HB 983, HD2

EDT

NEIL ABERCROMBIE
GOVERNOR

BRIAN SCHATZ
LT. GOVERNOR

FREDERICK D. PABLO
DIRECTOR OF TAXATION

RANDOLF L. M. BALDEMOR
DEPUTY DIRECTOR

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DEPARTMENT OF TAXATION
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SENATE COMMITTEE ON ECONOMIC DEVELOPMENT AND TECHNOLOGY

TESTIMONY OF THE DEPARTMENT OF TAXATION
REGARDING HB 983 HD 2
RELATING TO THE HAWAII STRATEGIC DEVELOPMENT CORPORATION

TESTIFIER: **FREDERICK D. PABLO, DIRECTOR OF TAXATION (OR DESIGNEE)**
COMMITTEE: **EDT**
DATE: **MARCH 23, 2011**
TIME: **1:15PM**

POSITION: **CONCERNS ABOUT TRANSFERABLE CREDITS**

This measure, among other things, funds the State private investment fund to allow transferability of tax credits.

The Department of Taxation ("Department") has concerns about the subsequent credit transfer provisions in this measure. In addition, this bill has conflicting language regarding refundability of the credit. Subsection (h) provides that the credits are refundable while subsection (j) provides language that indicates that the tax credits are nonrefundable. Subsection (i) is also unnecessary. Whether the tax credit is treated as a payment in lieu of taxes is not an election by the taxpayer.

The Department is strongly opposed to any provision that allows Hawaii tax credits to be sold, assigned, or transferred from one taxpayer to another. Allowing taxpayers to market or sell their tax credits is fundamentally poor tax policy and is an inefficient method for funding state programs. The state is out a dollar in the form of the tax credit when it may not necessarily get a dollar's worth in return for it. It would be more efficient to simply appropriate that dollar to Hawaii Strategic Development Corporation.

Written Statement of

KARL FOOKS
President
Hawaii Strategic Development Corporation
before the
SENATE COMMITTEE ON ECONOMIC DEVELOPMENT AND TECHNOLOGY
March 23, 2011
1:15 PM
State Capitol, Conference Room 016

In consideration of
HB 983 HD2 RELATING TO HAWAII STRATEGIC DEVELOPMENT CORPORATION

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

Hawaii Strategic Development Corporation (HSDC) strongly supports HB 983 HD2, a bill that provides a financing mechanism that will implement a multi-year investment program this year to support Hawaii's economic recovery and growth. This financing mechanism is structured to have no budget impact during this biennium and to limit the budget impact in any one fiscal year in future years.

Capital Formation a Key Part of an Innovation Strategy

It took a conscious effort by government to establish tourism in Hawaii, and it will require that same discipline to establish digital media, information technology, nanotechnology, ocean sciences, biotechnology, aerospace, astronomy and other innovation fields. These industries bring dollars into Hawaii, with minimal impacts on our environment, enhance the quality of education, lead our drive toward self-sufficiency, and create high paying jobs for our local families.

However, for Hawaii to successfully foster innovation-led economic growth, an infrastructure and an ecosystem that supports entrepreneurialism, commercialization, and business formation must be established and maintained. Capital formation is a key ingredient of an innovation ecosystem and many states, including Hawaii, have used state sponsored investment programs to support capital formation in their regions. Hawaii Strategic Development Corporation (HSDC) was established in 1991 specifically for this purpose.

Technology Sector Economic Impact

The best metrics available to measure the economic impact of the technology sector in Hawaii is from DoTax's December 2010 report on Act 221. DoTax reported that, **excluding the performing arts sector**, 119 QHTB's reported 2009 Hawaii Revenues of $145 million and

Hawaii Expenses of $207 million. These companies employed 1,113 full time employees with an average wage of $71,423 and 834 temporary or contract workers. It should be noted these metrics cover just a subset of the broader technology sector in Hawaii and that over the 2002-2009 time period, the broad technology sector in Hawaii, representing 25,412 jobs in 2009, experienced employment growth of 3.4% against total civilian employment growth of 1.6%. A significant portion of the job growth came from the QHTB companies.

