** The Honolulu FBI came through in catching the primary crooks on the Mainland (North Carolina, Florida) who scammed the UH—and the taxpayers—out of more than \$200,000 for the Wonder Blunder, **Stevie Wonder** concert that never was. None of the money will be returned; it’s long since been spent. No one at UH has been punished or reprimanded for their roles in the sad affair. On November 19, the Senate UH Investigating Committee released its report detailing findings, recommendations to the UH Regents and proposals for the 2013 Legislature. This event is not over.

**Sunrise, Sunset.** There is no SBH Sunrise Networking Breakfast during December. The monthly SBH Sunrise Networking Breakfast Forum will return, Thursday, January 31, 2013, in the Pineapple Room, Macy’s Ala Moana (3rd Floor), from 7 – 8:30 am. Sunrise is held the last Thursday of each month, January-November.

**Become an SBH Member.** Is your business a member of SBH? No? Lots of benefits. Strong networking organization. Call Darlyn today (808-396-1724) or go online to [www.smartbusinesshawaii.com](http://www.smartbusinesshawaii.com).

What? Not receiving your weekly (Wednesday) electronic copy of SBH Views & News? More than 15,000 business owners do receive it. It’s complimentary. Ad space available too. Call Darlyn at 396-1724.

Want more local business information? Please visit the several SBH websites at: [www.smartbusinesshawaii.com](http://www.smartbusinesshawaii.com), [www.educate808.com](http://www.educate808.com) and [www.sbhfoundation.org](http://www.sbhfoundation.org).

Happy Holidays!

## SBH Conference Slated For January 9, 2013.

Smart Business Hawaii (SBH) will hold its 37th Annual Business and Investment Conference, Wednesday, January 9, 2013. The Conference will be held in the Ala Moana Hotel, Garden Lanai and Hibiscus Ballroom. The conference will take place from 9 am to 1:30 pm.

The SBH Conference, the first major business event of each New Year, is open to the public. Advance reservations are required (see form on page 4). Program, luncheon and parking are included. Special reduced rates for members and their guests are available.

There will be a business exhibit area, networking and outstanding local and Mainland speakers during the Conference.

A detailed agenda will be posted online ([www.smartbusinesshawaii.com](http://www.smartbusinesshawaii.com)) and printed in the January, 2013, *SB News*.

Speakers will include well-known business leaders, visitor industry spokesmen. State Senate Vice President **Donna Mercado Kim**, Best Selling Hawaii Author, **Bob Sigall**, former Governor **Ben Cayetano**, Honolulu Special FBI Agent **Tom Simon**, Freedom Works President **Matt Kibbe** and others.

## SMALL BUSINESS NEWS

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Small Business Hawaii (SBH), was founded in 1975, by Lex Brodie. SBH is a private, independent, non-profit [501 (c) (6)] statewide association of nearly 2,000 business members.

SBH is dedicated to improving Hawaii’s business climate, creating a better Hawaii through private, competitive enterprise, and promoting, educating, and effectively representing small business, while advocating tax reduction, lower business costs and job creation incentives to diversify Hawaii’s economy.

SBH invites comment small business issues in Hawaii. Send them to Small Business Hawaii by the 10th of the month for the next issue. SBH accepts advertising only from SBH member firms. Call SBH for details on advertising.

## No SBH Sunrise Breakfast in December

There is no SBH Sunrise Networking Breakfast during December.

The monthly SBH Sunrise Networking Breakfast Forum will return, Thursday, January 31, 2013, in the Pineapple Room, Macy's Ala Moana (3rd Floor), from 7 – 8:30 am. Sunrise is held the last Thursday of each month, January-November.

Last month, young entrepreneur and owner of the Outback Steakhouse in Hawaii Kai, **Tyler Roukema**, discussed the challenges of entrepreneurship in Hawaii.



Shan Tsutsui continues as Senate President



Will Rep. Calvin Say hold on as Speaker?

## 2012 Election

Continued from Page 1.

Clift Tsuji, Faye Hanohano, Cindy Evans, Joe Souki, Gil Keith Agaran, Derek Kawakami, James Tokioka, Gene Ward, Scott Nishimoto, Sylvia Luke, Karl Rhoads, Romy Cachola, Gregg Takayama, Roy Takumi, Henry Aquino, Jessica Wooley, Ken Ito and Cynthia Thielen.

New Democrats elected in the House include: Richard Onishi – District 3 (South Hilo, Keaau, Honuapo); Nicole Lowen – District 6 (Holualoa, Kailua-Kona, Honokohau); Kaniela Ing – District 11 (South Maui); Bertrand Kobayashi – District 19 (Diamond Head, Kaimuki, Kapahulu); Takashi Ohno – District 27 (Nuuuanu, Liliha, Alewa Heights)

New Republicans in the House: Lauren Cheape; Richard Fale, and Beth Fukumoto. Republicans Corrine Ching and George Fontaine were defeated; Rep. Gil Riviere was defeated in the Primary by Richard Fale. Rep. Barbara Marumoto retired after 34 years in office. Rep. Kymberly Pine won a seat on the City Council.

Once again, the State Office of Elections managed to screw up the election process in Hawaii by failing to distribute enough paper ballots to 23 precincts, mostly on Oahu. The result was that many people lost their right to vote. There will be changes in this office.

