

From: mailinglist@capitol.hawaii.gov
Sent: Sunday, January 29, 2017 10:07 AM
To: ETT Testimony
Cc: speere@hawaii.edu
Subject: Submitted testimony for SB759 on Jan 30, 2017 13:15PM

SB759

Submitted on: 1/29/2017

Testimony for ETT on Jan 30, 2017 13:15PM in Conference Room 414

Submitted By	Organization	Testifier Position	Present at Hearing
Chris Speere	UHMC Food Innovation Center	Oppose	No

Comments: The UHMC Food Innovation Center does not support the merging of HTDC and HSDC. These entities have separate roles and services. HTDC supports companies via resources for physical facilities and educational opportunities and training. HSDC through its HI Growth Initiative focuses on attracting private sector investors to invest in Hawaii.

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No. 1 Capitol District Building
250 South Hotel Street, Suite 508
P.O. Box 2359
Honolulu, Hawaii 96804
Telephone: (808) 587-3830

Statement of
Karl K. Fooks
President

Hawaii Strategic Development Corporation

Before the
SENATE COMMITTEE ON ECONOMIC DEVELOPMENT, TOURISM, AND TECHNOLOGY

Monday, January 30, 2017
1:15 PM
State Capitol, Conference Room 414

In opposition of

SB 759
RELATING TO THE HIGH TECHNOLOGY DEVELOPMENT CORPORATION

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

The Hawaii Strategic Development Corporation (HSDC) **opposes** SB 759, a bill that transfers all powers, duties, and obligations held by HSDC to the High Technology Development Corporation (HTDC).

HSDC mission is to attract private investment to the growth sectors of Hawaii's economy, a role separate and distinct from HTDC. HTDC focuses on supporting companies with physical facilities and support programs. Coordination between the two agencies has not been a problem. HSDC and HTDC board members sit on each other's boards. The DBEDT Director is also a member of HSDC and HTDC boards. HSDC is leanly staffed with only two full time employees that require specific industry experience. Given HSDC's specialized statutory responsibilities and lean operation, there is very little efficiency that will be gained by this transfer of responsibilities.

I. HSDC has a singular statutory purpose that is distinct from HTDC's statutory purpose.

The table below provides an excerpt from the respective HSDC and HTDC statutes. HSDC's statutory mission to stimulate private investment is operationally and functionally distinct from HTDC's statutory duties and an HSDC/HTDC combination will require HTDC to establish the same infrastructure, e.g. a revolving fund, board oversight, investment management, and program reporting that is currently implemented by HSDC.

HSDC: HRS 211F	HTDC: HRS 206M
<p>PURPOSE: The purpose of this corporation shall be to encourage economic development and diversification in Hawaii through innovative actions in cooperation with private enterprises. The corporation shall establish programs to stimulate private capital investment in Hawaii toward investments that promote the welfare of citizens in this State, economic growth, employment, and economic diversification. The corporation may use public funds to provide incentives to private investment activity, by co-investing public funds in private financial organizations to increase the impact of the public investment while utilizing the investment acumen of the private sector, and by using public funds to reduce the risks of private investments. The corporation shall have the flexibility to provide various types of financial assistance. When providing financial assistance, the corporation shall make provision for the recovery of its expenditures, as far as possible. [L 1990, c 110, pt of §3]</p>	<p>PURPOSE: The purpose of the development corporation shall be to facilitate the growth and development of the commercial high technology industry in Hawaii. Its duties shall include, but not be limited to:</p> <ol style="list-style-type: none"> (1) Developing and encouraging industrial parks as high technology innovation centers and developing or assisting with the development of projects within or outside of industrial parks, including participating with the private sector in such development; (2) Providing financial and other support and services to Hawaii-based high technology companies; (3) Collecting and analyzing information on the state of commercial high technology activity in Hawaii; (4) Promoting and marketing Hawaii as a site for commercial high technology activity; and (5) Providing advice on policy and planning for technology-based economic development.

