

Hawaii Chamber of Commerce Foundation

BUSINESS CLIMATE
REPORT CARD

March 2005



2004 Retention and Expansion Survey Results

The Hawaii Chamber of Commerce Foundation would like to give a special acknowledgement to Hagadone Printing for their support in the printing of this report.

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EXECUTIVE SUMMARY

The Hawaii Chamber of Commerce Foundation's Project JOBS second annual report, *2004 Business Climate Report Card*, indicates that business owners and key executives in Hawaii foresee an expanding economy with an improved economic outlook. Of the 154 business leaders interviewed, a remarkable 91 percent – an increase of 24 percent over last year – reported having positive attitudes toward Hawaii's economic state of affairs, and almost three quarters – 71 percent – expect the business climate to be even better within three years.

The business community and state and local governments formed a number of partnerships to address the challenges identified in last year's report. As a result, there has been progress made in resolving some of the issues that keep the business community awake at night, and most state agencies, and many city departments, have improved their good to excellent ratings among those interacting with them.

However, some challenges remain, and this report, while recognizing the improvements, identifies several issues that need further attention in order to foster greater economic growth. These issues, and the actions that are being taken to address them, are summarized below:

- Workers' compensation insurance costs continue to increase and burden the business community, especially small businesses.

ACTION: The Chamber of Commerce of Hawaii has initiated legislation to address directed care of injured employees and fraud reduction.

- Concerns remain about the ability of Hawaii's public schools – from kindergarten through high school – to prepare students for higher education and careers. Many students are still lacking in the basics, but the future workforce must be proficient in reading, writing and arithmetic.

ACTION: The Chamber of Commerce of Hawaii is actively supporting the implementation of Act 51 and monitoring it to ensure progress toward increasing direct benefits to the students.

- Critical concerns were identified regarding the harbors' infrastructure and the management of harbor facilities. Given that our state relies on the shipping industry to supply the vast majority of our food and other necessary goods, the importance of well-maintained and managed harbors cannot be overstated.

ACTION: The Chamber of Commerce of Hawaii, through its Maritime Committee, is increasing public awareness of the problems in Hawaii's harbors and working with the state administration to address them. For example, last year's report identified the need to install fenders at the piers to protect the cruise ships, and we worked with our government partners to develop a replacement plan that should be completed this year.

- There is an opportunity for small Hawaii companies to benefit from the new federal funding coming into the state. There are also many state and local projects that are going out for bid in the near future. Hawaii's small businesses need more information, training and knowledge to win these contracts and sub-contracts.

ACTION: The Chamber of Commerce of Hawaii is joining with Hawaii Procurement Institute, private companies, the unions and other non-profits to ensure that a Procurement Technical Assistance Center is established to train and mentor Hawaii's small companies in procurement and contracting.

- The shortage of affordable housing and rentals is a critical issue that must be addressed to enable Hawaii's businesses to attract and retain our workforce, both at the entry and professional levels.

ACTION: The Chamber of Commerce of Hawaii has members who are participating in the Governor's initiative on affordable housing and supports private sector incentives.

- The state's higher-education system and technical-training programs must provide workforce development opportunities that address the shortage of qualified workers in the following areas: construction trades, nursing, health care/home care, engineering and the maritime industry, including cruise ships. There is also a need for experienced engineers and architects, surveyors, and even truck drivers.

ACTION: The Chamber of Commerce of Hawaii continues to provide input regarding the types of skills needed in the educational system and will work with various workforce development organizations such as the state Workforce Development Council and the Oahu Workforce Investment Board.

- Road conditions have worsened with more potholes and traffic congestion, increasing the cost of vehicle maintenance and resulting in lost productivity when goods and personnel are delayed in traffic. Other infrastructure improvements need to be made.

ACTION: The Chamber of Commerce of Hawaii continues to support initiatives for improved infrastructure, including proper maintenance of our roads, highways, sewers and water system.

- The State General Excise Tax is a continuing issue for businesses.

ACTION: The Chamber of Commerce of Hawaii has always taken the position of reducing the tax burden and simplifying the tax structure to alleviate the burden on businesses. This report affirms the need to continue doing so.

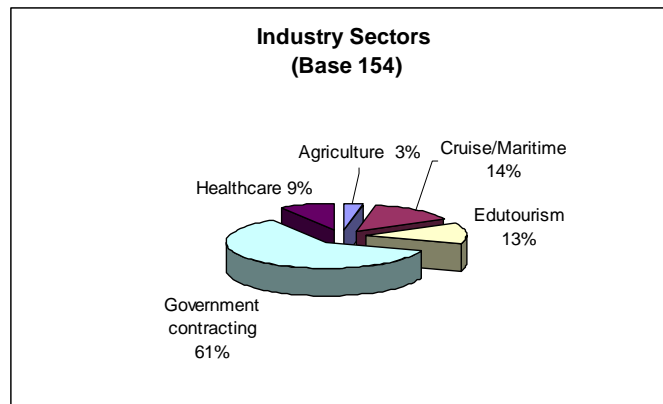
- Health insurance costs are still high and increasing steadily. This increases the cost of doing business and in some cases has been an obstacle to expansion.

ACTION: The Chamber of Commerce of Hawaii opposes additional mandates in the area of health care and encourages insurers to resist rate increases, for this has been a heavy burden, especially to start-ups and small businesses.

2004 BUSINESS RETENTION AND EXPANSION SURVEY RESULTS

Methodology:

Interviews with 154 executives and business owners were conducted mainly by volunteers. The focus was on interviewing companies with government contracts. These companies often provide business-to-business services, technology products and support services, or are construction firms. Sixty-one percent of those interviewed represented this sector. The cruise/maritime sector, ship repair, ship agents and support services made up 14 percent of those contacted, and edu-tourism was a close third with 13 percent. Those in the health care sector made up 9 percent of the sample, and agriculture completed the group with 3 percent. It was not a stratified, statistically representative sample.

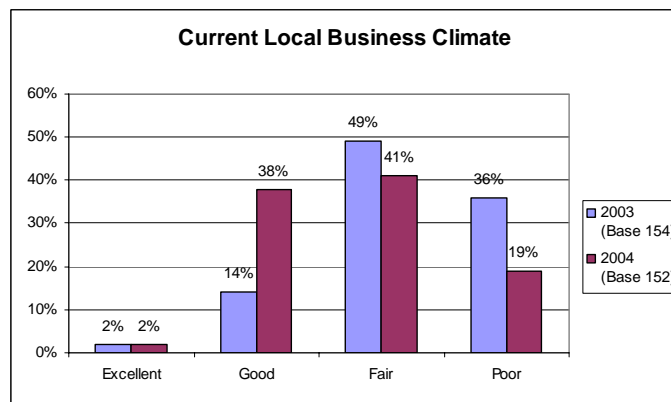


Current Local Business Climate:

Among those surveyed, the perception of Hawaii's business climate has improved by 24 percent. Respondents' "good" ratings increased from 14 percent in 2003 to 38 percent in 2004 while "poor" ratings decreased by 17 percent from a year ago.

