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# A BILL FOR AN ACT

RELATING TO THE INNOVATION ECONOMY.

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

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

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

8           This Act creates an innovation economy by:

9           (1) Encouraging the employees' retirement system to invest  
10           in Hawaii venture capital by:

11           (A) Establishing the Hawaii innovation investment  
12           fund, a professionally-managed fund of funds in  
13           which it may invest; and

14           (B) Removing any liability to fiduciaries for  
15           investing moderate amounts in Hawaii venture  
16           capital,



1 which will allow the retirement system to achieve  
2 superior investment returns for the pension fund,  
3 attract private investment capital and expertise, and  
4 support the growth of Hawaii's technology companies  
5 and high growth businesses;

6 (2) Improving the State's ability to measure the  
7 productivity of Hawaii's economy as well as measure and  
8 assess the effectiveness of benchmarks enacted by the  
9 legislature to improve our economic situation;

10 (3) Supporting the operations and programs of a State  
11 operated technology incubator and innovation center in  
12 the Kaka'ako district of downtown Honolulu;

13 (4) Establishing a local incubator facility to provide a  
14 cohesive and integrated site for developing Hawaii's  
15 digital media infrastructure for film and television  
16 productions and interactive game development;

17 (5) Establishing at the University of Hawaii - Honolulu  
18 community college a support and training system to be  
19 known as the music and enterprise learning experience  
20 program to develop the technical business skills  
21 required by Hawaii's artists and music industry; and





1 scientific research, an entrepreneurial culture driving high  
2 technology growth, and funding availability for early stage  
3 equity investments. Other areas similar in size and population  
4 to Hawaii, including San Diego, Salt Lake City, Seattle, and  
5 Boulder have also developed strong technology-based businesses  
6 with the assistance of venture capital.

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

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



1 encourage local investment by pension funds by relieving  
2 fiduciaries of liability for investing in local venture capital.  
3 Others, such as the state of Oregon, have legislated investment  
4 by the public pension fund in local venture capital where  
5 prudent.

6 The purpose of this part is to encourage the employees'  
7 retirement system to invest in Hawaii venture capital by  
8 establishing the Hawaii innovation investment fund, a  
9 professionally-managed fund of funds, in which the employees'  
10 retirement system may invest. This will allow the retirement  
11 system to achieve investment returns for the pension fund,  
12 attract private investment capital and expertise, and assist the  
13 growth of Hawaii's technology companies and high growth  
14 businesses.

15 SECTION 3. Chapter 211F, Hawaii Revised Statutes, is  
16 amended by adding a new section to be appropriately designated  
17 and to read as follows:

18 "§211F- Hawaii innovation investment fund. (a) There  
19 is established the Hawaii innovation investment fund, into which  
20 shall be deposited:

21 (1) Moneys from the system;



1        (2) Moneys from private investors; and

2        (3) Interest payments and proceeds from investments made  
3        by the fund.

4        (b) Moneys in the Hawaii innovation investment fund shall  
5        be used to invest in Hawaii and other venture capital investment  
6        opportunities.

7        (c) Should the system choose to invest a portion of its  
8        assets in the fund, investment of the fund in one or more  
9        professionally managed venture capital funds or one or more  
10       venture capital fund of funds will be overseen by an advisory  
11       board comprised of seven members as follows:

12       (1) Four members from the business community with  
13       experience in venture capital investing, fund of funds  
14       management, or as an entrepreneur growing companies  
15       and achieving liquidity events;

16       (2) A representative of the board of the employees'  
17       retirement system;

18       (3) A representative of the department of budget and  
19       finance; and

20       (4) A representative of the department of business,  
21       economic development, and tourism or an attached  
22       agency thereof.



1 Members of the advisory board shall be selected based on their  
2 knowledge and ability to successfully manage venture capital  
3 investments, attract capital from local and external sources,  
4 and assist companies to grow.

