



MINUTES OF THE MEETING OF THE BOARD OF DIRECTORS

Wednesday, 12 October 2016

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

MINUTES

PRESENT

H. Brian Moore, Chair
Craig Nakanishi
Jon Wallenstrom
Marissa Sandblom
Mark Tsuda
James Moonier
Ann Chung
Elijah Yip
Luis Salaveria

EXCUSED

Keiki-Pua Dancil, Vice Chair
Fred Hemmings

STAFF

Karl Fooks, President
Sara Lin, Associate
Dawn Apuna, DAG

GUESTS

- **CALL TO ORDER:** Meeting called to order by the Chair at 12:10 PM.
- **29 August 2016 MEETING MINUTES:** Minutes were approved.
- **Workforce Report Proposal:**
 - The President reviewed a sample of an analysis of the education and migration profile of Hawaii's workforce.
 - The President has been discussing the Peter Quigley at the UH a joint effort to update this report and have it address workforce statistics useful for the HI Growth Initiative. One of the key issues arising with startups in Hawaii is their inability to attract a suitable workforce here in Hawaii. HSDC's portion of a potential project might cost in the neighborhood of \$15 - \$25 thousand. This study could also be used as a basis for a Best Practices Seminar.
 - Member Chung asked if this effort would duplicate efforts by other workforce development groups. The President replied that Peter Quigley's group at the UH is one of the key entities collecting and sharing data with all the groups working on workforce issues.
 - Member Salaveria said that it would be good to work with the UH on a project like this, but HSDC should evaluate spending in this area based on Legislative understanding of HSDC use of funding appropriated by the Legislature. He noted that we should identify the workforce characteristics needed by the innovation sector before a study is done to catalog the current workforce characteristics.
 - Chair Moore stated that there has been ongoing discussion over the past 30 years on whether the university should focus on a research mission or on a training mission and expressed concern over HSDC getting in the middle of that discussion.
 - Member Wallenstrom noted housing costs are also a significant workforce issue and suggested that a focus on housing should be included in a study.

- The President said the proposal's intention was to have HSDC contribute to a joint effort to analyze workforce issues. By contributing to the project, the data needs of HSDC would be addressed in any study that was completed. However, he understands that HSDC may not be the best agency to involve itself in these issues.
- **ACTIONS:** The Board will wait for a more detailed proposal before deciding on a course of action.
- **President Performance Evaluation:**
 - Chair Moore noted that an Investigative Subcommittee was needed to conduct a performance review of the President for the past year. He asked for volunteers and Member Wallenstrom and Member Moonier volunteered.
 - **DECISIONS:** The Board unanimously approved Member Wallenstrom and Member Moonier as members of an Investigative Subcommittee to review the performance of the President for the past year.
- **2016 Annual Report:**
 - Chair Moore asked if the Board had reviewed the draft Annual Report and if there were no issues to approve the report for submission to the Legislature.
 - **DECISIONS:** The Board unanimously approved the 2016 Annual Report.
- **Kauai Incubator:**
 - Chair Moore introduced Michael Dexter Smith who outlined a proposal for a business incubator project on Kauai. The incubator would target entrepreneurs on Kauai and provide mentors, a co-working space and a small amount of capital to get them started. \$150,000 from 3 private sector investors has already been committed to the project and the Michael proposed that HSDC contribute \$100,000 to the effort.
 - The Incubator would be structured as a nonprofit. This entity would accept contributions from private parties. The nonprofit would solicit and screen potential candidates for the incubator and provide the first round of funding. The incubator would target a broad range of businesses from small-scale agriculture to tech ideas. The purpose is to stimulate entrepreneurial activity and new business formation on Kauai so its residents can find employment opportunities.
 - Companies that advance beyond the first round would be eligible for funding from a for profit fund. HSDC was requested to participate in the for-profit fund. Investments would be in the range of \$5000 and up.
 - Member Moonier asked for clarification on which investor group was contributing to the nonprofit and the for-profit. Michael said the private individuals would contribute to the nonprofit and receive a tax deduction, but they could not receive a return on their investment. These funds would be used to fund the first stage companies. If the company proceeds to the next stage and received funding from the for-profit fund, the first stage loan would be co-invested alongside the for-profit fund. Member Moonier pointed out that the for-profit fund will need an investment committee and that HSDC would not sit on that committee.
 - Member Salaveria asked if the County has been involved. Michael said that when the HSDC President visited Kauai they called on the Mayor and discussed this project.
 - Member Tsuda asked for clarification on the process of providing capital to companies. Michael responded that the disbursements would be controlled by the Incubator and authorized for specific approved items like legal and marketing costs or equipment purchases.
 - Member Wallenstrom noted that the proposal was a micro loan proposal and may not fit with HSDC's investment approach. Michael responded that the first stage financing would indeed

be a micro loan, but the next stage would be structured as a loan with equity kickers. The President noted that most of its early stage investments are convertible notes.

