

Honolulu, Hawaii

FEB 10 2010

RE: S.B. No. 2290  
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 S.B. No. 2290 entitled:

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

begs leave to report as follows:

The purpose of this measure is to increase the availability of venture capital for the State's emerging industries while minimizing State liability for program costs by:

- (1) Establishing a State private investment fund; establishing a six-member board of directors to govern the fund; and establishing provisions for investment capital guarantees, investments by the fund, confidentiality of trade secrets and disclosure of financial information; limitations on liability; and an investment manager;
- (2) Amending numerous current statutory provisions of the State private investment fund to transfer authority of the fund from the Hawaii Strategic Development Corporation to the fund's board of directors;
- (3) Including insurance companies as potential investors along with banks, individuals, and corporations, by providing that the tax credits to be used by the State private investment fund as a guarantee, may be used to offset insurance premium taxes;



- (4) Replacing the current caps on tax credits with unspecified amounts;
- (5) Requiring the Department of Business, Economic Development, and Tourism to study the costs and benefits of the fund and report the results biennially to the Legislature;
- (6) Amending the name of the capital formation revolving fund to the capital formation special fund and specifying the uses of the special fund; and
- (7) Deleting legislative approval for the fund to incur indebtedness.

Testimony in support of this measure was submitted by the Department of Business, Economic Development, and Tourism; Hawaii Strategic Development Corporation; High Technology Development Corporation; and one individual. The Department of Taxation and the Employees' Retirement System submitted comments. Written testimony presented to the Committee may be reviewed on the Legislature's website.

Your Committee finds that the lack of venture capital funding is one of the most oft-cited criticisms of the innovation and entrepreneurial environment in Hawaii. New companies built around science and technology offer the prospect of diversifying Hawaii's economy, yet without sufficient capital to finance such development, this potential will not be fully realized.

Your Committee notes that many states have adopted a fund of funds model to support venture capital investment, and that the Hawaii Strategic Development Corporation has been managing Hawaii's venture capital fund of funds program for many years. This measure will assist that effort by creating a financing mechanism that will not use scarce State fiscal resources, but still allow investment capital to be mobilized for Hawaii's technology companies.

Your Committee notes that the Department of Taxation anticipates a revenue loss to the general fund, dependent on the amount authorized for the fund's allocable credits, which are currently unspecified.



Your Committee is supportive of developing funding mechanisms that will provide increased opportunities for growth in Hawaii's economy, particularly those mechanisms that do not rely on state funds. Your Committee recognizes that there are many issues still to be discussed, and anticipates that additional recommendations may be made as this measure is heard in succeeding legislative committees.

Your Committee has amended this measure accordingly, by:


- (1) Clarifying that the Hawaii Strategic Development Corporation (Corporation) shall administer the state private investment fund (fund);
- (2) Exempting staff of the fund from chapter 76, Hawaii Revised Statutes;
- (3) Deleting the Executive Director of the state private investment fund from the board of directors of the fund, with four members to be recommended by the board of the Corporation;
- (4) Authorizing members of the board of directors to serve up to two consecutive terms, and authorizing members to be reimbursed for expenses;
- (5) Deleting the requirement that the fund shall invest in entities that have committed to maintain a presence in the State;
- (6) Deleting amendments to the mission of the Corporation and the Corporation's business plan;
- (7) Deleting amendments throughout that would have transferred authority from the Corporation to the state private investment fund;
- (8) Deleting the requirement to conduct a national solicitation for investment plan proposals;
- (9) Deleting the requirement that the Department of Business, Economic Development, and Tourism study the costs and benefits of the program;



- (10) Deleting the requirement that the capital formation special fund be used to repay indebtedness or redeem equity interests;
- (11) Requiring the audit of the fund to be conducted by an independent auditor;
- (12) Authorizing the state private investment fund to incur indebtedness;
- (13) Making the effective date July 1, 2011; and
- (14) Making technical amendments for the purposes of clarity and consistency.

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 S.B. No. 2290, as amended herein, and recommends that it pass Second Reading in the form attached hereto as S.B. No. 2290, S.D. 1, and be referred to the Committee on Ways and Means.

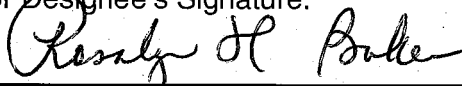
Respectfully submitted on  
behalf of the members of the  
Committee on Economic  
Development and Technology,

  
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CAROL FUKUNAGA, Chair



The Senate  
Twenty-Fifth Legislature  
State of Hawaii

**Record of Votes**  
**Committee on Economic Development and Technology**  
**EDT**

Bill / Resolution No.:* <b>SB 2290</b>	Committee Referral: <b>EDT, WAM</b>	Date: <b>2-8-2010</b>		
<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				✓
<b>TOTAL</b>	<b>3</b>	<b>-</b>	<b>-</b>	<b>2</b>
Recommendation: <input checked="" type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted				
Chair's or Designee's Signature: 				
<b>Distribution:</b> Original     Yellow     Pink     Goldenrod File with Committee Report     Clerk's Office     Drafting Agency     Committee File Copy				

\*Only one measure per Record of Votes