



Creating A Better Hawaii
Through Private Enterprise

SMALL BUSINESS NEWS

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SBH To Sponsor Maui Business Forum

Smart Business Hawaii (SBH) will hold a special business luncheon forum on Maui on **Thursday, July 21st**, at 11:30am to 1:30pm at the Maui Kahili Golf Course's Nahele Banquet Room.

Seating is limited. Maui SBH members and their guests are invited. The public is welcome if advance paid reservations are made and space is available.

SBH is hosting the event to share some marketing and smart business tips and advice for Maui business owners.

SBH President, and State Senator, **Sam Slom**, will discuss recent legislative business and tax changes and their impact on Maui businesses.

Matt Longfellow, owner of Valpak of Hawaii, is our featured speaker and will be discussing, "It's not Rocket Science – Simple Marketing Concepts You Can Use Today."

A full lunch buffet will be provided by the Kahili Restaurant. Networking will be encouraged. The cost for SBH members: \$15. Non-Members: \$25. Please RSVP no later than July 15 with Darlyn at 396-1724.

SBH MEMBER CALENDAR

PHONE 396-1724 • FAX: 396-1726

Wednesday, July 20

**SBH Entrepreneurial Foundation
Board Meeting**
SBH Office • 9 am

Thursday, July 21

SBH Maui Business Forum
Kahili Golf Club, Maui
Call Darlyn 396-1724 for info

Thursday, July 28

SBH Sunrise Networking Breakfast
Fred Hemmings
"True Energy Independence"
Macys' Pineapple Room
Ala Moana Center • 7 – 8:30 am

Friday, September 16

SBH Foundation
4th Annual Awards Banquet
Waialae Country Club • 5:30 – 8 pm

SmartBusiness
HAWAII

Fred Hemmings to Address SBH Sunrise

It's at the Pineapple Room, Macys' Ala Moana on July 28

Former world champion surfer, State Senator, and now environmentally active business leader, **Fred Hemmings** will be the special guest speaker at the next SBH Sunrise Networking Breakfast Thursday, July 28, 7 – 8:30 am in the Pineapple Room, at Macy's Ala Moana Center. The public is welcome, but advance reservations are required.

Hemmings will discuss, "True Energy Independence for Hawaii"

Last month's speaker was technology expert and founder of Think Tech Hawaii, **Jay Fidell** who spoke on wind farms.

SBH members and their guests pay \$25 (in advance) for networking, the program, a complete buffet breakfast and free parking.

Participants are all introduced and may bring promotional materials. The cost is \$35 at the door if space is available. Complete and submit the reservation form on page 11 or contact Darlyn at SBH, 808-396-1724. We also have a form on our website.



Fred Hemmings

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Smart Business Views

By Sam Slom, President – Smart Business Hawaii

I hope to see you on Maui, July 21, at a special SBH business forum at the Kahili Gold

Thousands of new plaintiffs were to be added. The court said that the original individual suits for sex and wage discrimination may proceed.

Good news: An unlimited amount of new internet.com, .net and other domain names will be made available after action was taken by the international internet tribunal that governs such registration. **Bad news:** acquiring the new names will prove pricey.

Listen to **Malia Zimmerman** of Hawaii Reporter.com, daily (M-F) on the **Rick Hamada** Show, KHVH radio on 830 AM at 6:20 am. Malia also reports on Kauai's KKCR with **Sandy Brodie** on Tuesday mornings, on the station's "Morning Paper." She will report the news behind the news for you.

There is real trouble between teachers and their union, HSTA, the HSTA and the Governor, and other unions versus the HGEA public workers. Furloughs are over but not union squabbles. This will get worse as money continues to be tight.

Now both losing rail bidders have filed suit against the City. The winning bidder has begun a PR campaign to convince taxpayers it is worth the money. The private lawsuit, of which I am one of 7 plaintiffs, is expected to go to court in the next few months. Meanwhile, the Mayor continues to fight with the Council over financial transparency with the newly created HART transit authority.

Wonder how much the research cost at Harvard to determine July 4th parades are for Republicans only. Democrats should shun patriotic events. What? The study also found out that children who go to patriotic parades are most likely to grow up as Republicans. Let's all go to the parade!

What was Governor **Neil Abercrombie** thinking when he attacked the NFL Pro Bowl and Hawaii's \$4 million payment for a return estimated at \$100 million? He said the money should go instead to our "keiki," yet our children do receive a great deal of benefits from the annual sporting event. Caused a lot of negative flack on the Mainland.

The Governor is to be congratulated for calling together a bi-partisan group to engage in the Judicial Reinvestment Initiative (JRI) which first met in late June. The JRI seeks to save the taxpayers money, change the emphasis on imprisonment and develop alternatives to incarceration, such as Hawaii's HOPE program, developed by Judge **Steve Alm**. No less a taxpayer supporter than **Grover**

Continued on page 4.

Hawaii Homeowner Insurance Rates "Excessive"

Hawaii homeowners pay "excessive rates" for insurance, according to state Insurance Commissioner **Gordon Ito**.

In a news release in June, Ito said he made that determination after reviewing rate data gathered by the National Association of Insurance Commissioners.

"I concluded that rates should not be this high for homeowners who are struggling during these tough economic times," Ito said.

He has directed all property insurance carriers in Hawaii to submit new rate filings.

The Hawaii Insurance Council, a trade organization that represents and lobbies for property and casualty insurance carriers in Hawaii, did not respond to a request for comment.

Ito said a 2009 NAIC report found that losses incurred by Hawaii homeowner insurers "are significantly below the national average and far below the levels necessary for insurers to earn reasonable rates of return."

The new rate schedules must be filed by October 6.