- Member Sandblom pointed out the importance of reaching out across the island to find good businesses. Michael said the intention is to have the incubator accessible to everyone on Kauai. Member Sandblom also suggested some thought be put into the “red flag” issues that eliminate a company from entering the incubator. Michael said a background check will be done and the results will be evaluated on a case-by-case basis.
- Member Chung asked about the involvement of Kauai Economic Development Board and other groups. Michael said they have not yet spoken with KEDB, but will be speaking with any group interested in contributing funds to the investment effort.
- Chair Moore asked about the documentation costs relative to the size of the investments. Michael said that there would be a small amount of deals and the documents would be kept as standard as possible. Chair Moore asked about the expected timing to finalize the proposal. Michael said he was targeting January 2017.
- **Actions:** The board encouraged the President to continue discussions with the Kauai Incubator.
- **Pilot Commercialization Fund:**
 - The President reported the Department of Budget and Finance has determined that the \$1 million appropriated in the last budget cannot be transferred to HSDC. HSDC is unable to expend the funds. As a result, HSDC cannot fund the Pilot Commercialization Fund and will have to terminate the effort.
 - In response to several members’ questions, the President stated that the Budget Bill failed to contain a provision to transfer the funds to the HSDC Revolving Fund. Without that proviso Budget and Finance would not allow HSDC to expend the money.
 - Member Wallenstrom asked about the status of the transaction with Chris Somogyi. The President replied that due diligence had completed favorably and documents were prepared, but not yet executed.
 - Member Salaveria stated that the funding impasse was a result of a difference of interpretation of the budget bill about the need for a proviso in this circumstance as HSDC’s statute allows for infusions from the General Fund. Member Salaveria said that the Administration is prepared to ask again for an appropriation to the HI Growth Initiative and that his recommendation is accept this decision and fight for a new and larger appropriation in the next budget.
- **Reef Fund I:**
 - The President reported to the Board that Reef Fund I has successfully brought on board two experienced investors on its Advisory Board and adopted a review policy consistent with the Board’s suggestion.
- **Legislative Agenda:**
 - The President reported that HSDC is requesting \$10 million a year for each year of the biennium budget, for a total of \$20 million, for the HI Growth Initiative. The money would be used to continue HSDC support for the Accelerator Program, the Investment Fund Program and the Ecosystem Program. An additional amount is included to fund HSDC’s annual operating costs.
 - Member Salaveria said that it is not well understood that HSDC’s Accelerator Program results in HSDC receiving equity stakes in the companies accepted into the accelerators. The presentation of the expenditure categories might try to make this outcome clearer.

- Member Nakanishi suggested a presentation that separated out the investment category as distinct from the program categories that are more ecosystem support expenditures would be more informative.
- The President said this legislative request is an HSDC initiative. Neither the tech community nor the Administration has provided HSDC with any request to continue funding the HI Growth Initiative.
- Portfolio Report
 - GVS reported that the first project out of its accelerator program has raised production funds totaling \$2.5 million. The GTA Development Fund provided \$500 thousand of this amount.
 - Vantage Sports is raising a new round.
 - Kinetikor and IFirst, two portfolio companies, are presenting at the Hawaii Angels meeting on Friday and members are welcome to attend to hear their reception.
 - The President will attend the SSTI national conference and the Associate will attend the CDFA national conference. Both events are supporting a reauthorization of the SSBCI program and US Treasury will have special programming at each event.
- NELHA Report
 - Chair Moore mentioned that the Board is still looking for a member to sit on the NELHA board.
 - The President reported that NELHA premiered its new incubator facility and the Hydrogen Fueling station at its recent Energy Storage Conference. Member Salaveria said the grand opening of the incubator space was held recently.
- **MEETING ADJOURNED:** Meeting adjourned at 1:50 PM.

Karl E. Fols