## Legislative Facts

State Senate 25 members  
24 Democrats 1 Republican

State House 51 members  
44 Democrats 7 Republicans

2013 – 14 Session 27th Legislative  
2013 Session Begins Wed., January 16

Legislature Website  
[www.capitol.hawaii.gov](http://www.capitol.hawaii.gov)

## State Senate Organizes for 2013 Session

Maui State Senator **Shan S. Tsutsui** (Sen. District 5) has once again been elected as the President of the Senate and will preside during the 27th Hawaii State Legislature, which will convene on January 16, 2013. Senator **Donna Mercado Kim** (Sen. District 14) will also continue to serve as Senate Vice President and Chair of the Senate Committee on Tourism and Government Operations and Special Committee on Accountability. Senator **David Ige** (Sen. District 16) will continue as Chair of the Senate Committee on Ways and Means, with Senator **Michelle Kidani** (Sen. District 18) serving as his Vice Chair.

The Senate acted quickly to organize after the November 6, 2012, General Election, with a primary goal of promoting an environment of cooperation and shared leadership and authority. While much of leadership and committee chairmanships remained unchanged from the 26th Legislature, additional standing committees were established to provide greater scrutiny over important subject matter areas, as well as to provide a greater number of Senators the experience and authority to preside as committee chairs and vice chairs.

A listing of Senate Leadership and Committee Chairmanships is as follows:

President  
Vice President  
Majority Leader  
Ways and Means, Chair  
Ways and Means, Vice Chair  
Majority Floor Leader  
Majority Caucus Leader  
Majority Policy Leader  
Majority Whip  
Majority Whip  
Judiciary and Labor, Chair  
Commerce and Consumer Protection, Chair  
Agriculture, Chair  
Arts and Technology, Chair  
Economic Development and Housing, Chair  
Energy and Environment, Chair  
Education, Chair  
Hawaiian Affairs, Chair  
Health, Chair  
Higher Education, Chair  
Human Services, Chair  
Public Safety and Military Affairs, Chair  
Special Committee on Accountability, Chair  
Tourism and Government Operations, Chair  
Transportation & International Affairs, Chair  
Water and Land, Chair

**Shan S. Tsutsui**  
**Donna Mercado Kim**  
**Brickwood Galuteria**  
**David Ige**  
**Michelle Kidani**  
**Will Espero**  
**Ron Kouchi**  
**Les Ihara, Jr.**  
**Gil Kahele**  
**Jill Tokuda**  
**Clayton Hee**  
**Roz Baker**  
**Clarence Nishihara**  
**Glenn Wakai**  
**Donovan Dela Cruz**  
**Mike Gabbard**  
**Jill Tokuda**  
**Brickwood Galuteria**  
**Josh Green, M.D.**  
**Brian Taniguchi**  
**Suzanne Chun Oakland**  
**Will Espero**  
**Donna Mercado Kim**  
**Donna Mercado Kim**  
**J. Kalani English**  
**Malama Solomon**

There is a fierce struggle for leadership in the State House. Long time Speaker, Rep. **Calvin Say**, is under siege by a coalition of dissidents, environmental, business and labor organizations who want to oust him. The leading successor for the dissidents is Maui Rep. and former Speaker, **Joseph Souki**.

The 37th Annual Smart Business Hawaii Conference  
**SMALL BUSINESS 2013:**  
**“WORKING FOR A BETTER DAY”**

**WEDNESDAY, JANUARY 9, 2013 • THE ALA MOANA HOTEL • HIBISCUS BALLROOM**

**TENTATIVE CONFERENCE PROGRAM\***

8:00 am Registration and Coffee – Garden Lanai  
Network and Visit Business Exhibit Tables – Foyer

8:45 am Aloha and Welcome – “Working For A Better Day”  
**Sam Slom**, President, Smart Business Hawaii (SBH)

9:00 “Strategies for Hawaii’s Business Success” (Panel)

9:30 “Safeguarding Business from Scams and Cybercrime”  
**Tom Simon**, Special Agent, Honolulu FBI

10:15 – 10:30 Brief Refreshment Break  
– Visit Business Exhibits (Foyer)

10:30 “Hawaii Business Trivia”  
**Bob Sigall**, Author, “The Companies We Keep”

11:00 “A Preview of the 2013 State Legislature”  
State Senator **Donna Kim** Senate Vice President)

11:30 “How to Implement a Freedom Philosophy”  
**Matt Kibbe**, Freedom Works

\* Program subject to change.



**Matt Kibbe**



**Benjamin Cayetano**

12 noon Luncheon and Program – **Hibiscus Ballroom I & II**

12:30 Luncheon Speech: “Ending Corruption in Hawaii”  
**Benjamin J. Cayetano**, Former Governor, State of Hawaii

1:30 pm Adjournment Mahalo for attending!

SBH Leadership Circle Members/Sponsors Only

1:45 pm Private Meeting with **Matt Kibbe**

**37th Annual Small Business  
Hawaii Conference**

**Wednesday, January 9, 2013 – Ala Moana Hotel • Hibiscus Ballroom – 7 a.m. – 2 p.m.**

**SMALL BUSINESS 2013:**  
**“WORKING FOR A BETTER DAY”**

featuring **Benjamin J. Cayetano**, Former Governor, State of Hawaii | **Matt Kibbe**, Freedom Works  
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Luncheon Menu: Beef  or Vegetarian

Enclosed is my check for \$\_\_\_\_\_, for \_\_\_\_\_ (# of reservations)  
@\$75 for members and their guests • @\$90 for Non-Members and at the door if space is available.