A much harder metric, wealth and human capital creation are also important outcomes of a technology based economic development program. Investments in this sector are risky and it often takes many years before returns are realized on the small subset of successful investments. However, it is important to note that Hawaii has experienced significant re-investment in Hawaii's economy from successful entrepreneurs, investors, and companies in this sector. Successful entrepreneurs become angel investors and support the next generation of high growth companies. Successful entrepreneurs and investors invest in new funds and go on to found new businesses in the local economy. Failed start-ups also contribute by increasing the skills, experience, and networks of their founders. This increase in human capital makes them more employable and increases the probability of success in their next venture. In this way, over time, a critical mass of management talent, investment expertise, and capital is generated in the local economy that can sustain the further development of a high-tech, knowledge-based industry sector. HSDC's venture capital investment program will help support the development of an entrepreneurial ecosystem.

Consistent with Best Practices

Many states have adopted a fund of funds investment model to attract venture capital to their states. Due to fiscal constraints, states have looked at using tax credit backed financing mechanisms as a means to raise meaningful amounts of money, but to defer and spread the budget impact over many years. The Utah Fund of Funds was one such model that used the tax credits as collateral for bank financing. Since then, Tennessee pioneered the approach of selling tax credits to finance its investment program in order to bypass costly and restrictive bank financing. Tennessee recently completed raising approximately $145 million from the sale of $200 million in tax credits. The Tennessee credits can only be claimed beginning in 2012 through 2019 and are subject to annual caps. By having a state agency, HSDC, directly sell the credits and capture the full monetization of the credits and the opportunity to capture the full upside of its investments to offset program costs, HB 983 HD2 is the next evolution in these financing mechanisms. Maryland, another state with innovative technology based economic development programs, is also pursuing legislation similar to HB 983 HD2.

Credit Transfer Provisions

Concerns have been raised about the credit transfer provisions of this bill. While these concerns are important, it is important to understand that this bill is unique in that an agency of the state is the entity utilizing the tax credit. This is a funding mechanism and not a tax incentive to influence economic behavior. When HSDC transfers/sells the tax credit, HSDC receives the proceeds from that transaction. The bill stipulates a maximum discount of 30% on the sale of tax credits by HSDC. The buyer of the tax credit is simply "prepaying" their future tax liability.

The size of the discount will be correlated with the number of years the buyer of the credit must hold the credit before it can be claimed. HSDC is motivated to get the most value for the credits as this is its only source of funding. Finally, the proceeds from the sale of tax credits will be invested by HSDC with the expectation that future investment returns will cover the cost of the credits.

HSDC's Investment Program

The financing mechanism provided by HB 983 HD2 will allow HSDC to implement a State capital formation program structured to mobilize and attract private capital to Hawaii's venture opportunities. To this end it will focus on perceived financing gaps and developing local fund management expertise. Two important objectives of the program are to

1) pool capital into professionally managed venture capital funds; and
2) network Hawaii's venture capital funds into the broader universe of mainland and international funds active in the sectors important to Hawaii.

In this way Hawaii companies will be able to leverage the domain expertise of experienced investors and gain access to follow-on capital for expansion.

HSDC investments in the earlier time periods helped to jump start the venture capital industry in Hawaii by providing capital to new, Hawaii-based funds. The investment activities of these pioneering funds helped to develop the investment, legal, accounting and management infrastructure necessary to support a venture capital industry. In later years, investment programs have been more targeted. For example, HSDC provided oversight to the Follow-on Funding Program, a $5 million program to support commercialization of dual use technologies and the $8.7 million Hydrogen Investment Capital Special Fund. HSDC's UPSIDE Fund supports commercialization of UH developed technologies. HSDC's limited partner investments have been leveraged nearly three times by private sector co-investments in the partnerships. In turn, these investments have been leveraged with company-level co-investments and follow-on investments by private sector investors.

From 1992-2002, HSDC received over $13 million of state funding that was used to jump start the Hawaii venture capital industry by capitalizing new Hawaii-based venture capital funds, support the infrastructure of service providers to the venture industry and provide educational programs to entrepreneurs. In later years, investments were made in Mainland funds to network Hawaii into the broader venture capital market. In total, HSDC invested in 12 funds that collectively provided investment capital to over 40 Hawaii-based small businesses. Each of the companies that received investment from HSDC portfolio funds also received investments from other investors and many were able to raise follow-on investments. All recipients of funding were small businesses. To date, HSDC has received approximately $4.6 million in cash distributions and its current investment holdings are valued at $4 million. HSDC funds its operations from its investment portfolio and not from the state's General Fund.