II. HSDC’s narrowly defined purpose requires specialized venture capital investment expertise to execute.

No Position Count Savings

HSDC is currently staffed with two full time positions, the President and an Associate, to execute its mission. These are the minimum staffing requirements for HSDC. If HTDC were to execute HSDC’s mission, it would still require the minimum staffing requirements of one executive and one support staff.

Currently, administrative support is provided to HSDC by DBEDT’s ASO staff. HTDC also receives administrative support from DBEDT’s ASO staff, but also maintains its own in-house administrative function. There may be a need to increase HTDC’s staffing of its in-house administrative staff to handle HSDC workflow, should HSDC’s activities get consolidated into HTDC.

No Salary Savings

HSDC’s president’s salary is currently at the middle of the range of salaries paid to heads of agencies and department heads. It is unlikely, that there would be any salary

savings by staffing the specialized venture capital investment function under HTDC as a non-executive position, as the position requires specialized industry experience.

III. HSDC/HTDC Programs have limited overlap and are highly complementary.

HTDC focuses on facilities, grants and support services. Companies are the target clients for HTDC's programs.

HSDC focuses on access to capital, particularly equity capital. Investors are the target clients for HSDC's programs.

HTDC clients that utilize HTDC's facilities, grant and support services may become attractive investment opportunities for HSDC's investment partners. For example, HSBIR grants help companies establish a proof of concept for their technologies that will then allow them to compete for investor capital to establish and grow their business. However, not all SBIR companies wish to grow and scale utilizing investor capital. Also, there are many more non-SBIR companies that are seeking investor capital to grow and scale their businesses.

Conversely, HSDC's investment efforts result in a significant number of new startups that may become attractive clients for HTDC's facilities and support services that help incubate these companies as they try to scale up their businesses.

IV. HSDC has been very successful at attracting private investment capital to Hawaii

HSDC's investment program, the HI Growth Initiative, has been very successful at jumpstarting an entrepreneurial ecosystem that is attracting significant private sector investment.

A 2016 study by the University of Hawaii's Economic Research Organization surveyed 65 companies funded as a result of the HI Growth Initiative. The average capital investment from the HI Growth Initiative is \$160,000 per company. Companies on average have gone on to attract an additional \$2 million in private funding for a total of \$136 million: over 12X leverage on the state's investment.

HI Growth programs have engaged investment participation from private investors, Hawaii corporate investors, Hawaii institutional investors and County Governments. Corporates are committed to the Energy Excelsator's EEX Fund One and corporates are investors alongside HI Growth's UPSIDE Fund II in UH spinout companies. The State's Employees' Retirement System (ERS) has decided to increase its commitment to its Hawaii Targeted Investment Program (HiTIP), citing the success of the HI Growth Initiative in creating a pipeline of investable companies as a key reason for their recommitment to HiTIP. Finally, Hawaii angel investors are active co-investors in the Blue Startups accelerator and in the companies graduating from the program.

Thank you for the opportunity to provide testimony.

From: mailinglist@capitol.hawaii.gov
Sent: Saturday, January 28, 2017 9:51 PM
To: ETT Testimony
Cc: info@kitekidsmovie.com
Subject: Submitted testimony for SB759 on Jan 30, 2017 13:15PM

SB759

Submitted on: 1/28/2017

Testimony for ETT on Jan 30, 2017 13:15PM in Conference Room 414

Submitted By	Organization	Testifier Position	Present at Hearing
Joseph Rocha	Kite Kids LLC.	Oppose	No

Comments: We do not supporting the merging of HTDC and HSDC. The entities have distinct roles in supporting Hawaii's innovation ecosystem. HTDC focuses on supporting companies with physical facilities and support programs. HSDC, through the HI Growth Initiative, focuses on attracting private sector investors to invest in Hawaii. These programs have been successful and impactful. Providing a consistent level of funding to continue these successful efforts is the most important action the Legislature can take to support the innovation sector.

