



To: Hawai'i Technology Development Corporation Board of Directors  
From: Len Higashi, HTDC Acting Executive Director  
Date: July 6, 2022  
Subject: Request for Approval: HI-CAP Collateral and HI-CAP Loan Programs

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**SPECIFIC ACTION REQUESTED:**

Request Board Approval

Motion: Approve the HI-CAP Collateral and HI-CAP Loan Programs as presented by HGIA

**RECOMMENDED EFFECTIVE DATE:**

Upon Approval

**BACKGROUND:**

In Summer of 2021 HTDC and HGIA conducted over a dozen meetings and met with over 150 businesses and trade organizations. The HI-CAP Invest, HI-CAP Collateral and HI-CAP Loan programs were created out of these meetings. These programs were submitted to the U.S. Department of Treasury on February 9, 2022 and approved on May 19, 2022.

HI-CAP Collateral and HI-CAP Loan programs

HTDC is responsible for oversight of approximately \$40 million for the HI-CAP Collateral and HI-CAP Loan programs administered by HGIA. Approximately \$20 million is allocated to each program.

At the March 16, 2022 meeting, the HTDC board delegated authority to the Acting Executive Director to enter into agreement with HGIA. On March 23, 2022, HTDC and HGIA executed a Memorandum of Agreement ("MOA"), contracting HGIA to plan, implement and administer the Collateral Support and Loan Programs. Per the MOA, HGIA shall collect data and provide reports to HTDC as required. As Administrator for the SSBCI Program, HTDC is responsible for consolidating the data and impacts for all HI-CAP programs and submitting reports to the US Treasury on an annual basis.



The HTDC board will be provided quarterly updates and annual reports. The reports will include aggregated data such as total funds expended, administrative costs, number of transactions, loan/investment performance, program income, expected jobs created, business demographics, etc. as specified in the SSBCI reporting guidance: <https://home.treasury.gov/system/files/136/SSBCI-Reporting-Guidance.pdf>

HTDC has contracted a compliance consultant, KMH LLP, to ensure the program is established and administered in compliance with all SSBCI guidelines. KMH is also contracted to conduct sample audits on actual transactions within each Program..

Gwen Yamamoto Lau, HGIA Executive Director will present the programs and answer any questions. The programs are briefly described below and on the following pages.

#### HI-CAP Collateral program

The HI-CAP Collateral program will deposit up to 20% cash into the financial institution's collateral pool to provide a credit enhancement for the Lender's loan to the small business. The financial institution is responsible for the loan. HGIA is responsible for approving SSBCI eligibility of the financial institution and the loan applicant, and providing the cash collateral to the financial institution.

#### HI-CAP Loan program

The HI-CAP Loan program provides direct financing to small businesses in the form of a participation or subordinated (similar to GEMS financing) loan, in conjunction with a financial institution and other private capital. HGIA is responsible for approving SSBCI eligibility of the loan applicant and underwriting/servicing the loan. Loans through this program are not planned until late 2023/2024 except for the CDFI.

