

STAND. COM. REP. NO.

1405

Honolulu, Hawaii

March 23, 2007

RE: S.B. No. 1365  
S.D. 2  
H.D. 2

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

Sir:

Your Committee on Labor & Public Employment, to which was referred S.B. No. 1365, S.D. 2, H.D. 1, entitled:

"A BILL FOR AN ACT RELATING TO THE INNOVATION ECONOMY,"

begs leave to report as follows:

The purpose of this bill is to increase the levels of capital available to fuel the innovation sector of Hawaii's economy while maintaining prudent fiscal policy by:

- (1) Requiring, as of January 1, 2008, that the Employees' Retirement System (ERS) must determine whether any available Hawaii private placements are of equal risk and return and give preference to the Hawaii investments when ERS considers any new out-of-state private placements;
- (2) Capping ERS investments in Hawaii private placements at three percent of system funds; and
- (3) Appropriating funds to enhance the ability of the Office of Technology Transfer and Economic Development of the University of Hawaii (OTTED) to increase commercialization of discoveries at the University by forming partnerships with qualified and experienced private sector entities, with OTTED as the expending agency.

SB1365 HD2 HSCR LAB HMS 2007-3266



The Governor, Department of Business, Economic Development and Tourism (DBEDT), University of Hawaii System, Pukoa Scientific, LLC, High Technology Development Corporation, and Vantage Counsel LLC testified in support of this bill. The Hawaii Strategic Development Corporation supported the intent of this measure. The ERS Board of Trustees and Department of Budget and Finance provided comments.

Investment in technology and the emergence of innovation sector companies such as Hawaii Biotech and Hoku Scientific, as well as investments in new innovative technology efforts, such as the Music and Enterprise Learning Experience Program for the development of Hawaii's music artists and industry, are some ways in which Hawaii can expand its economy. This bill provides a means of financing that is required to grow Hawaii's emerging innovation companies and allow them to remain in Hawaii.

However, this is a complex issue. Serious concerns regarding the method of financing and other means used in this measure to achieve the goal of developing Hawaii's innovation economy have been raised. While your Committee believes these goals to be worthwhile, it is questionable whether the method used to fund the development of Hawaii's innovation economy will achieve this goal. Accordingly, your Committee has amended this bill by:

- (1) Deleting the requirement that, as of January 1, 2008, the ERS determine whether any available Hawaii private placements are of equal risk and return and give preference to the Hawaii investments when ERS considers any new out-of-state private placements;
- (2) Inserting language that requires ERS to consider the allocation of an unspecified percentage of ERS funds for Hawaii venture capital investments, unless it is not prudent to do so;
- (3) Allowing the ERS to contract with one or more management companies to manage and invest these moneys;
- (4) Allowing the ERS to enter into contracts for the provision of investment advice or other services that ERS Board of Trustees deems reasonable and necessary to fulfill its duties;

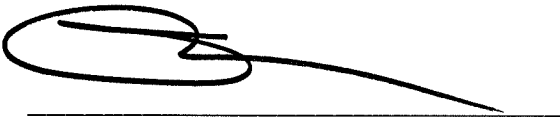


- (5) Deleting the three percent cap of system funds on ERS investments in Hawaii private placements; and
- (6) Replacing OTTED with DBEDT as the expending agencies for the funds appropriated to commercialize discoveries at the University of Hawaii.

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

As affirmed by the record of votes of the members of your Committee on Labor & Public Employment that is attached to this report, your Committee is in accord with the intent and purpose of S.B. No. 1365, S.D. 2, H.D. 1, as amended herein, and recommends that it be referred to the Committee on Finance in the form attached hereto as S.B. No. 1365, S.D. 2, H.D. 2.

Respectfully submitted on  
behalf of the members of the  
Committee on Labor & Public  
Employment,



ALEX M. SONSON, Chair