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From: mailinglist@capitol.hawaii.gov
Sent: Saturday, January 28, 2017 7:53 PM
To: ETT Testimony
Cc: naspuck@gmail.com
Subject: Submitted testimony for SB759 on Jan 30, 2017 13:15PM

SB759

Submitted on: 1/28/2017

Testimony for ETT on Jan 30, 2017 13:15PM in Conference Room 414

Submitted By	Organization	Testifier Position	Present at Hearing
Neil Sauvageau	Individual	Oppose	No

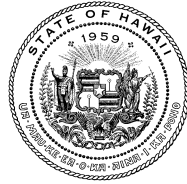
Comments: I do not supporting the merging of HTDC and HSDC. The entities have distinct roles in supporting Hawaii's innovation ecosystem. HTDC focuses on supporting companies with physical facilities and support programs. HSDC, through the HI Growth Initiative, focuses on attracting private sector investors to invest in Hawaii. These programs have been successful and impactful. Providing a consistent level of funding to continue these successful efforts is the most important action the Legislature can take to support the innovation sector.

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DAVID Y. IGE
GOVERNOR

SHAN TSUTSUI
LT. GOVERNOR



MARIA E. ZIELINSKI
DIRECTOR OF TAXATION

DAMIEN A. ELEFANTE
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
PHONE NO: (808) 587-1540
FAX NO: (808) 587-1560

To: The Honorable Glen Wakai, Chair
and Members of the Senate Committee on Economic Development, Tourism, and
Technology

Date: Monday, January 30, 2017
Time: 1:15 P.M.
Place: Conference Room 414, State Capitol

From: Maria E. Zielinski, Director
Department of Taxation

Re: S.B. 759, Relating to the High Technology Development Corporation

The Department of Taxation (Department) appreciates the intent of the measure to assist new businesses in raising funds, defers to the Department of Business, Economic Development, and Tourism (DBEDT) on the merits of this bill, and provides the following comments for your consideration.

Among other things, S.B. 759 authorizes the creation of the Hawaii Technology Investment Program for the purpose of allowing individual investors to invest in venture capital to businesses by contributing to the investment program. The measure is effective on July 1, 2017.

Although it is not clear, it appears the intent of this measure is to have the investment program be qualified as Regulated Investment Company (RIC) under Internal Revenue Code (IRC) sections 851, *et seq.* A RIC can be any one of several investment entities such as a mutual fund, exchange-traded fund (ETF), real estate investment trust (REIT) or unit investment trust (UIT) and which otherwise meets the requirements to be a RIC as set forth in IRC sections 851 through 855, 860 and 4982.

A RIC must derive a minimum of 90% of its income from capital gains, interest or dividends earned on investments, and must distribute a minimum of 90% of its net investment income in the form of interest, dividends or capital gains to its shareholders. Otherwise, the RIC may be subject to an excise tax.

To qualify as a RIC, at least 50% of a company's total assets must be in the form of cash, cash equivalents or securities. No more than 25% of the company's total assets may be invested in securities of a single issuer, unless the securities are government securities or securities of other RICs.

The purpose of a RIC is to avoid double-taxation. Normally, both the investment company and its individual investors would have to pay taxes on the company's capital gains or earnings. A RIC, however, does not pay corporate income taxes on earnings passed on through to shareholders. The only tax imposed is on individual shareholders on the income they receive.

Thank you for the opportunity to provide comments.

