
A BILL FOR AN ACT

RELATING TO THE INNOVATION ECONOMY.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

1 PART I

2 SECTION 1. The legislature finds that Hawaii's desire for
3 economic growth that benefits all residents depends on building
4 our State's human resources.

5 Realization of Hawaii's longstanding desire for economic
6 diversification and sustainability turns on applying the State's
7 high skilled resources to the creation and adoption of
8 innovation across the economy.

9 This Act creates an innovation economy by:

10 (1) Encouraging the employees' retirement system to invest
11 in Hawaii venture capital by removing any liability to
12 fiduciaries for investing moderate amounts in Hawaii
13 venture capital which allows the retirement system to
14 achieve superior investment returns for the pension
15 fund, attracts private investment capital and
16 expertise, and assists the growth of Hawaii's
17 technology companies and high growth businesses;



- 1 (2) Improving the State's ability to measure the
2 productivity of Hawaii's economy as well as measure and
3 assess the effectiveness of benchmarks enacted by the
4 legislature to improve our economic situation;
- 5 (3) Supporting the operations and programs of a State
6 operated technology incubator and innovation center in
7 the Kaka'ako district of downtown Honolulu;
- 8 (4) Establishing a local incubator facility to provide a
9 cohesive and integrated site for developing Hawaii's
10 digital media infrastructure for film and television
11 productions and interactive game development;
- 12 (5) Establishing at the University of Hawaii - Honolulu
13 community college a support and training system to be
14 known as the music and enterprise learning experience
15 program to develop the technical business skills
16 required by Hawaii's artists and music industry; and
- 17 (6) Enhancing the ability of the University of Hawaii's
18 office of technology transfer and economic development
19 to increase commercialization and the number of
20 licensing agreements by providing funds for the office
21 of technology transfer and economic development to



1 enter into a partnership with a qualified and
2 experienced private sector entity. This partnership
3 will provide the University of Hawaii with resources
4 and expertise to accelerate the number of discoveries
5 disclosed and the number of partnerships and
6 arrangements to commercialize those discoveries. Both
7 the private sector partner and the University of
8 Hawaii will contribute to this commercialization joint
9 venture and share in the returns from their efforts.

10 PART II

11 SECTION 2. The legislature finds that economic growth and
12 diversification throughout many communities have been enhanced
13 by the availability of venture capital funding for entrepreneurs
14 who are able to attract capital and build innovative new
15 ventures. Well-known regions such as Silicon Valley; Route 128
16 in Boston; Austin, Texas; and the Research Triangle in North
17 Carolina have benefited greatly from the combination of
18 scientific research, an entrepreneurial culture driving high
19 technology growth, and funding availability for early stage
20 equity investments. Other areas similar in size and population
21 to Hawaii, including San Diego, Salt Lake City, Seattle, and



1 Boulder have also developed strong technology-based businesses
2 with the assistance of venture capital.

3 The source of this venture capital is derived largely
4 through employee pension funds. Of the approximately \$25
5 billion of venture investment taking place in 2006, over half
6 was provided by pension funds. Many public pension funds target
7 investments in-state to provide enhanced returns to pensioners
8 and support the development of high-growth businesses within
9 local communities.

10 The employees' retirement system of the State of Hawaii has
11 committed approximately \$300,000,000 to the alternative asset
12 category, including venture capital, but none of it is invested
13 in Hawaii. The legislature finds that this lack of investment
14 in Hawaii venture capital by the employees' retirement system may
15 be due to a lack of large-scale qualified investment
16 opportunities and concerns over the possible breach of fiduciary
17 duty and prudent investor rules related to early stage
18 investing. Some jurisdictions such as Arkansas and Michigan
19 encourage local investment by pension funds by relieving
20 fiduciaries of liability for investing in local venture capital.
21 Others, such as the state of Oregon, have legislated investment



1 by the public pension fund in local venture capital where
2 prudent.

3 SECTION 3. Chapter 88, Hawaii Revised Statutes, is amended
4 by adding a new section to be appropriately designated and to
5 read as follows:

6 "§88- Limited investments in privately-held Hawaii
7 companies authorized. (a) Unless prohibited by federal law or
8 regulations promulgated thereunder, and notwithstanding any law
9 to the contrary, or rules adopted pursuant thereto, fiduciaries
10 as defined in section 211F-1 may invest in Hawaii venture
11 capital investments up to two and one-half per cent of their
12 funds eligible for investment; provided that their total outlay
13 in Hawaii venture capital investments shall not be more than ten
14 per cent of their capital, which includes common capital stock,
15 certified surplus, capital notes, and undivided profits.
16 Fiduciaries acting in accordance with this section shall not be
17 in violation of any prudent person or prudent investor rule. If
18 any venture capital investments in privately-held Hawaii
19 companies are in violation of this chapter by virtue of a
20 subsequent reduction in the amount of funds eligible for
21 investment, the fiduciary shall not be in violation of any
22 prudent person or prudent investor rule.



