



**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

Written Statement of  
**Karl Fooks**  
**President**  
Hawaii Strategic Development Corporation

Before the  
**SENATE COMMITTEE ON ECONOMIC DEVELOPMENT AND TECHNOLOGY**

Wednesday, January 27, 2010  
1:15 PM  
State Capitol, Conference Room 016

In consideration of

**SB 2290 RELATING TO ECONOMIC DEVELOPMENT**

Chair Fukunaga, Vice Chair Baker and Members of the Committee:

HSDC supports the intent of this very important bill. 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.

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 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 State tax credit financing mechanisms created by this bill appears to be an efficient means to meet these four objectives, however without further consultation with the Department of Budget and Finance and the Department of Taxation to confirm how the tax credits will be created and accounted for, HSDC would like to reserve its comment on the specifics of the financing mechanism.

Other states that are operating similar investment programs as the one contemplated by SB2290 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 to create a presence in the venture capital industry.

Thank you for the opportunity to submit testimony.



## DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

LINDA LINGLE  
GOVERNOR  
THEODORE E. LIU  
DIRECTOR  
MARK K. ANDERSON  
DEPUTY DIRECTOR

No. 1 Capitol District Building, 250 South Hotel Street, 5th Floor, Honolulu, Hawaii 96813  
Mailing Address: P.O. Box 2359, Honolulu, Hawaii 96804  
Web site: [www.hawaii.gov/dbedt](http://www.hawaii.gov/dbedt)

Telephone: (808) 586-2355  
Fax: (808) 586-2377

Statement of  
**THEODORE E. LIU**  
Director  
Department of Business, Economic Development, and Tourism  
before the  
**SENATE COMMITTEE ON ECONOMIC DEVELOPMENT & TECHNOLOGY**

Wednesday, January 27, 2010  
1:15 PM  
State Capitol, Conference Room 016

In consideration of

**SB2290**

**Relating to Economic Development**

Chair Fukunaga, Vice Chair Baker, and Committee Members.

DBEDT supports the intent of this bill to promote venture capital investing within the State while deferring the cost to the State. In these challenging economic times we must look to creative mechanisms to support the innovation and growth of Hawaii's economy. The State has long recognized the need to support the capital formation needs of the high technology sector as this sector has the potential to contribute to the balancing of Hawaii's economic activity, create and support high wage jobs, and provide incentives to our children to pursue STEM related education and career goals.

DBEDT supported the original SPIF legislation in 2004. Financial and fiscal circumstances may have changed since that time, driven by the global and national financial crisis and economic downturn. At this time, we are still conferring with the Department of Budget and Finance and the Department of Taxation on the fiscal and budgetary capacity of the state to take on these contingent tax credits created under this measure, the balance sheet treatment thereof and time period within which the State can defer any potential costs. As such, we take no position on the measure at this time.

Chair Fukunaga, we look forward to the opportunity to work with you and the Members of the Senate Committee on Economic Development and Technology, and our colleagues in other state agencies, as well as the technology sector, to properly analyze and account for the

financing mechanism contemplated by this bill to ensure, that if enacted, it achieves the desired outcome.

Thank you for the opportunity to submit testimony.

TESTIMONY BY DAVID SHIMABUKURO  
ADMINISTRATOR, EMPLOYEES' RETIREMENT SYSTEM  
STATE OF HAWAII  
TO THE SENATE COMMITTEE ON ECONOMIC DEVELOPMENT AND  
TECHNOLOGY  
ON  
SENATE BILL NO. 2290  
  
RELATING TO THE ECONOMIC DEVELOPMENT  
  
JANUARY 27, 2010

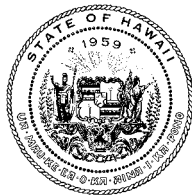
Chairs Fukunaga and Members of the Committees:

S.B. 2290 proposes the Chief Investment Officer of the Employees' Retirement System have a seat on the State private investment fund's board of directors.

The ERS Board of Trustees has not yet had the opportunity to discuss this Bill and accordingly, has not yet taken a position at this time.

LINDA LINGLE  
GOVERNOR

JAMES R. AIONA, JR.  
LT. GOVERNOR



KURT KAWAFUCHI  
DIRECTOR OF TAXATION

STANLEY SHIRAKI  
DEPUTY DIRECTOR

STATE OF HAWAII  
DEPARTMENT OF TAXATION  
P.O. BOX 259  
HONOLULU, HAWAII 96809

PHONE NO: (808) 587-1510  
FAX NO: (808) 587-1560

**SENATE COMMITTEE ON ECONOMIC DEVELOPMENT & TECHNOLOGY  
TESTIMONY REGARDING SB 2290  
RELATING TO ECONOMIC DEVELOPMENT**

**\*\*\*WRITTEN TESTIMONY ONLY\*\*\***

**TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)**  
**DATE: JANUARY 27, 2010**  
**TIME: 1:15PM**  
**ROOM: 016**

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This measure, among other things, amends the current law relating to the State private investment fund to allow transferability of tax credits. This measure also extends the credits to include insurance premiums taxes.

The Department of Taxation ("Department") **opposes the credit transfer amendments; as well as any anticipated revenue loss** anticipated by this measure.

**I. THE DEPARTMENT OPPOSES THE AMENDMENT TO ALLOW TRANSFER OF CREDIT.**

The Department is strongly opposed to any provision that allows Hawaii tax credits to be sold, assigned, or transferred. Allowing taxpayers to market or sell their tax credits is fundamentally poor tax policy. Selling tax credits can be subject to abuse and suspect motivation by parties involved.

The Department's fundamental and primary concerns regarding credit transfers are the following:

- The transferability rewards a separate taxpayer unrelated to the taxpayer that generated the credit, which is fundamentally poor tax policy for encouraging behavior and directly rewarding that behavior;
- The Department is not setup to regulate credit transfers. Will the Department be required to establish a "Bureau of Credit Conveyances" in order to track transfers? If this is the case, resources will have to be dedicated to this;

- And, abuse relating tax credit transfer prices will be problematic. The State will be out a \$1 when taxpayers will be transferring this \$1 for pennies.

## **II. ANTICIPATED REVENUE LOSS**

This measure also provides for the funding of the investment fund's allocable credits. Currently, this program is not funded. Funding this program will result in a revenue loss to the general fund equal to whatever is appropriated.

**TESTIMONY OF WILLIAM G. MEYER, III**

HEARING DATE/TIME:   Wednesday, January 27, 2010  
                                  1:15 p.m. in Conference Room 016

TO:   Senate Committee on Economic Development and Technology

**RE:   Testimony in Support of SB 2290**

Dear Chair, Vice-Chair and Committee Members:

My name is William G. Meyer, III. I am an intellectual property attorney who has been practicing law in Honolulu for over 30 years. I represent both locally based and national and international motion picture and television production companies and high technology businesses.

I support passage of SB 2290.

Respectfully submitted,

**/s/ William G. Meyer, III**

William G. Meyer, III



Written Statement of  
**YUKA NAGASHIMA**  
**Executive Director & CEO**  
High Technology Development Corporation  
before the  
**SENATE COMMITTEE ON ECONOMIC DEVELOPMENT AND TECHNOLOGY**  
Wednesday, January 27, 2010  
1:15 PM  
State Capitol, Conference Room 016

In consideration of  
**SB 2290 RELATING TO ECONOMIC DEVELOPMENT.**

Chair Fukunaga, Vice Chair Baker, and Members of the Senate Committee on Economic Development and Technology.

The High Technology Development Corporation (HTDC) is in support of the intent of SB 2290, 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 respectfully offers some comments for the Committee's consideration.

- 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.