HSDC 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
March 30, 2011
9:30 AM
State Capitol, Conference Room 211

In consideration of
HB 983 HD2 SD1 RELATING TO THE HAWAII STRATEGIC DEVELOPMENT CORP.

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

The Hawaii Strategic Development Corporation (HSDC) supports the intention of HB 983 HD2 SD1, as it provides a mechanism to mobilize capital to invest in Hawaii's economy today while deferring the budget impact to later years. However, HSDC believes the State Private Investment Fund (SPIF) mechanism is too costly to implement and will allocate scarce capital away from Hawaii companies. HSDC supports the HB 983 HD2 version of this legislation as it mobilizes capital for investment into Hawaii companies in a cost effective manner while deferring and limiting the budget impact to the state.

Tax Credit Mechanism is Identical

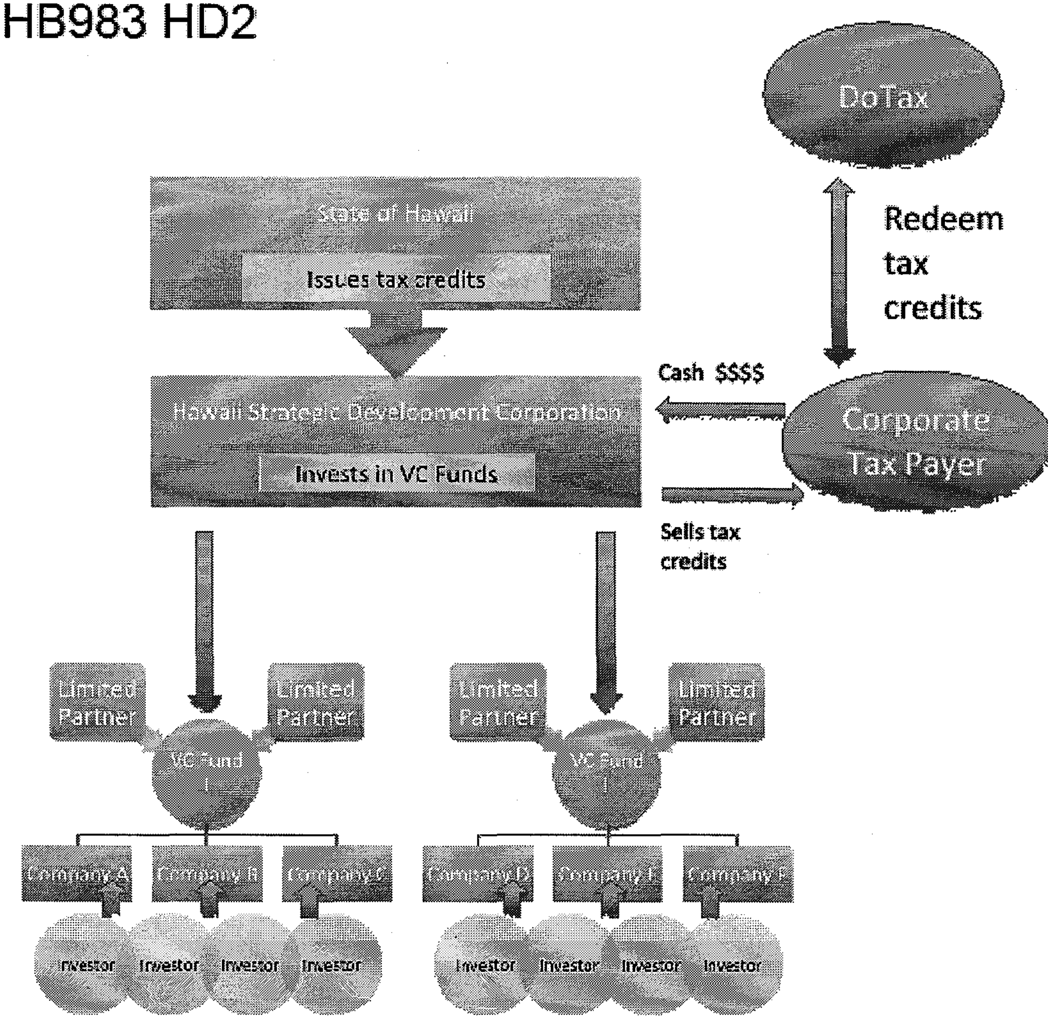
The tax credit mechanisms in the two versions of this bill are identical. In both versions, the state issues tax credits to HSDC and HSDC must monetize the credits by selling/transferring the credits to taxpayers. Attached are two diagrams that illustrate the two versions of the bill. As the diagrams indicate significant leverage on state funds is achieved by limited partner co-investments and company-level co-investors. At the same time, the budget impact to the state is deferred by deferring the exercise date of the tax credits.