Full refunds until January 8, 2013. Make check payable to Small Business Hawaii and mail to:  
Small Business Hawaii, Hawaii Kai Corporate Plaza, 6600 Kalaniana'ole Hwy., Suite 212, Honolulu, Hawaii 96825.

# UH's Apple: Let's Put 'Wonder Blunder' Behind Us

By **Malia Zimmerman**, HawaiiReporter.com

"The equivalent of an academic bake sale" ... that's gone "awry."

That was the comparison that University of Hawaii Manoa Chancellor **Tom Apple** made last month at a campus forum after a student asked him to explain how the University was defrauded out of \$200,000.

School officials wired \$200,000 to Epic Talent LLC in Miami, Florida, on June 19 as a down payment for a Stevie Wonder fundraising concert for the athletic department, but without due diligence.

After the real **Stevie Wonder** agent contacted the University on July 9, officials learned Epic Talent did not represent Wonder, and had no authority to book a concert on his behalf. University officials had to acknowledge publicly on July 10 they may have been scammed and they refunded 6,000 tickets already sold. The entire fiasco – and other blunders to follow - cost the University around \$1 million in lawyers, consultants, investigators and lost funds.

Instead of answering any of the student's questions, including who is responsible and if there would be any consequences, Apple said his overarching goal "is to get this behind us."

"I just want to give people a perspective.



And by the way, \$200,000 is not a trivial amount of money. But we are a \$1 billion – Manoa, just Manoa, not the University – we are a \$1 billion operation.

"I have people who report to me who handle \$180 million a year. And they say, 'You know what, if somebody looked you'd probably find just through the handling of that much money if you went and looked at every individual thing you could probably find that much in terms of just losses here and there through kinds of processes.'

Apple said the event was "a tiny part of what we do" and it has "overshadowed so tremendously by a factor of 1,000 the great stories that should be coming out of the university."

"So we did get a little bit of ink about on, oh by the way, we discovered the fat 1 gene here that looks like it will help us cure Mesothelioma and five other cancers; oh yes, our medical school is helping the homeless and giving them care and our law school goes and providing free legal advice to people who cannot afford it and our school of social work and school of education on every island helping people."

Those are the stories that should be in the paper, Apple said.

While Apple did not name former Athletic Director Jim Donovan and Stan Sheriff Stadium manager Rich Sheriff as the two employees who publicly took the fall for arranging the concert, he did defend them.

"So this \$200,000, I will just give you – it was people trying to do the right thing - trying to generate some money because we have, quite frankly, and nobody likes to hear this, we have an underfunded athletic department.

"It gets a small percentage of funds from the university that just about any other athletic department so they are basically carrying out the equivalent of an academic bake sale ... and it went awry.

"And you know what, let's get it behind us. Imua."

## Find Business News & Information Online.

Be sure to check these websites for up to date Hawaii business information and events:

### Smart Business Hawaii

<http://www.smartbusinesshawaii.com>

### Small Business Hawaii Entrepreneurial Education Foundation

<http://www.sbhfoundation.org>

### Educate 808 – Education Transparency Portal

<http://www.educate808.com>

Hawaii Reporter • <http://www.hawaiireporter.com>

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# Proposed Solar Tax Credit Changes for 2013

From the State Department of Taxation  
[http://www.state.hi.us/tax/har\\_temp/RETITC\\_Rules\\_FAQ.pdf](http://www.state.hi.us/tax/har_temp/RETITC_Rules_FAQ.pdf)

## RENEWABLE ENERGY TAX CREDIT – New Temporary Administrative Rules (FAQs)

### What

The Department of Taxation is issuing new temporary administrative rules regarding renewable energy income tax credits. These temporary administrative rules apply to “other solar energy systems” installed and placed into service on or after January 1, 2013. “Other solar energy systems” includes photovoltaic systems.

Existing guidance issued by the Department will continue to be applicable for all other systems (ie, solar systems used to heat water, wind systems). In the event of any conflict between the existing guidance and the new temporary administrative rules, these new rules shall prevail.

The Department is initiating the permanent rule-making process simultaneously, as required under the statute.

### Why

The purpose of the new administrative rules is to provide clarity, uniformity and fairness to all taxpayers who claim the income tax credit, while still supporting the State’s public policy goal of reducing our reliance on fossil fuel.

Tax guidance previously issued in 2010 created uncertainty among taxpayers, an unlevel playing field within the renewable energy installation companies, and has presented

difficult enforcement issues for the Department of Taxation.

### The Legislature didn’t pass any changes to the law – how are you able to make the changes now?

The law allows for tax credits on a “per system” basis. Absent a clear definition in the statute, the Department of Taxation has the authority to determine what a “system” is. During the 2012 legislative session these issues were deliberated, but no amendments were made. Therefore, the Department is seeking to clarify the issue by using its administrative authority.

### Why don’t you wait until the next legislative session?

Given the lack of clarity and confusion the previous guidance has caused, it’s incumbent upon the Department to address this matter immediately. If the Legislature passes amendments during the next session, then they will be applied as enacted. However, until that occurs, the existing problem will not go away and must be addressed.

### Are the State tax credits expiring?

No. The state tax credit law has no sunset date.