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SMART BUSINESS HAWAII (SBH)
6600 Kalaniana'ole Hwy., #212 • Honolulu, HI 96825
Ph. (808) 396-1724 • FAX (808) 396-1726
email: sbh@lava.net

Web: <http://www.smartbusinesshawaii.com>

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EDITOR & PUBLISHER: Samuel M. Slom
MANAGING EDITOR: Malia Zimmerman

DIRECTORS: Joyce Edwards, Debi Halcro, Walt Harvey, Matt Longfellow, Andy Mertz, Jack Schneider, Bob Sigall, Sam Slom and Geal Talbert.

LAYOUT & GRAPHICS: Melvin Ah Ching

POSTMASTER: Send address changes to Small Business Hawaii, 6600 Kalaniana'ole Hwy., Suite 212 Honolulu, Hawaii 96825.

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.

Course. See details on page 1. Advance reservations are required.

Welcome to Fiscal year 2012, July 1. A \$232 million deficit has been made up for the year just ended but a revised \$1.6 billion deficit over the next two fiscal years is still looming despite \$600 million in new taxes, many taking effect this month.

Matson Navigation was quick to raise container rates—a new surcharge of \$52 per container (on top of recent fuel surcharges)—because of the Legislature's suspension of GET tax exemptions formerly enjoyed by air, shipping, sub contractors and sub lessees, July 1.

Both **Moody's** and **Fitch** Ratings have downgraded Hawaii's debt which will translate into higher interest rate and debt service costs for Hawaii taxpayers.

Hawaiian Telcom has laid off several hundred workers, closed its retail outlets but announced a new cable service and listing on NASDAQ. It is part of the company's reorganization after emerging from bankruptcy.

Local business Kai Vodka got a big shot in the arm when nationally known mixologist **Tony Abou-Ganim**, boosted their product, Kai Shochu, and made an exotic drink on the NBC Today program June 24. **Marcus Bender** heads Kai. You can't buy that kind of positive national exposure.

Congratulations to Hawaii Pacific President **Chatt G. Wright** who has been awarded the Pacific West Conference Presidential Achievement Award. The award is given to presidents of PacWest institutions for their outstanding service to their college or university, and for their commitment to collegiate athletics.

The two **Hawaii Superferry** vessels are for sale again by the Federal Government. If you want to bid in the auction of the ships, currently in Norfolk, VA, send \$500,000 (non-refundable) and have a minimum of \$25 million on hand. With Hawaii's past treatment, tax and regulatory structure and government meddling, do not expect to see the vessels here again. What a shame.

The U.S. Supreme Court ruled in favor of **Walmart** regarding the class action law suit brought against the retail giant by hundreds of women plaintiffs. The issue is being orchestrated by unions behind the scenes.

Fitch, Moody's GO Bond Rating Downgrade to Impact Hawaii's Taxpayers

By **Malia Zimmerman**
HawaiiReporter.com

Hawaii has been hit with bad news from two credit rating agencies in recent weeks.

On June 15, 2011, Fitch downgraded Hawaii's outstanding general obligation (GO) bonds to 'AA' from 'AA+' and outstanding certificates of participation (COPs) to 'AA-' from 'AA'.

On May 17, 2011, citing Hawaii's "strained" state financial operations, the depletion of its reserves in fiscal year 2011, and covering budget shortfalls with one-time solutions — Moody's Investors Services downgraded the general obligation bond rating to Aa2 from Aa1 for an estimated \$5.1 billion in debt.

Kalbert Young, Director of the state Department of Budget & Finance, said the action by Fitch places all of the State's ratings from the major agencies at the mid-tier double-A level for GO credit with Standard & Poor's at AA, Fitch at AA and Moody's at Aa2.

What that means for Hawaii taxpayers is it will cost more to borrow money through general obligation bonds. These bonds, which are backed by the state taxpayers, are secured by loan payments subject to legislative appropriation. Hawaii typically uses these bonds to fund infrastructure projects and repairs.

But how much will the downgrades cost the Hawaii taxpayers?

When the state issues between \$500 million and \$650 million in GO bonds this fall to fund state projects, Young estimated in a May 23 interview that it will likely cost taxpayers an additional \$1 million to \$2 million. Now with the Fitch Rating also downgraded, it could cost even more, but predicting how much more is a challenge:

"The concert of the three ratings is difficult to predict how bond buyers would interpret the different ratings. However, for the current State ratings, with S&P maintaining at "AA" all three rating agencies have the State at the same level — being, two levels below triple-A (AAA) status. This essentially sets the State's rating solidly at middle double-A. In some respects it might be a little easier to predict what a double-A credit is expected to sell for in the market — but, I would be just guessing if I had to tell you what that rate is on any given date. The bottomline is that the overall collective rating for the State is down, so there is to be



Courtesy of Photos8.com | <http://www.photos8.com/>

an expected increase in the overall interest rates for when the State sells bonds," Young said.

Ratings agencies are largely concerned about Hawaii's depletion of the reserve funds, unfunded pension ratios, high debt ratio, rising liabilities for health insurance benefits for retirees, and growing expense for unemployment benefits.

Listed as specific reasons for the Fitch rating downgrade were high debt levels, a volatile tourism industry, the depletion of previously large balances, and the state's growing long-term liabilities. "Pension funding levels are considered weak by Fitch's standard. Other post employment benefit obligations (OPEB) are also significant," the report said.

The analysis took note of Hawaii's budget shortfalls for fy 2011, 2012 and 2013, and the way lawmakers are covering the gaps through special fund raids: "Continuing revenue weakness resulted in a new \$220 million shortfall for fiscal 2011, which ends on June 30, and the state plans to balance through spending cuts, fund transfers, and the draw down of remaining balances in the Hurricane Relief and Emergency and Budget Reserve Funds. A general fund ending balance of \$73.1 million is currently projected, with no other funded reserves."