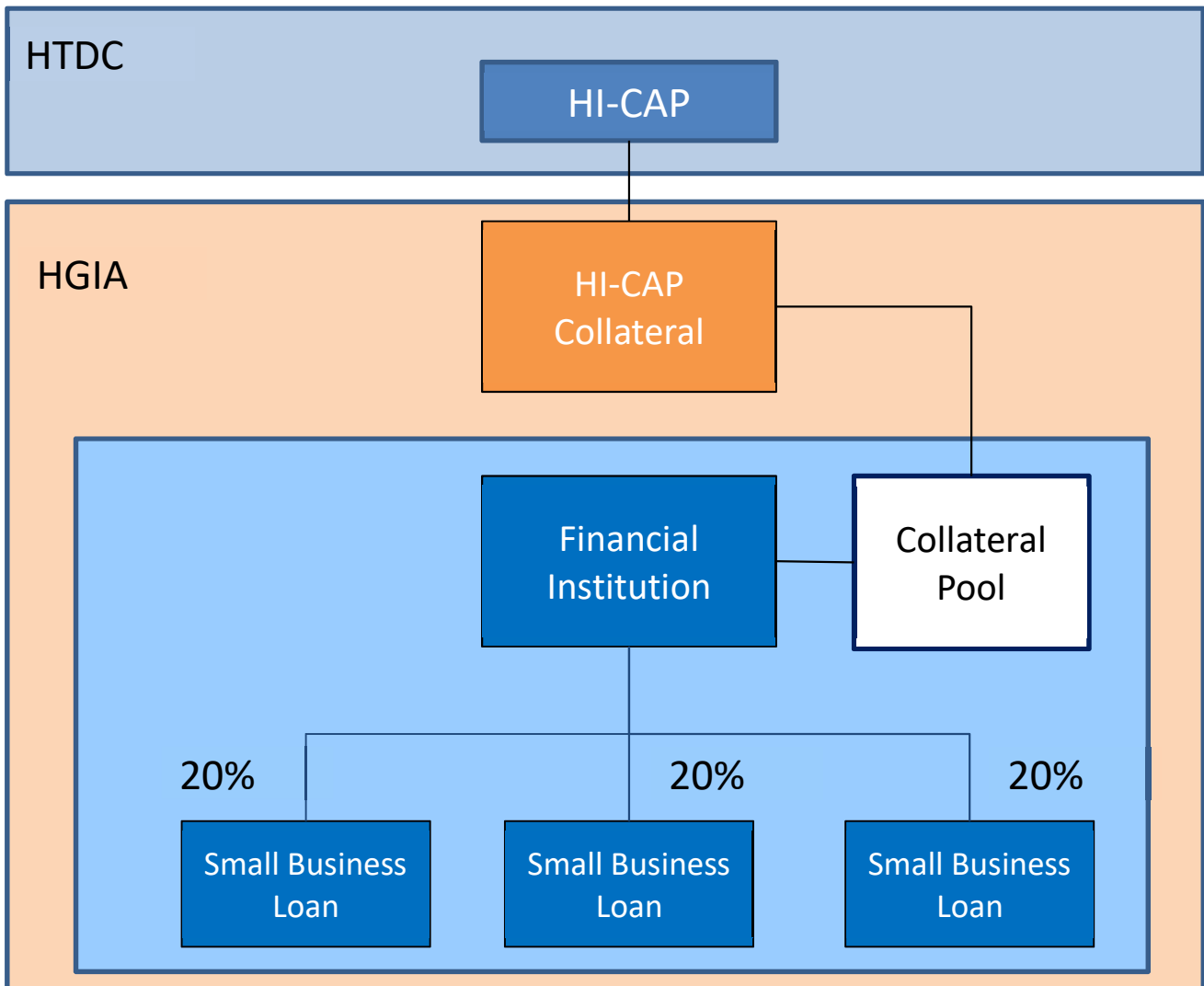
#### HI-CAP Loan – CDFI

The HI-CAP Loan CDFI program lends to a non-depositary CDFI and the CDFI relends to small business with 50% HI-CAP funds and 50% other private funds. HGIA is responsible for approving the lending capacity of the CDFI. The CDFI is responsible for underwriting the loan applicants.

HI-CAP Collateral program

The HI-CAP Collateral program will deposit up to 20% cash into the financial institution’s collateral pool to provide a credit enhancement for the Lender’s loan to the small business.

