

MINUTES OF THE LUNCHEON MEETING OF THE BOARD OF DIRECTORS

Wednesday, 29 April 2015

#1 Capitol District Building, 250 South Hotel Street, Room 436, Honolulu, HI 96813

MINUTES**PRESENT**

H. Brian Moore, Chair
Danton Wong, Vice Chair
Jon Wallenstrom
Philip Bossert
Keiki-Pua Dancil (arrived at 1pm)
Greg Barbour for John DeLong
Mary Alice Evans for Luis Salaveria
Craig Nakanishi

EXCUSED

James Moonier
Alan Hayashi

STAFF

Karl Fooks, President
Sara Lin, Associate
Gregg Kinkley, DAG
Yukiko Maeyama, Intern

GUESTS

Dan Purcell
Robbie Melton

- **CALL TO ORDER:** Meeting called to order by the Chairman at 12:08 PM.
- **11 March 2015 MEETING MINUTES:** Minutes were approved.
- **President Performance Evaluation:**
 - The Special Investigative Committee's 2014 performance evaluation of the President's was presented to the Board. Chair Moore thanked Vice Chair Danton Wong for leading the committee's effort to prepare the evaluation. Chair Moore stated that the evaluation would be discussed at the next board meeting.
- **Special Investigative Committee for HSDC Capital Fund LLC:**
 - The President reminded the Board that the Special Investigative Committee had previously presented their findings to the Board and the Board must now act to approve the financial reports for HSDC Capital Fund LLC.
 - Chair Moore thanked the committee members for their work in reviewing the financial reports.
 - Dan Purcell, a public observer, asked for clarification of the agenda item. The President stated that this was old business previously discussed at a board meeting on January 8, 2015. However, since it was a report prepared by a Special Investigative Committee, the Board could not act to approve or not approve the reports until a subsequent board meeting.
 - **DECISIONS:** The Board unanimously approved the HSDC Capital Fund, LLC 2012 and 2013 Financial Reports prepared by KKL DY and presented by the committee at the board meeting on January 8, 2015.
- **GVS Transmedia Accelerator:**
 - Chair Moore suggested this agenda item to be taken up before discussing the Broadband Pilot Program as it helps to set the context for the Broadband Pilot.
 - The President recommended that the Board approve the second year of HSDC 's 3 year commitment to provide \$200,000 of LAVA funds per year for the GVS Transmedia Accelerator.

- The recommendation was based on the successful completion of their first year of operations and the selection and development of their first cohort of 5 companies. The program was recognized nationally by the Small Business Administration and locally by the Hawaii County Council.
- Chair Moore asked the President to review HSDC's financial support for the GVS Transmedia Accelerator. The President reported that HSDC made a 3 year commitment totaling \$700,000 of LAVA funds, that was matched by the County of Hawaii, to fund the accelerator operations. A commitment of \$500,000 of SSBCI funds, matched by private investors, was made to the GTA Development Fund to invest in companies accepted into the accelerator program over a 3 year cycle. Finally, a commitment of \$1.5 million of State funds was made to GTA Development Fund to match any follow-on funding raised by companies successfully completing the accelerator program over a 3 year cycle.
- Chair Moore asked about the amount of funds drawn on these commitments. The president reported that the GTA Development Fund has invested \$125,000 of the \$500,000 SSBCI commitment for the first cohort of 5 companies. No funds have been drawn for the follow-on funding. \$300,000 of LAVA funds were drawn to fund the first year setup and operating costs of the accelerator.
- The President reported that HSDC has received a request for \$200,000 of LAVA funding for the second year under the 3 year \$700,000 commitment of LAVA funds. The only wrinkle this time is a request to fund in advance of the receipt of the Hawaii County funds as their budget cycle will not permit their funds to be available until after July 2015. Therefore, the President recommended that only \$50,000 be provided ahead of the Hawaii County match. HSDC will match the full \$200,000 once the Hawaii County funds are fully available.
- Vice Chair Wong asked for clarification on whether or not Hawaii County has agreed to match HSDC for the full \$200,000. The President replied that there is an agreement in place, but the release of funds must go through their annual budget process.
- Chair Moore asked what will happen if their budget request is not approved. The President answered that HSDC will have expended \$50,000 without a match, but the problem of funding the operations without the matching County funds would be a much larger problem.
DECISIONS: The Board unanimously approved the funding of \$200,000 for the second year of GVS Transmedia Accelerator. The first installment of \$50,000 of this amount will be provided ahead of the receipt of Hawaii County matching funds.
- **Broadband Pilot Program:**
 - The President reviewed previous Board actions to authorize the small amount of remaining HI Growth funds to support a broadband pilot program, as the amounts are too small to establish a new fund.
 - The President reported that the Ige Administration asked for new funds to support this effort in this year's budget, but the new funding was not approved by the Legislature.
 - The President recommended a \$300,000 direct investment, staged over two years, in GVS Connect. The investment would allow GVS Connect to purchase high-speed broadband capacity from SohoNet and offer those services in two locations in Hawaii, at the GVS Transmedia Accelerator in Kona and at a co-working facility in Honolulu. The investment would be recouped via an investment agreement that would allow HSDC to share in the revenue generated by the broadband services.
 - The President's recommendation was based on GVS Transmedia Accelerator's in-house need for high-speed connectivity, the depth of experience of the proposed investor and management team, and the quality of the broadband provider, SohoNet. Preliminary market assessment indicates there is independent demand for these services.