5 (d) The four private sector members of the advisory board  
6 shall be appointed for staggered terms pursuant to section 26-34  
7 as follows:

8 (1) One shall be appointed by the governor;

9 (2) One shall be appointed by the governor from a list of  
10 three names nominated by the president of the senate;  
11 and

12 (3) One shall be appointed by the governor from a list of  
13 three names nominated by the speaker of the house of  
14 representatives.

15 (e) The representative of the department of business,  
16 economic development, and tourism shall serve as chairperson of  
17 the board until such time as a chairperson is elected by the  
18 board from the membership. The board shall elect such officers  
19 as may be necessary. The members of the advisory board shall  
20 serve without compensation, but may be reimbursed for expenses,  
21 including travel expenses, incurred in the performance of their  
22 duties.



1       (f) The advisory board shall be attached to the department  
2 of business, economic development, and tourism for  
3 administrative purposes.

4       (g) The advisory board shall adopt rules pursuant to  
5 chapter 91 for its conduct and management of the fund and shall  
6 use its best efforts to maximize return on investments by  
7 developing investment strategies for a diverse portfolio focused  
8 on investments in Hawaii to:

- 9       (1) Attract private investment in the fund;  
10       (2) Develop local investment expertise;  
11       (3) Stimulate the development of emerging venture capital  
12       funds; and  
13       (4) Encourage opportunities for co-investment with  
14       offshore funds.

15       The advisory board may hire a fund manager to direct the  
16 investment operations. Any investments made through the Hawaii  
17 innovation investment fund shall be reported to the legislature  
18 on an annual aggregated basis, indicating the number of  
19 investments made into venture capital funds investing in Hawaii,  
20 the amount of investment made in those venture capital funds,  
21 and the number and amount of investments made by those venture  
22 capital funds in Hawaii companies.



1       (h) A board member shall not participate in any  
2 corporation decision to invest in, purchase from, sell to,  
3 borrow from, loan to, contract with, or otherwise deal with any  
4 person with whom or entity in which the board member has a  
5 substantial financial interest.

6       (i) Any returns on investment made by tax-paying investors  
7 in the fund shall be exempt from Hawaii state income and  
8 franchise taxes under chapters 235, 241, and 431.

9       (j) Expenditures associated with operations and oversight  
10 of the fund, exclusive of actual investments made, shall be  
11 provided through the Hawaii strategic development corporation  
12 revolving fund."

13       SECTION 4. Section 211F-1, Hawaii Revised Statutes, is  
14 amended by adding five new definitions to be appropriately  
15 inserted and to read as follows:

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

19       "Fiduciaries" means pension funds, corporations, limited  
20 liability companies, partnerships, banks, savings institutions,  
21 trust companies, and the officers, directors, trustees,



1 partners, managers, advisors, employees, and representatives of  
2 the employees' retirement system of the State of Hawaii.

3 "Hawaii venture capital investments" means any of the  
4 following investments in a business:

- 5 (1) Direct debt and equity investments in privately-held  
6 Hawaii companies; and  
7 (2) Investment in limited partnerships, limited liability  
8 companies, or other entities that make private debt  
9 and equity investments in privately-held Hawaii  
10 companies, whether directly or through investments in  
11 limited partnerships, limited liability companies, or  
12 other entities, including but not limited to  
13 investments consisting of shares of capital stock,  
14 convertible notes and other debt instruments,  
15 securities, warrants, options, or other rights to  
16 acquire such securities from privately-held Hawaii  
17 companies.

18 "Privately-held Hawaii companies" means any privately-held  
19 corporation, limited liability company, partnership, or other  
20 entity that is headquartered, or has substantial operations, in  
21 Hawaii.



1       "System" means the employees' retirement system of the State  
2 of Hawaii."