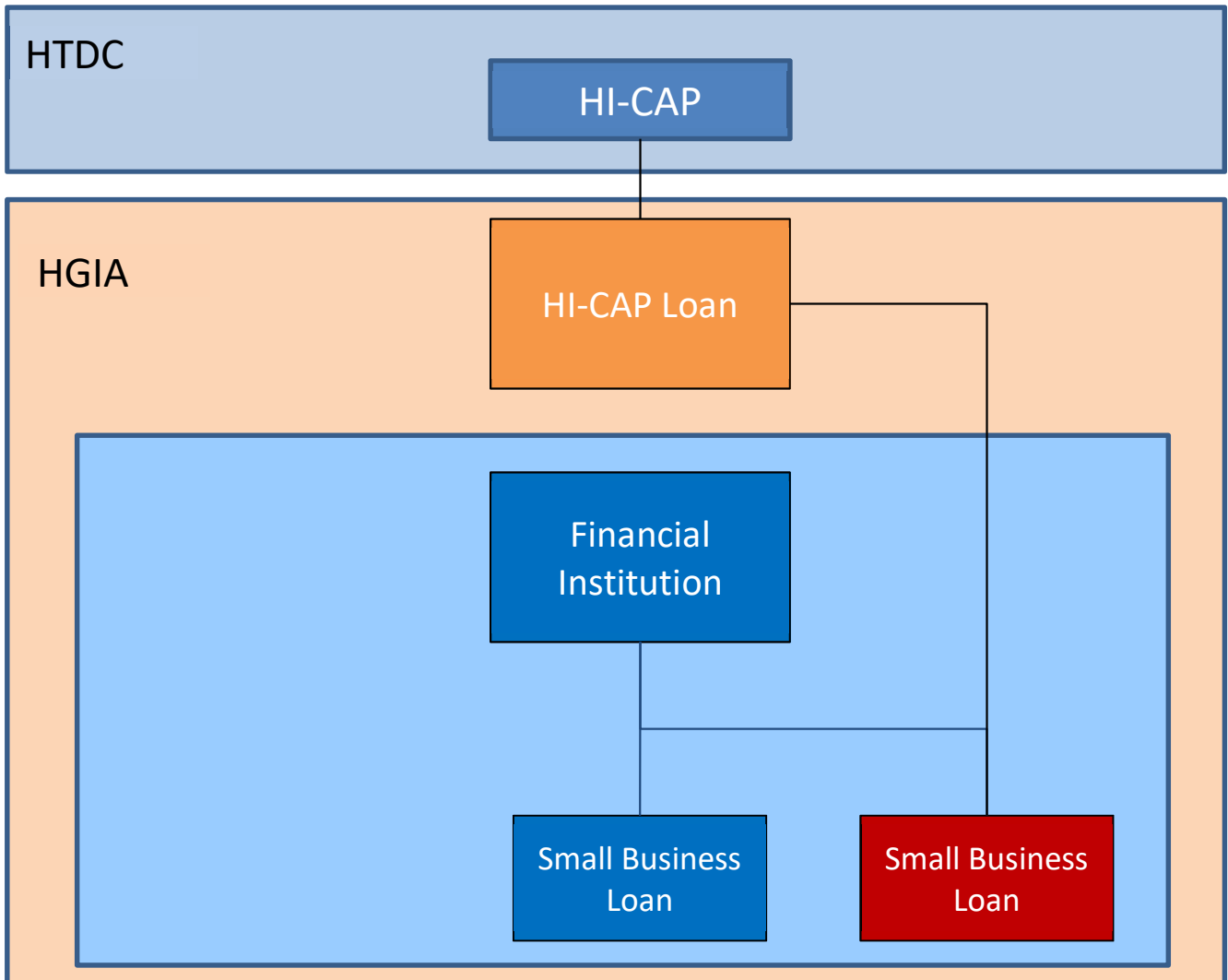
# HI-CAP Collateral



HI-CAP Loan program

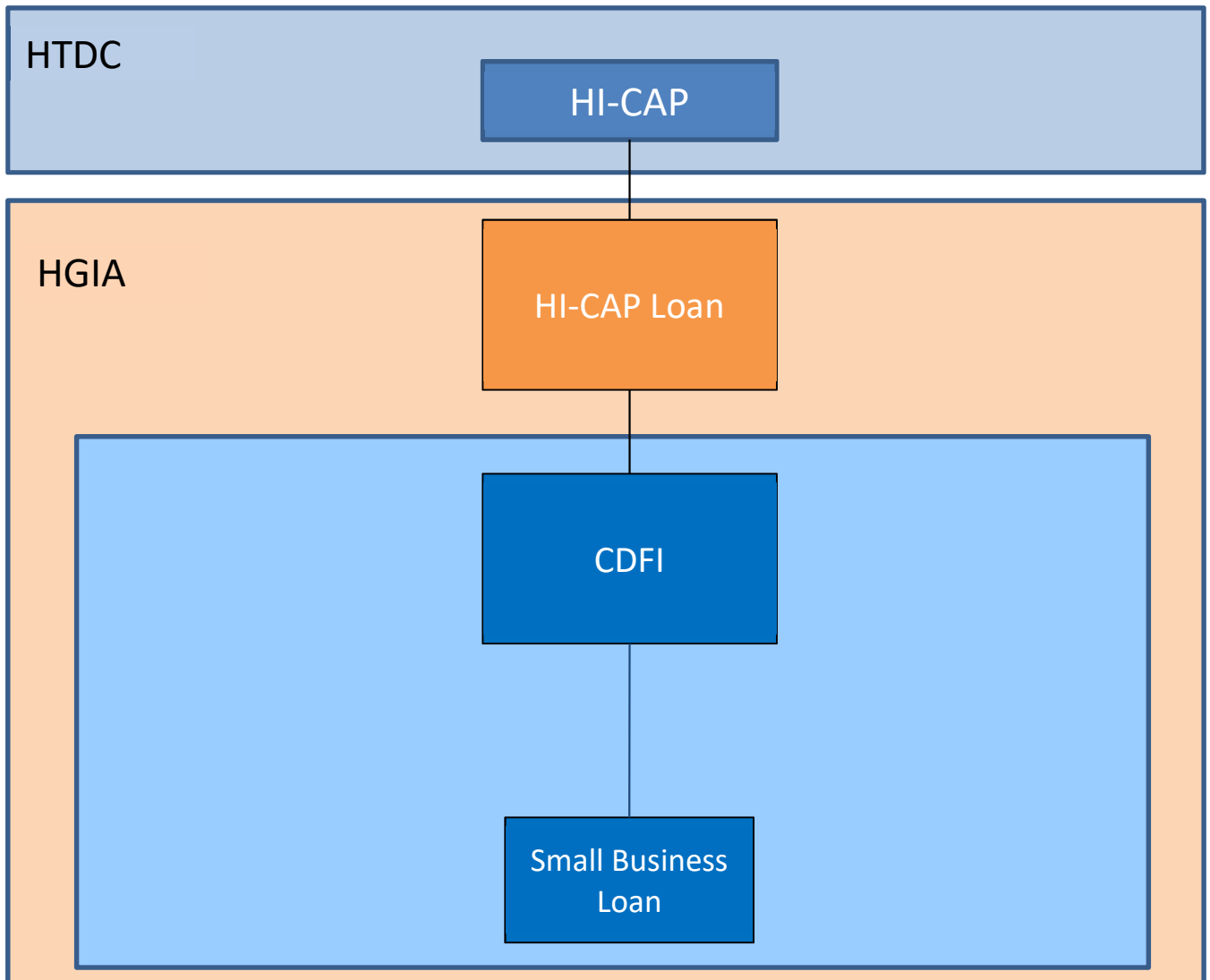
The HI-CAP Loan program provides direct financing to small businesses in the form of a participation or subordinated (similar to GEMS financing) loan, in conjunction with a financial institution and other private capital. It is reserved for catalytic projects or projects that serve a community or many small businesses. In order to strategically meet the pent-up demand for the HI-CAP Invest Program, the HI-CAP Invest Program was “front-loaded” with the first tranche of Federal Funds received by the state. Funding to implement the HI-CAP Loan program (other than the CDFI) is not expected until late 2023 or 2024.