- The President stated that GVS Executive Director David Cunningham spent a couple of months developing the proposal and presented the concept at the last board meeting. His final proposal, that contains confidential proprietary business information, was circulated to the board.
- The President reported that beyond the financial aspects of the investment, this project is important to help establish Hawaii as a center for content development and virtual collaboration for post-production work. This would broaden Hawaii's appeal beyond simply a filming destination and would deepen the permanent workforce in the film/content industry to include professionals able to collaborate on global productions, whether or not they are shot in Hawaii.
- Member Evans reviewed the Ige Administration's interest in supporting access to high-speed broadband in the State and confirmed the Administration's budget request for funding in this area.
- The President pointed out that this would be direct investment. Generally, HSDC does not make direct investments. However, if the investment is connected to an existing portfolio investment and would enhance or protect that investment, the Board has previously approved a direct investment (Cardax Pharmaceuticals) under these conditions. This investment is similar in that the direct investment would protect and enhance the GVS Transmedia Accelerator investment by HSDC.
- Member Bossert asked about the revenue sharing mechanism of the investment. The President replied that HSDC would have rights to 50% of all revenue for 3 years. During the first two years there will be an accrual to provide funds for a third year of connectivity. In any case, the agreement terminates in 3 years and HSDC's will terminate its involvement in GVS Connect.
- Chair Moore asked Member Evans about the broader effort of DBEDT to support broadband in the State and whether DBEDT could fund this project. Member Evans replied DBEDT has been working with providers to increase broadband capacity in the State. Having clear demonstration projects showing market demand for these services will prod the market to be more responsive and to invest in supplying more capacity. This project in particular will also support the Creative Industries efforts to develop a stronger content creation industry. However, DBEDT has no budget appropriations that would allow it to fund this type of pilot project.
- Vice Chair Wong asked about the financial condition of GVS Connect. The President replied that this will be a new entity created for this project and free of any pre-existing liabilities. The management and advisory board is made up of experienced industry professionals.
- Vice Chair Wong asked how the revenue share model worked as it is neither a debt nor an equity position. The President replied that is a profit participation agreement that terminates in 3 years without HSDC becoming an equity investor in the business.
- Member Nakanishi stated that although the investment is risky, this activity will help spur economic development and is the type of investment government should be supporting.
- The President reviewed the statutory criteria for a direct investment and confirmed that this transaction meets the criteria.
- The board delayed a vote on the investment pending the arrival of another board member. Member Dancil joined the board meeting at 1 PM. The President briefed Member Dancil on the Board discussion, thus far.
- Member Dancil she was able to review the proposal and ask questions about the transaction. Her questions were about the investment structure and the potential customers for the proposed services and was comfortable with the proposal, with the understanding that this will be a speculative investment.