Several business people said "The economy is great! Business is picking up. What a contrast to the economic collapse after 911."

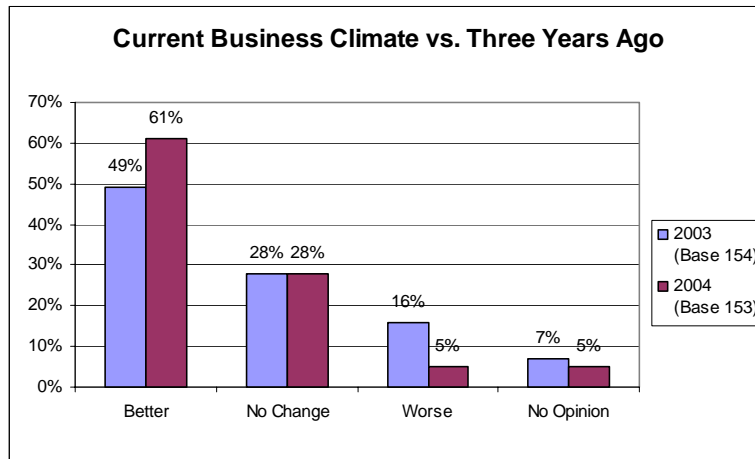
It is important to note that part of this increase may be attributed to the fact that so many of the business executives and owners surveyed represented the government contracting sector, a sector that has seen significant growth due to increased government projects. Nevertheless, the results are heartening.



Business executives and owners stated that some of the advantages of doing business in Hawaii are the climate, beautiful environment, multi-cultural and multi-lingual population, large military presence, and strong family values and ties. The military is seen as a major advantage for many businesses.

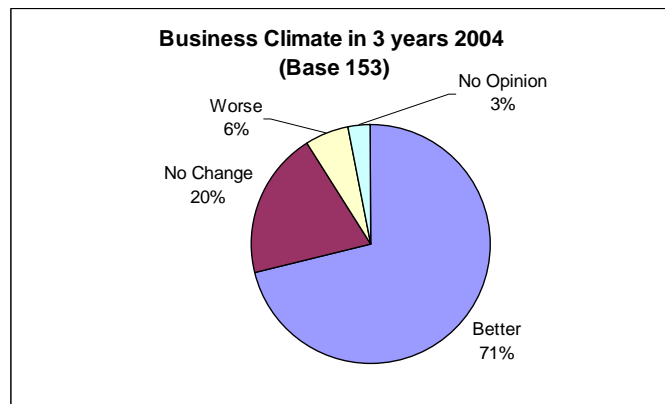
Compare the state’s business climate today versus three years ago:

Sixty-one percent of the respondents said the state’s business climate is better than it was three years ago, an improvement of 12 percent over 2003. Those seeing it as worse dropped from 16 percent to 5 percent.



Forecast the condition of the state’s business climate three years from today:

Projections of the business climate in three years appear to mirror last year’s results with 71 percent of respondents indicating that they believe the business climate will be better three years from now.

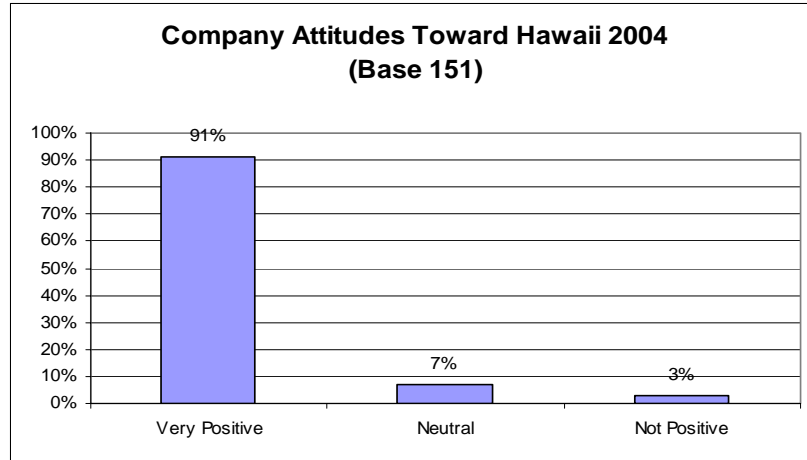


Although some executives continue to desire increased diversification of the economy, there was a 14 percent increase in the number of respondents who said economic diversification had improved over last year, with good to excellent ratings jumping from 20 percent to 34 percent.

Indicate your company’s attitude toward Hawaii:

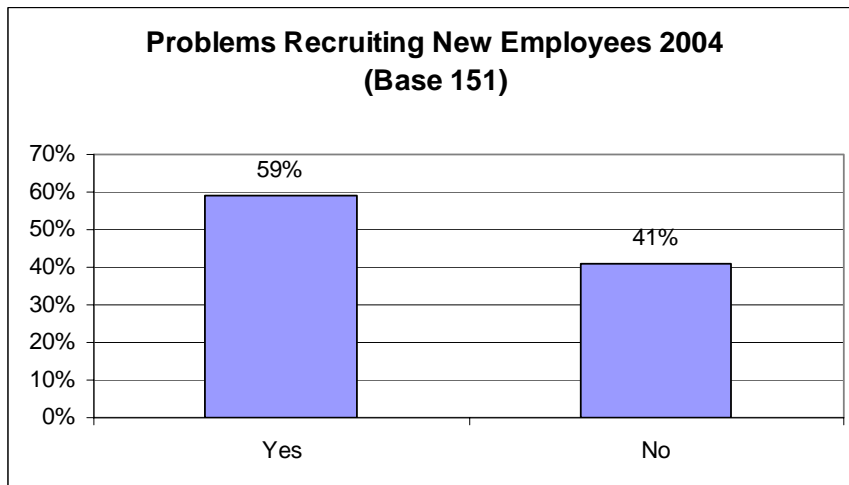
Ninety-one percent of the executives and business owners participating in 2004 interviews had very positive attitudes toward Hawaii, an improvement of 6 percent over 2003. Only 3 percent reported negative feelings. Even though issues of concern were identified during the course of the interviews, the overwhelmingly positive attitudes bode well for the continued economic well-being of Hawaii.