1 (b) The director of any agency whose duties and powers
2 include regulating the activities of any fiduciaries governed by
3 this chapter may adopt rules for the implementation of this
4 chapter in accordance with chapter 91."

5 SECTION 4. Section 88-119, Hawaii Revised Statutes, is
6 amended by adding five new definitions to be appropriately
7 inserted and to read as follows:

8 "Agency" means each state or county board, commission,
9 department, or officer authorized by law to make rules, except
10 those in the legislative or judicial branches.

11 "Fiduciaries" means pension funds, corporations, limited
12 liability companies, partnerships, banks, savings institutions,
13 trust companies, and the officers, directors, trustees,
14 partners, managers, advisors, employees, and representatives of
15 the employees' retirement system of the State of Hawaii.

16 "Hawaii venture capital investments" means any of the
17 following investments in a business:

18 (1) Direct debt and equity investments in privately-held
19 Hawaii companies; and

20 (2) Investment in limited partnerships, limited liability
21 companies, or other entities that make private debt
22 and equity investments in privately-held Hawaii



1 companies, whether directly or through investments in
2 limited partnerships, limited liability companies, or
3 other entities, including but not limited to
4 investments consisting of shares of capital stock,
5 convertible notes and other debt instruments,
6 securities, warrants, options, or other rights to
7 acquire such securities from privately-held Hawaii
8 companies.

9 "Privately-held Hawaii companies" means any privately-held
10 corporation, limited liability company, partnership, or other
11 entity that is headquartered, or has substantial operations, in
12 Hawaii.

13 "System" means the employees' retirement system of the State
14 of Hawaii."

15 SECTION 5. Section 88-119, Hawaii Revised Statutes, is
16 amended to read as follows:

17 "**§88-119 Investments.** Investments may be made in:

- 18 (1) Real estate loans and mortgages. Obligations (as
19 defined in section 431:6-101) of any of the following
20 classes:



- 1 (A) Obligations secured by mortgages of nonprofit
2 corporations desiring to build multirental units
3 (ten units or more) subject to control of the
4 government for occupancy by families displaced as
5 a result of government action;
- 6 (B) Obligations secured by mortgages insured by the
7 Federal Housing Administration;
- 8 (C) Obligations for the repayment of home loans made
9 under the Servicemen's Readjustment Act of 1944
10 or under Title II of the National Housing Act;
- 11 (D) Other obligations secured by first mortgages on
12 unencumbered improved real estate owned in fee
13 simple; provided that the amount of the
14 obligation at the time investment is made therein
15 shall not exceed eighty per cent of the value of
16 the real estate and improvements mortgaged to
17 secure it, and except that the amount of the
18 obligation at the time investment is made therein
19 may exceed eighty per cent but no more than
20 ninety per cent of the value of the real estate
21 and improvements mortgaged to secure it; provided
22 further that the obligation is insured or



1 guaranteed against default or loss under a
2 mortgage insurance policy issued by a casualty
3 insurance company licensed to do business in the
4 State. The coverage provided by the insurer
5 shall be sufficient to reduce the system's
6 exposure to not more than eighty per cent of the
7 value of the real estate and improvements
8 mortgaged to secure it. The insurance coverage
9 shall remain in force until the principal amount
10 of the obligation is reduced to eighty per cent
11 of the market value of the real estate and
12 improvements mortgaged to secure it, at which
13 time the coverage shall be subject to
14 cancellation solely at the option of the board.
15 Real estate shall not be deemed to be encumbered
16 within the meaning of this subparagraph by reason
17 of the existence of any of the restrictions,
18 charges, or claims described in section 431:6-
19 308;

20 (E) Other obligations secured by first mortgages of
21 leasehold interests in improved real estate;
22 provided that:



1 (i) Each leasehold interest at the time shall
2 have a current term extending at least two
3 years beyond the stated maturity of the
4 obligation it secures; and
5 (ii) The amount of the obligation at the time
6 investment is made therein shall not exceed
7 eighty per cent of the value of the
8 respective leasehold interest and
9 improvements, and except that the amount of
10 the obligation at the time investment is
11 made therein may exceed eighty per cent but
12 no more than ninety per cent of the value of
13 the leasehold interest and improvements
14 mortgaged to secure it;
15 provided further that the obligation is insured
16 or guaranteed against default or loss under a
17 mortgage insurance policy issued by a casualty
18 insurance company licensed to do business in the
19 State. The coverage provided by the insurer
20 shall be sufficient to reduce the system's
21 exposure to not more than eighty per cent of the
22 value of the leasehold interest and improvements



