

STAND. COM. REP. NO.

2821

Honolulu, Hawaii

MAR 19 2010

RE: H.B. No. 2945
H.D. 2
S.D. 1

Honorable Colleen Hanabusa
President of the Senate
Twenty-Fifth State Legislature
Regular Session of 2010
State of Hawaii

Madam:

Your Committee on Economic Development and Technology, to which was referred H.B. No. 2945, H.D. 2, entitled:

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

begs leave to report as follows:

The purpose of this measure is to expand the State Private Investment Fund Program to:

- (1) Establish a State Private Investment Fund to be administered by the Hawaii Strategic Development Corporation, and governed by a Fund Board;
- (2) Authorize insurance company tax credits to be used as a fund guarantee;
- (3) Establish investment limits and require investments in successful venture capital firms with experienced managers and an ability to mentor entrepreneurs;
- (4) Set a target of thirty per cent of investments in Hawaii-based businesses; and
- (5) Direct that returns exceeding fund expenses, debts, and investor equity interests be deposited into the general fund.



Testimony in support of this measure was submitted by the High Technology Development Corporation, Hawaii Strategic Development Corporation, and Hawaii Science and Technology Council. Testimony in opposition of this measure was submitted by the Employees' Retirement System. Comments for this measure were submitted by the Tax Foundation of Hawaii.

Written testimony presented to the Committee may be reviewed on the Legislature's website.

Your Committee finds that many states have adopted a fund of funds model to support venture capital investment and the focus of this measure is to create a financing mechanism that will not use scarce State fiscal resources, but still allow investment capital to be mobilized by the Hawaii Strategic Development Corporation for Hawaii's high technology companies. Utilizing contingent tax credit financing mechanisms created by this bill appears to be an efficient means to meet these objectives. Your Committee understands that other states that are operating similar investment programs as contemplated in this measure have stressed the need to provide flexibility in the enabling legislation to ensure that the cheapest means of financing can be arranged. Many of these programs are around \$100,000,000 in total size for a ten- or twelve-year program, as this amount seems to support the cost of raising financing and create a meaningful presence in the venture capital industry.

Your Committee is strongly supportive of the concepts behind this measure, but prefers the language in S.B. No. 2290, S.D. 2, which was previously heard and approved by your Committee. Your Committee has amended this measure accordingly, by replacing the contents of this measure with language from S.B. No. 2290, S.D. 2, and provisions related to the Board of Directors contained in S.B. No. 2290, S.D. 1.

As amended, this measure:

- (1) Authorizes the Hawaii Strategic Development Corporation to administer the State Private Investment Fund (Fund);
- (2) Requires the Fund to be governed by a six-member board of directors, with four members recommended by the Board of the Hawaii Strategic Development Corporation;



- (3) Establishes provisions for investment capital guarantees;
- (4) Establishes requirements for seed capital and venture capital investments by the Fund, including priorities for entities with a commitment to the State;
- (5) Establishes confidentiality of trade secrets or the like, and requirements regarding disclosure of financial information;
- (6) Establishes limits on liability;
- (7) Amends the requirements for the Board of Directors of the Hawaii Strategic Development Corporation to require three members to have knowledge in venture or seed capital investment, investment management, or supervision of investment managers and investment funds;
- (8) Includes insurers under section 431:7-202, Hawaii Revised Statutes, in the tax credit provisions;
- (9) Replaces the \$36,000,000 total and the \$12,000,000 aggregate total limit on tax credits with unspecified amounts;
- (10) Authorizes unspecified amounts in tax credits and an unspecified limit on indebtedness; and
- (11) Changes the effective date from July 1, 2020, to July 1, 2050, for the purposes of further discussion.

As affirmed by the record of votes of the members of your Committee on Economic Development and Technology that is attached to this report, your Committee is in accord with the intent and purpose of H.B. No. 2945, H.D. 2, as amended herein, and recommends that it pass Second Reading in the form attached hereto as H.B. No. 2945, H.D. 2, S.D. 1, and be referred to the Committee on Ways and Means.



Respectfully submitted on
behalf of the members of the
Committee on Economic
Development and Technology,

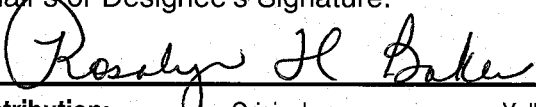


CAROL FUKUNAGA, Chair



The Senate
 Twenty-Fifth Legislature
 State of Hawaii

Record of Votes
Committee on Economic Development and Technology
EDT

Bill / Resolution No.:* HB 2945 HD2	Committee Referral: EDT, NAM	Date: 3-17-2010		
<input type="checkbox"/> The committee is reconsidering its previous decision on this measure. If so, then the previous decision was to: _____				
The Recommendation is: <input type="checkbox"/> Pass, unamended 2312 <input checked="" type="checkbox"/> Pass, with amendments 2311 <input type="checkbox"/> Hold 2310 <input type="checkbox"/> Recommit 2313				
Members	Aye	Aye (WR)	Nay	Excused
FUKUNAGA, Carol (C)	✓			
BAKER, Rosalyn H. (VC)	✓			
HEE, Clayton				✓
IGE, David Y.	✓			
SLOM, Sam			✓	
TOTAL	3	—	1	1
Recommendation: <input checked="" type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted				
Chair's or Designee's Signature: 				
Distribution: Original Yellow Pink Goldenrod File with Committee Report Clerk's Office Drafting Agency Committee File Copy				

*Only one measure per Record of Votes