“My business is benefiting from the military and federal spending. As long as this keeps up, I am happy,” said a government contractor.



Do you have problems recruiting new employees?

Recruitment of new employees continues to be a concern with 59 percent of the respondents reporting difficulty finding skilled, experienced employees to fill vacancies, especially in the trades, professional and technical fields, and health care. As noted by many respondents, the quality of public education and high cost of living, especially high housing costs, contribute to the problem of recruiting skilled professionals to Hawaii.



Employee retention and employment growth:

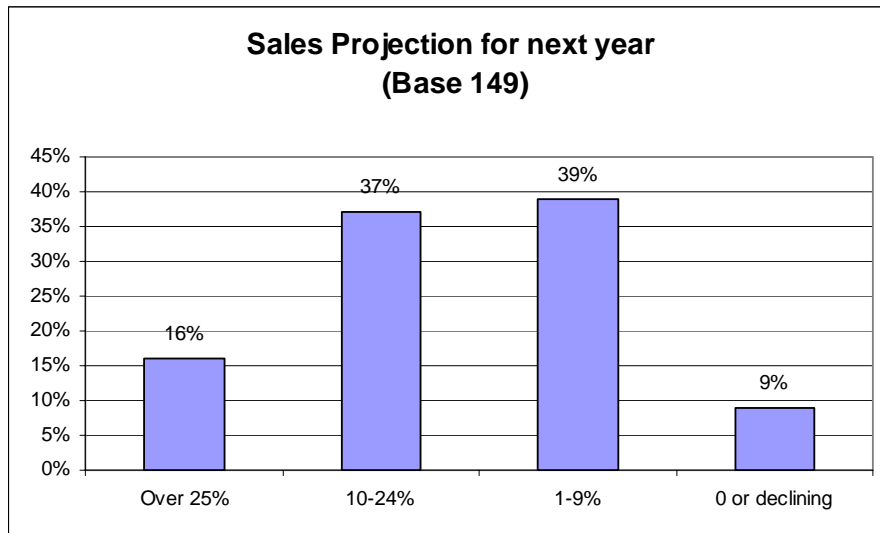
Seventy-eight percent of respondents reported having no trouble retaining employees compared to 77 percent in the 2003 study.

Employment growth is projected to increase by about 5.5 percent and is seen in most of the sectors: government contracting, edu-tourism, maritime/cruise and healthcare.

Although the average wages have shown an increase it is not appropriate to compare this year's average with last year. This year the focus was on government contracting, which has higher salaries and wages than agriculture, which was one of the focus areas in last year's survey.

What is your company's projected sales growth in the next year in Hawaii?

It appears that optimism is growing with 91 percent of the executives expecting sales growth in 2005. Over half of the respondents projected 10 percent or greater sales growth, which is an 8 percent increase over 2003 projections.



GOVERNMENT SERVICES

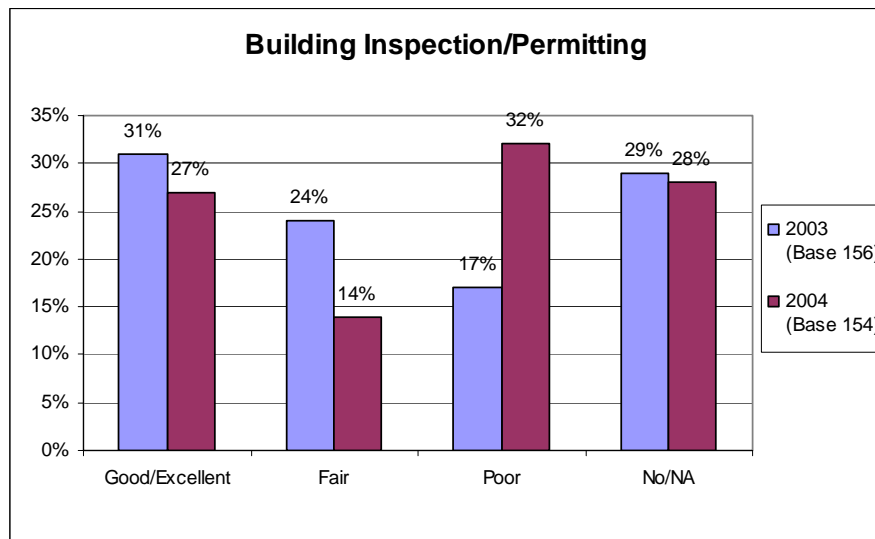
With this year's focus on the government-contracting sector, respondents were particularly well-suited to answer questions about government agencies and to rate their services. Respondents gave many government agencies improved ratings in this year's survey. This may be due, in part, to the private sector/government partnerships that were formed in response to the first Project JOBS report. However, a number of agencies saw their ratings slip, indicating that there continue to be issues that need to be addressed.

Outstanding services were fire/emergency, phone/Internet/broadband services, and recreation/cultural amenities, which garnered over 80 percent approval ratings of good or excellent. Airports, garbage disposal, phone/Internet/broadband, police protection, public transportation, transporting goods and services, and water and sewer received over 50 percent good or excellent ratings. Those giving water and sewer fair to poor ratings referenced the breakages and sewer spills that reinforce the need to upgrade the water and sewer infrastructure. Lower ratings for infrastructure were more prevalent with building contractors and engineering/architectural services respondents.

Over 50 percent of the state's business leaders rated community colleges and universities good to excellent, but numerous executives stated that there is a need to improve communications skills at all levels of the educational system. Some engineering firms and architectural firms also felt that local graduates need better written and verbal communication skills.