## HI-CAP Loan



The HI-CAP Loan program lends to a non-depositary CDFI and the CDFI relends to small business with 50% HI-CAP funds and 50% other private funds.

## HI-CAP Loan CDFI





## Timeline

HGIA has scheduled a launch date of July 12, 2022 for the HI-CAP Collateral program, and August 15, 2022 for the HI-CAP Loan CDFI program. (The HI-CAP Invest is scheduled to launch July 1, 2022). HTDC is on-track to establish all 3 programs prior to the August 19, 2022 deadline set by the Treasury.

## CONSIDERATIONS:

Based on existing programs nationwide, the HI-CAP Collateral program is projected to assist 200+ small businesses. The HI-CAP Loan program is projected to assist 400+ small businesses, the majority through the CDFI. As reference, the HI-CAP Invest program is projected to assist 300+ small businesses.

For all HI-CAP programs, if demand is low, then HTDC will need to request permission from the Treasury to adjust the allocation for the program.

While risk profile of loan portfolios of non-depository CDFIs are higher than commercial banks and credit unions, the Treasury required a CDFI program to reach a higher-percentage of underserved businesses. The expectations for this program should be understood by the board.

Income generated by the HI-CAP Collateral and Loan programs will cover ongoing administrative costs. HGIA has budgeted for 1 full-time employee paid for by the SSBCI program.

Both HI-CAP Collateral and HI-CAP Loan programs are anticipated to deliver on the underserved business metrics. After data from the first-tranche becomes available, and as may be required, HTDC and HGIA shall adjust (tighten) requirements to ensure the HI-CAP program achieves its overall 30% underserved goals.

## REFERENCES:

### Hawai'i Small Business Capital Program (HI-CAP)

HI-CAP is the State of Hawai'i's State Small Business Credit Initiative (SSBCI) program. The total allocation for Hawai'i provides up to \$62 million, to help small businesses access capital. The funding is provided in 3 tranches. The first tranche of \$19,802,909 has been received.

HTDC is responsible for the entire HI-CAP program and directly administering the HI-CAP Invest fund of funds program. HI-CAP Invest is allocated one-third of the total funding. The remaining two-thirds of the allocation is administered by the Hawai'i Green Infrastructure Authority (HGIA), a DBEDT attached agency, (HI-CAP Collateral and HI-CAP Loan programs). HGIA was selected for their expertise in administering loan programs. Compliance and reporting back to the U.S. Treasury will all be done by HTDC.