The report concludes Hawaii's government structure, which if it remains highly centralized, will help kept debt high. "As of July 1, 2010, net tax-supported debt totaled approximately \$5.5 billion, which equates to 9.9% of 2010 personal income. Principal is retired at an above-average pace, with 67% of bonds due in 10 years."

The funding levels for Hawaii's pension system also "remain a concern", the report said, "with reported funded ratios having declined from 95% in 2000 to 61.4% as of June 30, 2010 and the unfunded liability exceeding \$7.1 billion ... Further, the state's other post employment benefits obligation is large."

There was some good news for Hawaii, however. Behind the scenes, the state administration lobbied rating agencies not to downgrade the ratings, or at the very least, list the outlook for the future at "stable." Hawaii made two presentations to Fitch on this point — and the effort worked.

While Young called the downgrade action "unfortunate", he said it is positive for Hawaii that the agencies removed 'negative outlooks' that were attached to the State's rating and has assigned "stable outlooks" at the lower rating. Standards and Poors maintained Hawaii's bond rating and outlook.

Now, the Administration must address the underlying financial problems outlined in the Fitch and Moody's reports, Young said.

"Problems with growing unfunded liabilities in pensions, health insurance benefits, and rebuilding reserve funds are significant structural issues that the Administration and its financial team are currently working on — and, which the State will have to be pro-active in addressing immediately. The credit action is symbolic of the huge and significant financial problems still facing the State — even with improvements in the overall economy," Young said.

Smart Business Views

Continued from Page 4.

Norquist of the ATR has spoken positively about HOPE.

Hawaii's visitor industry continues to snap back with arrivals and expenditures exceeding original estimates. Most other businesses, however, continue to struggle.

The projected closure of the Foodland grocery store at Koko Marina Shopping Center July 10 after 47 years caused upheaval in the East Oahu community. Cries of "food security" arose. Walgreens Drug Store is set to enter the Hawaii Kai market—big time with a 33,000 square foot facility. See story on page 4.

Former world surfing champion, State Senator, author and clean energy advocate, **Fred Hemmings** will be our special guest speaker at the next SBH Sunrise Networking Breakfast, Thursday, July 28, 7 – 8:30 am in the Pineapple Room, Macy's Ala Moana. Fred will speak about nuclear Energy for Hawaii. See page 11 for reservation info.

On Friday, September 16, the Small Business Hawaii Entrepreneurial Education Foundation will hold its annual small business awards banquet at the newly renovated Waialae Country Club. You can nominate your business or another for an award by emailing SBH@lava.net. Categories include: Lex Brodie Small Business of the Year, Jean Fukuda Civic Leadership, SBH Young Entrepreneur, SBH Business Booster, Business All Stars and several media awards. Special guest speakers will be announced next month. You can call Darlyn for further information at 808-396-1724.

For the latest in small business news and special events and alerts, go to our website at www.smartbusinesshawaii.com or call SBH at 808-396-1724.

Subscribe to Sam Slom's weekly email news blast at sbh@lava.net.

Foodland Forced Out – Residents Rally

By **Sam Slom**, President & CEO of Smart Business Hawaii



Not since the original "Save Our Star-Bulletin" effort more than a decade ago has there been such an immediate, passionate and widespread true residents' movement to save a commercial enterprise as is the case with the Koko Marina Foodland Grocery store.

Since the terse announcement in mid-June that the Foodland grocery store in Hawaii Kai, a key community enterprise for 47 years in the Koko Marina Shopping Center, had lost its lease and would be closing down July 10, residents sprang to immediate action. They called on local politicians, Foodland and the shopping center to do something to save Foodland.

In a battle of press releases, both the shopping center and the local grocery store blamed each other for the lease negotiation failure. It was announced that Walgreen's drug store would occupy the space. This led the citizens' cries that, "We don't need band-aids; we need food!"

Some even talked about boycotting the new drug store or the shopping center itself. That reflects the shock, surprise and disappointment that accompanied the news of the sudden closure.

But residents decided to fight back. A petition drive started and garnered several thousand signatures. People were talking and mobilizing. Area politicians responded and a public Town Hall meeting was quickly arranged June 21, at the Kaiser High School cafeteria. Spokespeople from Foodland, Koko Marina and Walgreen's were invited to speak. About 500 residents attended and participated.

Only the CEO of Foodland, **Jenay Wall**, appeared and spoke. Koko Marina sent a written statement.

At issue is more than just one grocery store. "Food security" has been brought up by several residents. From Waimanalo to Aina Haina, there are 7-Eleven stores, a Safeway in Hawaii Kai and the giant Costco (which requires a membership card). Times Supermarket left Niu Valley years ago. Choice is an issue. Local vs. Mainland, giant corporation vs. smaller, family owned business also plays a part. Older less mobile people and the disabled decry the potential loss of "their" community grocery store.

The issue of urban planning was also raised.

True these are private business decisions between a landlord and lessee. But there is more at stake here. The public has weighed in. This was not an issue created by politicians seeking face time or a wayward media with a distorted editorial viewpoint.

A done deal? Most believe so, but others will continue to give it their best effort. It now rests on a possible sublease of the 33,000 square foot store by Walgreens's to a smaller Foodland.

It is a positive citizen-driven issue to witness, no matter how it plays out.

But to concerned volunteers like **Laura Buck, Paige Altonn, Michael Scharzki, Randy** and **Jean Castello** and members of the Hawaii Kai Neighborhood Board, it is more than just a contractual dispute.

State Representative **Gene Ward** and I have offered our offices to mediate, assist or discuss the community issue further with any party.

