

SB 2290, SD1

LINDA LINGLE
GOVERNOR



STATE OF HAWAII
EMPLOYEES' RETIREMENT SYSTEM

February 17, 2010

Senator Donna Mercado Kim, Chair
Senate Committee on Ways and Means
Twenty-Fifth State Legislature
State Capitol, Room 210
Honolulu, Hawaii 96813

Dear Chair Mercado Kim and Members of the Committee:

Re: S.B. No. 2290, S.D. 1, Relating to Economic
Development

The ERS Board of Trustees opposes a provision in S.B. 2290, S.D. 1 which requires the ERS' Chief Investment Officer (CIO) to serve on the State Private Investment Fund Board of Directors.

The ERS Board of Trustees recognizes the importance and value of the proposed State Private Investment Fund to support the emerging high technology and performing arts products industries. However, the CIO's participation as a State Private Investment Fund Board Director could present a potential misalignment of interests and a conflict of responsibilities already assigned to the ERS' CIO.

Please share this information with the members of your Committee. If you have any questions, please call me at 586-1700.

Very truly yours,

A handwritten signature in black ink, appearing to read "David Shimabukuro".

David Shimabukuro
Administrator

C: ERS Board of Trustees
The Honorable Georgina K. Kawamura, Director of Finance



Employees' Retirement System
of the State of Hawaii



**HAWAII
STRATEGIC
DEVELOPMENT
CORPORATION**

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Written Statement of
Karl Fooks
President
Hawaii Strategic Development Corporation

Before the
SENATE COMMITTEE ON WAYS AND MEANS

February 24, 2010
10:05 AM
State Capitol, Conference Room 211

In consideration of

SB 2290 SD1 RELATING TO ECONOMIC DEVELOPMENT

Chair Mercado Kim, Vice Chair Tsutsui and Members of the Committee:

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

Page 24, Line 12: professional portfolio management that the ~~corporation~~ state private investment fund deems appropriate. If the ~~corporation~~ state private investment fund decides to engage one or more

Page 24, Line 16: the ~~corporation~~ state private investment fund deems qualified to:

Page 25, Line 4: An investor group engaged by the ~~corporation~~ state private investment fund shall have a manager who is experienced in design and implementation, as well as the management of seed and venture capital investment programs and in capital formation.

Page 25, Line 7: programs and in capital formation. The ~~corporation~~ state private investment fund may remove

Page 29 Line 1: "(b) Seven years after the ~~corporation~~ state private investment fund has begun operations under this chapter, the corporation shall review, analyze, and evaluate the extent to which the [~~corporation~~] state private investment fund has achieved its statutory mission.

Thank you for the opportunity to submit testimony.

Written Statement of
YUKA NAGASHIMA
Executive Director & CEO
High Technology Development Corporation
before the
SENATE COMMITTEE ON WAYS AND MEANS
Wednesday, February 24, 2010
10:05 AM
State Capitol, Conference Room 211

In consideration of
SB 2290 SD1 RELATING TO ECONOMIC DEVELOPMENT.

Chair Mercado Kim, Vice Chair Tsutsui, and Members of the Senate Committee on Ways and Means.

The High Technology Development Corporation (HTDC) is in support of the intent of SB 2290 SD1, to amend the State Private Investment Fund (SPIF) legislation, in order to further Hawaii's capital formation activities. While I refer to my colleague Mr. Karl Fooks of Hawaii Strategic Development Corporation for detailed analyses and feedback of this bill, HTDC believes that a House Bill on the same topic, HB 2945 HD2, has addressed all the technical and substantive concerns we had. Some of the substantive concerns, which are addressed in HB 2945 HD2 passed by the House Finance Committee last night, are as follows:

- **Utah as a comparable state to Hawaii**

In order for the Utah model to work effectively, no regional restrictions are placed. Utah as a state is categorized "higher", or being further along, with regards to venture capital and startup environment. Therefore, Utah has more deal flow than Hawaii and they are in a better position to take the risk that their expenses and investment will directly benefit companies within their state. It is not clear what modifications we can make to this bill to ensure that the State can optimize for the "cheapest financing" and meet the economic development goals that can stand public scrutiny.

- **Performing arts products industries**

HTDC embraces the evolution and the growth of the performing arts products industries. Rather than tack on these industries, it seems as though the sector is significant enough that they deserve their own vehicle. Separating the legislative initiatives from the get-go may allow for easier accounting later in reports to show industry growth independent of the tech industry. We can better optimize for these industries if they were to be given their own piece of legislation, as Act 88 has done so successfully.

Thank you for the opportunity to submit testimony.

TAXBILLSERVICE

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TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: MISCELLANEOUS, State private investment fund

BILL NUMBER: SB 2290, SD-1

INTRODUCED BY: Senate Committee on Economic Development and Technology

BRIEF SUMMARY: Amends HRS section 211G-12 to delete the limit of the amount of tax credits that may be issued and transferred by the Hawaii strategic development corporation (HSDC). Tax credits issued to the corporation shall be freely transferable by the corporation to transferees and by transferees to subsequent transferees provided that the tax credits transferred by the corporation shall not be exercisable before July 1, ___ nor after July 1, _____. Deletes the provision requiring the legislature's authorization to allow the HSDC to transfer tax credits. The tax credits claimed shall be refundable tax credits. HSDC shall limit the transfer of tax credits that may be claimed and used to reduce the tax otherwise imposed by chapters 235 or 241 or section 431:7-202 for one fiscal year to not more than an aggregate total of \$_____ per fiscal year. Also allows insurance companies to utilize tax credits of the state private investment fund to offset insurance premiums taxes.

Makes other nontax amendments relating to the state private investment fund.

EFFECTIVE DATE: July 1, 2011

STAFF COMMENTS: The legislature by Act 215, SLH 2004, created the state private investment fund within the Hawaii Strategic Development Corporation (HSDC) to provide additional financing options including the use of tax credits to reduce the tax liability of taxpayers subject to HRS chapters 235 or 241. The proposed measure extends these provisions to insurance companies subject to HRS chapter 431 which is imposed in lieu of the net income tax and the general excise tax. The proposed measure would also increase the amount of tax credits that may be issued and transferred by deleting the limitation on the amount of tax credits that may be issued.

Looking back over the past 20 years, state government has a poor track record in trying to spur investment and job growth using taxpayer funds. While this measure would perpetuate the use of tax credits, it should be noted that the state has not tracked the cost-benefits of these tax credit programs a recommendation of the most recent Tax Review Commission. The state has not ascertained if taxpayer dollars spent have gotten any economic returns. There is sparse data on how these credits affect the equity of the overall tax system. At best, the portion of the technology business that this measure impacts remains a small part of the employment pie while commanding a comparatively large share of state resources. The bottom line is that this measure represents an outflow of real dollars from the state treasury with very little accountability. In order to document outcomes, lawmakers should require those who wish to claim the credits to reveal how much will be claimed and how many jobs these credits will help create and identify themselves so taxpayers know who they are subsidizing.

Digested 2/23/10