In 2006, state funds were authorized for an investment program targeting the hydrogen alternative energy sector and this program began investing $8.7 million in 2009. This program has supported Hawaii's pioneering commitment to reduce its consumption of fossil fuels, the Hawaii Clean Energy Initiative, by providing $3.75mm to five alternative energy companies operating in Hawaii. An additional $2.3mm has been provided as grants to four companies. All recipients of equity funding are small businesses and have generated leverage exceeding 16 times on fund investments.

In 2007, $5 million of state funds were authorized for a research commercialization program for the military dual use sector companies in Hawaii that had successfully won technology research grants from the U.S. Department of Defense. This program operated from 2008-2009 and was managed by private sector managers consistent with HSDC's fund of funds strategy. Although, the companies receiving grants only had to report for a one year period following their grant award, HSDC experienced meaningful leverage on it's funding. All recipients of funding are small businesses.

Thank you for the opportunity to submit testimony on this bill.

Written Statement of
YUKA NAGASHIMA
Executive Director & CEO
High Technology Development Corporation
before the
SENATE COMMITTEE ON ECONOMIC DEVELOPMENT AND TECHNOLOGY
March 23, 2011
1:15 PM
State Capitol, Conference Room 016

In consideration of
HB 983 HD2 RELATING TO HAWAII STRATEGIC DEVELOPMENT CORPORATION

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

High Technology Development Corporation (HTDC) is in support of HB983 HD2, which issues tax credits to the Hawaii Strategic Development Corporation (HSDC), and offers some suggestions to further improve the measure.

REASONS FOR SUPPORT:

1. Capital formation = necessary ingredient for Innovation Economy
While capital is not the only ingredient needed for a healthy innovation pipeline and the ecosystem we need to establish and nurture, there is currently no capital formation strategy or tool for the State of Hawaii with the sun setting of Act 221/215. Further, HSDC has not received any infusion to invest for almost 10 years.

There have been many discussions and concerns about the effectiveness of Act 221/215, and alleged abuse. This method of capital formation via providing funds to HSDC to invest per their statute minimizes these concerns. Further, beyond having funds to invest in support of local companies, the funds will also command smart money, that is, expertise, mentorship, and networks our companies require to attract future follow-on funding from the mainland.

2. No budget impact in the next biennium
This bill pushes out the fiscal impact to the State beyond this biennium, to respect the State's budget shortfall, while planting the seeds for the future.

3. Bill positions the State Government to reap both the financial and economic benefits

Because this is a funding mechanism to an investment program, the more successful the investment program, the more financial benefit to the State, in addition to the economic benefit of assisting Hawaii companies with venture capital funds and the mentorship and the global networks that come with these relationships. Unlike other innovation initiatives, because the mechanism of “funds of funds” has been in place in many states and in Hawaii via HSDC, the track record, the economic impacts of leveraging, profits earned, etc. have been consistently tracked and already reported to the public. HSDC’s track record shows that they were able to get over 58% of their initial investments back, with its core funds being leveraged x2.5, and one fund as much as 16 times.

SUGGESTION:

Ensuring the passage of this measure this year: institute a pilot program

This initiative is especially important, as it will be the only capital formation mechanism for the innovation industry. If any of the legislative concerns are significant enough to defer this measure, HTDC recommends that at least a pilot program be put in place to gain the comfort level of the stakeholders by limiting the 100 million dollar figure over 10 years to a smaller amount in the initial years (e.g., **$4 million annually, making it a $20 million investment**). The proposed program is already fiscally conservative, pushing out the budgetary impact to the State beyond this biennium.

The State’s investment to the innovation-based economy development will not require as nearly as much funds the State had to put on the books for Act 221/215. Further, by investing these monies via HSDC, the State is assured board oversight, the benefits of investing in fund-to-funds (where the winners are picked by experienced managers whose financial incentives are aligned with the State), and gain the attention of these fund managers who will be required to keep visiting Hawaii in search of new companies to invest in and providing valuable mentorship to them along the way.

Thank you for this opportunity to testify in support of this measure.

The Chamber of Commerce of Hawaii
The Voice of Business in Hawaii

Testimony to the Senate Committee on Economic Development and Technology
Wednesday, March 23, 2011 at 1:15 p.m.
Conference Room 016, State Capitol

RE: HOUSE BILL NO. 983 HD2 RELATING TO HAWAII STRATEGIC DEVELOPMENT CORPORATION

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

The Chamber of Commerce of Hawaii ("Chamber") supports HB 983 HD2 relating to Hawaii Strategic Development Corporation and respectfully requests that the committees pass this measure for further discussion.

