

---

---

# A BILL FOR AN ACT

RELATING TO ECONOMIC DEVELOPMENT.

**BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:**

1           SECTION 1. This Act shall be known as The Hawaii  
2 Innovations Partnership Act.

3           SECTION 2. The legislature finds that during this robust  
4 economy, long-range planning is essential to ensure that  
5 Hawaii's economy is diversified, provides high-paying jobs to  
6 retain the best and brightest of its children, and can sustain  
7 growth into the future. The legislature finds that emerging  
8 Hawaii-based entrepreneurs in the fields of advanced technology,  
9 life sciences, and renewable energy represent the future for  
10 Hawaii. These types of enterprises are poised at the earliest  
11 stages of product development and need public financial support  
12 to move to the next level on the road to commercial success.

13           The purpose of this Act is to aggressively jump-start a new  
14 economy in Hawaii based on advanced technology, life sciences,  
15 and renewable energy by establishing a \$100,000,000 fund to  
16 invest in these entrepreneurial ventures.



1 SECTION 3. The Hawaii Revised Statutes is amended by  
2 adding to title 5 a new chapter to be appropriately designated  
3 and to read as follows:

4 "CHAPTER

5 THE HAWAII INNOVATIONS PARTNERSHIP CORPORATION

6 § -1 The Hawaii innovations partnership corporation;

7 **purpose.** (a) There is established the Hawaii innovations  
8 partnership corporation, which shall be a public body corporate  
9 and politic and an instrumentality and agency of the State. The  
10 corporation shall be placed within the department of budget and  
11 finance for administrative purposes only.

12 (b) The purpose of this corporation shall be to:

13 (1) Stimulate economic development in the fields of  
14 advanced technology, life sciences, and renewable  
15 energy in Hawaii through research and development  
16 grants for commercially viable products and services;

17 (2) Provide seed capital investment for entrepreneurial  
18 ventures to assist the enterprise toward commercial  
19 success;

20 (3) Provide business technical support for funded  
21 enterprises to achieve commercial success and  
22 independent capitalization;



1 (4) Promote high quality, high-income job opportunities  
2 for Hawaii's residents and graduates of Hawaii's  
3 educational institutions; and

4 (5) Manage the Hawaii innovations partnership special fund  
5 to ensure stable funding for projects and preserve the  
6 fund corpus.

7 **§ - 2 Definitions.** As used in this chapter, unless the  
8 context requires otherwise:

9 "Advanced technology" means new and emerging technology in  
10 digital media, telecommunications, sensor and optic technology,  
11 and information technologies.

12 "Board" means the board of directors of the Hawaii  
13 innovations partnership corporation.

14 "Corporation" means the Hawaii innovations partnership  
15 corporation.

16 "Direct investment" means an investment by the corporation  
17 in qualified securities of an enterprise to provide capital to  
18 the enterprise.

19 "Economic development project" means a commercially viable  
20 endeavor related to advanced technology, life sciences, and  
21 renewable energy.



1 "Enterprise" means a person with a primary place of  
2 business in Hawaii that is engaged in activities relating to the  
3 commercial development of a product or service in the fields of  
4 advanced technology, life sciences, or renewable energy.

5 "Life sciences" means biology, cancer research, community  
6 healthcare, ocean sciences, agriculture, pharmacology,  
7 biotechnology, medical technology, or related fields.

8 "Person" means a sole proprietorship, partnership, joint  
9 venture, corporation, or other association of persons organized  
10 for commercial or industrial purposes.

11 "Professional investor" means any bank, bank holding  
12 company, savings institution, trust company, insurance company,  
13 investment company registered under the federal Investment  
14 Company Act of 1940, financial services loan company, or other  
15 financial institution or institutional buyer, licensee under the  
16 federal Small Business Investment Act of 1958, or any person,  
17 partnership, or other entity of whose resources a substantial  
18 amount is dedicated to investing in securities or debt  
19 instruments, and whose net worth exceeds \$500,000.