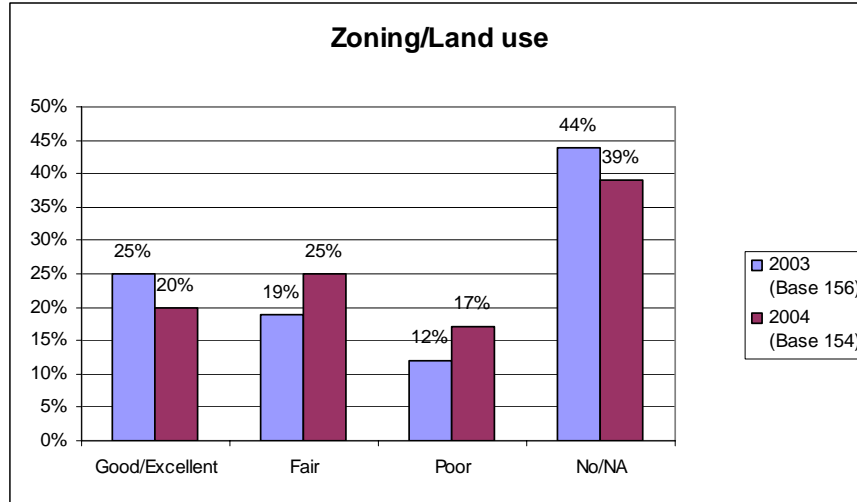
Building Inspection and Permitting

The Department of Planning and Permitting has been short of staff, and consequently, the timeliness of building inspection and permitting continues to be an issue. Forty-six percent of the executives and business owners interviewed rated it poor to fair with only 27 percent rating this department's service good to excellent. Action has been taken to streamline the process, and it is anticipated that these changes will be reflected next year.



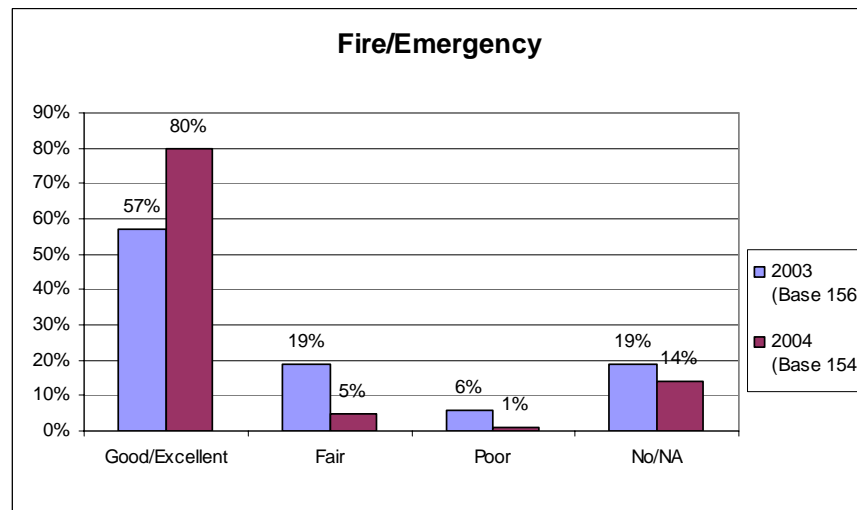
Zoning and Land Use

Due to the continued slow processing of zoning and land-use requests, ratings for these City and County of Honolulu services also slipped with only 20 percent of the firms rating this service good to excellent and 42 percent fair to poor.



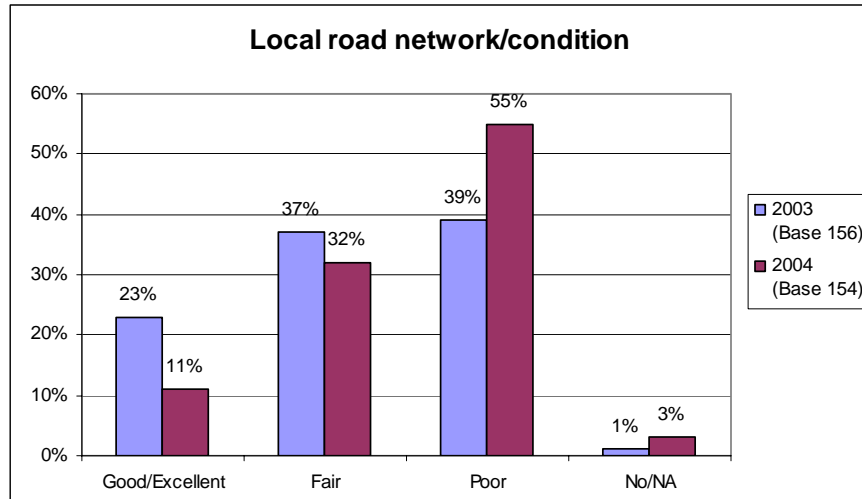
Fire and Emergency Services

Business's opinion of fire and emergency services improved substantially with this department garnering an 80 percent approval rating.



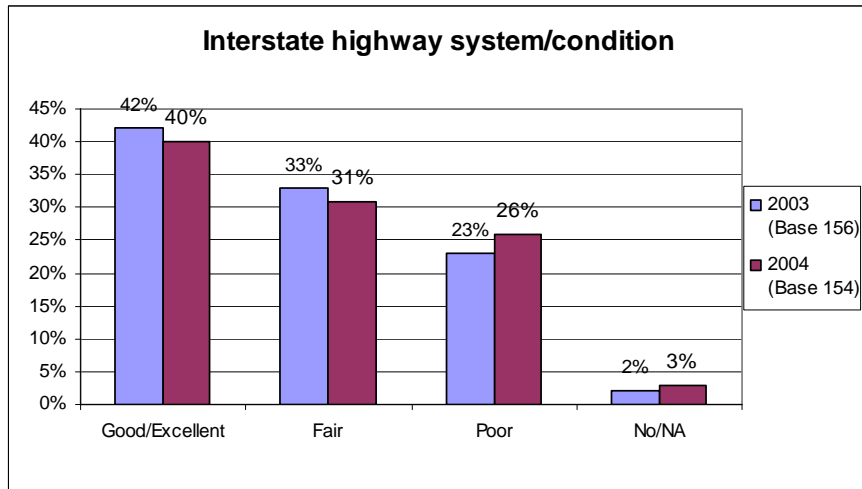
Local Road Network and Condition

Roads are still an issue with the business community. Fifty-five percent of respondents rated local roads poor and 32 percent rated them fair. Complaints about numerous potholes and increased traffic congestion were the reasons for these ratings.



Interstate Highway System and Condition

Ratings for highways were similar to last year. Forty percent were rated good or excellent, and 57 percent were rated poor to fair. Some participants noted that sewer and water line repairs sometimes contribute to traffic congestion.