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

5       "**§88-119 Investments.** Investments may be made in:

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

- 9       (A) Obligations secured by mortgages of nonprofit  
10       corporations desiring to build multirental units  
11       (ten units or more) subject to control of the  
12       government for occupancy by families displaced as  
13       a result of government action;
- 14       (B) Obligations secured by mortgages insured by the  
15       Federal Housing Administration;
- 16       (C) Obligations for the repayment of home loans made  
17       under the Servicemen's Readjustment Act of 1944  
18       or under Title II of the National Housing Act;
- 19       (D) Other obligations secured by first mortgages on  
20       unencumbered improved real estate owned in fee  
21       simple; provided that the amount of the



1 obligation at the time investment is made therein  
2 shall not exceed eighty per cent of the value of  
3 the real estate and improvements mortgaged to  
4 secure it, and except that the amount of the  
5 obligation at the time investment is made therein  
6 may exceed eighty per cent but no more than  
7 ninety per cent of the value of the real estate  
8 and improvements mortgaged to secure it; provided  
9 further that the obligation is insured or  
10 guaranteed against default or loss under a  
11 mortgage insurance policy issued by a casualty  
12 insurance company licensed to do business in the  
13 State. The coverage provided by the insurer  
14 shall be sufficient to reduce the system's  
15 exposure to not more than eighty per cent of the  
16 value of the real estate and improvements  
17 mortgaged to secure it. The insurance coverage  
18 shall remain in force until the principal amount  
19 of the obligation is reduced to eighty per cent  
20 of the market value of the real estate and  
21 improvements mortgaged to secure it, at which  
22 time the coverage shall be subject to



1 cancellation solely at the option of the board.  
2 Real estate shall not be deemed to be encumbered  
3 within the meaning of this subparagraph by reason  
4 of the existence of any of the restrictions,  
5 charges, or claims described in section 431:6-  
6 308;

7 (E) Other obligations secured by first mortgages of  
8 leasehold interests in improved real estate;  
9 provided that:

10 (i) Each leasehold interest at the time shall  
11 have a current term extending at least two  
12 years beyond the stated maturity of the  
13 obligation it secures; and

14 (ii) The amount of the obligation at the time  
15 investment is made therein shall not exceed  
16 eighty per cent of the value of the  
17 respective leasehold interest and  
18 improvements, and except that the amount of  
19 the obligation at the time investment is  
20 made therein may exceed eighty per cent but  
21 no more than ninety per cent of the value of



1           the leasehold interest and improvements  
2           mortgaged to secure it;  
3           provided further that the obligation is insured  
4           or guaranteed against default or loss under a  
5           mortgage insurance policy issued by a casualty  
6           insurance company licensed to do business in the  
7           State. The coverage provided by the insurer  
8           shall be sufficient to reduce the system's  
9           exposure to not more than eighty per cent of the  
10          value of the leasehold interest and improvements  
11          mortgaged to secure it. The insurance coverage  
12          shall remain in force until the principal amount  
13          of the obligation is reduced to eighty per cent  
14          of the market value of the leasehold interest and  
15          improvements mortgaged to secure it, at which  
16          time the coverage shall be subject to  
17          cancellation solely at the option of the board;  
18          (F) Obligations for the repayment of home loans  
19          guaranteed by the department of Hawaiian home  
20          lands pursuant to section 214(b) of the Hawaiian  
21          Homes Commission Act, 1920; and



1 (G) Obligations secured by second mortgages on  
2 improved real estate for which the mortgagor  
3 procures a second mortgage on the improved real  
4 estate for the purpose of acquiring the  
5 leaseholder's fee simple interest in the improved  
6 real estate; provided that any prior mortgage  
7 does not contain provisions that might jeopardize  
8 the security position of the retirement system or  
9 the borrower's ability to repay the mortgage  
10 loan.

