

**Report to the Twenty-Sixth Legislature
Regular Session 2012**

**“Consolidation of High Technology
Development Corporation and Hawaii
Strategic Development Corporation”**

**In Response to
Section 121 of Act 164
Session Laws of Hawaii 2011**

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1. BACKGROUND

Section 121 of Act 164, Session Laws of Hawaii 2011 called for a report on the cost benefit analysis of consolidating the High Technology Development Corporation (HTDC) and the Hawaii Strategic Development Corporation (HSDC) into a single agency attached to the Department of Business, Economic Development, and Tourism.

2. COST/BENEFIT ANALYSIS

- 2.1** The Hawaii Strategic Development Corporation (HSDC) has a singular statutory purpose that is a subset of High Technology Development Corporation's (HTDC) statutory purpose. The excerpts below from the respective HSDC and HTDC statutes indicate that HTDC is able to execute the investment mission of HSDC. However, the investment function is operationally and functionally distinct from HTDC's other statutory duties. If HTDC were to take on HSDC's investment function HTDC would be required to establish the same infrastructure, e.g. revolving fund, board oversight, investment management, and program reporting that is currently implemented by HSDC.

HSDC: HRS 211F: The purpose of this corporation shall be to encourage economic development and diversification in Hawaii through innovative actions in cooperation with private enterprises. The corporation shall establish programs to stimulate private capital investment in Hawaii toward investments that promote the welfare of citizens in this State, economic growth, employment, and economic diversification. The corporation may use public funds to provide incentives to private investment activity, by co-investing public funds in private financial organizations to increase the impact of the public investment while utilizing the investment acumen of the private sector, and by using public funds to reduce the risks of private investments. The corporation shall have the flexibility to provide various types of financial assistance. When providing financial assistance, the corporation shall make provision for the recovery of its expenditures, as far as possible. [L 1990, c 110, pt of §3]

HTDC: HRS 206M: The purpose of the development corporation shall be to facilitate the growth and development of the commercial

high technology industry in Hawaii. Its duties shall include, but not be limited to:

- (1) Developing and encouraging industrial parks as high technology innovation centers and developing or assisting with the development of projects within or outside of industrial parks, including participating with the private sector in such development;
- (2) Providing financial and other support and services to Hawaii-based high technology companies;
- (3) Collecting and analyzing information on the state of commercial high technology activity in Hawaii;
- (4) Promoting and marketing Hawaii as a site for commercial high technology activity; and
- (5) Providing advice on policy and planning for technology-based economic development.

- 2.2** HSDC's narrowly defined purpose requires specialized venture capital investment expertise to execute. There would be no cost savings by consolidating this function into HTDC as HSDC's staffing is currently less than needed to execute its mission.

No Position Count Savings

HSDC is currently staffed with one full time position, the president, to execute its mission. Minimum staffing requirements for HSDC would require one additional position for support staff for HSDC's president. If HTDC were to execute HSDC's mission, it would still require the minimum staffing requirements of one executive and one support staff.

Currently, administrative support is provided to HSDC by DBEDT's ASO staff. HTDC also receives administrative support from DBEDT's ASO staff, but also maintains its own in-house administrative function. There may be a need to increase HTDC's staffing of its in-house administrative staff to handle HSDC workflow, should HSDC's activities get consolidated into HTDC.

No Salary Savings

HSDC's president's salary is currently at the middle of the range of salaries paid to heads of agencies and department heads. It is unlikely that there would be any salary savings by staffing the specialized venture capital investment function under HTDC as a non-executive position, as the position requires specialized skills.

3. ALTERNATIVES

If the interest in consolidating HSDC and HTDC goes beyond simple cost savings, and seeks to enhance program efficiency and effectiveness, then looking at statewide innovation models, such as Ohio's Third Frontier Commission or Pennsylvania's Ben Franklin Technology Development Authority, may prove instructive. These comprehensive programs reorganize fragmented, narrowly focused innovation efforts that are usually designed to address a crisis or fix a problem. These public-private organizations, funded by the state, create a forum for coordinated policy development, management of state-level programs, and provide competitive grant funding to local innovation efforts.

These comprehensive statewide programs are insulated from annual budget cycles and changes in political leadership and thus are able to create sustainable innovation ecosystems that are the key to transforming statewide economies. Further, such a structure preserves the integrity of long-term policy goals during economic down-turns, by being able to take coherent vertical cuts as necessary while keeping longer-term priorities in mind, rather than individual initiatives expending resources to fight against each other for state funding. Structural initiatives that go beyond the merger of two small programs should be examined to further improve the effectiveness of HSDC and HTDC and not merely seek cost savings.

4. CONCLUSIONS

In summary, there are four reasons a consolidation of HSDC and HTDC will not yield any cost savings or program efficiencies. First, the specialized function of HSDC requires a dedicated infrastructure to execute regardless of statutory assignment of function. Second, there is no position count savings as a result of consolidation since HSDC is currently understaffed, and HTDC has no existing resources for support in this area. Third, HSDC does not have the resources to execute any of HTDC's functions if consolidated. Lastly, no savings in current salary costs would result from consolidation.