### Is the State changing its renewable energy policy or goals?

No. The state tax credit for renewable energy systems still exists. The adoption of the new administrative rules is meant to provide consistent, fair and uniform application of the state tax law to all taxpayers. The previous guidance created an inequitable application of the tax credit, contrary to the Department’s

mission.

### How do you define a “system” under the new administrative rules?

For residential systems, the Department previously issued guidance stating that for each “system” there must be a legitimate non-tax motivated reason for the design and an independent connection to the project site’s electrical system. The guidance also allowed for separate systems where any legitimate nontax reason for the separate systems was certified by an electrical engineer. This guidance will continue to be applied to installations occurring on or before December 31, 2012.

Based on the Department’s experience, including the number of inquiries made to the Department, it is clear that a definition which taxpayers can understand with certainty is required. By clarifying the definition of “system,” the Department also believes that claims for the tax credit will be easier to administer and audit when applicable.

The new rules to calculate the tax credit is based on the total output capacity of the equipment that taxpayer purchases. Below are the requirements for determining what a system must have the capacity to produce:

- Single-family residential: 5 kilowatts per system
- Multi-family residential: .360 kilowatt per unit per system
- Commercial property: 1,000 kilowatts

*Continued on next page.*

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One of the benefits of membership in SBH is our business referral service. Another is member discounts. Also, you can contact SBH for answers to employment and other legal questions. Finally, SBH is *your* business advocate at the State Legislature, City Council and Public Agency hearings.

Please join today. Call 808 **396-1724** for details or send in the membership form on page 11.

# Ratepayers Should Not Be Forced to Pay for Pricey Power

By Terry Tico

As a homeowner in Pahala, I am writing in response to Hawaiian Electric Light Company's (HELCO) application seeking the Public Utility Commission's approval of HELCO's Modified Biodiesel Supply Contract with Aina Koa Pono Ka'u LLC.

The substance of the application is a request to increase utility rates on the Big Island and Oahu to pay for a biofuel refinery plant near Pahala that allegedly will turn feedstock into biofuel using an experimental microwave technology.

According to an August 2, 2012, press Release from Hawaiian Electric Company, "Hawaii Electric Light Company and Maui Electric Company are subsidiaries of Hawaiian Electric Company. Together they serve more than 95% of the population of Hawaii on the islands

*Continued on page 8.*

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## Renewable Energy Tax Credit Changes

**Continued from Page 6.**

In simple terms, each system must meet the total output capacity threshold to be considered one system for tax credit calculation purposes, and therefore, be eligible for the maximum amount of tax credit (\$5,000 for residential; \$500,000 for commercial).

### Example:

- Taxpayer purchases 20 photovoltaic panels that have a maximum power of 0.250 kilowatts each for a single-family residential property. Total output capacity of the equipment purchased is 5 kilowatts (20 panels x .25 kilowatts output per panel).

- Actual cost of all equipment and installation is \$27,500. Result under old guidance: \$9,625 total tax credit (assuming that each system consists of 10 panels each)

Credit for system one:  $\$13,750 \times 35\%$   
= \$4,812.50

Credit for system two:  $\$13,750 \times 35\%$   
= \$4,812.50

Total tax credit \$9,625.00

### Result under new rules:

\$5,000 total tax credit

$\$27,500 \times 35\% = \$9,625$  (capped at \$5,000 per system)

**Are there any exceptions to the threshold requirements?** Yes. They are:

- Only one system is installed on a property
- If more than one system is installed on a

property, only one of the systems may not meet the threshold requirement. In other words, all systems must meet the output capacity threshold before any additional tax credit may be claimed. After that, taxpayers may claim a pro-rated amount of credit for the system that did not meet the threshold.

### Isn't this unfair to taxpayers who planned on claiming the tax credit under the old guidance?

No. There is no right to a tax credit where a taxpayer has not yet met the requirements to claim the credit. Department policy and positions may change at any time – when the previous guidance was issued in 2010, there was no announcement or prospective application of the Department position. Moreover, each legislative session brings the possibility of changes to the tax laws. The statute is unclear as to how to define a "system" for purposes of calculating the tax credit. As such, the Department has the authority to further define a "system" in order to administer the procedures for calculating and claiming the credit.

### When can I claim the tax credit?

The law requires that the system be installed AND placed into service in the taxable year in which the credit is claimed. This language is in the statute and it has not changed.

Tax credit may be claimed only in the taxable year in which the system was installed and placed into service.

## UH Grad Student Top Electrical Engineering Student in the U.S.

Larry K. Martin, a UH Manoa electrical engineering graduate student, has been named the winner of the 2011-12 **Alton B. Zerby** and **Carl T. Koerner** Outstanding Electrical and Computer Engineering Student Award, recognizing him as the most outstanding electrical engineering student in the nation.

Martin, who graduated with his BS in electrical engineering from UH Manoa in Fall 2011, was named the winner of the award by Eta Kappa Nu, the national electrical engineering society, based on his achievements as an undergraduate student.

Martin is the fourth UH Manoa student to win the award. Previous awardees are Blaine Murakami (2005), Aaron Ohta (2003) and Kendall Ching (2001). In 2007, Monte Watanabe was selected as an honorable mention recipient.

In February, Martin received the 2012 Hawaii Council of Engineering Societies Student Engineer of the Year Award, identifying the Kailua resident as the outstanding student engineer in Hawaii for 2011. He was also named the Fall 2011 Outstanding Graduating Senior in Electrical Engineering.

