HSDC HAWAII STRATEGIC DEVELOPMENT CORPORATION

No. 1 Capitol District Building
250 South Hotel Street, Suite 508
P.O. Box 2359
Honolulu, Hawaii 96804
Telephone: (808) 587-3830

LATE TESTIMONY

Written Statement of
Karl Fooks
President
Hawaii Strategic Development Corporation

Before the
HOUSE COMMITTEE ON ECONOMIC REVITALIZATION, BUSINESS & MILITARY AFFAIRS

Thursday, February 4, 2010
8:00 AM
State Capitol, Conference Room 312

In consideration of

HB 2945 RELATING TO ECONOMIC DEVELOPMENT

Chair McKelvey, Vice Chair Choy and Members of the Committee:

Hawaii Strategic Development Corporation (HSDC) would like to offer some amendments in support of this bill

Many states have adopted a fund of funds model to support venture capital investment in their state, indeed HSDC has been managing Hawaii's venture capital fund of funds program for many years. The focus of this bill is to create a financing mechanism that will not use scarce State fiscal resources, but still allow investment capital to be mobilized by HSDC for Hawaii's high technology companies.

Four objectives are important for financing a venture capital investment program in the current economic conditions:

- Cost to the State should be deferred for a minimum of two fiscal years.
- Potential for investment returns to offset costs should be preserved.
- Any costs incurred should be known and spread over a number of years.
- Capital should be pooled into investment funds and managed by private sector fund managers

Utilizing contingent tax credit financing mechanisms created by this bill appears to be an efficient means to meet these four objectives. The ability to defer cost from a state budgeting perspective will be determined by the earliest date the tax credits can be cashed. If that date is set for two years out, there will be no cost allocated in the budget for the first two years; if that date is set for four years out, there will be no cost allocated in the budget for the first four years, etc. However, a longer period of deferral may increase the cost of financing depending on the financing mechanism pursued.

From an economic perspective, the investments of the fund will be used to repay the capital raised from the market and therefore there is the potential for tax credits to never be cashed. In the unfortunate event where investment returns are insufficient to repay all the capital raised from the market, the State's cost from the exercise of tax credits will be capped by the annual limits and overall program limit imposed by this legislation.

Other states that are operating similar investment programs as contemplated by HB 2945 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 million in total size for a ten or twelve-year program as this amount seems to support the cost of raising financing and create a presence in the venture capital industry.

There are amendments to HB2945 that HSDC recommends to allow effective implementation of this legislation:

1. Section 211G-14 should be deleted.

2. Section 9 should authorize tax credits to be issued to HSDC.

3. Section 211G-A (d)(2) should provide for the members to serve without compensation, but may be reimbursed for expenses incurred in the performance of their duties.

4. Section 211G-A(e) should provide for the staff to be exempt from chapter 76.

5. Section 8 should delete the reference to state auditor.

Thank you for the opportunity to submit testimony.