



STATE OF HAWAII  
HAWAII CLIMATE CHANGE MITIGATION & ADAPTATION  
COMMISSION  
POST OFFICE BOX 621  
HONOLULU, HAWAII 96809

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Chair, DLNR  
Director, OPSD

**Commissioners:**  
Chair, Senate AEN  
Chair, Senate WTL  
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Director, Hawai'i DP  
Director, Kaua'i DP  
The Adjutant General  
Manager, CZM

**Testimony of  
Leah Laramee  
Coordinator, Hawai'i Climate Change Mitigation and Adaptation Commission**

**Before the Senate Committee on  
ENERGY AND ENVIRONMENTAL PROTECTION**

**Thursday, February 9, 2023  
9:00 AM  
State Capitol, Via Videoconference, Conference Room 325**

**In support of  
House Bill 1506  
RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF  
HAWAII.**

House Bill 1506 requires the employees' retirement system, in evaluating venture capital investments, to consider opportunities in industries that will sustain Hawai'i's natural environment or produce economic opportunities for its residents, including renewable energy businesses and businesses that use the investment capital to acquire the infrastructure and services needed to become energy sustainable. If the employees' retirement system board of trustees determines that it is not prudent to invest in any Hawai'i venture capital meeting this description, requires the board to report the rationale for the decision in its annual report to the legislature. Appropriates funds to the Hawai'i targeted investment program. **The Hawai'i Climate Change Mitigation and Adaptation Commission (Commission) supports this measure.**

The Hawai'i Climate Change Mitigation and Adaptation Commission consists of a multi-jurisdictional effort between 20 different departments, committees, and counties. Hawai'i's Climate Commission recognizes the urgency of climate threats and the need to act quickly. It promotes ambitious, climate-neutral, culturally responsive strategies for climate change adaptation and mitigation in a manner that is CLEAN, EQUITABLE, & RESILIENT. Investment in industries that will sustain Hawai'i's natural environment or produce economic opportunities for its residents is both climate smart and good for the economic wellbeing of the State is an important component of achieving our carbon negative goals. The Intergovernmental Panel on Climate Change (IPCC) states "Climate resilient development is enabled when governments, civil society and the private sector make inclusive development choices that prioritise risk reduction, equity and justice, **and when decision-making processes, finance and actions are integrated across governance levels, sectors and timeframes (very high confidence)**... These partnerships are most effective when supported by enabling political leadership, institutions,

resources, including finance...”<sup>i</sup>

In addition, studies show that renewable power portfolios have outperformed listed fossil fuel portfolios in all markets.<sup>ii</sup> Global renewable power stocks posted 426% return since 2010<sup>iii</sup> way outperforming fossil fuel returns. Divesting from fossil fuels is not only achievable and a smart financial move but critical in moving the needle to a carbon free future.

Mahalo for the opportunity to testify in support of this measure.

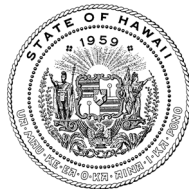
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<sup>i</sup> [https://www.ipcc.ch/report/ar6/wg2/downloads/report/IPCC\\_AR6\\_WGII\\_SummaryForPolicymakers.pdf](https://www.ipcc.ch/report/ar6/wg2/downloads/report/IPCC_AR6_WGII_SummaryForPolicymakers.pdf)

<sup>ii</sup> <https://www.iea.org/reports/clean-energy-investing-global-comparison-of-investment-returns>

<sup>iii</sup> <https://www.bloomberg.com/news/articles/2021-03-18/renewable-returns-tripled-versus-fossil-fuels-in-last-decade?leadSource=uverify%20wall>

JOSH GREEN, M.D.  
GOVERNOR



LUIS P. SALAVERIA  
DIRECTOR

SABRINA NASIR  
DEPUTY DIRECTOR

EMPLOYEES' RETIREMENT SYSTEM  
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND  
OFFICE OF THE PUBLIC DEFENDER

STATE OF HAWAII  
DEPARTMENT OF BUDGET AND FINANCE  
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ADMINISTRATIVE AND RESEARCH OFFICE  
BUDGET, PROGRAM PLANNING AND MANAGEMENT DIVISION  
FINANCIAL ADMINISTRATION DIVISION  
OFFICE OF FEDERAL AWARDS MANAGEMENT

**WRITTEN ONLY**

TESTIMONY BY LUIS P. SALAVERIA  
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE  
TO THE HOUSE COMMITTEE ON ENERGY & ENVIRONMENTAL PROTECTION  
ON  
HOUSE BILL NO. 1506

**February 9, 2023**  
**9:00 a.m.**  
**Room 325 and Videoconference**

RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF HAWAII

The Department of Budget and Finance (B&F) offers comments on this bill.