20 "Qualified security" means any note, stock, treasury stock  
21 bond, debenture, evidence of indebtedness, certificate of  
22 interest or participation in any profit-sharing agreement,



1 preorganization certificate of subscription, transferable share,  
2 investment contract, certificate of deposit for a security,  
3 certificate of interest or participation in a patent or patent  
4 application, or in royalty or other payments under such a patent  
5 or application, or, in general, any interest or instrument  
6 commonly known as a "security" or any certificate for, receipt  
7 for, or option, warrant, or right to subscribe to or purchase  
8 any of the foregoing.

9 "Renewable energy" means new and emerging technologies to  
10 produce electrical energy, without the use of fossil fuels, by  
11 wind, solar energy, hydropower, landfill gas, waste to energy,  
12 geothermal resources, ocean thermal energy conversion, wave  
13 energy, biomass, including municipal solid waste, biofuels, or  
14 fuels derived from organic sources, hydrogen fuels derived from  
15 renewable energy, or fuel cells where the fuel is derived from  
16 renewable sources.

17 "Seed capital" means:

- 18 (1) Financing provided for the earliest stage of business  
19 development that enables a project or idea to develop  
20 into a business;
- 21 (2) Equity or loan capital provided for a new or existing  
22 business undertaking;



1 (3) Funding to develop a concept or product idea to the  
2 state at which its practical and commercial viability  
3 can be assessed; and

4 (4) Funds invested in new and young companies that have  
5 not yet fully established commercial operations.

6 "Venture capital investment" means any of the following  
7 investments in a business:

8 (1) Common or preferred stock and equity securities  
9 without a repurchase requirement for at least five  
10 years;

11 (2) A right to purchase stock or equity securities;

12 (3) Any debenture or loan, whether or not convertible or  
13 having stock purchase rights, which are subordinated,  
14 together with security interests against the assets of  
15 the borrower, by their terms to all borrowings of the  
16 borrower from other institutional lenders, and that is  
17 for a term of not less than three years, and that has  
18 no part amortized during the first three years; and

19 (4) General or limited partnership interests.

20 § - 3 **Board of directors.** (a) The governing body of the  
21 corporation shall be a board of directors consisting of seven



1 voting members to be appointed by the governor for staggered  
2 terms pursuant to section 26-34 as follows:

- 3 (1) Three to be appointed directly by the governor;  
4 (2) Two to be appointed from a list of nominees submitted  
5 by the president of the senate; and  
6 (3) Two to be appointed from a list of nominees submitted  
7 by the speaker of the house of representatives,

8 and shall be selected on the basis of their national academic or  
9 industry reputations as experts or industry leaders in fields of  
10 economic diversification and development, venture capital or  
11 private equity investing, or technical knowledge in the fields  
12 of advanced technology, life sciences, or renewable energy  
13 technologies. The director of budget and finance shall serve as  
14 an ex officio nonvoting member. No voting member shall be an  
15 employee of the State during the member's term of office on the  
16 board. All appointed members of the board shall continue in  
17 office until their respective successors have been appointed.

18 (b) The chairperson of the board shall be selected by  
19 majority vote of the members of the board.

20 (c) The members of the board shall serve without  
21 compensation, but may be reimbursed for expenses, including  
22 travel expenses, incurred in the performance of their duties.



1 (d) The board shall appoint a chief executive officer of  
2 the corporation who shall serve at the pleasure of the board and  
3 shall be exempt from chapter 76. The board shall set the salary  
4 and duties of the chief executive officer.

5 (e) A board member shall not participate in any  
6 corporation decision to invest in, purchase from, sell to,  
7 borrow from, loan to, contract with, or otherwise deal with any  
8 person with whom or entity in which the board member has a  
9 substantial financial interest.

10 (f) Decisions shall be made based on majority vote of  
11 quorum, except for decisions to reject recommendations from  
12 technical advisory committees relating to research and  
13 development grants, in which case decisions shall be made based  
14 on a two-thirds majority of the board. A quorum shall be four  
15 members.