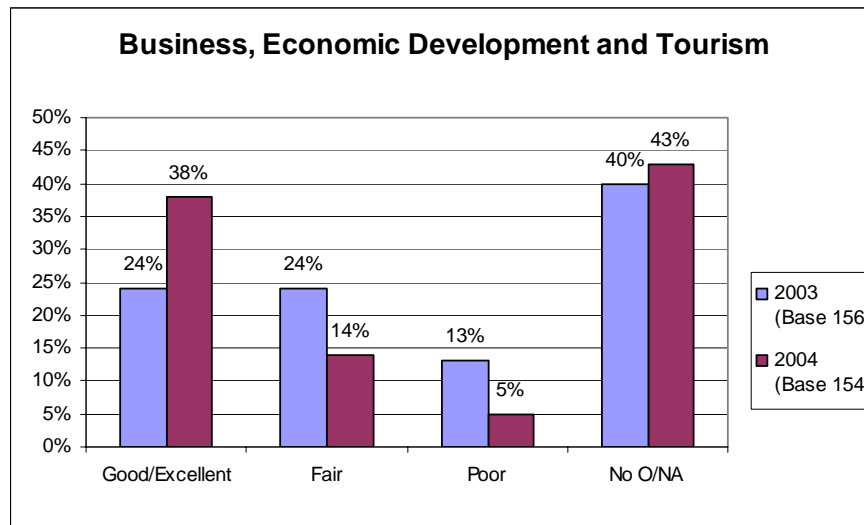


STATE AGENCY SERVICES RATINGS

The good news is that in 2004, those who have had interaction with state agencies have seen improvements that are reflected in the increase of good to excellent ratings and a decrease in poor to fair ratings. Five state departments saw their approval ratings improve by 10 percent or more: Business, Economic Development and Tourism, Commerce and Consumer Affairs, Health, Labor and Industrial Relations, and Taxation. More executives rated these departments good to excellent than fair to poor.

Department of Business, Economic Development and Tourism

The Department of Business, Economic Development and Tourism improved its good to excellent ratings by 14 percent, and its less-favorable rating decreased by 18 percent. These ratings reflect the progress that many feel is being made in this department.

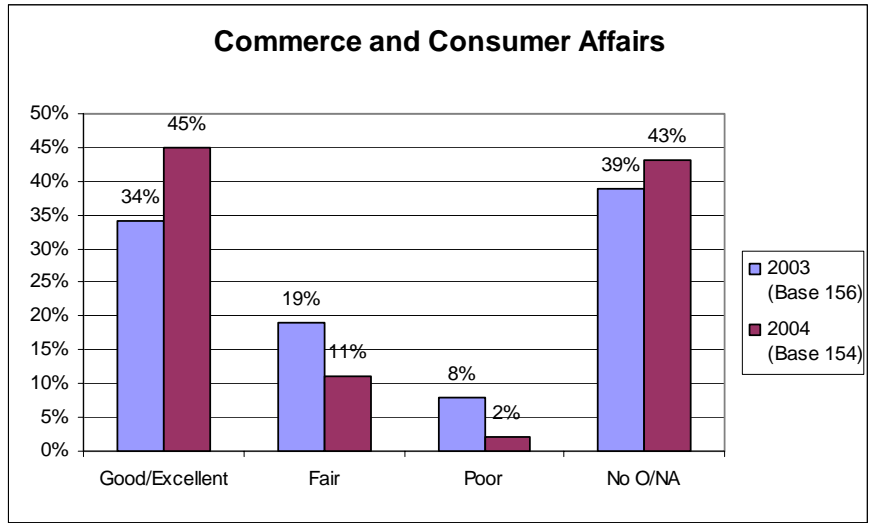


Department of Commerce and Consumer Affairs

The Department of Commerce and Consumer Affairs (DCCA) has been very responsive to business concerns and this is reflected in the ratings this year's participants gave the department. Forty-five percent – an increase of 11 percent – gave the agency a good/excellent rating.

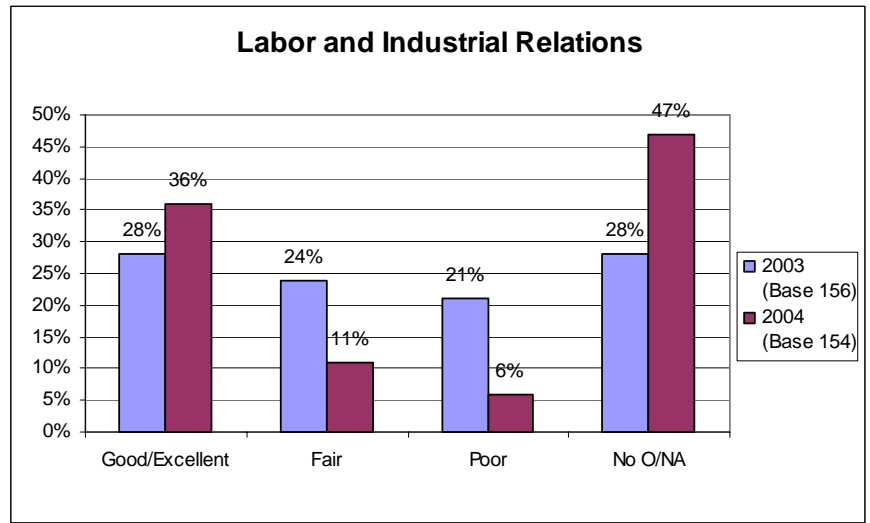
Several initiatives by the department have contributed to this improvement. For example, the DCCA's process regarding consumer complaints of regulated businesses was modified to provide the business feedback within six months. This change was implemented shortly after the issue was brought to the department's attention after one of last year's Project JOBS interviews.

In addition, DCCA has initiated a reduction of fees to businesses wherever possible. The DCCA is also working in concert with the Department of Taxation to facilitate registration and reduce delays in its processing.



Department of Labor and Industrial Relations

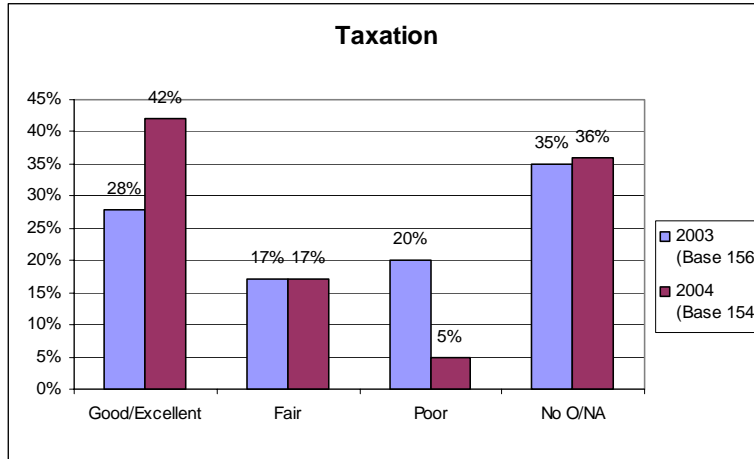
The Department of Labor and Industrial Relations' (DLIR) good to excellent ratings rose by 8 percent and are double the fair to poor ratings. There was also a substantial decrease of 15 percent in the poor ratings and a 13 percent drop in the fair ratings. This improvement can be attributed to DLIR's proactive initiatives to support safety programs and responsiveness to business. The Chamber of Commerce of Hawaii has been encouraging employers to work with DLIR to improve work environments.