1 mortgaged to secure it. The insurance coverage
2 shall remain in force until the principal amount
3 of the obligation is reduced to eighty per cent
4 of the market value of the leasehold interest and
5 improvements mortgaged to secure it, at which
6 time the coverage shall be subject to
7 cancellation solely at the option of the board;

8 (F) Obligations for the repayment of home loans
9 guaranteed by the department of Hawaiian home
10 lands pursuant to section 214(b) of the Hawaiian
11 Homes Commission Act, 1920; and

12 (G) Obligations secured by second mortgages on
13 improved real estate for which the mortgagor
14 procures a second mortgage on the improved real
15 estate for the purpose of acquiring the
16 leaseholder's fee simple interest in the improved
17 real estate; provided that any prior mortgage
18 does not contain provisions that might jeopardize
19 the security position of the retirement system or
20 the borrower's ability to repay the mortgage
21 loan.



1 The board may retain the real estate, including
2 leasehold interests therein, as it may acquire by
3 foreclosure of mortgages or in enforcement of
4 security, or as may be conveyed to it in satisfaction
5 of debts previously contracted; provided that all the
6 real estate, other than leasehold interests, shall be
7 sold within five years after acquiring the same,
8 subject to extension by the governor for additional
9 periods not exceeding five years each, and that all
10 the leasehold interests shall be sold within one year
11 after acquiring the same, subject to extension by the
12 governor for additional periods not exceeding one year
13 each;

14 (2) Government obligations, etc. Obligations of any of
15 the following classes:

16 (A) Obligations issued or guaranteed as to principal
17 and interest by the United States or by any state
18 thereof or by any municipal or political
19 subdivision or school district of any of the
20 foregoing; provided that principal of and
21 interest on the obligations are payable in
22 currency of the United States; or sovereign debt



- 1 instruments issued by agencies of, or guaranteed
2 by foreign governments;
- 3 (B) Revenue bonds, whether or not permitted by any
4 other provision hereof, of the State or any
5 municipal or political subdivision thereof,
6 including the board of water supply of the city
7 and county of Honolulu, and street or improvement
8 district bonds of any district or project in the
9 State; and
- 10 (C) Obligations issued or guaranteed by any federal
11 home loan bank including consolidated federal
12 home loan bank obligations, the Home Owner's Loan
13 Corporation, the Federal National Mortgage
14 Association, or the Small Business
15 Administration;
- 16 (3) Corporate obligations. Below investment grade or
17 nonrated debt instruments, foreign or domestic, in
18 accordance with investment guidelines adopted by the
19 board;
- 20 (4) Preferred and common stocks. Shares of preferred or
21 common stock of any corporation created or existing



1 under the laws of the United States or of any state or
2 district thereof or of any country;

3 (5) Obligations eligible by law for purchase in the open
4 market by federal reserve banks;

5 (6) Obligations issued or guaranteed by the International
6 Bank for Reconstruction and Development, the
7 Inter-American Development Bank, the Asian Development
8 Bank, or the African Development Bank;

9 (7) Obligations secured by collateral consisting of any of
10 the securities or stock listed above and worth at the
11 time the investment is made at least fifteen per cent
12 more than the amount of the respective obligations;

13 (8) Insurance company obligations. Contracts and
14 agreements supplemental thereto providing for
15 participation in one or more accounts of a life
16 insurance company authorized to do business in Hawaii,
17 including its separate accounts, and whether the
18 investments allocated thereto are comprised of stocks
19 or other securities or of real or personal property or
20 interests therein;

21 (9) Interests in real property. Interests in improved or
22 productive real property in which, in the informed



1 opinion of the board, it is prudent to invest funds of
2 the system. For purposes of this paragraph, "real
3 property" includes any property treated as real
4 property either by local law or for federal income tax
5 purposes. Investments in improved or productive real
6 property may be made directly or through pooled funds,
7 including common or collective trust funds of banks
8 and trust companies, group or unit trusts, limited
9 partnerships, limited liability companies, investment
10 trusts, title-holding corporations recognized under
11 section 501(c) of the Internal Revenue Code of 1986,
12 as amended, similar entities that would protect the
13 system's interest, and other pooled funds invested on
14 behalf of the system by investment managers retained
15 by the system;

- 16 (10) Other securities and futures contracts. Securities
17 and futures contracts in which in the informed opinion
18 of the board it is prudent to invest funds of the
19 system, including currency, interest rate, bond, and
20 stock index futures contracts and options on the
21 contracts to hedge against anticipated changes in
22 currencies, interest rates, and bond and stock prices