Business should be encouraged that consumers always react to good business practices and service. You can't buy their loyalty; you have to earn it.

Let's hope that there can be a beneficial win-win solution in this dispute and that Foodland in Hawaii Kai, provider to area residents and tourists alike can live long and prosper.

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Reapportionment Commission Vote Affirms U. S. Census Rules

By **Michael Palcic**, Chairman,
Oahu Apportionment Advisory Council

Hawaii's military, student and incarcerated populations will be included in apportioning local legislative districts, an 8-1 vote of the Hawaii Reapportionment Commission has affirmed. The Commission has thus formally upheld residence rules of the U. S. Census Bureau.

The concept of "usual residence" guiding census counts since the founding of the nation, states, "Usual residence is defined as the place where a person lives and sleeps most of the time. This place is not necessarily the same as the person's voting residence or legal residence."

Those objecting to this concept constantly refer to "non-resident" populations. They hope that by defining groups in this prejudicial way they might escape having to prove their assertion.

They argue that certain groups are not "permanent residents" but, when pressed, fail to define what is meant by this term.

The census is a snapshot of our population at a specific point in time. There are comprehensive rules that determine who gets counted. If one reviews the rules, available at <http://www.census.gov>, the thoroughness and inherent fairness of these rules becomes apparent. This snapshot is in constant flux following the changes in people's lives. A new census snapshot will be taken in 10 years to measure those changes and to reapportion legislative representation accordingly.



The U.S. Military is counted for the Hawaii census and by the reapportionment commission (top). Left: Oahu advisory commission chair, Michael Palcic. Photos by Mel.

No one can deny the continuing presence of military, student and incarcerated populations residing in Hawaii. These persons are subject to Hawaii's laws and deserve representation in its legislature and councils. They deserve to be counted for the apportionment of Hawaii's legislative districts. Nothing is being "taken away" from anyone else, on Oahu or on the Neighbor Islands, by granting equal treatment to all whose usual residence is located in Hawaii. Forty-eight other states adhere to

this principle.

Because the census is a snapshot, a wide variety of living situations must be dealt with. A few examples:

- A person who dies on census day is counted.
- A baby born on census day is counted.
- Persons vacationing or on a business trip are counted at their usual residence.
- Citizens of foreign countries living in the U.S. are counted.
- People in mental (psychiatric) hospitals are counted.
- Totally homeless persons are counted where they are physically present on census day.

The rules are extensive, but fair, and Hawaii's Reapportionment Commission deserves credit for making the correct decision of inclusion and of maintaining consistency with census rules.

Grassroot Institute Releases 2011 Pork Report

The Grassroot Institute of Hawaii released its **2011 Pork Report**, an examination of state spending that reveals the depth of government waste and inefficiency that has contributed so much to the State's economic woes.

"This year's Pork Report is a real eye-opener," stated **Richard Rowland**, President of the Grassroot Institute of Hawaii, a non-profit, nonpartisan research institute dedicated to the principles of individual liberty, the free market, and limited, accountable government. "From Department of Education embezzlement that went unnoticed for years to the endless millions sunk (and lost) in Aloha Stadium, this year's Pork Report is a wake-up call for Hawaii's citizens."

The Pork Report is published annually by the Grassroot Institute, and works to educate Hawaii's taxpayers and legislators about the prevalence of wasteful spending and the importance of fiscal accountability. The 2011 Pork Report examines spending and waste in a number of areas, from marketing subsidies for Kona coffee to Honolulu City Councilman Rod Tam's unethical practice of dining out on tax dollars. The Pork Report is currently available on the Grassroot Institute website at www.grassrootinstitute.org.

"We want Hawaii's People to remember that this is their money being spent so carelessly," continued Mr. Rowland. "Most of the time, abuses like those highlighted in the Pork Report go unnoticed. But when Hawaii's voters see how their tax dollars are being used—and wasted—they will demand greater accountability from their elected representatives. And that is what the Pork Report—and the Grassroot Institute—are all about."

Reapportionment & Census Information Links

State Reapportionment Commission:
<http://hawaii.gov/elections/reapportionment/>

The U.S. Census site & FAQ:
http://www.census.gov/population/www/cen2010/resid_rules/resid_rules.html

http://hawaii.gov/dbedt/info/census/Census_2010/

New Hawaii Foreclosure Law Has Unintended Consequences

By **Eddie Kim**, *Hawaii Reporter*

A panel of experts from the mortgage industry, banking and realtor's associations, community outreach organizations, the judiciary and others testified on June 29 before key Hawaii legislators about Act 48 – a recent mortgage foreclosure reform bill – in an attempt to clarify issues surrounding the bill.

The session revealed deep concerns regarding the application of the new law, how lenders will cope with the act's provisions and if it will, in fact, help Hawaii borrowers to fairly attempt to keep their homes.

The briefing came shortly after recent news of national mortgage giant Fannie Mae's decision to immediately change its non-judicial foreclosures in Hawaii to judicial ones, possibly circumventing the new law's key requirements in the process.

Act 48 was signed into law by Gov. Neil Abercrombie in May of this year in an attempt to stem the state's increasingly high number of mortgage foreclosures and to ensure that borrowers had a fair chance to communicate with lenders and attempt to keep their homes.

The bill essentially requires lenders to meet face-to-face with borrowers via a neutral third party, to assure that compromising on a loan – instead of simply foreclosing – is a primary option.

Act 48 also forces lenders to actually show proof that they have the legal right to foreclose on a home – something that consumer advocates claimed was skirted in certain non-judicial foreclosure processes.

Kirk Caldwell, a former acting mayor of Honolulu and current private-practice attorney, stated that this left the foreclosure process with "real opportunities for abuse".