11 The board may retain the real estate, including  
12 leasehold interests therein, as it may acquire by  
13 foreclosure of mortgages or in enforcement of  
14 security, or as may be conveyed to it in satisfaction  
15 of debts previously contracted; provided that all the  
16 real estate, other than leasehold interests, shall be  
17 sold within five years after acquiring the same,  
18 subject to extension by the governor for additional  
19 periods not exceeding five years each, and that all  
20 the leasehold interests shall be sold within one year  
21 after acquiring the same, subject to extension by the



1 governor for additional periods not exceeding one year  
2 each;

3 (2) Government obligations, etc. Obligations of any of  
4 the following classes:

5 (A) Obligations issued or guaranteed as to principal  
6 and interest by the United States or by any state  
7 thereof or by any municipal or political  
8 subdivision or school district of any of the  
9 foregoing; provided that principal of and  
10 interest on the obligations are payable in  
11 currency of the United States; or sovereign debt  
12 instruments issued by agencies of, or guaranteed  
13 by foreign governments;

14 (B) Revenue bonds, whether or not permitted by any  
15 other provision hereof, of the State or any  
16 municipal or political subdivision thereof,  
17 including the board of water supply of the city  
18 and county of Honolulu, and street or improvement  
19 district bonds of any district or project in the  
20 State; and

21 (C) Obligations issued or guaranteed by any federal  
22 home loan bank including consolidated federal



1 home loan bank obligations, the Home Owner's Loan  
2 Corporation, the Federal National Mortgage  
3 Association, or the Small Business  
4 Administration;

5 (3) Corporate obligations. Below investment grade or  
6 nonrated debt instruments, foreign or domestic, in  
7 accordance with investment guidelines adopted by the  
8 board;

9 (4) Preferred and common stocks. Shares of preferred or  
10 common stock of any corporation created or existing  
11 under the laws of the United States or of any state or  
12 district thereof or of any country;

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

15 (6) Obligations issued or guaranteed by the International  
16 Bank for Reconstruction and Development, the  
17 Inter-American Development Bank, the Asian Development  
18 Bank, or the African Development Bank;

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



- 1           (8) Insurance company obligations. Contracts and  
2           agreements supplemental thereto providing for  
3           participation in one or more accounts of a life  
4           insurance company authorized to do business in Hawaii,  
5           including its separate accounts, and whether the  
6           investments allocated thereto are comprised of stocks  
7           or other securities or of real or personal property or  
8           interests therein;
- 9           (9) Interests in real property. Interests in improved or  
10          productive real property in which, in the informed  
11          opinion of the board, it is prudent to invest funds of  
12          the system. For purposes of this paragraph, "real  
13          property" includes any property treated as real  
14          property either by local law or for federal income tax  
15          purposes. Investments in improved or productive real  
16          property may be made directly or through pooled funds,  
17          including common or collective trust funds of banks  
18          and trust companies, group or unit trusts, limited  
19          partnerships, limited liability companies, investment  
20          trusts, title-holding corporations recognized under  
21          section 501(c) of the Internal Revenue Code of 1986,  
22          as amended, similar entities that would protect the



1 system's interest, and other pooled funds invested on  
2 behalf of the system by investment managers retained  
3 by the system;

4 (10) Other securities and futures contracts. Securities  
5 and futures contracts in which in the informed opinion  
6 of the board it is prudent to invest funds of the  
7 system, including currency, interest rate, bond, and  
8 stock index futures contracts and options on the  
9 contracts to hedge against anticipated changes in  
10 currencies, interest rates, and bond and stock prices  
11 that might otherwise have an adverse effect upon the  
12 value of the system's securities portfolios; covered  
13 put and call options on securities; and stock; whether  
14 or not the securities, stock, futures contracts, or  
15 options on futures are expressly authorized by or  
16 qualify under the foregoing paragraphs, and  
17 notwithstanding any limitation of any of the foregoing  
18 paragraphs (including paragraph (4)); and

19 (11) Private placements. Investments in institutional  
20 blind pool limited partnerships, limited liability  
21 companies, or direct investments that make private  
22 debt and equity investments in [~~privately held~~]