1 that might otherwise have an adverse effect upon the
2 value of the system's securities portfolios; covered
3 put and call options on securities; and stock; whether
4 or not the securities, stock, futures contracts, or
5 options on futures are expressly authorized by or
6 qualify under the foregoing paragraphs, and
7 notwithstanding any limitation of any of the foregoing
8 paragraphs (including paragraph (4)); and

9 (11) Private placements. Investments in institutional
10 blind pool limited partnerships, limited liability
11 companies, or direct investments that make private
12 debt and equity investments in [~~privately held~~
13 privately-held companies, including but not limited to
14 investments in Hawaii high technology businesses or
15 venture capital investments that, in the informed
16 opinion of the board, are appropriate to invest funds
17 of the system. In evaluating venture capital
18 investments, the board shall consider [~~, among other
19 things, the impact an investment may have on job
20 creation in Hawaii and on the state economy.~~] Hawaii
21 venture capital investment opportunities unless, under
22 the circumstances, it is not prudent to do so. At any



1 The Hawaii Institute for Policy Affairs in its *2005 Policy*
2 *Review*, recommended that Hawaii set goals and invest in the
3 collection of data needed to track progress in what it called
4 "new economy" areas. In particular, the Hawaii Institute for
5 Policy Affairs recommended, "collection of new data such as
6 service exports, training, and education outside of the
7 traditional school system, the self-sufficiency wage, job
8 creation, and other impacts of business tax credits, and quality
9 of life indicators." Currently, there are no data on service
10 exports, except for tourism. Such data are expensive and
11 difficult to collect through general surveys. A focused effort
12 is needed to build a database of these and other measures of an
13 innovative economy.

14 Evaluations of economic impacts and growth are the
15 responsibility of the department of business, economic
16 development, and tourism. Economists, whose primary
17 responsibility is the measurement of economic impacts, are a
18 primary resource for conducting economic analyses of existing
19 economic incentive programs.

20 The purpose of this part is to improve the State's ability
21 to measure the productivity of and progress toward achieving



1 innovation in Hawaii's economy as well as to assess the
2 effectiveness of measures enacted by the legislature to improve
3 Hawaii's economic situation. Specifically, this part will:

4 (1) Task the department of business, economic development,
5 and tourism to accomplish this purpose; and

6 (2) Provide the department with funding and positions to
7 address these tasks.

8 SECTION 7. Section 201-3, Hawaii Revised Statutes, is
9 amended to read as follows:

10 "§201-3 **Specific research and promotional functions of the**
11 **department.** Without prejudice to its general functions and
12 duties the department of business, economic development, and
13 tourism shall have specific functions in the following
14 areas:

15 (1) Industrial development. The department shall
16 determine through technical and economic surveys the
17 profit potential of new or expanded industrial
18 undertakings; develop through research projects and
19 other means new and improved industrial products and
20 processes; promote studies and surveys to determine
21 consumer preference as to design and quality and to
22 determine the best methods of packaging, transporting,



1 and marketing the State's industrial products;
2 disseminate information to assist the present
3 industries of the State, to attract new industries to
4 the State, and to encourage capital investment in
5 present and new industries in the State; assist
6 associations of producers and distributors of
7 industrial products to introduce such products to
8 consumers; and make such grants or contracts as may be
9 necessary or advisable to accomplish the foregoing;

10 (2) Land development. The department shall encourage the
11 most productive use of all land in the State in
12 accordance with a general plan developed by the
13 department; encourage the improvement of land tenure
14 practices on leased private lands; promote an
15 informational program directed to landowners,
16 producers of agricultural and industrial commodities,
17 and the general public regarding the most efficient
18 and most productive use of the lands in the State; and
19 make such grants or contracts as may be necessary or
20 advisable to accomplish the foregoing;

21 (3) Credit development. The department shall conduct a
22 continuing study of agricultural and industrial credit



1 needs; encourage the development of additional private
2 and public credit sources for agricultural and
3 industrial enterprises; promote an informational
4 program to acquaint financial institutions with
5 agricultural and industrial credit needs and the
6 potential for agricultural and industrial expansion,
7 and inform producers of agricultural and industrial
8 products as to the manner in which to qualify for
9 loans; and make such grants or contracts as may be
10 necessary or advisable to accomplish the foregoing;

11 (4) Promotion. The department shall disseminate
12 information developed for or by the department
13 pertaining to economic development to assist present
14 industry in the State, attract new industry and
15 investments to the State, and assist new and emerging
16 industry with good growth potential or prospects in
17 jobs, exports, and new products. The industrial and
18 economic promotional activities of the department may
19 include the use of literature, advertising,
20 demonstrations, displays, market testing, lectures,
21 travel, motion picture and slide films, and such other