"Lenders – all lenders, both mainland and the local ones that I've represented – saw a faster way to do a foreclosure. Quickly, more and more people started doing these non-judicial," Caldwell said.

Act 48 places a moratorium on all new "Part 1" non-judicial foreclosures until July 1, 2012 with the hopes of keeping Hawaii homeowners in threat of foreclosures from quickly losing their homes.

There are also questions surrounding Fannie Mae's decision to immediately switch all its Hawaii foreclosures to judicial ones, which some believe was done in an attempt to avoid neutral-party mediation and other elements of Act 48 rather than to benefit borrowers in any way. A serious concern is that if other lenders follow in Fannie's footsteps, the courts will not be able to handle all the foreclosure cases.

Rodney Maile, administrative director of the judiciary, testified that the courts "will not have the resources" if judicial foreclosures continue to increase into the long-term.

Some, however, believe that Fannie's decision is not simple resistance to the law

but rather a symptom of Act 48's being unclear and too hazardous when it comes to potential consequences for lenders. In particular, the Unfair Practices provision of Chapter 667 in Act 48 – which threatens lenders with class action lawsuits if the foreclosure process isn't strictly by the standards of the new law – was called out as a minefield for lenders trying to figure the bill out.

Gary Fujitani, executive director of the Hawaii Bankers Association, agreed with Caldwell's sentiments, stating that some provisions of the bill created "big negatives from a business-risk perspective".

Fujitani reiterated that the main culprits for foreclosure trouble were not local banks.

"The real impact of this bill...will be determined by out-of-state lenders, who have the lion's share of foreclosures in Hawaii," he said.

Both **Sen. Roslyn Baker**, D-Maui, and **Rep. Robert Herkes**, D-Big Island, leading legislators behind Act 48, agreed that the act needs work.

"Any complex bill of 100 pages will have areas needing improvement and effort," Herkes said.

The Mortgage Foreclosure Task Force, which was formed in 2010, will be responsible for looking over several aspects of the bill and plans to release a report by November of this year.

And while there were disagreements, all those who testified at the hearing seemed to agree that something needed to be done about foreclosures in Hawaii.

For the complete story go to HawaiiReporter.com.

HECO Among Companies Cited for Air Permit Violations

The Hawai'i State Department of Health (DOH) Clean Air Branch has issued Notices of Violations and Orders against Covanta Honolulu Resource Recovery Venture, Hawaiian Electric Company, Inc., American Hauling, LLC, Maui Electric Company, Ltd., and B.J. Ree's Enterprise for air permit violations. The violations were either self-reported or discovered during an annual inspection.

The DOH Clean Air Branch (CAB) protects the people and environment of Hawaii by monitoring air quality and regulating businesses that release pollutants into the air. The CAB reviews and approves air permits, evaluates and enforces state and federal air standards, conducts inspections, and investigates reported incidents related to outdoor air quality. Through the air permit process, the DOH ensures companies comply with state

and federal emission standards to minimize air pollution impacts on the public.

Three of the companies cited have already paid monetary fines for their violations. Fine payment is pending with two other companies. In general, penalties are assessed on violators to remove any economic benefit they may have gained from their noncompliance and put them in a worse situation than those who comply with the law. All fines are paid into a revolving special fund used to prevent or minimize damage to the environment. Parties have the right to request a hearing to contest DOH orders.

The following companies were cited:

1. **Covanta Honolulu Resource Recovery Venture**

Continued on page 8.

Hawaii Rated “F” in Freedom Index

By **Malia Hill**, Grassroot Institute of Hawaii

George Mason University has released its 50-state Freedom Index, which grades the individual states on individual and economic liberty (albeit with a decided political view of individual liberty that some might take issue with, especially as it regards legalization of drugs and same-sex partnerships).

Aside from those controversial matters, however, the Freedom Index includes a strong overview of market freedoms and threats to liberty in each state that takes into account everything from taxation and red tape for businesses to home school regulations. So . . . how did Hawaii measure up?

As anyone who has noticed our state government’s near-passion for red tape and regulation might have guessed . . . not well.

Hawaii came it at number 47 overall (and number 46 in economic freedom). If it’s any consolation, that’s a +2 change from the 2007 ranking. So now, we’re only the fourth least free state in the country. (For the curious, this means we beat out California, New Jersey, and New York, but were edged out by Massachusetts.) Some highlights from the Mercatus analysis of Hawaii:

On the spending side, the state is highly fiscally centralized due to its unique statewide school system, but despite being freed from the burden of paying for schools, local governments have to raise over 80 percent of their funds through own-source taxes, the highest figure in the country. Sales, individual income, and motor vehicle license taxes are high. Gun laws are among the worst in the country . . . Hawaii has the second strictest gambling laws in the country, after Utah. . . Educational regulation is excessive, with private schools having to obtain state approval to operate, significant home school regulations, and school attendance mandated through age 18. . . On labor law the state government is interventionist, with a prevailing-wage law, strict workers’ compensation requirements, mandatory short-term disability insurance, and a state occupational safety and health agency. Hawaii has not reformed eminent domain, and the state liability system is far below average.

Among the reforms that the report recommends Hawaii adopt to advance freedom in the state are eliminating the state’s restrictions on private schools (which raises interesting questions about how this might affect our seemingly unending battles over Hawaii’s public schools, and what parents might prefer) and reforming eminent domain to protect against private-to-private property transfers as part of blight reform. (This is a widespread response to the controversial Supreme Court decision that gave local governments shockingly broad eminent domain powers, including the power to seize private property and award it to another private entity as part of a plan to “economically revitalize,” the community.)

