

STAND. COM. REP. NO. 1588

Honolulu, Hawaii
March 30, 2007

RE: H.R. No. 108
H.D. 1

Honorable Calvin K.Y. Say
Speaker, House of Representatives
Twenty-Fourth State Legislature
Regular Session of 2007
State of Hawaii

Sir:

Your Committees on Labor & Public Employment and Economic Development & Business Concerns, to which was referred H.R. No. 108 entitled:

"HOUSE RESOLUTION ENCOURAGING THE EMPLOYEES' RETIREMENT SYSTEM TO INVEST IN HAWAII VENTURE CAPITAL,"

beg leave to report as follows:

The purpose of this resolution is to encourage the Employees' Retirement System (ERS) to invest in Hawaii venture capital.

The Hawaii Science and Technology Council testified in support of the intent of this measure. The Department of Business, Economic Development, and Tourism testified in opposition to this measure. The ERS submitted comments.

The diversification of Hawaii's economy, which is heavily based on tourism, has been a goal of the State for a number of years. One way in which diversification is possible is through innovative and high technology industries. For these types of industries to succeed, venture capital funding is critical. While some attempts have been made to invest in Hawaii venture capital in the past, your Committees find that this should be reviewed once again and that encouraging the ERS to invest prudently in Hawaii venture capital will go a long way to continuing Hawaii's attempts to diversify its economy.

HR108 HD1 HSCR LAB-EDB HMS 2007-3403



However, your Committees note the concerns raised by the ERS regarding prudence, fiduciary responsibilities, and certain inaccurate data noted in the measure. Accordingly, your Committees have amended this measure by:

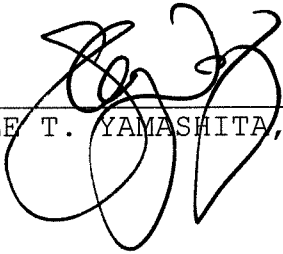
- (1) Removing references to Arkansas and Michigan;
- (2) Specifying the Legislature's intent so as not to conflict with federal tax law by stipulating that the ERS Board of Trustees should act prudently when consideration is given to investing in Hawaii venture capital;
- (3) Deleting language requesting the ERS to review whether removing any liability to fiduciaries for investing moderate amounts in Hawaii venture capital will result in further investment in Hawaii venture capital, since federal tax laws do not allow state laws to relieve the ERS Board of Trustees from their fiduciary duties;
- (4) Inserting language requesting the ERS to propose structural changes to enable prudent investment in Hawaii venture capital; and
- (5) Clarifying that rather than reporting the ERS' attempts at investing in Hawaii venture capital; the reasons for not doing so; and submitting legislation to encourage investment in Hawaii venture capital, the ERS provide a detailed report as to what investments have been made in Hawaii venture capital and what reviews were completed and considerations given to Hawaii venture capital.

Technical, nonsubstantive amendments were also made for clarity, consistency, and style.

As affirmed by the records of votes of the members of your Committees on Labor & Public Employment and Economic Development & Business Concerns that are attached to this report, your Committees concur with the intent and purpose of H.R. No. 108, as amended herein, and recommend that it be referred to the Committee on Finance in the form attached hereto as H.R. No. 108, H.D. 1.



Respectfully submitted on
behalf of the members of the
Committees on Labor & Public
Employment and Economic
Development & Business
Concerns,


KYLE T. YAMASHITA, Chair


ALEX M. SONSON, Chair