House Bill No. 1506 amends Section 88-119, HRS, to expand the Employees' Retirement System's (ERS) scope of consideration for venture capital investments to include opportunities in industries that will sustain Hawai'i's natural environment or produce economic opportunities for its residents. The measure also appropriates an undetermined amount of general funds in FY 24 to ERS for the Hawai'i Targeted Investment Program.

B&F notes that it is unclear what purpose the appropriation serves. ERS selects investments based on meeting targeted risk-adjusted investment returns within ERS' portfolio strategy. Venture capital projects are selected by ERS' portfolio managers based on their respective investment evaluation process, criteria and ERS approved investment objectives for the manager. Additional funds provided beyond the statutorily required employer contributions will still need be invested in a manner that meets the

ERS' overall portfolio strategy. Further, these additional contributions will not solely benefit the State since the ERS is a cost sharing pension system with the counties.

Thank you for your consideration of our comments.

JOSH GREEN, M.D.  
GOVERNOR



THOMAS WILLIAMS  
EXECUTIVE DIRECTOR

KANOE MARGOL  
DEPUTY EXECUTIVE DIRECTOR

**STATE OF HAWAII**  
**EMPLOYEES' RETIREMENT SYSTEM**

**TESTIMONY BY THOMAS WILLIAMS**  
**EXECUTIVE DIRECTOR, EMPLOYEES' RETIREMENT SYSTEM**  
**STATE OF HAWAII**

**TO THE HOUSE COMMITTEE ON ENERGY & ENVIRONMENTAL PROTECTION**

**ON**

**HOUSE BILL NO. 1506**

**February 9, 2023**

**9:00 A.M.**

**Conference Room 325 & Videoconference**

**RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF  
HAWAII**

Chair Lowen, Vice Chair Cochran, and Members of the Committee,

H.B. 1506 requires the Employees' Retirement System ("ERS" or "System"), in evaluating venture capital investments, to consider opportunities in industries that will sustain Hawaii's natural environment or produce economic opportunities for its residents, including renewable energy businesses and businesses that use the investment capital to acquire the infrastructure and services needed to become energy sustainable, and appropriates funds to be expended by the ERS.

It is our understanding the intent of this bill was not to interfere with the ERS' established investment policies or the ERS' fiduciary duty to prudently invest trust assets. Nor was it intended to limit global and diversified investment opportunity. Rather, we understand this bill was intended to encourage the expansion of allowable opportunities for consideration within the current Hawaii Targeted Investment Program, which the ERS can and does support. The ERS further understands the appropriation in this bill is intended to better position the System to meet its responsibilities to its members while also lowering the System's unfunded liability, which the ERS also supports. The ERS therefore respectfully offers the following comments to assist with the implementation of the bill.



**Employees' Retirement System**  
of the State of Hawaii

The ERS is a tax-exempt, qualified defined benefit public pension plan under Section 401(a) of the Internal Revenue Code. In order to maintain its federal tax-exempt status, Section 88-22.5(a), Hawaii Revised Statutes, mandates that the ERS is to ensure that “no part of the corpus or income of the system shall be used for or diverted to purposes other than for the exclusive benefit of members and their beneficiaries.” The ERS is concerned that this bill, as currently drafted, could be construed as requiring the ERS to consider investing System funds with the intent of serving a purpose other than for the exclusive benefit of its members and their beneficiaries. Furthermore, a requirement to pursue geographically concentrated and relatively illiquid business ventures may also breach the ERS Board’s adopted Investment Policy, which ensures investment in accordance with Uniform Prudent Investor Standards.