From: mailinglist@capitol.hawaii.gov
Sent: Saturday, January 28, 2017 1:28 PM
To: ETT Testimony
Cc: edwinharborlight@gmail.com
Subject: Submitted testimony for SB759 on Jan 30, 2017 13:15PM

SB759

Submitted on: 1/28/2017

Testimony for ETT on Jan 30, 2017 13:15PM in Conference Room 414

Submitted By	Organization	Testifier Position	Present at Hearing
Edwin Marshall	Kona Snow Pictures, LLC	Oppose	No

Comments: Kona Snow Pictures, LLC does not support SB759. HSDC has had a very tangible impact in our project "Jo, The Medicine Runner." We have seen over 30 local Hawaiian residents benefit from the Accelerator program/film and are excited to see this only increase in the coming years. Thanks! Edwin Marshall

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From: mailinglist@capitol.hawaii.gov
Sent: Saturday, January 28, 2017 10:38 AM
To: ETT Testimony
Cc: chenoa@bluestartups.com
Subject: Submitted testimony for SB759 on Jan 30, 2017 13:15PM

SB759

Submitted on: 1/28/2017

Testimony for ETT on Jan 30, 2017 13:15PM in Conference Room 414

Submitted By	Organization	Testifier Position	Present at Hearing
Chenoa Farnsworth	Blue Startups	Comments Only	No

Comments: We do not supporting the merging of HTDC and HSDC. The entities have distinct roles in supporting Hawaii's innovation ecosystem. HTDC focuses on supporting companies with physical facilities and support programs. HSDC, through the HI Growth Initiative, focuses on attracting private sector investors to invest in Hawaii. These programs have been successful and impactful. Providing a consistent level of funding to continue these successful efforts is the most important action the Legislature can take to support the innovation sector.

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From: mailinglist@capitol.hawaii.gov
Sent: Saturday, January 28, 2017 9:06 AM
To: ETT Testimony
Cc: prayforrain@gmail.com
Subject: Submitted testimony for SB759 on Jan 30, 2017 13:15PM

SB759

Submitted on: 1/28/2017

Testimony for ETT on Jan 30, 2017 13:15PM in Conference Room 414

Submitted By	Organization	Testifier Position	Present at Hearing
David Cunningham	GVS Accelerator	Oppose	No

Comments: As the founder of the GVS Accelerator I would like to oppose SB759 that would merge HSDC/HI Growth with HSTC. We have had the privilege to work with both agencies and they each have distinct differences in goals, process and strategies. This potential merger could cause both agencies to fail and impact 18 Hawaii Start Ups in our program alone. Please do not merge these two excellent programs that need autonomy for success.

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From: mailinglist@capitol.hawaii.gov
Sent: Friday, January 27, 2017 10:55 PM
To: ETT Testimony
Cc: williamrandysmith@gmail.com
Subject: *Submitted testimony for SB759 on Jan 30, 2017 13:15PM*

SB759

Submitted on: 1/27/2017

Testimony for ETT on Jan 30, 2017 13:15PM in Conference Room 414

Submitted By	Organization	Testifier Position	Present at Hearing
William R Smith	Individual	Support	No

Comments:

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From: mailinglist@capitol.hawaii.gov
Sent: Friday, January 27, 2017 9:10 PM
To: ETT Testimony
Cc: justin.gordon@gmail.com
Subject: Submitted testimony for SB759 on Jan 30, 2017 13:15PM

SB759

Submitted on: 1/27/2017

Testimony for ETT on Jan 30, 2017 13:15PM in Conference Room 414

Submitted By	Organization	Testifier Position	Present at Hearing
Justin Gordon	Individual	Comments Only	No

Comments: I support increased funding for the HI Growth Initiative. HI Growth has been instrumental in jumpstarting Hawaii's entrepreneurial ecosystem and supporting its development into the vibrant community it is today. Hawaii boasts award winning accelerators. Accelerator graduate companies are growing and hitting milestones that are triggering further investment from private investors. Hawaii hosts international conferences and other events designed to help entrepreneurs incubate their ideas and connect with investors. Hawaii's private sector sees value in supporting innovation and has participated as investors in several local startups and investment funds. A 2016 UHERO report showed the HI Growth Initiative produced a 12X leverage on state dollars. For all these reasons, we strongly support this bill. All this would not have happened without the strong support of the HI Growth Initiative.