1 privately-held companies, including but not limited to  
2 investments in Hawaii high technology businesses or  
3 venture capital investments that, in the informed  
4 opinion of the board, are appropriate to invest funds  
5 of the system. In evaluating venture capital  
6 investments, the board shall consider [~~, among other~~  
7 ~~things, the impact an investment may have on job~~  
8 ~~creation in Hawaii and on the state economy.~~] Hawaii  
9 venture capital investment opportunities unless, under  
10 the circumstances, it is not prudent to do so. At any  
11 given time, the system shall have \$1 allocated for  
12 Hawaii venture capital investments unless, under the  
13 circumstances, it is not prudent to do so. The system  
14 may contract with one or more management companies to  
15 manage and invest these moneys. The system may enter  
16 into contracts for the provision of investment advice  
17 or other services that the board deems reasonable and  
18 necessary to fulfill its duties.

19 Investment of these funds may be made in whole or  
20 in part through the Hawaii innovation investment fund.



1           (A) Limited investment in privately-held Hawaii  
2           companies as defined in section 211F-1  
3           authorized.

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





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) Assessing the effectiveness of economic development  
 21 initiatives, specifically related to the innovation  
 22 economy proposals in Acts , , and ."



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

3 **"§383-95 Disclosure of information.** (a) Except as  
4 otherwise provided in this chapter, information obtained from  
5 any employing unit or individual pursuant to the administration  
6 of this chapter and determinations as to the benefit rights of  
7 any individual shall be held confidential and shall not be  
8 disclosed or be open to public inspection in any manner  
9 revealing the individual's or employing unit's identity. Any  
10 claimant (or the claimant's legal representative) shall be  
11 supplied with information from the records of the department to  
12 the extent necessary for the proper presentation of the  
13 claimant's claim in any proceeding under this chapter. Subject  
14 to such restrictions as the director may by rule prescribe, and  
15 costs incurred in furnishing the information are reimbursed to  
16 the department and all safeguards are established as are  
17 necessary to ensure that information furnished by the department  
18 is used only for authorized purposes, the information and  
19 determinations may be made available to:

20 (1) Any federal or state agency charged with the  
21 administration of an unemployment compensation law or



1 the maintenance of a system of public employment  
2 offices;

3 (2) The Bureau of Internal Revenue of the United States  
4 Department of Treasury;

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

8 (4) Any other federal, state, or municipal agency if the  
9 director deems that the disclosure to the agency  
10 serves the public interest; and

11 (5) Any federal, state, or municipal agency if the  
12 disclosure is authorized under section 303 of the  
13 Social Security Act and section 3304 of the Internal  
14 Revenue Code of 1986, as amended.

15 (b) Information obtained in connection with the  
16 administration of the employment service may be made available  
17 to persons or agencies for purposes appropriate to the operation  
18 of a public employment service.

19 (c) Upon requests therefore the department shall furnish  
20 to any agency of the United States charged with the  
21 administration of public works or assistance through public  
22 employment, and may furnish to any state agency similarly



1 charged, the name, address, ordinary occupation and employment  
2 status of each recipient of benefits and the recipient's rights  
3 to further benefits under this chapter.

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

12 (e) The director of business, economic development, and  
13 tourism may identify the types of data necessary from other  
14 state departments required to perform the analyses of innovation  
15 economy initiatives as required by section 201-3. Data shall be  
16 provided at an aggregate level so as not to compromise the  
17 identity of individual tax payers or businesses."

18 PART III

19 SECTION 9. Kajima Urban Development International and  
20 Phase 3 Properties competitively bid for, and was selected by  
21 Kamehameha Schools as the developer of the Asia Pacific  
22 International Research Center, a four hundred thousand square



1 foot class 'A' life sciences research complex on 4.98 acres  
2 located in Kaka'ako makai of Ala Moana Boulevard, and adjacent  
3 to the University of Hawaii John A. Burns School of Medicine.