Martin has received numerous other scholarships and awards, including being a two-time recipient of the prestigious National Consortium for Measurement and Signature Intelligence Research Scholarship. He has also authored or co-authored several journals, conference papers and magazine articles.

As program/technical manager of the UH Manoa College of Engineering's Small-Satellite Program, Martin assisted in writing several proposals that earned the program two NASA launch opportunities in 2013-14. The mission of the two nano-satellites scheduled to launch is to provide calibration for radar stations around the world. The program was founded by Electrical Engineering Professor Wayne Shiroma in 2001.

IEEE-Eta Kappa Nu is the Institute of Electrical and Electronics Engineers' official student honor society for students and professionals in engineering, science and computing, as well as the IEEE-designated fields of interest. With more than 200,000 members and over 200 university chapters, IEEE-HKN recognizes academic excellence, leadership, outstanding character and service.

See the College of Engineering home page at <http://www.eng.hawaii.edu/>.

# Three Things Every Small Business Should Know About Data Security

By **Beau Monday**  
Hawaiian Telcom

Nearly 70 percent of small businesses that suffer a cyber-security breach close within 12 months, according to a report issued by global credit card company Visa. On average, attacks that involve compromised payment data cost a small business \$188,000 per incident. These kinds of losses underscore the reason businesses need to treat data security as a key component of their overall business plan.

The following are three steps every business should take to protect their IT networks:

**1. Understand that you are at risk:** Many small businesses think hackers won't bother attacking them, but the opposite is true. Because small businesses are often lax in cyber-security efforts, they make particularly juicy targets, and attacks against them are up 40 percent this year. Every computer connected to the Internet has value to a hacker. Some computers hold valuable

payment information, such as credit cards and bank accounts, or personal information about customers that could be used to steal someone's identity.

**2. Develop a security program** and communicate it regularly to your employees. Employees play a critical role in protecting the company's information assets and the customer data entrusted to them. It's also important to remember that if employees access company data from their home computer or mobile devices, breaches to those devices could have a negative impact on the company's network.

**3. Stay on top of security updates:** Recent analysis of attacks has shown that if you patch five common applications, your computer is equipped to fend off 99.8 percent of known cyber-security attacks. Common applications are Windows, your browser (Internet Explorer, Firefox, Chrome, etc.), Sun Java, Adobe Flash and Adobe Reader. All offer automatic updates and once configured it takes little effort to keep them updated.

# UH Law School Rated Among Best

University of Hawaii Press Release

The William S. Richardson School of Law on the UH Manoa campus has been ranked tops in the nation as the "Best Environment for Minority Students" in the annual *Princeton Review* rankings that rate the country's top 168 law schools.

*Princeton Review* also ranked the UH Law School fourth in the country for the "Most Diverse Faculty." The Review points out that 42 percent of the Law School faculty are members of minority groups and 43 percent are women.

These top rankings put the William S. Richardson School of Law among the nation's most outstanding law schools, according to the education services company that publishes more than 150 review books annually that examine qualities in the country's colleges, universities and professional schools.

Dean Avi Soifer said the new rankings for 2013 underscore two of the exceptional aspects of the Richardson Law School that set it apart from other highly ranked law schools. "These rankings cannot capture the mutual support that accompanies the rigorous training we offer, but it is certainly great to be recognized for our welcoming environment and for our diversity, along with our innovative educational approach that was featured recently in another survey," said Dean Soifer.

Richardson Law School is one of only 59 schools (about 35 percent of the 168 profiled) that appear on one or more of the Review's ranking lists.

According to Robert Franek, *Princeton Review* Senior VP and Publisher, the schools profiled in the lists were chosen "based on our high regard for their academic programs and our reviews of traditional data we collect from the school . . . We recommend William S. Richardson School of Law as one of the best institutions a student could attend to earn a law school degree."

The rankings, which were released nationally on October 1, 2012, are gathered through student surveys of schools across the nation and administrative data. For its Best Law Schools report, *Princeton Review* surveyed online more than 18,000 students at 168 law schools and collected data from school administrators.

But the Princeton Review does not rank the law schools in the book on a single hierarchical list from 1 to 168, nor does it name one law school as best overall. Instead, the

# Rate Payers Should Not Foot Higher Bill

Continued from Page 7.

of Oahu, Hawaii, Maui, Lanai and Molokai. Hawaiian Electric is a subsidiary of Hawaiian Electric Industries (NYSE: HE)."

For the following reasons, the current application for the rate hike is inconsistent with the public interest.

According to Hawaiian Electric Industries' CEO Connie Lau in her August 3, 2012 Earnings Call, HEI's "Second quarter 2012 earnings were \$0.40 per share consistent with \$0.40 in the linked quarter and \$0.28 per share in the same quarter last year.

In other words, Hawaiian Electric Industries' (HEI) profits have soared in the past year. HEI is the parent company of HELCO, responsible for HELCO's decision making, and the beneficiary of HELCO's profits.

Ms. Lau is the highest paid CEO in the State of Hawaii, higher than Bank of Hawaii's CEO. According to Forbes, her combined compensation for 2012 is \$5.29 million.

In light of the soaring profits of HEI and the unprecedented compensation package it pays its CEO, we must ask ourselves why we tax payers are paying the highest energy rates in the United States and why HEI isn't

footing the bill for the biofuel project.

