
A BILL FOR AN ACT

RELATING TO VENTURE FINANCING.

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

1 SECTION 1. The legislature finds that Hawaii's emerging
2 growth companies continue to face a shortage of available
3 private sector venture capital. Much progress has been made in
4 recent years, but the continued shortfall of equity growth
5 financing stifles new company expansion and the State's economic
6 development. The Hawaii strategic development corporation has
7 been effective as a catalyst in generating venture funding in
8 conjunction with private investors, directly leveraging its
9 \$16,000,000 of public funds over seven times with private
10 capital and indirectly leveraging its funds over thirty times
11 for investment in Hawaii's startup companies. Further, Act 215,
12 Session Laws of Hawaii 2004, has greatly stimulated new private
13 investment by providing incentives to investors in qualified
14 high technology businesses. Nevertheless, more funding is
15 needed.

16 The legislature also finds that the employees' retirement
17 system has been effective as a proven investment leader and



1 currently has the authority to act as a catalyst in generating
2 venture funding in conjunction with private investors.

3 With additional resources, the employees' retirement system
4 could expand its public/private partnerships with market-based
5 investment firms that can provide equity capital to high-growth
6 companies and strengthen and diversify Hawaii's economy. These
7 opportunities can potentially yield additional economic
8 stability and vitality to the State's economy, which in turn
9 strengthens the State's ability to pay its employer
10 contributions to the employees' retirement system.

11 Consequently, expanded economic growth will ensure that the
12 employees' retirement system will meet its pension benefit
13 obligations. This Act will provide funding for the employees'
14 retirement system to invest in the growth of Hawaii's technology
15 sectors, thereby attracting additional private venture capital
16 to the State.

17 The purpose of this Act is to appropriate funds to the
18 employees' retirement system so that it may invest in sound,
19 Hawaii-based investment opportunities for the benefit of public
20 employees and to attract additional private venture capital to
21 accelerate the growth of Hawaii's technology sectors.

1 SECTION 2. There is appropriated out of the general
2 revenues of the State of Hawaii the sum of \$25,000,000, or so
3 much thereof as may be necessary for fiscal year 2006-2007, for
4 the purpose of investing moneys in Hawaii high technology
5 businesses, venture capital investments meeting the
6 qualifications of section 88-119(11), Hawaii Revised Statutes,
7 or Hawaii-based life science research businesses.

8 SECTION 3. The sum appropriated shall be expended by the
9 employees' retirement system for the purposes of this Act.

10 SECTION 4. The moneys appropriated under this Act shall be
11 in addition to any moneys appropriated by the State as its
12 employer obligation to contribute toward state employee
13 retirement benefits under section 88-124, Hawaii Revised
14 Statutes.

15 SECTION 5. The employees' retirement system shall deposit
16 the moneys appropriated pursuant to this Act in the pension
17 accumulation fund established under section 88-109, Hawaii
18 Revised Statutes; provided that the employees' retirement system
19 shall maintain a separate accounting of the moneys appropriated
20 for the report required under section 7 of this Act. The
21 employees' retirement system shall invest the moneys
22 appropriated under this Act in accordance with section 6 of this



1 Act and with the investment guidelines established under chapter
2 88, Hawaii Revised Statutes.

3 SECTION 6. (a) The employees' retirement system shall
4 invest moneys appropriated pursuant to this Act in Hawaii-based
5 high technology businesses, venture capital investments meeting
6 the qualifications of section 88-119(11), Hawaii Revised
7 Statutes, or Hawaii-based life science research businesses.

8 (b) Investments made under this Act shall be in privately
9 held Hawaii high technology businesses, venture capital
10 investments, and Hawaii-based life science businesses that, in
11 the informed opinion of the employees' retirement system's board
12 of trustees, are appropriate entities in which to invest funds
13 of the system. In evaluating venture capital investments, the
14 employees' retirement system's board of trustees shall consider,
15 among other things, the impact an investment may have on job
16 creation in Hawaii and on the state economy. Any interest
17 earned on investments made pursuant to this Act shall be
18 deposited into the portion of the pension accumulation fund
19 subject to the separate accounting as provided under section 5
20 of this Act. The employees' retirement system may reinvest any
21 capital or interest, or any combination thereof, in subsequent
22 investments authorized under subsection (a).



1 (c) Any investment made by the employees' retirement
2 system pursuant to this Act and any earnings accrued or losses
3 incurred thereon shall not be included in the employees'
4 retirement system's calculation of the investment yield rate
5 established under section 88-122(b), Hawaii Revised Statutes.

6 SECTION 7. The employees' retirement system shall submit a
7 report annually to the legislature at least twenty days prior to
8 the convening of each regular session on the actions taken and
9 investments made pursuant to this Act. The report shall include
10 but not be limited to nonproprietary information on the
11 businesses receiving investment capital pursuant to this Act and
12 five-year investment benchmarks that are appropriate for each
13 business.

14 SECTION 8. For the purposes of this Act:

15 "Hawaii-based high technology businesses" has the same
16 meaning as "qualified high technology business" as defined in
17 section 235-110.9, Hawaii Revised Statutes.

18 "Hawaii-based life science research business" means a
19 business employing or owning capital or property, or maintaining
20 an office, in this State; provided that:

21 (1) More than fifty per cent of its total business
22 activities are qualified research; and provided



1 further that the business conducts more than seventy-
2 five per cent of its qualified research in this State;
3 or

4 (2) More than seventy-five per cent of its gross income is
5 derived from qualified research; and provided further
6 that this income is received from:

7 (A) Products sold from, manufactured in, or produced
8 in this State; or

9 (B) Services performed in this State;

10 "Qualified research":

11 (1) Means a business engaged in plant and animal
12 production, medical device research, development, or
13 manufacture, health information technologies, or
14 health care management; and

15 (2) Includes the research, development, or manufacture of
16 pharmaceuticals, plant-made pharmaceuticals,
17 nutraceuticals, therapeutics, bio-materials, or bio-
18 fuels, or businesses engaged in plant sciences,
19 agri-biotechnology, homeland security, or
20 environmental remediation.

21 SECTION 9. This Act shall take effect on July 1, 2006.

Report Title:

Employees' Retirement System; Venture Capital; Appropriation

Description:

Appropriates funds to the employees' retirement system to be utilized in attracting additional private venture capital to accelerate the growth of Hawaii's technology sectors. (SD1)