1 promotional and publicity devices as may be
2 appropriate; [and]
3 (5) Tourism research and statistics. The department shall
4 maintain a program of research and statistics for the
5 purpose of:
6 (A) Measuring and analyzing tourism trends;
7 (B) Providing information and research to assist in
8 the development and implementation of state
9 tourism policy;
10 (C) Encouraging and arranging for the conduct of
11 tourism research and information development
12 through voluntary means or through contractual
13 services with qualified agencies, firms, or
14 persons; and
15 (D) Providing tourism information to policy makers,
16 the public, and the visitor industry. This
17 includes:
18 (i) Collecting and publishing visitor-related
19 data including visitor arrivals, visitor
20 characteristics, and expenditures;



- 1 (ii) Collecting and publishing hotel-related
2 statistics including the number of units
3 available, occupancy rates, and room rates;
4 (iii) Collecting and publishing airline-related
5 data including seat capacity and number of
6 flights;
7 (iv) Collecting information and conducting
8 analyses of the economic, social, and
9 physical impacts of tourism on the State;
10 (v) Conducting periodic studies of the impact of
11 ongoing marketing programs of the Hawaii
12 tourism authority on Hawaii's tourism
13 industry, employment in Hawaii, state taxes,
14 and the State's lesser known and
15 underutilized destinations;
16 (vi) Cooperate with the Hawaii tourism authority
17 and provide it with the above information in
18 a timely manner[-]

19 and

- 20 (6) Assessment. The department shall assess the
21 effectiveness of economic development initiatives,



1 specifically related to the innovation economy
2 proposals in Acts , , and ."

3 The department shall be the control agency to coordinate film
4 permit activities in the State.

5 SECTION 8. Section 383-95, Hawaii Revised Statutes, is
6 amended to read as follows:

7 "**§383-95 Disclosure of information.** (a) Except as
8 otherwise provided in this chapter, information obtained from
9 any employing unit or individual pursuant to the administration
10 of this chapter and determinations as to the benefit rights of
11 any individual shall be held confidential and shall not be
12 disclosed or be open to public inspection in any manner
13 revealing the individual's or employing unit's identity. Any
14 claimant (or the claimant's legal representative) shall be
15 supplied with information from the records of the department to
16 the extent necessary for the proper presentation of the
17 claimant's claim in any proceeding under this chapter. Subject
18 to such restrictions as the director may by rule prescribe, and
19 costs incurred in furnishing the information are reimbursed to
20 the department and all safeguards are established as are
21 necessary to ensure that information furnished by the department



1 is used only for authorized purposes, the information and
2 determinations may be made available to:

3 (1) Any federal or state agency charged with the
4 administration of an unemployment compensation law or
5 the maintenance of a system of public employment
6 offices;

7 (2) The Bureau of Internal Revenue of the United States
8 Department of Treasury;

9 (3) Any federal, state, or municipal agency charged with
10 the administration of a fair employment practice or
11 anti-discrimination law;

12 (4) Any other federal, state, or municipal agency if the
13 director deems that the disclosure to the agency
14 serves the public interest; and

15 (5) Any federal, state, or municipal agency if the
16 disclosure is authorized under section 303 of the
17 Social Security Act and section 3304 of the Internal
18 Revenue Code of 1986, as amended.

19 (b) Information obtained in connection with the
20 administration of the employment service may be made available
21 to persons or agencies for purposes appropriate to the operation
22 of a public employment service.



1 (c) Upon requests therefore the department shall furnish
2 to any agency of the United States charged with the
3 administration of public works or assistance through public
4 employment, and may furnish to any state agency similarly
5 charged, the name, address, ordinary occupation and employment
6 status of each recipient of benefits and the recipient's rights
7 to further benefits under this chapter.

8 (d) The department may request the comptroller of the
9 currency of the United States to cause an examination of the
10 correctness of any return or report of any national banking
11 association rendered pursuant to this chapter, and may in
12 connection with the request transmit any of the report or return
13 to the comptroller of the currency of the United States as
14 provided in section 3305(c) of the federal Internal Revenue
15 Code.

16 (e) The director of business, economic development, and
17 tourism may identify and request the types of data necessary
18 from the department required to perform the analyses of
19 innovation economy initiatives as required by section 201-3.
20 Data shall be provided by the department at an aggregate level
21 so as not to compromise the identity of individual tax payers or
22 businesses."



1 PART IV

2 SECTION 9. Kajima Urban Development International and
3 Phase 3 Properties competitively bid for, and was selected by
4 Kamehameha Schools as the developer of the Asia Pacific
5 International Research Center, a four hundred thousand square
6 foot class 'A' life sciences research complex on 4.98 acres
7 located in Kaka'ako makai of Ala Moana Boulevard, and adjacent
8 to the University of Hawaii John A. Burns School of Medicine.

