



## **MINUTES OF THE LUNCHEON MEETING OF THE BOARD OF DIRECTORS**

**Wednesday, 28 January 2015**

**Offices of Chun Kerr LLP, Topa Financial Center, 745 Fort Street Mall, Suite 900, Honolulu, HI 96813**

### **MINUTES**

#### **PRESENT**

H. Brian Moore, Chair  
Danton Wong, Vice Chair  
Alan Hayashi  
Keiki-Pua Dancil  
James Moonier  
Philip Bossert  
Craig Nakanishi  
Greg Barbour for John DeLong

#### **EXCUSED**

Jon Wallenstrom  
Luis Salaveria

#### **STAFF**

Karl Fooks, President  
Gregg Kinkley, DAG

#### **GUESTS**

Yukiko Maeyama

- **CALL TO ORDER:** Meeting called to order by the Chairman at 12:04 PM.
- **17 December 2014 MEETING MINUTES:** Minutes were approved.
- **President Performance Evaluation:**
  - The President reported that Eric Yee's term on the board has termed out. As a result, a replacement for Eric on the subcommittee to review the President's performance needs to be selected.
  - James Moonier volunteered to replace Eric Yee.
  - **Decisions:** The Board unanimously appointed James Moonier to the subcommittee reviewing the President's performance.
- **HSDC Board of Directors:**
  - The President reminded the board that most members' terms have either expired or will expire on June 30, 2015. Please see the attachment outlining the status of each board seat. Board members wishing to remain on the board will have to submit letters requesting reappointment and apply on the Boards and Commissions website. There are three seats requiring new appointees.
  - The President reported that Senate President Kim has informed HSDC that it is generally accepted practice to record material comments and the name of board member making the comments in its minutes. HSDC will conform to these practices. Also, the practice of posting HSDC minutes on HSDC's website after they are approved by the board will also be adopted.
  - James Moonier commented that minutes are not meant to be transcripts, but a record of the issues discussed and decisions made. The Deputy Attorney General reported that the HRS does not require transcripts of board meetings to be kept.
  - Alan Hayashi commented that HSDC should conform to generally accepted practice for recording minutes.
- **Special Investigative Subcommittee Report on HSDC Capital Fund:**

- The President reported that the President and members of the subcommittee, Jon Wallenstrom, Keiki-Pua Dancil, Philip Bossert, met with the KKLDY accountants to review the draft audit report for the years 2011, 2012, and 2013 for HSDC Capital Fund LLC.
- The President reported that the audit begins in 2011 to cover the first year of significant activity for HSDC Capital, but the accounts were reconstructed by going back to the creation of the fund in 2001. Given that there are very few transactions and the emphasis was on accounting for payments received and made, the basis of accounting was a modified cash basis.
- Philip Bossert reported that the review with KKLDY highlighted some required revisions, particularly the LAVA funds that are contributed to the accelerators were not originally included by the auditors. These revisions were subsequently implemented by the auditors.
- Alan Hayashi clarified that this audit was on HSDC Capital Fund and not on the portfolio funds held by HSDC Capital Fund. The President reported that the auditor did spot check with portfolio funds and banks to confirm transactions, but this was not an audit of the portfolio funds. Most portfolio funds are required to provide annual audited or reviewed financial statements unless they are in the process of being liquidated.
- Chair Moore noted that it was good to see a clean report by the auditors.
- **Actions:** The Board unanimously accepted the report by the subcommittee and will act on the report at its next meeting.
- **Blue Ventures II:**
  - The President summarized the Investment Memo recommending the funding of the third year of LAVA funds for Blue Startups, a new commitment to provide additional LAVA funds in 2016 and 2017, and a new commitment of SSBCI and HI Growth Funds for Blue Ventures II.
  - Chair Moore and Vice Chair Wong led a discussion to clarify each of the three amounts proposed: 1) \$250,000 of LAVA funds for 2015 Blues Startups' third year of operations; 2) \$400,000 of LAVA funds for years 2016 and 2017 (\$200,000 per year); and \$600,000 for Blue Ventures II (\$500,000 from SSBCI and \$100,000 from HI Growth).
  - The President reported that the accelerator programs have two components, the operating entity and the investment fund. HSDC is being matched at the operating entity with in-kind contributions of space, equipment, utilities and professional services. The operating entity provides the facility and mentoring services. HSDC is being matched at the investment fund with cash contributions by Angel investors. The investment fund provides the pre-seed investment into the accelerator cohort companies in exchange for equity. HSDC's investments will only close if all matching funds are in place.
  - **DECISIONS:** The Board unanimously approved 1) \$250,000 of LAVA funds for 2015 Blues Startups' third year of operations; 2) \$400,000 of LAVA funds for years 2016 and 2017 (\$200,000 per year); and \$600,000 for Blue Ventures II (\$500,000 from SSBCI and \$100,000 from HI Growth). The approved investments are subject to documentation approved by HSDC legal advisors and the confirmation of matching funds.
- **Broadband Pilot Project:**
  - The President summarized the Investment Memo recommending preliminary approval for a pilot broadband project at the GVS Transmedia Accelerator.
  - HSDC has noted that many of the collaboration sites around the state lack high speed broadband offerings for their clients. Also, there is limited ability to establish video conferencing among the sites.
  - The Broadband Pilot Project aims to provide a limited amount of funding to allow collaboration sites to purchase high speed internet connectivity, install the necessary equipment to manage the network and provide video conferencing, and to develop a

business plan to charge for these services to enable the site to continue providing the service after HSDC's funding is completed.