16 § - 4 **Funds.** There are established the following  
17 revolving funds:

18 (1) The Hawaii innovations partnership special fund. All  
19 moneys appropriated by the legislature, received as  
20 repayments of loans, earned on investments, received  
21 pursuant to a venture agreement, received as  
22 royalties, received as premiums or fees charged by the





1 corporation, or otherwise received by the corporation  
2 shall be deposited into the Hawaii innovations  
3 partnership special fund, which shall be a revolving  
4 fund and shall not be considered part of the general  
5 fund. The corporation may expend moneys from this  
6 fund for the general operating costs of the  
7 corporation and costs for professional investor  
8 services as provided in section -6. The corpus of  
9 this special fund shall not be reduced below  
10 \$50,000,000, except by prior authorization of the  
11 legislature;

- 12 (2) The Hawaii innovations partnership research and  
13 development fund. Subject to legislative  
14 appropriation, the board may transfer from the Hawaii  
15 innovations partnership special fund to the Hawaii  
16 innovations partnership research and development fund  
17 up to \$10,000,000 for the first year of operation and  
18 thereafter, for each year, an amount not to exceed  
19 four per cent of the fiscal year-end corpus balance of  
20 the Hawaii innovations partnership special fund.  
21 Funds from the Hawaii innovations partnership research  
22 and development fund may be expended for:



- 1 (A) Research and development grants as provided in  
2 the research and development grant program under  
3 section -5;
- 4 (B) Costs to administer the research and development  
5 grant program; and
- 6 (C) Costs to provide funded projects with technical  
7 business support;
- 8 and
- 9 (3) The Hawaii innovations partnership investment fund.  
10 Subject to legislative appropriation, the board may  
11 transfer from the Hawaii innovations partnership  
12 special fund to the Hawaii innovations partnership  
13 investment fund, which shall be a revolving fund, up  
14 to \$25,000,000 for the first two years of operation  
15 and thereafter for each year, an amount not to exceed  
16 fifty per cent of any new funding appropriated by the  
17 legislature to the Hawaii innovations partnership  
18 special fund or five per cent of the fiscal year-end  
19 corpus balance of the Hawaii innovations partnership  
20 special fund, whichever is greater; provided that the  
21 corpus shall not be reduced below \$50,000,000. Moneys



1 from the Hawaii innovations partnership investment  
2 fund may be expended for:

3 (A) Investments as provided in the venture capital  
4 investment program under section -6;

5 (B) Costs to administer the venture capital  
6 investment program; and

7 (C) Costs to provide funded projects with technical  
8 business support.

9 § - 5 **Research and development grant program.** The  
10 corporation shall establish a research and development grant  
11 program to provide seed capital to develop a commercially viable  
12 new idea for a product or service in the fields of advanced  
13 technology, life sciences, or renewable energy. Grants shall be  
14 awarded to Hawaii-based enterprises through a competitive  
15 process and reviewed by technical advisory committees with  
16 subject matter expertise. Criteria for the award of grants  
17 shall include:

- 18 (1) A market need for the product or service;
- 19 (2) Commercial viability;
- 20 (3) The development timeline;
- 21 (4) The ability to receive matching funding from other  
22 sources;

1 (5) The potential to return, within seven years, revenue  
2 or profit sharing, royalties, license fees, or other  
3 income equal to three times the amount of the initial  
4 grant; and

5 (6) Whether the enterprise will provide high-paying jobs  
6 for residents.

7 The technical advisory committees shall make recommendations to  
8 the board on grant awards, which shall be approved by a majority  
9 of the quorum of the board or rejected by a two-thirds majority  
10 of the board. Grants shall not exceed \$250,000 for a project.  
11 No additional funding shall be awarded except upon demonstrated  
12 progress toward product development and commercial success.

13 **§ - 6 Venture capital investment program.** The  
14 corporation shall establish a venture capital investment program  
15 to fund Hawaii-based enterprises with economic development  
16 projects that require seed capital to achieve commercial  
17 success. The board shall select professional investors who  
18 manage venture capital investment programs through a competitive  
19 process and may use technical advisors to evaluate the  
20 proposals. Criteria for selection of professional investors  
21 shall include:



- 1 (1) A demonstrated ability to provide matching funds for
- 2 venture capital or private equity investments in
- 3 Hawaii;
- 4 (2) Having a principal place of business and substantial
- 5 operations in Hawaii;
- 6 (3) Providing high-paying jobs for Hawaii residents;
- 7 (4) The potential to provide significant returns on
- 8 investments; and
- 9 (5) Relevant professional expertise, experience,
- 10 understanding, and commitment necessary to address the
- 11 capital formation and funding needs of Hawaii's
- 12 emerging growth enterprises involved in advanced
- 13 technology, life sciences, and renewable energy.