The Chamber is the largest business organization in Hawaii, representing more than 1,100 businesses. Approximately 80% of our members are small businesses with less than 20 employees. As the "Voice of Business" in Hawaii, the organization works on behalf of its members, which employ more than 200,000 individuals, to improve the state's economic climate and to foster positive action on issues of common concern.

The purpose of HB 983 HD2 is to authorize the HSDC to monetize tax credits issued by the state as the means by which it may generate funds needed to continue its important program. It will enable the state to attract outside funds into the state and establish a reliable financing source for emerging research and development (R&D) businesses.

This is critical to creating a sustainable innovation ecosystem for the R&D industry and to diversify Hawaii's economy.

Thank you for the opportunity to testify in support of this important measure.

Written Statement of

David G. Watumull
President and CEO
Cardax Pharmaceuticals, Inc.
before the
SENATE COMMITTEE ON ECONOMIC DEVELOPMENT AND TECHNOLOGY
1:15 PM, March 23,2011
State Capitol, Conference Room 016

In consideration of
HB 983 HD2 RELATING TO HAWAII STRATEGIC DEVELOPMENT CORPORATION

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

Cardax Pharmaceuticals, Inc. ("Cardax") strongly supports HB 983 HD2.

Cardax is one of Hawaii's leading biopharmaceutical companies. We have raised more than $22 million, most of which has been spent in Hawaii, for the development of a new class of anti-inflammatory compounds for treatment of chronic unmet medical needs such as rheumatoid arthritis, cardiovascular disease, liver disease, macular degeneration, and prostate disease. The Company has been awarded 12 U.S. patents on its technology, with many more U.S. and global patents pending, and has received more than $1 million in NIH funding. Ongoing licensing discussions with more than a dozen large and/or mid-size pharmaceutical companies speak to the interest the pharmaceutical industry has in our products.

HB 983 HD2 provides a financing mechanism that will support a multi-year investment program that can be implemented this year, supporting Hawaii's economic recovery by catalyzing growth in jobs at Hawaii's high tech companies and the other businesses supported by the tech industry. This financing mechanism is structured to have no budget impact during this biennium and to limit the budget impact in any one fiscal year in future years.

Capital Formation a Key Part of an Innovation Strategy

It took a conscious effort by government to establish tourism in Hawaii, and it will require that same discipline to establish digital media, information technology, nanotechnology, ocean sciences, biotechnology, aerospace, astronomy and other innovation fields. These industries bring dollars into Hawaii, with minimal impacts on our environment, enhance the quality of education, lead our drive toward self-sufficiency, and create high paying jobs for our local families.

However, for Hawaii to successfully foster innovation-led economic growth, an infrastructure and an ecosystem that supports entrepreneurialism, commercialization, and business formation must be established and maintained. Capital formation is a key ingredient of an innovation ecosystem and many states, including Hawaii, have used state sponsored investment programs to support capital formation in their regions. Hawaii Strategic Development Corporation (HSDC) was established in 1991 specifically for this purpose.

Technology Sector: Key to Expansion of the Tax Base

Cutting the budget, in and of itself, is not a solution to contracting State tax revenues. In these difficult economic times, the State must help grow its tax base or face the same budget problems year after year. The tech sector represents the most efficient and sustainable way to accomplish these goals.

The private-sector component of the technology sector in Hawaii is larger than many people realize. Its 23,985 workers, comprising 5% of the State's private sector establishments, and 3.9% of the State's GDP, according to the DBEDT/HiScitech 2008 report, make it nearly the size of the State's financial sector. The same report projected that the technology sector would grow 61% faster than the overall Hawaii economy.

This bill will create tech jobs that are truly "shovel ready" and that will begin immediately upon company funding by the venture funds funded by HSDC through this bill. Hundreds, if not thousands, of jobs –depending upon the amount invested - will be created; jobs that are high-paying (e.g. high "tax" paying), jobs that are sustainable.

A critical mass of management talent, investment expertise, and capital will be generated in the local economy, supporting the further development of a high-tech, knowledge-based industry sector. As a result, the program will support an entrepreneurial ecosystem that can create an ongoing, growing tax base not necessarily provided by one-shot construction or movie projects.

Hawaii's Global Opportunity.