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

14 There are local fledgling start-up high technology  
15 companies trying to attain required financing. Once they  
16 achieve such financing, it is critical that they commit their  
17 core capital to research rather than have the core capital tied  
18 up in onerous credit enhancement tools, such as security  
19 deposits or letters of credit required by the lending community  
20 to finance complex and expensive wet laboratory infrastructure  
21 developments. A guaranty of the lease agreement by the State  
22 for the high technology development corporation to lease a



1 portion of the Asia Pacific International Research Center will  
2 reduce the risk and cost of this unique project for these start-  
3 up companies and thereby provide the necessary initial boost to  
4 Hawaii's life science industry.

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

11 The project allows the State to become proactive in growing  
12 incubation and innovation space without the burden or cost of  
13 constructing the building.

14 Kamehameha Schools is committed to redeveloping other  
15 buildings in the area to support innovation industries. Phase 2  
16 of Kamehameha Schools' development more than doubles innovation  
17 space in Kaka'ako for future cluster growth, ultimately  
18 resulting in a total of four hundred thousand square feet of  
19 laboratory and office space dedicated to the technology  
20 industry. The ninety-nine thousand square feet of the Asia  
21 Pacific International Research Center represents less than



1 twenty-five per cent of the total Kamehameha Schools development  
2 in Kaka'ako.

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

- 8 (1) An estimated \$80,000,000 in private sector investment;
- 9 (2) The reasonable application of amounts that result from  
10 a \$28,000,000 federal new market tax credit to reduce  
11 the State's rental costs;
- 12 (3) The replacement of incubation and innovation space  
13 when the high technology development corporation land  
14 lease agreement with the University of Hawaii for  
15 Manoa innovation center expires in ten years;
- 16 (4) The speed at which the private sector is able to  
17 construct new projects, particularly wet laboratories;
- 18 (5) A monetary contribution in the form of a lease reserve  
19 fund by Kamehameha Schools and Kajima Urban  
20 Development International/Phase3 to reduce the  
21 effective cost of the lease agreement to the State for  
22 ten years;



- 1 (6) Commitments by Kamehameha Schools and/or Kajima Urban  
2 Development International and Phase 3 Properties to  
3 pre-lease two-thirds of the space to the State;
- 4 (7) Enhancements that accrue or result from this  
5 development; and
- 6 (8) Any and all other appropriate considerations as  
7 determined by the high technology development  
8 corporation and department of budget and finance.

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

18 SECTION 11. The provisions of this part are not intended  
19 to, nor shall they restrict or constrain the lease negotiations  
20 of the high technology development corporation and the  
21 department of budget and finance with the developers and owners  
22 of the Asia Pacific International Research Center. The use of



1 the funds shall be for the purposes provided herein, but the  
2 expenditure of the funds shall be at the discretion of the  
3 director of finance.

4 PART IV

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

11 Digital media activities include digital filmmaking and  
12 visual effects, television and feature film pre-production and  
13 post-production, sound design, interactive video game  
14 development, computer animation, creative software design,  
15 dynamic web design, and distribution.

16 This growth industry requires a local incubator facility to  
17 provide a cohesive and integrated site for developing Hawaii's  
18 digital media infrastructure for film and television productions  
19 and interactive game development. This incubator would be a  
20 state-of-the-art mixed use facility that combines industry,  
21 government, and academic entities. In addition to providing a  
22 collaborative learning environment for students, faculty, and



1 professionals in the field, the facility will serve as an  
2 incubator for digital media businesses and as a research and  
3 development lab for the creation of intellectual property.

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

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

18 For the purposes of this section:

19 "Anchor tenants" means digital media companies with a  
20 regular cash flow that need a fixed address and would benefit  
21 from sharing a common environment with other digital media  
22 companies.



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

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

7 PART V

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

13 Hawaii's music industry is a growing segment of Hawaii's  
14 creative industries sector, with a growing popularity reaching  
15 far beyond the shores of our island state. Full recognition of  
16 the merits of Hawaiian music came in 2005 when the National  
17 Academy of Recording Arts and Sciences announced the creation of  
18 a Hawaiian music category in its annual Grammy Awards, the  
19 world's most prestigious music awards program.