14 **§ - 7 Duty to invest the corpus of the Hawaii innovations**  
15 **partnership special fund.** The professional investor selected by  
16 the board shall invest and manage the corpus of the Hawaii  
17 innovations partnership special fund. The investment of the  
18 corpus shall be in low-risk qualified securities as described in  
19 section 36-21, to preserve the corpus while providing a  
20 reasonable rate of return on the investment to fund the research  
21 and development grant and venture capital investment programs.  
22 To the extent possible, the professional investor shall have a



1 principal place of business and substantial operations in Hawaii  
2 and provide high-paying jobs to Hawaii's residents.

3       **§ - 8 Powers of corporation.** (a) The corporation shall  
4 have all powers necessary to carry out its purposes, which shall  
5 include the power to:

- 6       (1) Adopt guidelines and procedures to carry out the  
7           purposes of this chapter that shall not be subject to  
8           chapter 91;
- 9       (2) Adopt an official seal;
- 10       (3) Sue and be sued, in its own name;
- 11       (4) Enter into contracts and other appropriate  
12           arrangements to carry out the research and development  
13           grant and venture capital investment programs, and to  
14           invest the corpus of the Hawaii innovations  
15           partnership special fund, as well as other operations  
16           of the corporation;
- 17       (5) Contract with experts who can provide advice and  
18           technical and marketing assistance, support, and  
19           promotion to enterprises in which investments or  
20           grants have been made;



- 1 (6) Coordinate the corporation's programs with any  
2 education and training program in Hawaii's educational  
3 institutions;
- 4 (7) Provide and pay for advisory services and technical,  
5 managerial, and marketing assistance, support, and  
6 promotion as may be necessary or desirable to carry  
7 out the purposes of this chapter;
- 8 (8) Acquire, hold, and sell qualified securities;
- 9 (9) Accept donations, grants, bequests, and devises of  
10 money, property, service, or other things of value  
11 that may be received from the United States or any  
12 agency thereof, any governmental agency, or any public  
13 or private institution, person, firm, or corporation,  
14 to be held, used, or applied for any or all of the  
15 purposes specified in this chapter. Receipt of each  
16 donation or grant shall be detailed in the annual  
17 report of the corporation. The report shall include  
18 the identity of the donor or lender, the nature of the  
19 transaction, and any conditions attaching thereto;
- 20 (10) Acquire, own, hold, dispose of, and encumber personal  
21 property of any nature or any interest therein;



- 1 (11) Enter into agreements or other transactions with any  
2 federal, state, or county agency;
- 3 (12) Make contracts and execute all instruments necessary  
4 or convenient for the carrying on of its business;
- 5 (13) Appear in its own behalf before state, county, or  
6 federal agencies;
- 7 (14) Procure insurance as may be necessary;
- 8 (15) Appoint officers, employees, consultants, agents, and  
9 advisors, who shall not be subject to chapter 76, and  
10 prescribe their duties and fix compensation within the  
11 limitations provided by law;
- 12 (16) Appoint technical advisors or advisory committees as  
13 deemed necessary; and
- 14 (17) Exercise any other powers of a corporation organized  
15 under the laws of the State.

16 (b) The corporation shall not promise to answer for the  
17 debts of any other person.

18 **§ - 9 Contracts for services necessary for management and**  
19 **operation of corporation.** The corporation may contract with  
20 others, public or private, for the provision of all or a portion  
21 of the services necessary for the management and operation of  
22 the corporation. The corporation shall have the power to use





1 all appropriations, grants, contractual reimbursements, and all  
2 other funds not appropriated for a designated purpose to pay for  
3 the proper general expenses and to carry out the purposes of the  
4 corporation. The corporation shall adopt procedures for  
5 competitive selection of contractors as required under this  
6 chapter and shall not be subject to the state procurement code  
7 under chapter 103D.