Big Island Mayor Kenoi has gone on record stating that we need affordable alternative energy. HELCO's proposal is not affordable nor is it reasonable and necessary. It places the burden of an alternative energy, that may not be good for the environment, on the rate payers who can't afford it, and returns the guaranteed profit to the corporation that is already enjoying soaring profits.

Aina Koa Pono's goal is apparently to secure a contract with HELCO (and HECO, and HEI) in order to bolster its chances of financing a refinery that would ultimately be used for transportation fuel. This hui should not be allowed to use the customers of the electric company as its security for financing.

Approval could also set a bad precedent. The Aina Koa proposal is to make fuel for one power plant but will result in hiking electric bills for people across the board, even for those not served by the Keahole power plant. How would the PUC handle similar proposals for biofuel contracts for other power plants - contracts

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Continued on page 10.



# Hawaii Lawmakers Tax What Ails You

By **Lowell Kalapa**, President, Tax Foundation of Hawaii



Lawmakers seem to have a simplistic reaction to solving problems the solution to which plagues their constituents — tax it.

Probably the best example is what people like to call sin taxes, those excise taxes that are levied on tobacco and alcohol products. After all, smoking causes cancer and alcohol causes all sorts of problems including driving under the influence. Lawmakers and community advocates shake their heads and push for higher tax

rates, arguing that making these products more expensive will deter folks from using these products.

The problem is that lawmakers also like the revenues that are generated from the sales of these products and, in some cases, they have tried to link the use and sale of these products with noble causes such as the funding of the Cancer Research Center that is currently being built. Again, the argument is that smokers should pay for programs and projects which seek to cure the related ill which in this case is cancer caused by smoking.

The irony is that arguments to increase the tax on tobacco and, more specifically, cigarettes, is a goal of getting smokers to quit while depending on the revenues from tobacco and cigarette taxes to fund an ongoing program, in this case the Cancer Research Center. So, which is it folks, stop smokers from smoking and if successful, there won't be any revenues to fund the Cancer Research Center?

The fact of the matter is that it appears that both locally and nationally, higher taxes on cigarettes is having an effect on smokers as, for the first time, tax collections on the sale of cigarettes have fallen below the previous year's tax collections. Certainly some of the decline is due to smokers actually quitting, but to some degree one has to suspect that some purchases were made via mail order from exempt Indian reservation outlets while others may be what is called gray market purchases, that is from sources outside the country.

What should come as a surprise is that most of the folks who have quit are of some means as they are more likely to recognize the health hazard caused by use of this product. That means most of those who are still smoking are among the lower-income members of our community. Thus, the tax is regressive, generating less and less collections from middle and higher-income individuals.

Asimilar phenomenon has become increasingly apparent in Hawaii with respect to alcohol sales. Anyone who is familiar with the sale of alcoholic beverages will acknowledge the fortunes of the alcoholic beverage industry in Hawaii is highly dependent on the visitor count as the volume far exceeds the capacity of the resident population's per capita consumption.

And there is data that correlates the volume of consumption rising and falling with the visitor count. As the cost of this product rises, either because of natural product increases or a rise in the excise tax imposed on this product, it will affect the volume of sales or as has been reported in recent years, visitors - especially those who stay for extended periods of time like those in time share units - tend to buy this product at discount stores in volume, consume what they

wish while here and then on the way to the airport to leave, return the unused bottles for a refund.

Funny as it may sound, it is no laughing matter for restaurants and bars that cater to visitors. Because of overhead and insurance costs and usually paying a percentage of gross sales as part of a lease, these on-premise consumption businesses have seen a decline in traffic. With the decline in traffic and volume of sales, it is the help that suffers the layoffs when business is bad. Thus, one of the consequences of rising taxes on alcoholic beverages is that it again affects those who are paid the least. Again, a form of a regressive tax.

With the upcoming session, lawmakers will again, no doubt, seek to raise or impose new taxes to "curb" some sort of bad behavior. Probably the one that has already been floated in the past and will, no doubt, be put on the table again is a tax on soda because as advocates argue, consumption of sugary drinks contributes to obesity. Before lawmakers make a hasty decision, they need to sit down and analyze what really contributes to obesity, especially childhood obesity. They may want to think that sugary drinks contribute to overweight kids, but then one has to stop and think that it is only one of the contributors.

As has been pointed out many times before, this generation of youngsters is no longer as active as those twenty or so years older than they are, a generation that did not have iPods and iPhones and did not know anything about texting and tweeting. If lawmakers think taxing something heavily can solve some of our problems, then perhaps there should be a special tax on such devices.

Tax Foundation of Hawaii is on the web @ <http://www.tfhawaii.org>

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# Small Business Administration Helps Vets

As the nation marked Veterans Day 2012, the U.S. Small Business Administration continues to build on its successful programs for America's military veterans, helping tens of thousands of veterans each year with small business financing, comprehensive business training and counseling and access to federal contracts.

"Around Veterans Day, our thoughts turn to the men and women who are currently serving in the Armed Forces, as well as to all veterans who have made sacrifices and served our country over the years," said SBA Administrator Karen Mills. "When you consider the leadership and management skills our veterans develop while on active and reserve duty, it's no wonder we see so many of them choose the path of small business ownership."

According to data from the U.S. Census Bureau veterans are successful small business owners. Nearly one in 10 small businesses nationwide are veteran-owned. Collectively, these 2.4 million small businesses employ almost 6 million Americans and generate more than \$1 trillion in receipts. In the private sector workforce, veterans are 45 percent more likely than those with no active-duty military experience to be self-employed.