9 Kamehameha Schools and Kajima Urban Development
10 International and Phase 3 Properties are negotiating with the
11 high technology development corporation, an agency of the State,
12 to commit to a ten-year lease agreement secured with a state
13 guaranty for approximately ninety-nine thousand square feet of
14 laboratory and office space on three floors. The high
15 technology development corporation will operate a technology
16 incubator and innovation center, which will support the efforts
17 of the University of Hawaii's John A. Burns school of medicine,
18 and related bioscience research institutions.

19 There are local fledgling start-up high technology
20 companies trying to attain required financing. Once they
21 achieve such financing, it is critical that they commit their
22 core capital to research rather than have the core capital tied



1 up in onerous credit enhancement tools, such as security
2 deposits or letters of credit required by the lending community
3 to finance complex and expensive wet laboratory infrastructure
4 developments. A guaranty of the lease agreement by the State
5 for the high technology development corporation to lease a
6 portion of the Asia Pacific International Research Center will
7 reduce the risk and cost of this unique project for these start-
8 up companies and thereby provide the necessary initial boost to
9 Hawaii's life science industry.

10 The statutory purpose and mission of the corporation is to
11 grow Hawaii's high technology industry, including its fledging
12 life science industry. For the high technology development
13 corporation to grow these technology industries, it must be able
14 to provide incubator and laboratory facilities to qualified
15 start-up companies.

16 The project allows the State to become proactive in growing
17 incubation and innovation space without the burden or cost of
18 constructing the building.

19 Kamehameha Schools is committed to redeveloping other
20 buildings in the area to support innovation industries. Phase 2
21 of Kamehameha Schools' development more than doubles innovation
22 space in Kaka'ako for future cluster growth, ultimately



1 resulting in a total of four hundred thousand square feet of
2 laboratory and office space dedicated to the technology
3 industry. The ninety-nine thousand square feet of the Asia
4 Pacific International Research Center represents less than
5 twenty-five per cent of the total Kamehameha Schools development
6 in Kaka'ako.

7 The negotiations between the high technology development
8 corporation and the department of budget and finance with
9 Kamehameha Schools and/or Kajima Urban Development
10 International, or both, and Phase 3 Properties shall consider as
11 a means to reducing cost to the State:

- 12 (1) An estimated \$80,000,000 in private sector investment;
- 13 (2) The reasonable application of amounts that result from
14 a \$28,000,000 federal new market tax credit to reduce
15 the State's rental costs;
- 16 (3) The replacement of incubation and innovation space
17 when the high technology development corporation land
18 lease agreement with the University of Hawaii for
19 Manoa innovation center expires in ten years;
- 20 (4) The speed at which the private sector is able to
21 construct new projects, particularly wet laboratories;



- 1 (5) A monetary contribution in the form of a lease reserve
2 fund by Kamehameha Schools and Kajima Urban
3 Development International/Phase3 to reduce the
4 effective cost of the lease agreement to the State for
5 ten years;
- 6 (6) Commitments by Kamehameha Schools and/or Kajima Urban
7 Development International and Phase 3 Properties to
8 pre-lease two-thirds of the space to the State;
- 9 (7) Enhancements that accrue or result from this
10 development; and
- 11 (8) Any and all other appropriate considerations as
12 determined by the high technology development
13 corporation and department of budget and finance.

14 SECTION 10. The state high technology development
15 corporation, with assistance from the department of business,
16 economic development, and tourism, shall negotiate with the
17 developers, a lease agreement on terms acceptable and
18 satisfactory to the corporation's board of directors and the
19 director of finance, including a lease guaranty for a period of
20 ten years for approximately ninety-nine thousand square feet of
21 laboratory and office space in the Asia Pacific International
22 Research Center in Kaka'ako.



1 SECTION 11. The provisions of this part are not intended
2 to, nor shall they restrict or constrain the lease negotiations
3 of the high technology development corporation and the
4 department of budget and finance with the developers and owners
5 of the Asia Pacific International Research Center. The use of
6 the funds shall be for the purposes provided herein, but the
7 expenditure of the funds shall be at the discretion of the
8 director of finance.

9 PART V

10 SECTION 12. The legislature finds that the digital media
11 industry is a fast-growing niche between the film and technology
12 industries that has begun to emerge in Hawaii as the result of
13 key natural and invested resources in the State. Hawaii's
14 environment is especially suited for this low-polluting industry
15 that creates high-skill, high-paying jobs.