8       **§ - 10 Meetings of the board.** (a) Meetings of the board  
9 shall be open to the public as provided in section 92-3;  
10 provided that when it is necessary for the board to receive  
11 information that is proprietary to a particular enterprise the  
12 disclosure of which might be harmful to the business interests  
13 of the enterprise, the board may enter into an executive meeting  
14 that is closed to the public.

15       (b) Executive meetings of the board shall be subject to  
16 the procedural requirements of section 92-4; provided that this  
17 authorization to hold executive meetings in accordance with  
18 subsection (a) shall be in addition to the exceptions listed in  
19 section 92-5, to enable the corporation to respect the  
20 proprietary requirements of enterprises with which it has  
21 business dealings.



1           § - 11 Confidentiality of trade secrets or the like;  
2 disclosure of financial information. Notwithstanding chapters  
3 92 and 92F or any other law to the contrary, any documents or  
4 data made or received by any member or employee of the  
5 corporation, to the extent that the material or data consist of  
6 trade secrets or commercial or financial information regarding  
7 the operation of any business conducted by an applicant for, or  
8 recipient of, any form of assistance that the corporation is  
9 empowered to render, or regarding the competitive position of  
10 that applicant in a particular field of endeavor, shall not be a  
11 government record; provided that if the corporation purchases a  
12 qualified security from an applicant, the commercial and  
13 financial information, excluding confidential business  
14 information, shall be deemed to be a government record of the  
15 corporation. If the information is made or received by any  
16 member or employee of the corporation after the purchase of the  
17 qualified security, it shall become a government record three  
18 years from the date the information was made or received. Any  
19 discussion or consideration of trade secrets or commercial or  
20 financial information shall be held by the board, or any  
21 subcommittee of the board, in executive sessions closed to the  
22 public; provided that the purpose of any such executive session



1 shall be set forth in the official minutes of the corporation,  
2 and business that is not related to that purpose shall not be  
3 transacted, nor shall any vote be taken during the executive  
4 sessions.

5       **§ - 12 Limitation on liability.** Chapters 661 and 662 or  
6 any other law to the contrary notwithstanding, nothing in this  
7 chapter shall create an obligation, debt, claim, cause of  
8 action, claim for relief, charge, or any other liability of any  
9 kind whatsoever in favor of any person or entity, without regard  
10 to whether that person or entity receives any benefits under  
11 this chapter, against the State or its officers and employees.  
12 The State and its officers and employees shall not be liable for  
13 the results of any investment, purchase of securities, loan, or  
14 other assistance provided pursuant to this chapter. Nothing in  
15 this chapter shall be construed as authorizing any claim against  
16 the corporation in excess of any note, loan, or other specific  
17 indebtedness incurred by the corporation or in excess of any  
18 insurance policy acquired for the corporation or its employees.

19       **§ - 13 Annual report.** The corporation shall submit a  
20 complete and detailed report of the corporation's activities to  
21 the legislature not later than twenty days before the convening  
22 of the regular session of 2007, and every year thereafter. The



1 report shall include performance metrics that include but are  
2 not limited to the following:

- 3 (1) Number of new companies formed through grants or  
4 venture capital investment;
- 5 (2) Amount of new venture capital investments matched to  
6 state funding;
- 7 (3) Amount of new research and development funding from  
8 private or government obtained to match state funding;
- 9 (4) Patent activity;
- 10 (5) Technology licensing activity and income;
- 11 (6) Amount of company revenue growth in enterprises  
12 receiving state funding; and
- 13 (7) Number of new innovation jobs created from enterprises  
14 receiving state funding.

15 § - 14 **Audit.** Commencing with the second year of  
16 operation, the auditor shall conduct annual audits of the  
17 corporation."

18 SECTION 4. There is appropriated out of the general  
19 revenues of the State of Hawaii the sum of \$100,000,000 or so  
20 much thereof as may be necessary for fiscal year 2006-2007 to be  
21 deposited into the Hawaii innovations partnership special fund.



1           The sum appropriated shall be expended by the department of  
2 budget and finance for the purposes of this Act.