SBA supports veteran business owners through entrepreneurial training and mentoring, access to capital, and business development opportunities through government contracts.

## Entrepreneurial Development

This year SBA partnered with the Department of Veterans Affairs and the Department of Defense to develop a national entrepreneurship training program for transitioning service members as part of the new Transition Assistance Program. Operation Boots to Business: From Service to Startup was piloted with all four branches of the services in summer and fall 2012. The Boots to Business program will be rolled out during 2013 providing exposure to entrepreneurship training to all 250,000 service members who transition from active duty to civilian life each year.

In a closely related effort, SBA and Syracuse University continue to expand the success of the Entrepreneurship Boot Camp for Veterans with Disabilities program. The growing partnership between SBA and Syracuse University, now in its fourth year, provides training on how disabled vets can start and grow a small business, with programs targeted to service-disabled veterans who served in Iraq and Afghanistan and their family caregivers, women veterans,

and National Guard and Reserve members and their families. Since 2009, the first year SBA partnered with Syracuse University, 434 service-disabled veterans have participated in the program.

Participating schools include: Syracuse University, University of Connecticut, UCLA, Florida State University, Texas A&M University, Purdue University, Louisiana State University, and Cornell University.

SBA is also providing \$2.6 million through a cooperative agreement over three years for two programs; Women Veterans Igniting the Spirit of Entrepreneurship (V-WISE), that focuses on training, networking and mentorship for women veterans, and Operation Endure & Grow, targets National Guard and Reserve component members, their families and partners.

## Access to Capital

In FY 2012, SBA backed more than 3,200 loans supporting nearly \$2.1 billion in financing to more than 2,800 Veteran-Owned Small Businesses (VOSBs) through its flagship 7(a) and 504 loan programs, including \$118 million through the Patriot Express Loan program. Patriot Express loans offer many advantages to veterans and to SBA's network of participating lenders nationwide. They feature one of SBA's fastest turnaround times for loan approval and an enhanced guaranty and interest rate on loans up to \$500,000 to small businesses owned by veterans, reservists and their spouses. Patriot Express loans can be used for most business purposes, including startup, expansion, equipment purchases, working capital, inventory or business-occupied real-estate purchases.

## Government Contracting

The Service-Disabled Veteran-Owned Small Business Concern Procurement Program allows federal agencies to set acquisitions aside for exclusive competition among service-disabled veteran-owned small business concerns. Federal prime contracting dollars awarded to Service-Disabled Veteran-Owned Small Businesses (SDVOSBs) increased for the fifth consecutive year to \$11.2 billion, or 2.65 percent, in FY2011, up from \$10.793 billion, or 2.50 percent, in FY2010.

Over the last year, SBA has created a series of online contracting courses called Government Contracting (GC) Classroom to help prospective and existing small businesses, including VOSBs and SDVOSBs, understand the basics about contracting with federal agencies. In addition, the Office of

Veteran's Business Development provides procurement training to SDVOSBs to help them take advantage of federal contracting opportunities under the Service-Disabled Veteran-Owned Small Business Concern Procurement Program.

SBA reaches out to veterans through its 68 SBA district offices, 15 Veterans Business Outreach Centers nationwide, more than 1,000 Small Business Development Centers, 110 Women's Business Centers and some 12,000 SCORE volunteers, more than 40 percent of whom are veterans. SBA also has numerous programs creating government contracting opportunities for VOSBs. For more information, visit [www.sba.gov/vets](http://www.sba.gov/vets) and [www.sba.gov/reservists](http://www.sba.gov/reservists).

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## U.H. Law School

Continued from Page 8.

book has 11 ranking lists of the top 10 law schools in various categories.

Ten lists are based entirely or partly on the Review's surveys of students. They were conducted during the 2011-12, 2010-11 and 2009-10 academic years. One list, "Toughest to get into," is based solely on institutional data.

The Review includes comments from Richardson students who said the school is "Nestled at the Crossroads of the Pacific" and offers local, national and international students "an equal opportunity to get a law degree while enjoying a little piece of heaven on earth."

Students also noted, however, that none of the laid-back nature of the students and faculty took away from the school's "rigorous" academics.

The Princeton Review analysis points to many additional strengths at the University of Hawaii Law School, including:

- The student/faculty ratio of 8:1.
- The average LSAT score of 156.
- Specializations in Environmental and International law

The lists are posted at [www.PrincetonReview.com/law-school-rankings.aspx](http://www.PrincetonReview.com/law-school-rankings.aspx)

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## HELCO Continued from page 8.

that would also raise rates across the board to finance them? How could the PUC protect the ratepayer if it sets this precedent?

While I endorse clean, affordable, renewable energy, the current application is not consistent with the public interest and should, once again, be denied.

# Hawaiian Airlines Celebrates 83rd Anniversary

Last month, on, November 11, Hawaii's hometown airline and the pioneering carrier of the Pacific, Hawaiian Airlines marked its 83rd anniversary of continuous service in Hawaii.

"We take great pride in being 'Hawaii's airline' and the distinguished place our company holds in aviation history is a tribute to our hard-working employees and loyal customers," said Mark Dunkerley, Hawaiian's president and CEO. "After 83 years, Hawaiian is becoming a global carrier, and one that remains comprehensively focused on Hawaii. As we continue building on this legacy of service to our islands, we owe a debt of gratitude to all those who have made this milestone possible."

