

Honolulu, Hawaii
Feb 10, 2010

RE: H.B. No. 2945
H.D. 1

Honorable Calvin K.Y. Say
Speaker, House of Representatives
Twenty-Fifth State Legislature
Regular Session of 2010
State of Hawaii

Sir:

Your Committee on Economic Revitalization, Business, & Military Affairs, to which was referred H.B. No. 2945 entitled:

"A BILL FOR AN ACT RELATING TO ECONOMIC DEVELOPMENT,"

begs leave to report as follows:

The purpose of this bill is to increase the availability of venture and seed investment capital in a manner that will result in a significant potential to diversify and stabilize the economy of the State.

This measure strengthens the State Private Investment Fund (Fund), a fund using contingent tax credits to obtain operating capital through private loans or investments guaranteed by those credits. The capital is placed in venture capital firms that invest in early-stage, high-potential growth companies to obtain an investment return. Returns are used to offset costs, and any profits accrue to the State.

As received by your Committee this bill amends the Fund by, among other things:

- (1) Establishing a managing board for the Fund;
- (2) Authorizing insurance company tax credits to be used as a fund guarantee;



- (3) Establishing investment limits and guidelines, including a target of 30 percent of investments in Hawaii-based businesses;
- (4) Providing that an unspecified amount of startup costs for the Fund will come from the Hawaii Strategic Development Corporation (HSDC), and subsequently the general fund;
- (5) Requiring an annual independent audit of the Fund;
- (6) Authorizing an unspecified amount of tax credits to be issued, as well as allowing the Fund to incur an unspecified amount of debt; and
- (7) Blanking out limits on the amounts of tax credits that may be used as a guarantee and claimed annually, as well as the first and last dates on which the credits may be exercised.

This bill also requires the board of HSDC to include three members knowledgeable in venture or seed capital investment, investment management, or supervision of investment managers and investment funds.

The High Technology Development Corporation, Hawaii Venture Capital Association, and HSDC supported this bill. The Department of Taxation opposed this measure.

Your Committee finds that this bill creates a financing mechanism that will not use scarce State fiscal resources, but still allows investment capital to be mobilized for Hawaii's high technology, agriculture, aquaculture, creative media, and other emerging industries. The contingent tax credit financing mechanism in this bill allows costs to the State to be deferred for a number of years. Through the Fund investment mechanism, investment returns will offset costs, with the potential that tax credits will never be cashed.

Your Committee has further amended this bill by, among other things:

- (1) Clarifying that the HSDC is to develop a business plan for Chapter 211G, Hawaii Revised Statutes, administer the tax credits and guarantees, and evaluate and report on the implementation of the chapter;



- (2) Clarifying that the Fund board is to organize the Fund and govern its investment activities;
- (3) Restricting the required tax credit registration system to registration of the initial transfer of credits by HSDC;
- (4) Including the earliest date on which tax credits authorized by the Act may be transferred out of HSDC;
- (5) Defining "Hawaii-based business;"
- (6) Protecting the confidentiality of trade secrets and confidential business information made available to the Fund; and
- (7) Directing that all returns of the Fund exceeding its operating costs and amounts payable to creditors and investors shall be deposited into the general fund.

As affirmed by the record of votes of the members of your Committee on Economic Revitalization, Business, & Military Affairs that is attached to this report, your Committee is in accord with the intent and purpose of H.B. No. 2945, as amended herein, and recommends that it pass Second Reading in the form attached hereto as H.B. No. 2945, H.D. 1, and be referred to the Committee on Finance.

Respectfully submitted on
behalf of the members of the
Committee on Economic
Revitalization, Business, &
Military Affairs,



ANGUS L.K. MCKELVEY, Chair



State of Hawaii
House of Representatives
The Twenty-fifth Legislature

HSCR 258-10

Record of Votes of the Committee on Economic Revitalization, Business, & Military Affairs

Bill/Resolution No.: HB 2945	Committee Referral: EBM, FIN	Date: Feb. 4, 2010		
<input type="checkbox"/> The committee is reconsidering its previous decision on the measure.				
The recommendation is to: <input type="checkbox"/> Pass, unamended (as is) <input checked="" type="checkbox"/> Pass, with amendments (HD) <input type="checkbox"/> Hold <input type="checkbox"/> Pass short form bill with HD to recommit for future public hearing (recommit)				
EBM Members	Ayes	Ayes (WR)	Nays	Excused
1. McKELVEY, Angus L.K. (C)	✓			
2. CHOY, Isaac W. (VC)	✓			
3. BERG, Lyla B.	✓			
4. EVANS, Cindy	✓			
5. MANAHAN, Joey				✓
6. TAKAI, K. Mark	✓			
7. TOKIOKA, James Kunane	✓			
8. TSUJI, Clift				✓
9. WAKAI, Glenn	✓			
10. WOOLEY, Jessica				✓
11. WARD, Gene	✓			
TOTAL (11)	8			2
The recommendation is: <input checked="" type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted If joint referral, _____ did not support recommendation. committee acronym(s)				
Vice Chair's or designee's signature: _____				
Distribution: Original (White) - Committee Duplicate (Yellow) - Chief Clerk's Office Duplicate (Pink) - HMSO				