- Chair Moore asked why HSDC is getting involved in this area and not HTDC. The President replied that HSDC is interested in providing its affiliated accelerators and the co-working spaces used by its portfolio companies with high speed internet capability to enhance their competitiveness and improve their profitability. In the long run this will increase the investment potential of HSDC's portfolio. HTDC and NELHA have the ability and funding to provide high speed broadband in their facilities.
- The President reported that GVS has been identified to pilot this effort because its portfolio of media and content business requires the ability to receive and transmit large files, GVS utilizes frequent video collaborations and GVS possess the expertise to identify and manage potential solutions. With GVS establishing a template, the model could be deployed across a number of sites around the state. The Governor is proposing to provide \$500,000 to HSDC to fund a limited state-wide roll-out.
- Alan Hayashi expressed concern that creating demand for broadband may not lead to a sustainable model to continue paying for the service. He suggested it may help to look for partners to help build out this effort.
- Philip Bossert provided a summary of the broadband efforts by the school system and the Our Kakaako project.
- Vice Chair Wong clarified that the intent of the pilot was for the collaboration sites to develop a business model to purchase and resell these services at a profit and not to become dependent on state funding for these services.
- **ACTIONS:** The Board unanimously approved the President developing a proposal for a pilot broadband project at GVS Transmedia Accelerator not to exceed \$250,000. The President will present a complete funding plan to the board for approval at a future board meeting.
- **2015 Legislative Agenda:**
  - The President reported the Governor is including in his budget request a \$10 million infusion into HSDC's revolving fund using general obligation bond proceeds. The funds will be used for the HI Growth Initiative. The Governor is also requesting a \$500,000 general fund appropriation to fund the Broadband Pilot program.
  - Chair Moore inquired if there are opportunities to deploy the funds. The President replied that HSDC was not able to establish a health care fund and there may still be an opportunity in this area. Also, there remains a need for an effective research commercialization program that is available to the community and not just the university.
  - The President summarized a list of bills with potential impact on HSDC and requested Board approval to represent the Board at Legislative and Administration meetings regarding these bills and the budget initiatives.
  - The President reported on a bill appropriating funds to the Hydrogen Capital Investment Special Fund. Chair Moore asked whether HSDC is now in charge of this Fund. Keiki-Pua Dancil asked if Kolohala was still involved. The President replied that as of the end of 2013, HSDC is in charge of the Hydrogen Capital Investment Special Fund, at the state level. Kolohala was funded from a previous appropriation to the Hydrogen Fund and is not involved in the current request.
  - **DECISIONS:** The Board unanimously approved allowing the President to represent the Board at legislative hearings and discussions on legislation and budget measures directly impacting HSDC.
- **SSBCI Venture Capital Meeting:**

- The President reported that he has been invited to a meeting on February 24<sup>th</sup> in Washington D.C. to participate in a SSBCI Best Practices discussion for state venture capital programs. The cost of the travel will be funded from SSBCI funds.
- **DECISIONS:** The Board unanimously approved up to \$3000 of expenditures for the President to attend the SSBCI Best Practices meeting in Washington, D.C.
- **Alan Hayashi left the meeting at 1:35pm.**
- **Portfolio Report:**
  - The President provided an update on budgeted spending year to date and a cash balance report for HSDC's cash funds. Accounting charges are higher than budgeted, but a large portion will be charged back to the SSBCI program.
  - Chair Moore reported that he recently visited GVS Transmedia Accelerator and was very impressed with the quality of the facility that has been established.
  - The Chair requested the President to update the board on the recent Demo Day at the UH Cancer Center. The Demo Day included companies from Blue Startups, Energy Excelerator and XLR8UH. Richard Wacker representing the Hawaii Business Roundtable, made a keynote presentation on the importance of supporting the innovation economy as a source of future economic growth.
- **SSBCI Report:**
- **HTDC Report:**
  - Craig Nakanishi reported that HTDC has launched an effort to create jobs through innovation called the "80/80" campaign: 80,000 new jobs paying \$80,000 by 2030. The Governor is supporting this campaign.
  - HTDC is also supporting efforts to expand broadband connectivity for the State.
- **NELHA Report:**
  - Greg Barbour reported that NELHA recently completed an economic impact study with UHERO. Economic impact has increased 40% in the past three years and is now estimated at \$120 million.
  - NELHA is working with the Hawaii Natural Energy Institute to repurpose the old Sopogy site into a hydrogen production and fueling station.
  - NELHA is working on an MOU with Saga University and Kobe Steel on an OTEC project at NELHA.
- **Public Input and Discussion:**
- **Request for Future Agenda Items:**
- **MEETING ADJOURNED:** Meeting adjourned at 1:57 PM.