Hawaii's introduction to the age of commercial air transportation began on November 11, 1929, when the inaugural flight of Inter-Island Airways (renamed Hawaiian Airlines in 1941) departed from John Rodgers Field (now Honolulu International Airport) bound for Hilo with thousands looking on.

The Sikorsky S-38 amphibian biplane, one of only two in the new fleet, was filled to capacity that day with eight passengers and two crewmembers. With a top cruising speed of 110 MPH, the inaugural flight took more than three hours to complete, which included a stopover on Maui. The first flight to Kaua'i took place the next day and soon all the islands were receiving air service on a regular basis.

In 1930, its first full year of operations, the new airline carried more than 10,000 passengers – a total that Hawaiian today exceeds daily – and the growing company soon began adding newer, larger, and more aircraft and hiring more employees to improve its quality of service for Hawaii, a commitment that is ongoing.

Today, Hawaiian is the largest it has ever been with more flights to more destinations, more aircraft and more employees than at any other time in its history. The airline currently operates more than 200



flights daily serving 11 gateway cities in North America, six in Asia, two in the South Pacific, and one in Oceania with new services planned for Brisbane, Australia (November 27) and Auckland, New Zealand (March 13, 2013). Continued growth into new and existing markets outside Hawaii is planned.

In keeping with its continuing growth, Hawaiian has hired more than 500 new employees in 2012 and now has a total workforce of 4,816. The company plans to add another 300 new operational and administrative positions in 2013.

Hawaiian currently operates a fleet of 43 aircraft, comprised of 25 wide-body 294-seat Airbus A330-200 aircraft and wide-body 264-seat Boeing 767-300ER aircraft for transpacific flights, and 18 narrow-body 123-seat Boeing 717-200 aircraft for Neighbor Island flights.

As part of its long-range fleet renewal and expansion plan, Hawaiian will take delivery of 13 new A330s between 2013 and 2015, bringing to 22 the total number of A330s in its fleet.

Starting in 2017 Hawaiian will begin welcoming the first of six next-generation, longer-range A350XWB-800 aircraft into its fleet, which will enable further growth into more distant international markets.

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## Makai Ocean Engineering Gets Key Patents

Makai Ocean Engineering is happy to announce the recent approval of three of its patent applications by the United States Patent and Trademark Office (USTPO). "We're excited about the development of these technologies by our hardworking team which led to these three patents," said Billy Pieper, Makai Ocean Engineering Vice President. "And we're especially excited because this was achieved right here in Hawaii. Our goal continues to be to help the state become a global leader in ocean engineering development and technology."

The Makai Ocean Engineering patents that were approved are for three very unique systems:

- Autonomous Underwater Array Burial System ®
- Mist Lift ®
- Flange Protection System ®

The Autonomous Underwater Array Burial System® provides an efficient means of burying submarine cables to protect them from damage by trawling, ship anchors, and other bottom threats. A new generation of arrays is being developed for applications ranging from environmental monitoring, scientific observations of the ocean in littoral areas, sub-bottom mapping for hydrocarbon search and well-depletion monitoring, and military and other surveillance applications. A typical array is usually 100 meters to 2000 meters long and contains multiple in-line sensors along its length. The goal is to increase the survivability of these arrays by burying them several inches below the ocean floor surface.

Conventional cable burial techniques using plows and ROVs require very large amounts of energy and an expensive surface vessel to support operations.

The Array Burial Vehicle (ABV), which is a critical component of the recently patented system, can reduce the energy required to bury an array by 2 to 3 orders of magnitude when compared with conventional methods, and eliminates the need for a surface vessel. Makai Ocean Engineering's unique and compact ABV design is a cost-effective and

energy-efficient autonomous vehicle that uses optimized jetting and propulsion techniques to reliably bury a cable up to twelve inches below the ocean surface.

Mist Lift ® is an advanced Ocean Thermal Energy Conversion concept that simplifies the extraction of energy from the ocean's tropical thermal gradient and reduces energy production costs. This patent also covers some of the techniques for controlling and building a Mist Lift® process on a dynamic at-sea platform.

Flange Protection System ® protects against failure of large High Density Polyethylene (HDPE) pipes that are used in many marine applications and are used for most deep water intake pipelines for projects such as Seawater Air Conditioning (SWAC). The most common point of failure for these pipelines during deep water deployments is at the flange connection. The newly patented Flange Protection System® prevents high strains in the flanges and greatly decreases the risk of failure during pipe installation.

"These USTPO patent approvals of Makai Ocean Engineering's inventions are a grant of intellectual property rights to our local Hawaii-based company," said Pieper. "We want to attract investment that will not only further our research and development, but help to position Hawaii as the world leader when it comes to solving challenges or problems in the ocean."

Makai Ocean Engineering was founded in 1973 as a diversified ocean engineering company providing services to include international clientele focusing on engineering for ocean based renewable energy (OTEC and SWAC), large underwater pipelines, software for planning, simulation, installation and recovery of submarine cables and arrays, and software for visualizing scientific 4D/5D data. Makai Ocean Engineering takes pride in successfully achieving innovative solutions to difficult problems for a broad range of clientele which has included private, industrial, and commercial firms nationally and internationally; federal, state and local governments and Pacific Island Nations.

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