20 It has long been noted that while Hawaii has an unusually  
21 high concentration of raw musical talent and industry  
22 professionals, it lacks the technical support infrastructure to



1 assist individuals in the progression of their careers and  
2 businesses.

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

13 SECTION 15. There is established at the University of  
14 Hawaii Honolulu community college campus the music and  
15 enterprise learning experience program to expand the existing  
16 industry capacity, and to create new technological,  
17 intercultural, and genre-bending forms of music through  
18 creativity and professional business expertise. The music and  
19 enterprise learning experience program shall be developed around  
20 three primary components: artist creativity, entertainment  
21 business expertise, and technical production skills. The  
22 program shall collaborate with Belmont University on the joint



1 use of their curriculum, technical facilities and equipment  
2 specifications, training, dual credit course offerings, and  
3 shall also offer internships in some of the most varied music  
4 environments in the world.

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

10 PART VI

11 SECTION 16. Universities that generate new knowledge and  
12 discoveries can be important contributors in developing a  
13 state's technology-based economy. But for a university to make  
14 that contribution there must be effective mechanisms to move  
15 innovation into the marketplace. At the University of Hawaii,  
16 commercialization assistance is provided by the office of  
17 technology transfer and economic development. Activities  
18 include securing patents, seeking licensing opportunities, and  
19 assisting university researchers to transform ideas and  
20 innovations into products ready for commercialization. The  
21 office of technology transfer and economic development's ability



1 to fulfill its mandate would be enhanced by collaboration with  
2 commercialization experts and funding from the private sector.

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

19 PART VII

20 SECTION 17. There is appropriated out of the general  
21 revenues of the State of Hawaii the sum of \$250,000 or so much  
22 thereof as may be necessary for fiscal year 2007-2008 and the



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

11 The sums appropriated shall be expended by the department  
12 of business, economic development, and tourism for the purposes  
13 of part II of this Act.

14 SECTION 18. There is appropriated out of the general  
15 revenues of the State of Hawaii the sum of \$250,000 or so much  
16 thereof as may be necessary for the fiscal year 2007-2008 and  
17 the sum of \$250,000 or so much thereof as may be necessary for  
18 fiscal year 2008-2009 for the lease agreement and guaranty  
19 between the high technology development corporation and the  
20 developers or owners of the Asia Pacific International Research  
21 Center.



1           The sums appropriated shall be expended by the high  
2 technology development corporation, an agency administratively  
3 attached to the department of business, economic development,  
4 and tourism for the purposes of part III of this Act.

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

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

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

20           SECTION 20. There is appropriated out of the general  
21 revenues of the State of Hawaii the sum of \$2,425,500 or so much  
22 thereof as may be necessary for fiscal year 2007-2008 and the



1 sum of \$240,000 or so much thereof as may be necessary for  
2 fiscal year 2008-2009 to carry out the purpose of leasing,  
3 operating, and maintaining a music & entertainment business  
4 training center.

5 The sums appropriated shall be expended by the University  
6 of Hawaii Honolulu Community College for the purposes of part V  
7 of this Act.

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

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

17 SECTION 22. Any sum invested in the Hawaii innovation  
18 investment fund by the employees' retirement system, private  
19 investors, or other sources, up to \$100,000,000, may be expended  
20 by the Hawaii strategic development corporation in fiscal years  
21 2007-2008 and 2008-2009 for the purposes of part I of this Act.



1 SECTION 23. Statutory material to be repealed is bracketed  
2 and stricken. New statutory material is underscored.

3 SECTION 24. This Act shall take effect on July 1, 2034.



**Report Title:**

Hawaii Innovation Investment Fund

**Description:**

Establishes the Hawaii Innovation Investment Fund, a professionally managed fund of funds, and allows the ERS to invest moderate amounts in Hawaii venture capital. 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 HD1)