3           SECTION 5. There is appropriated out of the Hawaii  
4 innovations partnership special fund the sum of \$100,000,000 or  
5 so much thereof as may be necessary for fiscal year 2006-2007 to  
6 be used for the purposes of this Act.

7           The sum appropriated shall be expended by the Hawaii  
8 innovations partnership corporation for the purposes of this  
9 Act.

10          SECTION 6. There is appropriated out of the general  
11 revenues of the State of Hawaii the sum of one-half of one per  
12 cent of the general revenues of the State or so much thereof as  
13 may be necessary for fiscal year 2007-2008 to be deposited into  
14 the Hawaii innovations partnership special fund.

15          The sum appropriated shall be expended by the department of  
16 budget and finance for the purposes of this Act.

17          SECTION 7. There is appropriated out of the Hawaii  
18 innovations partnership special fund the sum of one-half of one  
19 per cent or so much thereof as may be necessary for fiscal year  
20 2007-2008 to be used for the purposes of this Act.



1           The sum appropriated shall be expended by the Hawaii  
2 innovations partnership corporation for the purposes of this  
3 Act.

4           SECTION 8. There is appropriated out of the general  
5 revenues of the State of Hawaii the sum of one-half of one per  
6 cent of the general revenues of the State or so much thereof as  
7 may be necessary for fiscal year 2008-2009 to be deposited into  
8 the Hawaii innovations partnership special fund.

9           The sum appropriated shall be expended by the department of  
10 budget and finance for the purposes of this Act.

11          SECTION 9. There is appropriated out of the Hawaii  
12 innovations partnership special fund the sum of one-half of one  
13 per cent or so much thereof as may be necessary for fiscal year  
14 2008-2009 to be used for the purposes of this Act.

15          The sum appropriated shall be expended by the Hawaii  
16 innovations partnership corporation for the purposes of this  
17 Act.

18          SECTION 10. There is appropriated out of the general  
19 revenues of the State of Hawaii the sum of one-half of one per  
20 cent of the general revenues of the State or so much thereof as  
21 may be necessary for fiscal year 2009-2010 to be deposited into  
22 the Hawaii innovations partnership special fund.



1           The sum appropriated shall be expended by the department of  
2 budget and finance for the purposes of this Act.

3           SECTION 11. There is appropriated out of the Hawaii  
4 innovations partnership special fund the sum of one-half of one  
5 per cent or so much thereof as may be necessary for fiscal year  
6 2009-2010 to be used for the purposes of this Act.

7           The sum appropriated shall be expended by the Hawaii  
8 innovations partnership corporation for the purposes of this  
9 Act.

10          SECTION 12. There is appropriated out of the general  
11 revenues of the State of Hawaii the sum of one-half of one per  
12 cent of the general revenues of the State or so much thereof as  
13 may be necessary for fiscal year 2010-2011 to be deposited into  
14 the Hawaii innovations partnership special fund.

15          The sum appropriated shall be expended by the department of  
16 budget and finance for the purposes of this Act.

17          SECTION 13. There is appropriated out of the Hawaii  
18 innovations partnership special fund the sum of one-half of one  
19 per cent or so much thereof as may be necessary for fiscal year  
20 2010-2011 to be used for the purposes of this Act.



1           The sum appropriated shall be expended by the Hawaii  
2 innovations partnership corporation for the purposes of this  
3 Act.

4           SECTION 14. This Act shall take effect upon its approval;  
5 provided that sections 4 and 5 shall take effect on July 1,  
6 2006, sections 6 and 7 shall take effect on July 1, 2007,  
7 sections 8 and 9 shall take effect on July 1, 2008, sections 10  
8 and 11 shall take effect on July 1, 2009, and sections 12 and 13  
9 shall take effect on July 1, 2010.





S.B. No. 2546

S.O.I. H.D.I

**Report Title:**

Hawaii Innovations Partnership Corporation

**Description:**

Establishes the Hawaii Innovations Partnership Corporation to provide research and development grants and to invest in enterprises in advanced technology, life sciences, and renewable energy fields. (SB2546 HD1)

SB2546 HD1 HMS 2006-3039