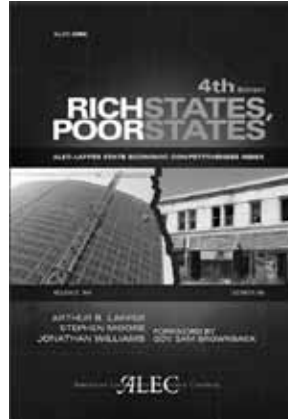
Jay Fidell Spoke at SBH Sunrise

SBH Sunrise Networking Breakfasts are a popular mainstay for SBH members and their guests. Last month Jay Fidell was the featured speaker. This month former State Senator Fred Hemmings will talk about “True Energy Independence for Hawaii.” To reserve send in the form on page 11 or call Darlyn at 396-1724.



ALEC Releases

‘Rich States, Poor States’ Rankings



ALEC, the American Legislative Exchange Council, released its latest edition of “Rich States, Poor States: ALEC-Laffer State Economic Competitiveness Index”, June 22.

The three co-authors of this year’s comprehensive economic report are: Dr. Arthur B. Laffer, Stephen Moore, Senior Economics Writer, *The Wall Street Journal*, and Jonathan Williams, ALEC Tax and Fiscal Policy Task Force Director.

ALEC, the nation’s largest, non-partisan, individual membership association of state legislators, will

release its fourth edition of its state-by-state economic rankings Wednesday. The report highlights the 15 economic factors contributing to poor state economic performance and provides a free market roadmap for state legislators looking to bring about real economic recovery in their states.

And the winner is...

This year’s report identifies Utah as the strongest economic state in the Nation—the fourth year in a row. Numbers 2 through 5 included: South Dakota, Virginia, Wyoming and Idaho.

The 5 worst states (#46-#50) include: Hawaii (46), California, Maine, Vermont and New York. Hawaii was downgraded from the 3rd edition of the book.

Dr. Laffer stressed several thoughts including, “Good economics is not partisan,” and he gave examples of several Democrat leaders (New York’s Governor Cuomo, California’s Jerry Brown) who have proposed meaningful economic changes and cited Michigan as a good state example proposing changes.. Laffer also said, “Government spending is taxation,” and that the best states have the best and fairest tax and regulatory policies.

Underfunded liabilities, such as defined benefit Employee Retirement Systems (which now account for \$3 trillion in total state liabilities), union control, increased government employment (which has grown 90% faster than the private sector during the past five years) and increasing debt were among the negatives.

ALEC suggests positive changes states can take to reverse a bad economy.

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Hawaii’s ‘Premier’ Accounting Service

Health Department Cites Violators

Continued from Page 6.

(H-Power) for boiler #1 exceeding their 20% or 60% opacity limit on October 23 and 24, 2010.

2. **Hawaiian Electric Company, Inc.** for exceeding their 40% or 60% opacity limit on October 19, 2010 and January 2, 2011 for Waiiau Units 5 and 7, respectfully.

3. **American Hauling, LLC** for failing to submit semi-annual records, and maintain fuel, water and other required records.

4. **Maui Electric Company, Ltd.**, for exceeding their 20% or 60% opacity limit during various times from June 2010 to January 2011 from Maalaea Combustion Turbine Generator units M14, M16, M17 and M19.

5. **B.J. Rees's Enterprise**, for not conducting an initial source performance test on its 925 TPH stone processing plant within 180 days of initial start-up of the plant.

DCCA Sends Warning Notice to Local Contractors

By **Sam Slom**

Local licensed contractors recently received an "Important Notice" sent by the State Department of Commerce and Consumer Affairs (DCCA). The topic? Contractors performing electrical or plumbing work.

A burning issue in Hawaii for decades has been the licensed contractor versus unlicensed contractor doing work in Hawaii. There is the DCCA Contractors Licensing Board and trade associations as well as the tax department that keep an eye on the unlicensed issue. There have been studies and task forces. Legislation has been introduced and adopted to deal with what contractors see as a major problem.

The problem ranges from scams on consumers, shoddy work, safety and health violations, to perceived unfair competition. The problems become acute during economic downturns.

The latest warning notice is different. It only went to licensed contractors of all kinds and deals with these contractors doing work many have always done. Basically, it is now informing them that if they do defined plumbing or electrical work they may be in violation of state labor and consumer laws.

The new notice affects security businesses (who install low power wiring and units), general contractors and even landscapers who work with irrigation systems. This issue is not new: it reached a zenith nearly 20 years ago and was settled; or so the contractors thought. Now it is back.

If taken to the letter of the new notice, many contractors would now be in violation of laws and would find themselves doing certain work as "unlicensed" contractors. Unless they employ separate licensed electrical and plumbing contractors.

Is this a part of the continuing battle between the plumbing and electrical unions? Is it about competition, or safety?

SBH will look into what is behind the issuing of the "new" notice,

HART Won't Sue City Council Over Rail Vetoes

By **Jim Dooley**, Hawaii Reporter

The new agency in charge of the City's \$5.5 billion rapid transit project voted July 1 not to sue the City Council in a dispute over budget authority, opting instead to work with the Council and Mayor Peter Carlisle "in providing budget oversight."

The Honolulu Authority for Rapid Transportation (HART) met for the first time in July, electing former City Corporation Counsel **Carrie Okinaga** as chairwoman and appointing **Toru Hamayasu** as interim executive director.

Hamayasu headed the City's Rapid Transit Division before it was transformed into the semi-autonomous HART by a City Charter amendment passed last year.

The HART board adopted the \$20.5 million operating budget and \$354.7 million capital budget which had been previously approved by the City Council.