16 Digital media activities include digital filmmaking and
17 visual effects, television and feature film pre-production and
18 post-production, sound design, interactive video game
19 development, computer animation, creative software design,
20 dynamic web design, and distribution.

21 This growth industry requires a local incubator facility to
22 provide a cohesive and integrated site for developing Hawaii's



1 digital media infrastructure for film and television productions
2 and interactive game development. This incubator would be a
3 state-of-the-art mixed use facility that combines industry,
4 government, and academic entities. In addition to providing a
5 collaborative learning environment for students, faculty, and
6 professionals in the field, the facility will serve as an
7 incubator for digital media businesses and as a research and
8 development lab for the creation of intellectual property.

9 SECTION 13. The department of business, economic
10 development, and tourism, in coordination with the University of
11 Hawaii, shall oversee the leasing, operating, and maintenance of
12 a digital media incubator facility. The department may enter
13 into contracts with other government agencies, the county
14 economic development boards, other nonprofit organizations, or
15 for-profit firms for the purpose of the program.

16 The facility shall be leased to a mix of anchor tenants,
17 virtual tenants, and project-based tenants. The facility should
18 contain a mix of workstations, conference rooms, private
19 offices, a common lounge and kitchen area, a reception area,
20 secure air-conditioned server rooms, and possibly a small
21 soundstage for stop-motion animation, 3D modeling and printing
22 center, and other more spatially dependent projects.



1 For the purposes of this section:

2 "Anchor tenants" means digital media companies with a
3 regular cash flow that need a fixed address and would benefit
4 from sharing a common environment with other digital media
5 companies.

6 "Virtual tenants" means less developed companies with
7 uneven cash flow that are just starting out and may need a place
8 to do business from time to time.

9 "Project-based tenants" means television and film
10 production teams that need to lease space for a finite amount of
11 time to complete a particular project.

12 PART VI

13 SECTION 14. The purpose of this part is to establish at
14 the University of Hawaii - Honolulu community college a support
15 and training system to be known as the music and enterprise
16 learning experience program to develop the technical business
17 skills required by Hawaii's artists and music industry.

18 Hawaii's music industry is a growing segment of Hawaii's
19 creative industries sector, with a growing popularity reaching
20 far beyond the shores of our island state. Full recognition of
21 the merits of Hawaiian music came in 2005 when the National
22 Academy of Recording Arts and Sciences announced the creation of



1 a Hawaiian music category in its annual Grammy Awards, the
2 world's most prestigious music awards program.

3 It has long been noted that while Hawaii has an unusually
4 high concentration of raw musical talent and industry
5 professionals, it lacks the technical support infrastructure to
6 assist individuals in the progression of their careers and
7 businesses.

8 The University of Hawaii - Honolulu Community College has
9 been working to build alliances with national and local members
10 of the entertainment industry for the music and enterprise
11 learning experience program. The music and enterprise learning
12 experience program combines short-term professional training
13 workshops, songwriter seminars, an associate degree program in
14 music business and production, and a transfer program that
15 allows students to matriculate in Belmont University's music and
16 entertainment management programs, one of the premier music and
17 entertainment educational programs in the nation.

18 SECTION 15. There is established at the University of
19 Hawaii Honolulu community college campus the music and
20 enterprise learning experience program to expand the existing
21 industry capacity, and to create new technological,
22 intercultural, and genre-bending forms of music through



1 creativity and professional business expertise. The music and
2 enterprise learning experience program shall be developed around
3 three primary components: artist creativity, entertainment
4 business expertise, and technical production skills. The
5 program shall collaborate with Belmont University on the joint
6 use of their curriculum, technical facilities and equipment
7 specifications, training, dual credit course offerings, and
8 shall also offer internships in some of the most varied music
9 environments in the world.

10 The program will be seeded through a title III Developing
11 Institutions grant which has been awarded to Honolulu community
12 college's native Hawaiian center, and shall provide for some
13 basic program development of course offerings in coordination
14 with Belmont University.

15 PART VII

16 SECTION 16. Universities that generate new knowledge and
17 discoveries can be important contributors in developing a
18 state's technology-based economy. But for a university to make
19 that contribution there must be effective mechanisms to move
20 innovation into the marketplace. At the University of Hawaii,
21 commercialization assistance is provided by the office of
22 technology transfer and economic development. Activities



1 include securing patents, seeking licensing opportunities, and
2 assisting university researchers to transform ideas and
3 innovations into products ready for commercialization. The
4 office of technology transfer and economic development's ability
5 to fulfill its mandate would be enhanced by collaboration with
6 commercialization experts and funding from the private sector.