In order to address the above concerns, the ERS respectfully requests the consideration of the attached proposed amendments. The proposed amendments clarify that the consideration of collateral benefits will not infringe upon the ERS’ prudent management of System assets and fulfillment of its statutory obligation to invest System funds for the exclusive benefit of its members and their beneficiaries. The proposed amendments further ensure that the ERS will have sufficient time and resources to implement this bill. Should the amendments be adopted, ERS is prepared to support this bill and commit to the continued evaluation of local investment opportunities that meets the requirements necessary to promote steady, compounded wealth for our beneficiaries through prudent risk-adjusted return generation.

Thank you for the opportunity to provide testimony on H.B. 1506.

Attachment (2 pages)

## ERS PROPOSED AMENDMENTS TO H.B. 1506

1. In Section 1, delete lines 13 to 16 on page 3 of the bill:

~~“[The legislature seeks opportunities that provide for Hawaii's economic growth that benefit its residents, protect the environment, and minimize financial burdens on current and future generations.]”~~

2. In Section 1, in lines 3 to 14 on page 4 of the bill, modify language to clarify that the bill “encourages” consideration:

“(1) [~~Requiring~~] Encouraging the employees' retirement system to consider opportunities in industries that will sustain Hawaii's natural environment or produce economic opportunities for its residents, including renewable energy businesses and businesses that use the investment capital to acquire the infrastructure and services needed to become energy sustainable, in evaluating venture capital investments; provided that if the board determines that it is not prudent to invest in any Hawaii venture capital meeting this description, the board shall report the rationale for the decision in its annual report to the legislature; and”

3. In Section 2, in line 19 on page 4 of the bill, add language to clarify that all investments must be for the exclusive benefit of the System’s members and their beneficiaries:

“§88-119 Investments. The purpose of investments shall be the exclusive benefit of the members and their beneficiaries. Investments may be made in:”

4. In Section 2, in lines 1 to 10 on page 14 of the bill, add language to clarify that the exclusive benefit of the System’s members and their beneficiaries must be considered and allowing consideration of collateral benefits to the State’s economy and natural environment:

“In evaluating venture capital investments, the board shall consider the benefits to the members and their beneficiaries, but may also consider, among other things, the impact an investment may have on job creation in Hawaii an on the state economy and opportunities in industries that will sustain Hawaii's natural environment or produce economic opportunities for its residents, including renewable energy businesses and businesses that use the investment capital to acquire the infrastructure and services needed to become energy sustainable.”

5. In Section 3, in lines 3 to 12 on page 15 of the bill, modify language to clarify that the appropriated funds may be invested by the ERS, giving due consideration to but not requiring actual investment in HITIP, and that the appropriated funds will not lapse at the end of the biennium:

“SECTION 3. There is appropriated out of the general revenues of the State of Hawaii the sum of \$ \_\_\_\_\_ or so much thereof as may be necessary for fiscal year 2023-2024 [~~for the Hawaii targeted investment program; provided that until the employees' retirement system performs its due diligence in accordance with section E of its investment policy and commits and distributes these funds to the investment opportunity, the employees' retirement system shall treat this appropriation as an addition~~”

to the annual employer contributions required in section 88-123, Hawaii Revised Statutes.] to be invested by the employees' retirement system, provided that the employees' retirement system shall give due consideration to investing such moneys from the appropriation in the Hawaii targeted investment program.”

6. In Section 4, in line 15 on page 15 of the bill, add language to clarify that Section 2 of the bill shall not take effect unless the amount allotted is released to ERS:

“SECTION 4. This Act shall take effect on July 1, 2023[-]; provided that section 2 of this bill shall not take effect unless any amounts allotted have been released to the employees' retirement system.”



**HB-1506**

Submitted on: 2/4/2023 2:14:42 PM

Testimony for EEP on 2/9/2023 9:00:00 AM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Testify</b>
Gerard Silva	Individual	Oppose	Written Testimony Only

Comments:

Opposed to this Crap. They Have bin doning Just Find the way they are Handiling the Investments so Far. Let them do there job and the Government should stay the HELL out of this. Before you will have to Face the People for Screwing things up Again!!!!

**HB-1506**

Submitted on: 2/5/2023 1:41:22 PM

Testimony for EEP on 2/9/2023 9:00:00 AM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Testify</b>
Will Caron	Individual	Support	Written Testimony Only

Comments:

I support HB1506.