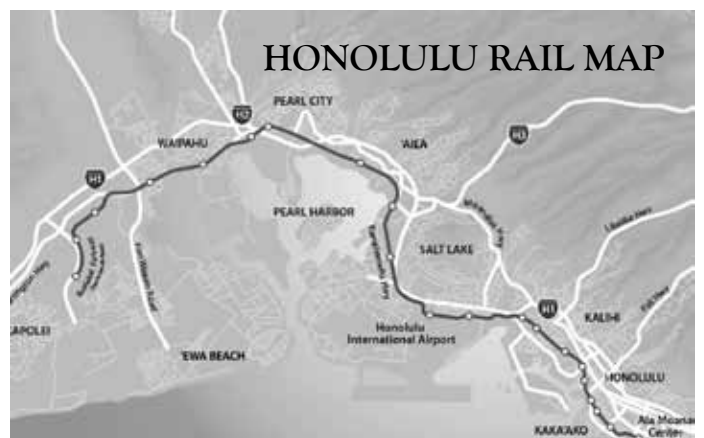
Last month, **Mayor Peter Carlisle** threatened to sue the Council in a dispute over control of HART's budget, but he moderated those comments earlier this week, saying he would leave the issue up to the new HART board.

HART board member **Don Horner** – chief executive of First Hawaiian Bank – said adoption of the Council-approved budget "ensures that the rail project will continue without unnecessary delays."

Horner, who will head HART's finance committee, said, "Legal action is clearly not in the best interest of the taxpayers."

The new board also authorized its budget committee to conduct a financial audit "to ensure that we have a clean set of books from the start," said Okinaga.

She also said HART will begin a national search for a permanent new executive director and plans to fill the position by the end of the year, said Okinaga.



HART or Honolulu Authority for Rapid Transit officially started this month by not suing the Honolulu City Council over its recent bill veto dealing with the organization's funding. HART will be responsible for many if not all aspects of Honolulu's rail project.



Priorities Needed for Government

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



After attending a session on how to raise financially aware kids, one came away with the thought that perhaps this is a session that public leaders and policymakers should attend for it demonstrated how parents can encourage their children to set priorities for the money they earn.

While most taxpayers would like to believe that lawmakers and other government leaders don't earn the money they like to spend, the lesson is nonetheless applicable. The session talked about how understanding

the value of money is critical to how one manages that money.

For youngsters, the first encounter with money usually comes in the form of an allowance and later money is earned doing a job or chore. To a large degree, government leaders are given an "allowance" of sorts of the taxes we pay. However, because there is just so much money paid in taxes, the task of managing that money becomes a dizzying task for lawmakers and other government officials.

As the educational session pointed out, "money" is the value system personified through one's financial behavior. It is important that parents not only discuss "money," but also the behavior of handling that money. Parents need to ask themselves about the money principles that they learned while they were growing up. Did the parents experience hardships or success growing up and how did that influence how "money" is viewed today? Did the parents' families experience struggles to make ends meet or was there more than enough money to go around and how does that now affect the parents' behavior?

For years when the state basically rolled in riches, no one gave a thought to funding this or that constituent's request because there was more than enough money to go around. To a large degree, the management of that money was more a task of seeing which constituent made the most noise rather than what were critical services for the health and safety of the community. It is much like the parent who has the means by which to satisfy his or her nagging child in the grocery check-out line, giving in to that candy bar or bag of chips just to stop the child from nagging.

That child grows up assuming that he or she can have what he or she pleases at the drop of a hat. It's called instant gratification. It is more than likely that the child will expect to satisfy all his wants and needs in the here and now. That is not true of the parent who gives his child choices of how to spend that allowance dollar. It is this parent who strives to teach his or her child the difference between needs and wants. Of course, a parent may see the same "need" or "want" differently from how the child may see it.

For example, a teenager may see designer clothes as peer group acceptance, being "cool" and with the "in crowd," while the parent may see cheaper alternatives to the expensive designer clothes. So it is with public policymakers who must decide whether the expenditure of public funds is truly needed to insure the health and safety of the community as opposed to a mere "want to have" for the community. Therefore, it is important to evaluate whether or not an expenditure

of public dollars is really a need for the community as opposed to a want.

No doubt there are other factors to weigh in on that decision to spend one's allowance, or in the case of government, that expenditure of taxpayer dollars. Public policymakers, like that growing child, need to ask just how much is this going to cost and do we have the resources to make that purchase? Is this the best alternative at the best price for what I am expecting to acquire? More importantly, is there a good value in return for what is being asked? As we all have learned, sometimes the "best" or lowest price is not the best value for the dollar spent. Finally, will that purchase actually improve the situation for the child or the community?

These are difficult, but important, lessons for a child to learn if that child is expected to grow into a financially responsible adult. Then again, when one looks at government, both in Hawaii and across the nation, one has to wonder whether or not our political leaders ever learned these basic financial lessons of life.

If the state and the nation are to survive this current economic crisis, those leaders perhaps should revisit many of these basic financial principles. Without basic and sound financial management practices, our governments may find themselves in a financial disaster that will be even more challenging than what we have experienced in the past few years.

The Tax Foundation of Hawaii is a private, nonprofit educational organization dedicated to informing the public, more specifically the taxpayer, which means all of us, about the finances of our state and local governments in Hawaii. For more information go to <http://www.tfhawaii.org>.

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Photo by Mel

Matson's fuel surcharges increases the price of all consumer goods and services. Above: Matson container ship.

Matson Fuel Surcharge Not Justified

By Hawaii Reporter

On June 12, 2011, Matson Navigation, which carries roughly two-thirds of the containerized cargo to Hawaii and whose rates impact the cost of nearly everything in the state, raised its fuel surcharge to 47.5%, the highest level since the fee was first imposed over a decade ago.

As is usual, this increase was matched by the other carriers in the trade.

This was the latest in a series of increases that have more than doubled the surcharge in just four months from its February 21.75% level.