7 The purpose of this part is to enhance the ability of the
8 office of technology transfer and economic development to
9 increase commercialization of the University of Hawaii
10 discoveries by providing funds to the department of business,
11 economic development, and tourism to fund a partnership with a
12 qualified and experienced private sector entity to work with the
13 office of technology transfer and economic development. This
14 partnership shall provide the University of Hawaii with
15 resources and expertise to increase the number of discoveries
16 disclosed and the number of partnerships and arrangements to
17 commercialize those discoveries. The department of business,
18 economic development, and tourism, the private sector partner,
19 and the University of Hawaii shall contribute to this
20 commercialization joint venture, and the private sector partner
21 and the University of Hawaii shall share in the returns from
22 their efforts.



1 PART VIII

2 SECTION 17. There is appropriated out of the general
3 revenues of the State of Hawaii the sum of \$250,000 or so much
4 thereof as may be necessary for fiscal year 2007-2008 and the
5 sum of \$415,000 or so much thereof as may be necessary for
6 fiscal year 2008-2009 for the purposes of improving the State's
7 ability to measure the productivity of and progress toward
8 achieving innovation in Hawaii's economy as well as to assess
9 the effectiveness of measures enacted by the legislature to
10 improve Hawaii's economic situation. Of the sums appropriated,
11 \$150,000 in fiscal year 2007-2008 and \$150,000 in fiscal years
12 2008-2009 shall be for the purpose of hiring two permanent full-
13 time equivalent economist positions in the department of
14 business, economic development, and tourism.

15 The sums appropriated shall be expended by the department
16 of business, economic development, and tourism for the purposes
17 of part III of this Act.

18 SECTION 18. There is appropriated out of the general
19 revenues of the State of Hawaii the sum of \$250,000 or so much
20 thereof as may be necessary for the fiscal year 2007-2008 and
21 the sum of \$250,000 or so much thereof as may be necessary for
22 fiscal year 2008-2009 for the lease agreement and guaranty



1 between the high technology development corporation and the
2 developers or owners of the Asia Pacific International Research
3 Center.

4 The sums appropriated shall be expended by the high
5 technology development corporation, an agency administratively
6 attached to the department of business, economic development,
7 and tourism for the purposes of part IV of this Act.

8 SECTION 19. There is appropriated out of the general
9 revenues of the State of Hawaii the sum of \$956,000 or so much
10 thereof as may be necessary for fiscal year 2007-2008 and the
11 sum of \$436,300 or so much thereof as may be necessary for
12 fiscal year 2008-2009 for the purpose of facility improvements,
13 equipment purchase, leasing, operating, and maintaining a
14 digital media incubator facility.

15 Of the sums appropriated, \$599,000 in fiscal year 2007-2008
16 and \$380,300 in fiscal year 2008-2009 shall be expended by the
17 department of business, economic development, and tourism for
18 the purposes of part V of this Act.

19 Of the sums appropriated, \$357,000 in fiscal year 2007-2008
20 and \$56,000 in fiscal year 2008-2009 shall be expended by the
21 University of Hawaii Honolulu community college for the purposes
22 of part V of this Act.



1 SECTION 20. There is appropriated out of the general
2 revenues of the State of Hawaii the sum of \$2,425,500 or so much
3 thereof as may be necessary for fiscal year 2007-2008 and the
4 sum of \$240,000 or so much thereof as may be necessary for
5 fiscal year 2008-2009 to carry out the purpose of leasing,
6 operating, and maintaining a music & entertainment business
7 training center.

8 The sums appropriated shall be expended by the University
9 of Hawaii Honolulu Community College for the purposes of part VI
10 of this Act.

11 SECTION 21. There is appropriated out of the general
12 revenues of the State of Hawaii the sum of \$250,000 or so much
13 thereof as may be necessary for fiscal year 2007-2008 and the
14 sum of \$250,000 or so much thereof as may be necessary for
15 fiscal year 2008-2009 for the public-private university research
16 commercialization partnership.

17 The sums appropriated shall be expended by the department
18 of business, economic development, and tourism for the purposes
19 of part VII of this Act.

20 SECTION 22. Statutory material to be repealed is bracketed
21 and stricken. New statutory material is underscored.

22 SECTION 23. This Act shall take effect on July 1, 2059.



Report Title:

Hawaii Innovation Investment Fund

Description:

Encourages the ERS to invest moderate amounts in Hawaii venture capital. Allows Department of Business, Economic Development, and Tourism to assess the effectiveness of the State investment and economic programs. Supports the operations and programs of a State operated technology incubator and innovation center in Kakaako. Establishes a local incubator facility for digital media infrastructure for film and TV productions and interactive game development. Establishes a music industry program at Honolulu Community College (MELE). Provides funds which allows the UH Office of Technology Transfer and Economic Development to enter into a partnership with a private sector entity. (HB1279 HD2)