- Member of the public, Dan Purcell, thanked the Board for taking public comment and suggested that the recommendation be part of the official Agenda item and if possible make the board package available to the public ahead of the board meetings. Efforts like this to diversify Hawaii's economy are important and HSDC should make more effort to inform the public of its activities by being more transparent with its board proceedings.
- **Decisions:** The Board unanimously approved, with eight members present, a \$300,000 direct investment in GVS Connect to create a funding program for Global Virtual Studios to establish and market a high-speed broadband service to the film and media industry in Hawaii.
- **Hydrogen Fund Report:**
 - Rob Robinson, GP of Kolohala Ventures, manager of the Kolohala Hydrogen Fund provided an update on the fund.
 - The fund invested in 6 companies. 3 companies, Clear Fuels, Phycal, and Sopogy, have either been shut down or soon will be. There is no expected return from these companies.
 - The remaining 3 companies, Big Island Diesel, Real Green Power, and Kuhnle Agrosystems are still in operations and continue to develop their businesses. Rob Robinson reviewed the current activities of each of the businesses. However, it is not expected that any of these companies will return capital to the fund in the near future.
 - Rob Robinson reviewed the grant activities of the fund. These grants were directed by and overseen by Hawaii Natural Energy Institute and have supported the hydrogen bus project at Volcano Park and the hydrogen fueling station on Kaneohe Marine Core base. There are still obligated funds that have not yet been expended.
 - Chair Moore asked whether the fund has the discretion to reinvest capital or if there are returns to the fund the money will be distributed back to HSDC. Rob Robinson replied that as long as there are sufficient reserves to cover administrative expenses, the fund will distribute excess capital.
- **Heaven Fund Report:**
 - Rob Robinson, GP of the Heaven Fund, reviewed HSDC's position in the fund. The fund has only generated a small return of capital and current reserves are not sufficient to cover administrative expenses.
 - Kolohala, as GP of the fund, has offered to repurchase limited partners' interest in the Heaven Fund to terminate their obligations to pay the ongoing administrative costs.
 - The President reported that he will review the situation in more depth with Rob Robinson and recommend to the Board at a subsequent meeting whether or not to sell back HSDC's interest in the Fund.
- **Legislative Agenda:**
 - The President reported that HB 1471 HD2 SD2, with a provision to provide \$10 million of funding for the HI Growth Initiative over two years, will be discussed at a conference committee hearing on April 31.
 - The President reported that Ann Chung, Fred Hemmings, and Michael O'Malley were confirmed by the Senate as new Senate HSDC board members. They will replace Alan Hayashi and Philip Bossert and fill the vacant Senate seat.
 - The President reported that the Speaker has put forward the re-appointment of H.Brian Moore and Keiki-Pua Dancil to the board and nominated Mark Tsuda to the vacant House seat. These nominations will likely be interim appointments following the end of the session.
 - Vice Chair Wong has reached his eight year term limit and will come off the board.
- **HSDC Representative on the HTDC Board of Directors:**

- **DECISIONS:** The Board unanimously deferred this agenda item, and HSDC's representative to NELHA's board, to the next board meeting when the new board members will be present.
- **Maui Tech Night:**
 - The President reported that Maui Tech Night and Maui Startup Weekend will be taking place the week of May 11.
- **HSDC Associate Position:**
 - President reported that Sara Lin joined HSDC this month and introduced her to the Board.
 - Sara introduced herself and expressed her intention to use her background in journalism and communications to support HSDC's efforts over the next year to create public understanding and visibility for its efforts.
- **HSDC Intern:**
 - The Board recognized Yukiko Maeyama effort as an intern over the past several months. The President thanked her for her efforts managing the legislative agenda and managing the communication outreach via HSDC's website.
- **HTDC Report:**
- **NELHA Report:**
- **Public Input and Discussion:**
- **Request for Future Agenda Items:**
- **MEETING ADJOURNED:** Meeting adjourned at 1:48 PM.