However, as of last week, the price of oil was \$99.29 per barrel on the New York Mercantile Exchange (NYMX).

The price of oil on February 27th was \$101.15 and has hovered around \$100 in the intervening months.

With no discernible increase in oil prices, the surcharge more than doubled.

Similarly, prior to this year, the record high for the fuel surcharge was 42.25%, set in 2008 when oil prices soared to \$145.29 per barrel.

Today the surcharge is 12% **higher** than its peak in 2008, despite oil prices being 32% **lower** than their **2008** peak.

That does not take into account that Matson has raised its base rates, to which the fuel surcharge is applied, by \$120 in each of the last three years.

Discussions with customers and a review of Matson's tariffs confirm Matson now collects well over \$1,000 in fuel surcharges for every Hawaii container.

But this is a topic Matson will not discuss.

When asked for the average fuel surcharge cost in dollars for a Hawaii container, Matson Navigation Company's Director of Public Relations, Jeff Hull said: "We don't disclose that information."

Matson's current fuel charges for freight to or from China on the ships that are also used for Hawaii and Guam also were not disclosed: "The terms of freight rates in the China trade are subject to confidential contracts. For competitive reasons, we are unable to reply to this question," Hull said.

But Hull said Matson has a "public record of monitoring fuel prices and adjusting the surcharge accordingly, upward and downward."

Hull maintains Matson has indeed decreased the fuel surcharge when the price of oil decreases.

"As a result of dramatic increases in fuel costs this year, Matson has implemented three increases to its fuel surcharge in 2011, totaling 21.75 percentage points, as well as an additional 4 percentage point increase that will become effective June 14, 2011. The last time Matson's fuel costs experienced a comparable spike was in 2008, when the fuel surcharge reached 42.75 percent, effective August 31, 2008. Fortunately, fuel prices fell precipitously during the last two quarters of that year, allowing Matson to make six consecutive decreases. By the year's end, the fuel surcharge was at 15 percent."

Few Hawaii Farms Receive Federal Subsidies

By Malia Zimmerman
HawaiiReporter.com

While Hawaii ranks low when compared to other states in terms of federal subsidies for farms, dozens of Hawaii farms and ranches have received funding from the federal government over the last 10 years.

According to a 2011 Farm Subsidy Database, Hawaii received \$68.2 million in subsidies from 1995 to 2010, which puts Hawaii at 48th out of 50 states.

Included in this funding are \$1.74 million in commodity subsidies, \$12.8 million in crop insurance subsidies, \$30.0 million in conservation subsidies and \$23.7 million in disaster subsidies.

Topping the list of states receiving the most farm subsidies over the last 10 years are:

- | | |
|--------------|------------------|
| 1. Iowa | \$15,478,025,171 |
| 2. Texas | \$14,886,914,934 |
| 3. Illinois | \$13,963,058,099 |
| 4. Nebraska | \$10,238,270,687 |
| 5. Minnesota | \$ 9,851,358,806 |

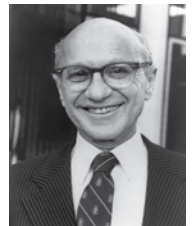
Most Hawaii farmers and ranchers are making it on their own without government assistance. The U.S. Department of Agriculture reports that 97 percent of farmers in Hawaii did not collect subsidy payments.

However 10 percent of the farmers who did in fact collect subsidies were larger beneficiaries – they took in 67 percent of all monies amounting to \$37.3 million over 16 years.

great quotations

"The most important single central fact about a free market is that no exchange takes place unless both parties benefit."

— Milton Friedman



"Many people want the government to protect the consumer. A much more urgent problem is to protect the consumer from the government."

— Milton Friedman

"Nothing is so permanent as a temporary government program."

— Milton Friedman

"There's no such thing as a free lunch."

— Milton Friedman

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July 2011

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Photo by Kenli Schoolland

Italian Graffiti Train: Lessons for Hawaii?

By **Kenli, Li, and Ken Schoolland**

Hawaii authorities announced the purchase of Italian railroad cars to run across the beautiful Oahu plain from Kapolei to downtown Honolulu. So perhaps a glimpse of Italian trains in Roman suburbs today can give a feeling of what the future holds for Hawaii.

What we rode daily were steel-on-steel behemoths that were dragged with ear-splitting screech and clang. Colorful both inside and out, with fashionable graffiti and years of filthy grunge, these cars offered nauseating aromas and occasional seating.

Is this an unfair comparison? Surely no more unfair than the multimillion dollar “educational campaign” that was run on behalf of pro-rail politicians over the past few elections. Perhaps Oahu seating will be available on Hawaii trains...since ridership expectations are overly optimistic.

Can't happen in Hawaii? Consider the effect of a very costly Hawaii rail system that, even before overruns, will be more expensive than the new Panama Canal. The overwhelming tax burden can do to the

Hawaii economy what has already happened to the Italian economy. Only the economies of Zimbabwe and Haiti grew more slowly than Italy in the decade 2001 to 2010 and a quarter of young people are jobless [*Economist* 6-11-11].

If revenues don't cover expenses, Hawaii officials can follow the Italian example and tap tourists to make up the difference. Upon our arrival in Rome we purchased one-euro tickets from our hotel and innocently embarked at a station with no ticket machine, no entry stamp, and no personnel. When we disembarked, four train police approached and slapped us with a 150 euro (\$217) fine for not having stamped our tickets.

Ignorance of the law is no excuse, insisted the officials. But they were flexible and would accept 50 euros cash on the spot or we could forfeit our passports and appear in person at the police station after the holiday. This would cost us three times as much.

The opportunity for corruption already exists in Hawaii, as exhibited by our politicians. Next will come the negative impact on tourism.