Globally, there is a severe shortage of investment capital for earlier stage technology and biotech companies. The availability of capital in Hawaii will attract many of these companies to Hawaii with the only limit being the amount of capital and our imagination.

Helping insure the success of small, hi-tech companies such as Cardax helps grow our tax base in a time when the necessity of such diversification is perhaps never more apparent.

Thank you for the opportunity to provide testimony.

Sincerely,

David G. Watumull
President and CEO, Cardax Pharmaceuticals, Inc.

puko'a SCIENTIFIC

Written Testimony of

James P Karins, President, Pukoa Scientific

before the

Senate Committee on Economic Development and Technology
Wednesday, March 23, 2011 at 1:15 p.m.
Conference Room 016, State Capitol

In consideration of

HB 983 HD2 RELATING TO HAWAII STRATEGIC DEVELOPMENT CORPORATION

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

Pukoa Scientific supports this bill. Pukoa Scientific is a small dual-use company located in the Manoa Innovation Center. It has 7 full-time employees working on image processing technologies.

REASONS FOR SUPPORT:

1. Capital formation is a necessary ingredient for Innovation Econnomy
While capital is not the only ingredient needed for a healthy innovation pipeline and the ecosystem we need to establish and nurture, there is currently no capital formation strategy or tool for the State of Hawaii. Furthermore, HSDC has not received any infusion to invest for almost 10 years.

There have been many discussions and concerns about the effectiveness of Act 221/215, and alleged abuse. This method of capital formation via providing funds to HSDC to invest per their statute, minimizes these concerns. Further, beyond having funds to invest in support of local companies, the funds will also command smart money, that is, expertise, mentorship, and networks our companies require to attract future follow-on funding from the mainland.

2. No budget impact in the next biennium
This bill pushes out the fiscal impact to the State beyond this biennium, to respect the State's budget shortfall, while planting the seeds for the future.

3. Bill positions the State Government to reap both the financial and economic benefits
Because this is a funding mechanism to an investment program, the more successful the investment program, the more financial benefit to the State, in addition to the economic benefit of assisting Hawaii companies with venture capital funds and the mentorship and the global networks that come with these relationships. Unlike other innovation initiatives, because the mechanism of "funds of funds" has been in place in many states and in Hawaii via HSDC, the track record, the economic impacts of leveraging, profits earned, etc. have been consistently tracked and already reported to the public. HSDC's track record shows that they were able to get 60% of their initial investments back, with its core funds being leveraged x2.5, and one fund as much as 16 times.

Thank you for this opportunity to testify in support of this measure.

oceanit
innovation through engineering & scientific excellence

Written Statement of
John Kuriyama
General Manager
Oceanit
before the
SENATE COMMITTEE ON ECONOMIC DEVELOPMENT AND TECHNOLOGY
MARCH 23, 2011
1:15 PM
State Capitol, Conference Room 016
In SUPPORT of
HB 983 HD2 RELATING TO HAWAII STRATEGIC DEVELOPMENT CORPORATION

To: Chair Fukunaga, Vice Chair Wakai, and Members of the Committee on Economic Development and Technology

From: John Kuriyama, General Manager, Oceanit

Re: Testimony in Support of HB 983 HD2

Honorable Chair, Vice Chair and Committee Members:

Oceanit strongly supports HB 983 HD2, a bill that provides a financing mechanism that will support a multi-year investment program that can be implemented this year and support Hawaii's economic recovery and growth. It is our understanding that this financing mechanism is structured to not have a budget impact during this biennium and to have a maximum budget impact of no more than $20 million in any one fiscal year in future years.

It took a conscious effort by government to establish tourism in Hawaii, and it will require that same discipline to establish the technology industry. The technology industry brings dollars into Hawaii, with minimal impacts on our environment, enhances the quality of education, leads our drive toward self-sufficiency, and creates high paying jobs for our local families.

However, for Hawaii to successfully foster innovation-led economic growth, an infrastructure and an ecosystem that supports entrepreneurialism, commercialization, and business formation must be established and maintained. Capital formation is a key ingredient of an innovation ecosystem and many states, including Hawaii, have used state sponsored investment programs to support capital formation in their regions.

Thank you for the opportunity to submit testimony on this bill.

