

**HB 983**

**HD2, SD1**

Written Statement of  
**YUKA NAGASHIMA**  
**Executive Director & CEO**  
High Technology Development Corporation  
before the  
**SENATE COMMITTEE ON WAYS AND MEANS**  
March 30, 2011  
9:30 AM  
State Capitol, Conference Room 211

In consideration of  
**HB 983 HD2 SD1 RELATING TO HAWAII STRATEGIC DEVELOPMENT  
CORPORATION**

Chair Ige, Vice Chair Kidani, and Members of the Senate Committee on Ways and Means.

High Technology Development Corporation (HTDC) is in support of means to provide funds to the Hawaii Strategic Development Corporation (HSDC) for its capital formation mission, and offers some suggestions to HB983 HD2 SD1 to further improve the measure.

This version substituted the language from HB983 HD2 with previous year's SPIF legislation in the hopes to address this mission in a different way for the purpose of moving the discussion to the Senate Committee on Ways and Means. HTDC prefers the HB983 HD2 language as HD2's direct method is seen nationally as an improvement to the SPIF mechanism. Further, HSDC already has the statutory makeup to address funds of funds operations (as it has been making investments into funds since its inception), so no additional structure is necessary. Choosing this newer method will allow more of the State's funds and resources to be leveraged by the private sector and would be less costly.

**OTHER REASONS FOR SUPPORT of HD2:**

**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.

# TAXBILLSERVICE

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TAX FOUNDATION OF HAWAII

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**SUBJECT:** MISCELLANEOUS, Hawaii strategic development corporation tax credits

**BILL NUMBER:** HB 983, SD-1

**INTRODUCED BY:** Senate Committee on Economic Development and Technology

**BRIEF SUMMARY:** Amends HRS section 211G-12 to provide that tax credits issued to the Hawaii Strategic Development Corporation (HSDC) may be transferred or used to reduce the tax liability of any taxpayer subject to HRS section 431:7-202. The total amount of tax credits that may be issued, and which may be transferred shall be \$ \_\_\_\_\_. Changes the date when the tax credits transferred by the corporation shall be exercisable from July 1, 2005 to July 1, 2013, nor after \_\_\_\_\_. The HSDC shall limit the transfer of tax credits that may be claimed and used to reduce the tax otherwise imposed by HRS chapters 235, 241 or 431:7-202 for one fiscal year including any tax credits that are carried over by a taxpayer from a prior fiscal year and used to reduce taxes otherwise imposed in the current fiscal year to not more than an aggregate total of \$ \_\_\_\_\_ per fiscal year.

Amends HRS section 211G-1 to amend the definition of "tax credits" and "taxpayer" to include HRS section 431:7-202 taxpayers.

**EFFECTIVE DATE:** July 1, 2112

**STAFF COMMENTS:** The legislature by Act 215, SLH 2004, created the state private investment fund within the 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 431:7:202 (insurers other than insurers of life insurance contracts, ocean marine insurance contracts, and real property title insurance contracts) which is imposed in lieu of the net income tax and the general excise tax.

This measure proposes to increase the amount of tax credits authorized to be transferred to the HSDC from \$36 million to \$ \_\_\_\_\_ 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). The measure also changes the date when such tax credits may be transferred and also the aggregate total that may be transferred in a fiscal year.

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.

Digested 3/29/11



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

**Comments to the Senate Committee on Ways and Means  
Wednesday, March 30, 2011 at 9:30 a.m.  
Conference Room 211, State Capitol**

**RE: HOUSE BILL NO. 983 HD2 SD1 RELATING TO HAWAII STRATEGIC  
DEVELOPMENT CORPORATION**

Chair Ige, Vice Chair Kidani, and Members of the Committee:

The Chamber of Commerce of Hawaii ("Chamber") supports the intent of HB 983 HD2 SD1 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 SD1 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 Testimony of**

**James P Karins,  
President, Pukoa Scientific**

**before the**

**Senate Committee on Ways and Means  
Wednesday, March 30, 2011 at 9:30 p.m.  
Conference Room 211, State Capitol**

In consideration of

**HB 983 HD2 SD1 RELATING TO HAWAII STRATEGIC DEVELOPMENT  
CORPORATION**

Chair Ige, Vice Chair Kidani, and Members of the Committee on Ways and Means.

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 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. 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.