As in the 2003 survey, over 50 percent of the respondents were not familiar with DLIR's Employment and Training Fund (ETF) Program. Information regarding the ETF Web site was provided to Project JOBS survey participants.

Department of Taxation

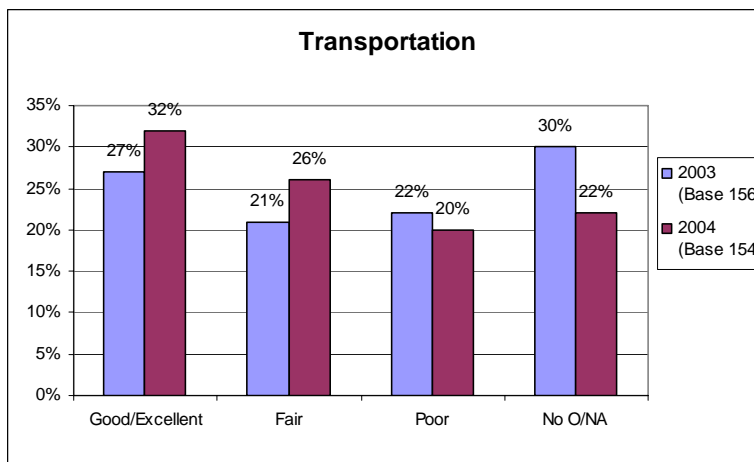
The Department of Taxation showed a 14 percent increase in its good to excellent ratings, a significant improvement from 2003, and its poor ratings dropped from 20 percent to 5 percent, a 15 percent improvement. The department's one-stop tax clearance and the joint effort with the DCCA are bearing fruit.



Department of Transportation

The Department of Transportation (DOT) is responsible for many key areas that affect Hawaii's economy. It has jurisdiction over airports, harbors, and the interstate highways, which are being scrutinized due to homeland security issues. In addition, DOT provides many opportunities for receiving federal matching funds.

Although there was a 5 percent improvement in good to excellent ratings for the department, the ratings also showed a slight (3 percent) increase in poor to fair ratings. This could be because, in 2004, more maritime company executives were interviewed than in 2003. Among this group, 80 percent of respondents rated the DOT poor to fair, citing deteriorating harbors infrastructure, month-to-month leases, congestion in the harbors with scheduling issues, and lack of responsiveness.



The issue of the month-to-month harbor leases is a major one for those firms that are leasing their space from the Harbors Division. The issue is the need for agreement on and implementation of a long-term harbor development plan so the smaller users will know where they will be located. No business on a short-term lease is now able to utilize the Capital Advancement Bill (SB755, SD2, HD1, CD1), which was passed during the 2001 legislature to encourage private sector developers for harbor facilities.

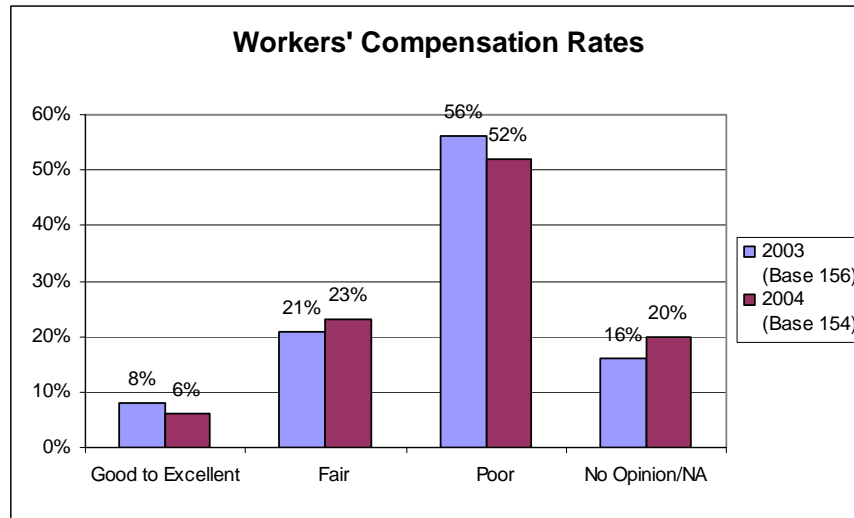
The Chamber of Commerce of Hawaii, through its Maritime Committee, is increasing public awareness of the problems in Hawaii's harbors and working with the state legislature to address them. For example, last year's report identified the need to install fenders at the piers to protect the cruise ships, and we worked with our government partners to develop a replacement plan that should be completed this year.

As Hawaii's traffic challenges increase, it becomes more and more apparent that solutions must be found. A possible solution being discussed at all levels of the community has been the idea of creating some type of mass transit system. Although the Chamber agrees that mass transit may be a viable solution and funding would be needed, that more research needs to be done to determine the causes of Oahu's traffic challenges, and whether mass transit is the solution.

IDENTIFICATION OF CONCERNS

Workers' Compensation Rates

Workers' compensation rates continue to be a major burden, especially on small and medium-sized businesses. As shown in the chart below, 75 percent of respondents felt there is a need to improve the workers' compensation programs, which many employers believe favor the worker and penalize employers.

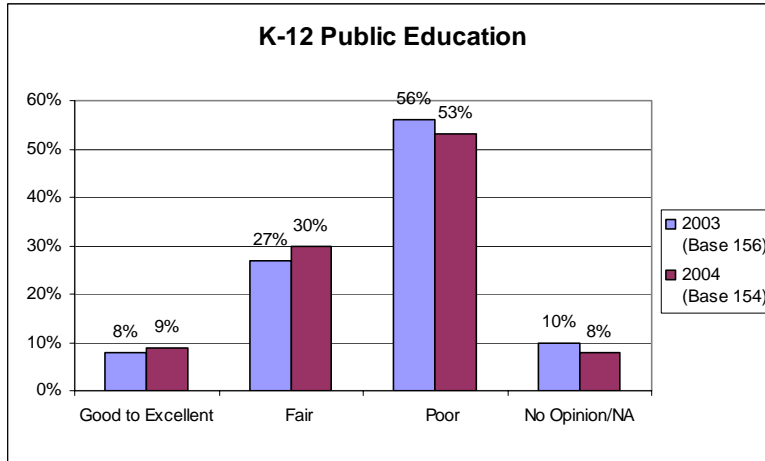


A small-business owner said, "Insurance costs are increasing faster than my sales revenues." Another reported that after one claim, his company's workers' compensation rates quadrupled.