Sincerely,

John Kuriyama
General Manager

L E G I S L A T I V E

TAXBILLSERVICE

126 Queen Street, Suite 304 TAX FOUNDATION OF HAWAII Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: MISCELLANEOUS, Hawaii strategic development corporation tax credits

BILL NUMBER: HB 983, HD-2

INTRODUCED BY: House Committee on Finance

BRIEF SUMMARY: Adds a new section to HRS chapter 211F to allow the state to issue $___ in tax credits to the Hawaii strategic development corporation (HSDC) that may be transferred or used to reduce the tax liability of any taxpayer subject to HRS chapters 235, 241, or 431:7-202; provided that the tax credits transferred by the corporation shall not be exercisable in a taxable year beginning before January 1, 2013 or ending after December 31, 2025.

The amount of tax credits transferred by the HSDC shall not exceed an aggregate total of $___ per fiscal year. Stipulates that the tax credits shall be claimed as refundable tax credits and also provides that tax credits which exceed a taxpayer's income tax liability under HRS chapters 235 or 241 or section 431:7-202 shall be used in subsequent taxable years until exhausted. The HSDC shall not transfer or sell any tax credit at more than a thirty percent discount.

Requires the HSDC, in conjunction with the department of taxation, to monitor the transfer of tax credits and submit a report on the transfer of tax credits to the legislature at each regular session.

Amends HRS section 211F-1 to add the definition of "tax credits" and "taxpayer."

EFFECTIVE DATE: July 1, 2112

STAFF COMMENTS: This measure proposes to authorize the transfer of $____ in tax credits to the HSDC that may be transferred or used to reduce the tax liabilities of any taxpayer subject to HRS chapter 235 (income), chapter 241 (banks and financial institutions) and section 431:7:202 (insurers other than insurers of life insurance contracts, ocean marine insurance contracts, and real property title insurance contracts).

It should be noted that the state has not tracked the cost-benefit of any of the tax credit programs as recommended by the most recent Tax Review Commission. The state has not ascertained if taxpayer dollars that have been spent have gotten any economic returns that these investments may have had. 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. At the very least, one of the conditions of the credit should be a filing by companies wanting to claim the credit to insure that they produce expected outcomes and the amount that was invested in Hawaii.

Finally, one has to ask what is the rationale behind handing over these tax credits to the HSDC? Will taxpayers and lawmakers be abdicating their oversight as to how these credits will benefit the state, the community and the economy? Where is the accountability and transparency in handing out these credits? This measure contains some serious flaws of fiduciary responsibility.

Finally, it is questionable whether the tax credits are refundable or nonrefundable as the measure proposes that they are both refundable and nonrefundable.

Digested 3/22/11

Comments to the Senate Committee on Economic Development and Technology
Wednesday, March 23, 2011
1:15 p.m.
Conference Room 016

LATE

RE: HOUSE BILL NO. 983 HD2 RELATING TO HAWAII STRATEGIC DEVELOPMENT CORPORATION

Chair Fukunaga, Vice Chair Wakai, and members of the Committee:

My name is Ian Kitajima and I am the Convener of Hawaii Dual Use Network. I strongly support House Bill 983 HD2 relating to Hawaii Strategic Development Corporation.

HB 983 HD2 provides a financing mechanism that will support a multi-year investment program that can be implemented this year, supporting Hawaii's economic recovery by catalyzing growth in jobs at Hawaii's high tech companies and the other businesses supported by the tech industry. This financing mechanism is structured to have no budget impact during this biennium and to limit the budget impact in any one fiscal year in future years.

It took a conscious effort by government to establish tourism in Hawaii, and it will require that same discipline to establish digital media, information technology, nanotechnology, ocean sciences, biotechnology, aerospace, astronomy and other innovation fields. These industries bring dollars into Hawaii, with minimal impacts on our environment, enhance the quality of education, lead our drive toward self-sufficiency, and create high paying jobs for our local families.

However, for Hawaii to successfully foster innovation-led economic growth, an infrastructure and an ecosystem that supports entrepreneurialism, commercialization, and business formation must be established and maintained. Capital formation is a key ingredient of an innovation ecosystem and many states, including Hawaii, have used state sponsored investment programs to support capital formation in their regions. Hawaii Strategic Development Corporation (HSDC) was established in 1991 specifically for this purpose. Cutting the budget, in and of itself, is not a solution to contracting State tax revenues. In these difficult economic times, the State must help grow its tax base or face the same budget problems year after year. The tech sector represents the most efficient and sustainable way to accomplish these goals.

For these reasons, I respectfully ask that you pass this measure.

Sincerely,
Ian Kitajima, Convener
Dual Use Network