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From: mailinglist@capitol.hawaii.gov
Sent: Friday, January 27, 2017 5:12 PM
To: ETT Testimony
Cc: shari@globalnetproductions.com
Subject: Submitted testimony for SB759 on Jan 30, 2017 13:15PM

SB759

Submitted on: 1/27/2017

Testimony for ETT on Jan 30, 2017 13:15PM in Conference Room 414

Submitted By	Organization	Testifier Position	Present at Hearing
Shari Lienau	Global Net Productions	Oppose	No

Comments: Please do not merge HSDC with HTDC. As a business owner on Hawaii Island, this would very negatively affect our ability to do business here.

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RE: SB759

January 27, 2017

To the Committee on Economic Development, Tourism & Technology,

As the Managing Director of the GVS Accelerator a program funded, in part, by HSDC, I wholeheartedly oppose the merging of HSDC and HTDC. HSDC's support in past years has allowed the GVS Accelerator to create more than 35 FTE jobs and engage over 210 independent contractors. In addition to bringing \$2,850,000 of investment money from outside the state of Hawai'i and currently in the process of bringing further funds to the State.

By merging these two entities you muddy the waters of specific, key, initiatives for the State. I do not supporting the merging of HTDC and HSDC. The entities have distinct roles in supporting Hawaii's innovation ecosystem. HTDC focuses on supporting companies with physical facilities and support programs. HSDC, through the HI Growth Initiative, focuses on attracting private sector investors to invest in Hawaii. These programs have been successful and impactful. Providing a consistent level of funding to continue these successful efforts is the most important action the Legislature can take to support the innovation sector.

I urge you to oppose this bill – I am grateful for your time and consideration.

Mahalo,

A handwritten signature in black ink, appearing to read "Derek Hall". The signature is fluid and cursive, with a large initial "D" and "H".

Derek Hall
Managing Director
GVS Accelerator | Honua Studios | GVS Connect
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d.hall@globalvirtualstudio.com



Written Statement of
Robbie Melton
Executive Director & CEO
High Technology Development Corporation
before the
Senate Committee on Economic Development, Tourism & Technology
Monday, January 30, 2017
1:15 p.m.
State Capitol, Conference Room 414

In consideration of
SB759
RELATING TO THE HIGH TECHNOLOGY DEVELOPMENT CORPORATION.

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

The High Technology Development Corporation (HTDC) **opposes** SB759 that transfers all powers, duties, and obligations held by the Hawaii Strategic Development Corporation to the High Technology Development Corporation.

While HTDC and HSDC partner on projects where our missions overlap, the agencies fill two distinct missions and work with different groups.

- HSDC's mission is to encourage economic development by incentivizing and de-risking private capital investment. HSDC programs are investor driven and are not limited to technology.
- HTDC's mission is to grow the technology sector in Hawaii by providing support to tech companies. HTDC programs are driven by company need. Besides investment capital, companies require mentorship and assistance with infrastructure, workforce, community development, network, and promotion. HTDC also works to provide growth for the technology industry on the neighbor islands.

When HTDC and HSDC were established, the State had the foresight to establish the agencies as part of a decentralized system, built to be agile enough to adapt to the changing environment. The state also made the agencies administratively attached to DBEDT to ensure coordination with the Governor's agenda.

Thank you for the opportunity to offer these comments.

From: mailinglist@capitol.hawaii.gov
Sent: Friday, January 27, 2017 3:40 PM
To: ETT Testimony
Cc: send2jeremy@gmail.com
Subject: Submitted testimony for SB759 on Jan 30, 2017 13:15PM

SB759

Submitted on: 1/27/2017

Testimony for ETT on Jan 30, 2017 13:15PM in Conference Room 414

Submitted By	Organization	Testifier Position	Present at Hearing
Jeremy Pyhala	Individual	Oppose	No

Comments: This bill would negatively impact growth and partnership with the private sector. It would damage innovative and creative additions to Hawaii's economy.

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