The Chamber of Commerce of Hawaii has initiated legislation to address directed care of injured employees and fraud reduction.

Public Schools

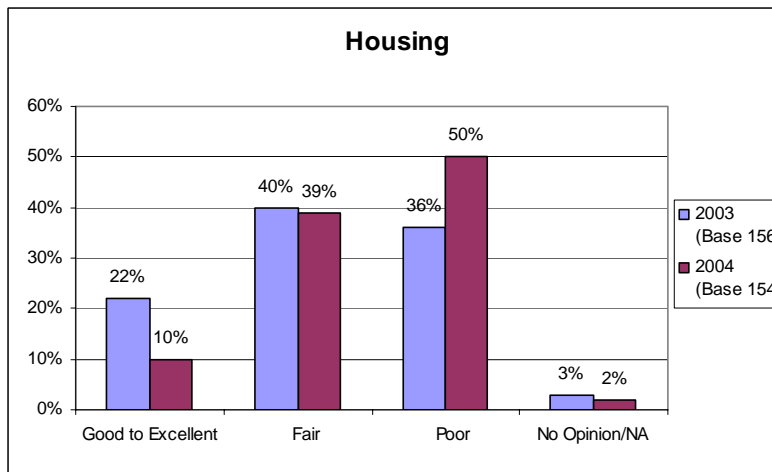
The business executives contacted through Project JOBS continue to be very concerned about the state's K-12 education system. Good to excellent and fair ratings have inched up by 1 and 3 percent, respectively, but overall, little has changed. The poor ratings are still over 50 percent, and combined with the fair rating, 83 percent feel improvements are needed in the public schools. The implications are far reaching. One maritime business owner said, "Some workers cannot read or write, so it is difficult for them to learn the OSHA requirements."



According to business leaders, the public education system is not providing its students with the skills needed for future employment. The system’s reputation also makes it difficult to recruit professionals, most of whom will seek to place their children in private schools, to Hawaii.

Affordable Housing

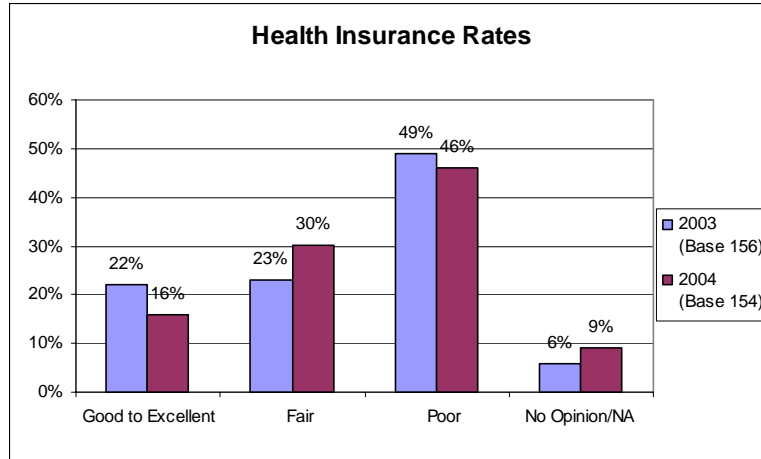
The number of business executives and owners who identified the state of affordable housing as poor jumped by 14 percent. Affordable housing is at a critical stage, for without reasonably priced housing, Hawaii’s businesses cannot retain its young workforce or attract professional talent from the Mainland.



The Chamber of Commerce of Hawaii has members who are participating in the Governor’s initiative on affordable housing and supports private sector incentives.

Health Costs

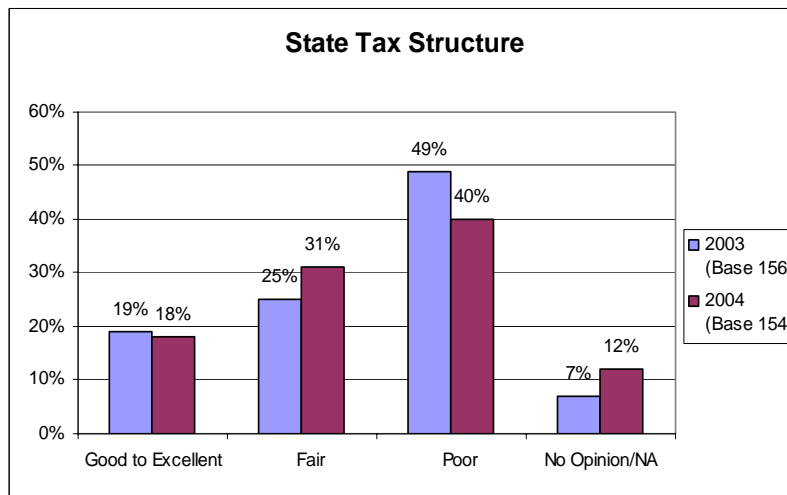
Hawaii's health insurance has been in the news for its increases in rates. As shown, Project JOBS respondents feel the weight of these costs. A considerable 76 percent of the respondents rated this factor of doing business fair or poor. As is the case nationwide, this cost of doing business needs to be dealt with.



The Chamber of Commerce of Hawaii opposes additional mandates in the area of health care and encourages insurers to resist rate increases, for this has been a heavy burden, especially to start-ups and small businesses.

State Tax Structure

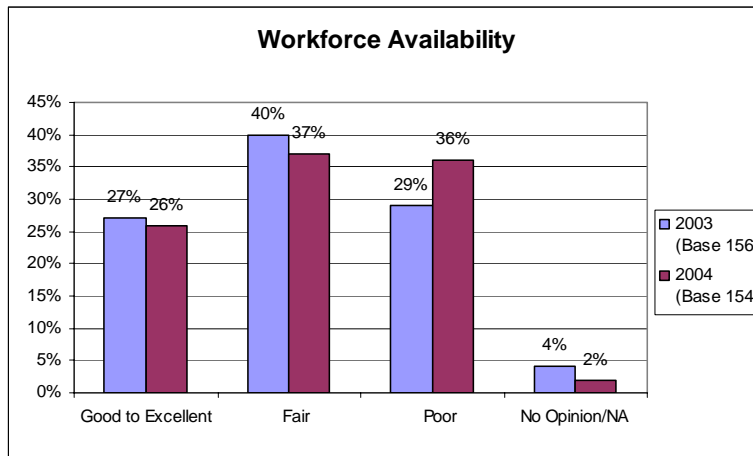
Although General Excise Tax ratings improved slightly over 2003's survey, it is still an area of concern for many, especially those who compete with Mainland or foreign firms. Although laws have been passed that try to level the playing field, respondents questioned whether these laws are effective.