SPIF Structure is Complicated and Costly

The current version of the bill adopts the language of HRS 211G, which created the SPIF and the tax credit mechanism to finance the SPIF venture capital investments. Other states with investment programs similar to the SPIF have found the programs costly to finance and administer and require some investments to be made outside the state in order to support the debt incurred by the SPIF. Recent financial market conditions have also made it difficult to find debt providers for these types of investment programs. Tennessee and Maryland, two states that have recently looked to establish state venture capital investment programs have not used the SPIF model, but have used mechanisms similar to HB 983 HD2.

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

Diagram of HB983 HD2



Note: Significant leverage on state funds from Limited Partner co-investors and Company co-investors

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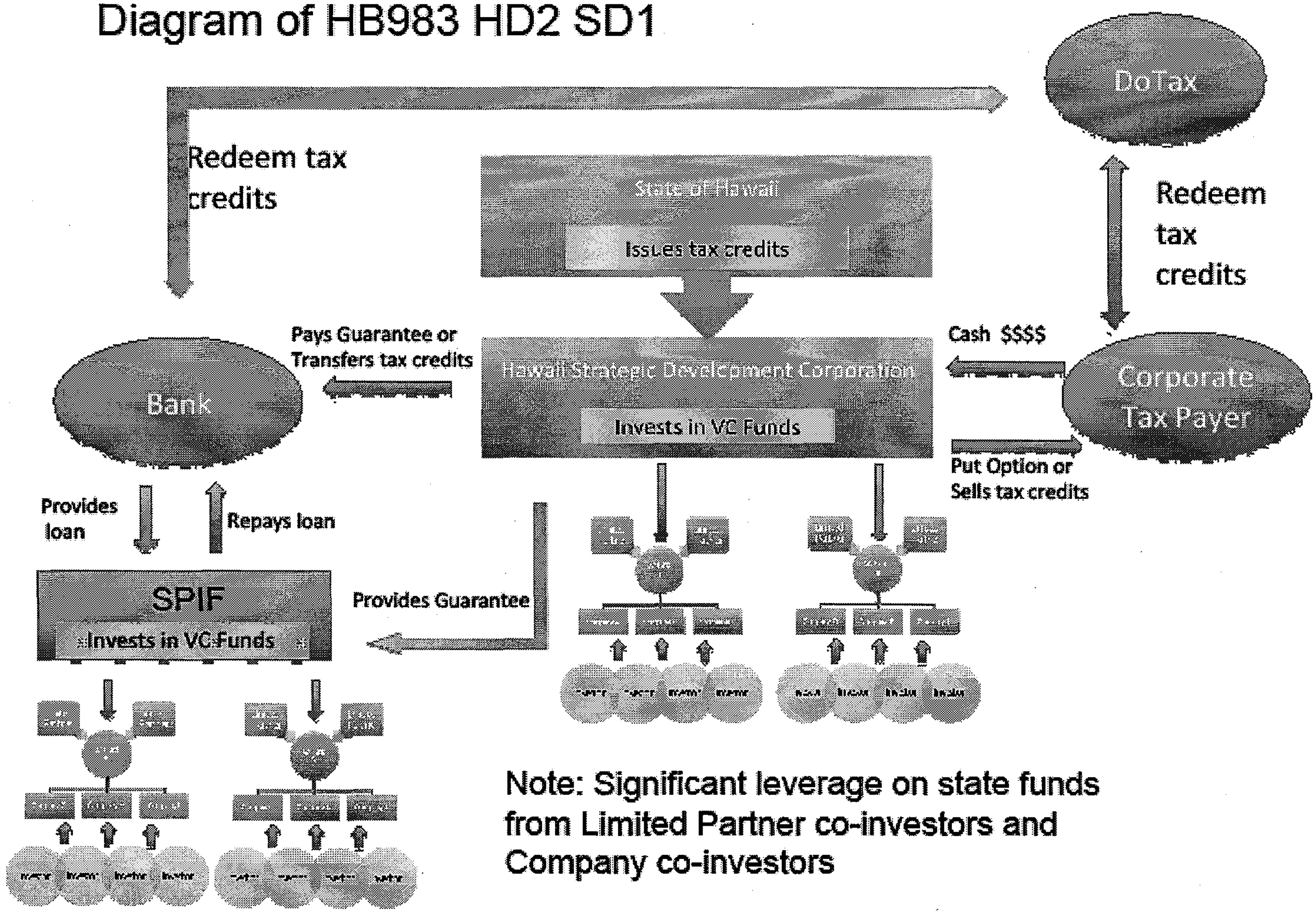
Diagram of HB983 HD2 SD1



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