The Chamber of Commerce of Hawaii has always taken the position of reducing the tax burden and simplifying the tax structure to alleviate the burden on businesses. This report affirms the need to continue doing so.

Workforce Availability

Due to the increased opportunities in the construction (especially in government contracting) health care, and maritime industries, business owners are having difficulty finding a skilled or experienced workforce in the trades, professional and technical fields, and health care. One business owner noted, “Many entering the job market do not have the basic skills.” Another pointed out that “Many professionals left Hawaii when it was in an economic slump, and now we have a shortage of experienced engineers and architects.”



INITIATIVES AND RESULTS

This *Report Card* is intended to facilitate communications between business, government and the community to create the business climate which will nurture growth and economic development. Increased communications and cooperation between business and government has led to a number of positive changes, and more are on the horizon.

To address issues of concern identified in the 2003 Project JOBS report, the Chamber worked with government agencies to hold three Business and Government Partnership Forums in 2004. The first included the Department of Commerce and Consumer Affairs, the Department of Accounting and General Services, the Department of Taxation, and the Department of Labor and Industrial Relations. The second focused on state and City and County of Honolulu infrastructure challenges (roads, water, sewers, harbors, and airports) and included the following departments: Department of Transportation, Department of Transportation Services, Environmental Services, Board of Water Supply, and the Department of Design and Construction. The third forum addressed issues on permitting from the Department of Planning and Permitting and the State Department of Health.

Information gained during these forums was shared with participants in the 2004 interviews. Individual meetings were coordinated to address specific questions and concerns. Those government initiatives most helpful to business are the on-line systems for tracking permits, the availability of an ombudsman at the Department of Health to work with firms on environmental issues, and the open communications with the Department of Accounting and General Services on procurement issues.

A number of specific improvements in government processes can be attributed to this collaborative effort. For example, based on input from the business community, the State Department of Accounting and General Services was able to improve the timeliness of its payments. The improvement is reflected in this year's report in which only a few businesses mentioned that slow payments were a problem, except where a number of state organizations have their own procurement group.

A good example of the City and County of Honolulu's concern for business is the increased flexibility shown by the Department of Environmental Services since a problem relating to wastewater guidelines was identified by the Chamber. The department was willing to work with the Chamber to clarify the guidelines, and a hotel was able to obtain a wastewater discharge permit renewal without incurring a \$350,000 grease-trap installation cost. This clarification of the guidelines will also benefit other firms that will be able to use the funds that they had budgeted for the grease-trap installation for other needed improvements.

The Chamber of Commerce of Hawaii has also supported the Department of Planning and Permitting's efforts to streamline the permitting process by backing the department's plan to allow private firms to be certified to approve plans for permits and supporting increased staffing for this revenue-producing department. The sooner improvements are made and buildings are built, the sooner the city will realize the tax revenues from these properties.

Because the public-education system remains a concern for so many businesses, the Chamber of Commerce of Hawaii will continue to monitor the implementation of Act 51, which should ensure increased funding to the classroom based on a formula that reflects the need of the students attending that particular school.

Other Chamber initiatives have been undertaken during 2004 to address issues raised by businesses in the 2003 Project JOBS report.

The Chamber has provided support and identified resources that will help businesses grow in the following areas: financing, strategic and business planning, marketing and product development, location support, technical resources, and workforce opportunities.

One example of the workforce development activities is the Chamber's support of the effort to facilitate communications among the ship-repair industry and the community colleges so that appropriate training programs are developed. Workforce shortages have been communicated to the educational groups to encourage more students into these fields.

ACKNOWLEDGEMENTS

Project JOBS, now known as the *Business Climate Report Card* is an ongoing program of the Hawaii Chamber of Commerce Foundation. The 2004 report has been made possible through the support of the following companies and foundations (in alphabetical order): Actus Lend Lease, Alexander & Baldwin, Bank of Hawaii Foundation, HEI Foundation, Morgan Stanley, Servco Pacific, Smith Barney, The Honolulu Advertiser and Verizon Foundation. In addition, donations in kind were received from Olsten Staffing Services and Manpower Temporary Services, which provided data input services, and Communications Pacific, which provided editing services.

Volunteers included: William Brown, Steven Ai, Jaime Brown, Jo Kamae Bryne, Derek Chang, Timothy Chang, Bruce Chapman, Gregory Dunn, Linda Gilchrist, Gabe Lee, Signe Godfrey, Mark Haley, Doris Hannaford, Michael Herb, Kathryn Inkinen, Eldon Ito, Gloria Koch, Susan Maglaya, Joel Matsunaga, Peggy Maxwell-Luke, Gary McCarty, Bill McKillop, Galen Nakamura, Nick Ng Pack, Sandra Ohara, Jarett Oshiro, Jeffrey Owens, Graham Pearce, David Reber, Jeff Shonka, Gregory Sokolowski, Jeff Swartz, Cheryl Terrill, Bill Thayer, Roger Wall, Stephanie Whalen, William Weidman, James Wills, Jr., William Wilson, Robert Wo, Pauline Worsham, Dirk Yoshizawa, Jane Yamashiro, Edward Young.

The Project JOBS Advisory Council: Jean Santos, chairperson, Business Consulting Resources; Joel Matsunaga, Verizon Hawaii, Inc.; Perry Sorenson, Outrigger Hotels & Resorts; Bill Wilson, Hawaiian Dredging Construction Company; Bruce Coppa, Pacific Resource Partnership; Bill Thayer, Waldron Steamship Company; Ernie Fukeda, Hawaiian Insurance Guaranty; Gregg Yamanaka, TeraBiz; Jim Wills, Jr., University of Hawaii College of Business; Cindy McMillan, Communications Pacific; Steve Bretschneider, DBEDT; Colleen LaClair, Department of Labor and Industrial Relations; Dana Harvey, Hawaii State Department of Transportation; Malcolm Tom, former deputy, City and County of Honolulu; Jim Tollefson, Jeanne Schultz and Shirleyanne Chew, The Chamber of Commerce of Hawaii.

The University of Hawaii College of Business interns: Miles Burkart (Chinese Focused MBA); Laurie Ohta (BA – Marketing); and Kaewkwan Tangitpongkul (BA – Finance and International Business).