### About the Hawai‘i Green Infrastructure Authority (HGIA)

Since 2014, HGIA has financed over \$80 million of loans through its Green Energy Market Securitization Program (GEMS) for the State of Hawaii. HGIA was created to address the need for significant investment in clean energy technologies to achieve Hawaii’s clean energy goals, and to identify innovative ways to increase access to clean energy for Hawaii’s underserved ratepayers. HGIA is administratively attached to DBEDT. HGIA has been working together with HTDC from the time of the Federal announcement of the SSBCI program. More information about HGIA can be found in their Annual Report: <https://files.hawaii.gov/dbedt/annuals/2021/2021-hgia.pdf>

### About Community Development Financial Institutions (CDFI)

CDFIs are mission-driven financial institutions that create economic opportunity for individuals and small businesses, quality affordable housing, and essential community services in the United States.

CDFIs may be certified by the Community Development Financial Institutions Fund (CDFI Fund) at the U.S. Department of the Treasury, but the non-depository CDFIs that the program intends to work with are not.

#### **ACTION RECOMMENDED:**

Approve

## **MEMORANDUM OF AGREEMENT**

**Between the**

**HAWAII TECHNOLOGY DEVELOPMENT CORPORATION**

**and the**

**HAWAII GREEN INFRASTRUCTURE AUTHORITY**

This MEMORANDUM OF AGREEMENT (Agreement) is effective as of Mar 23, 2022, by and between the HAWAII TECHNOLOGY DEVELOPMENT CORPORATION (HTDC), an instrumentality and agency of the State of Hawai‘i whose business address is 521 Ala Moana Blvd. #255, Honolulu, Hawai‘i 96813, and the HAWAII GREEN INFRASTRUCTURE AUTHORITY (HGIA), an instrumentality of the State of Hawai‘i whose business address is 250 S. Hotel Street, #501, Honolulu, Hawai‘i 96813.

### **RECITALS**

WHEREAS, the American Rescue Plan Act of 2021 appropriated \$10 billion to the State Small Business Credit Initiative (SSBCI) program to provide relief to small businesses struggling to recover from the economic effects of the COVID-19 pandemic; to ensure business enterprises owned and controlled by socially and economically disadvantaged individuals have access to credit and investment opportunities; and provide technical assistance to aid small businesses applying for various support programs;

WHEREAS, the SSBCI program was first established by the Small Business Jobs Act of 2010 to provide access to capital for small businesses. At that time, the Hawai‘i Strategic Development Corporation served as the lead agency for the State of Hawai‘i and invested the \$13 million appropriation to kick-start the venture capital industry in Hawai‘i. The majority of venture capital funds established by the program remain invested in Hawai‘i companies today;

WHEREAS, the minimum allocation of the SSBCI appropriated to Hawai‘i by the American Rescue Plan Act is \$56,234,176. Additional funds for technical assistance may potentially be available to States that are able to deliver on the program goals of reaching underserved priority businesses;

WHEREAS, on November 30, 2021, Governor David Ige designated HTDC as the state agency to implement the SSBCI;

WHEREAS, these funds will be used to implement the SSBCI program by strengthening state programs that support private financing to small businesses, and will be deployed through three programs, the Collateral Support Program, the Loan Participation Program, and the Fund of Funds Program;



WHEREAS, HGIA is a partner in the implementation of SSBCI and will organize and manage a loan and capital assistance program to help small businesses through the Collateral Support Program and the Loan Participation Program;

WHEREAS, Act 107, SLH 2021, expanded HGIA's functions, powers and duties to include implementing and administering loan programs on behalf of other state departments or agencies through a memorandum of agreement and expend funds appropriated to the department or agency for purposes authorized by the legislature;

WHEREAS, HTDC and HGIA desire to assist small businesses to access private financing and to help support and grow their business;

NOW, THEREFORE, in consideration of the mutual promises contained herein, the parties agree as follows:

I. SCOPE OF SERVICES.

A. HGIA shall plan and operate the Collateral Support Program and the Loan Participation Program, including but not limited to the following:

1. Plan, implement and operate the Collateral Support Program and the Loan Participation Program.
2. Set guidelines for each of the programs consistent with the State's application submitted for the SSBCI program, a copy of which is attached hereto as Appendix "A", and United States Department of Treasury SSBCI guidelines.
3. Work with financial institutions and Community Development Financial Institutions to promote and utilize the SSBCI programs.
4. Set guidelines for loan terms, underwriting, collateral terms, delinquent account management, and other related items.
5. Provide monitoring and enforcement to ensure the program is being operated in compliance with SSBCI program guidelines.
6. Receive and manage SSBCI funds allocated to the Collateral Support Program and Loan Participation Program, as estimated in Appendix A. Include SSBCI funds as part of HGIA's annual financial audit.

B. HGIA shall collect data and provide reports to HTDC as required.

1. Demographic and business-related data as prescribed by HTDC.
2. Loan, economic and other needed data as prescribed by HTDC.

C. HGIA may subcontract any of the services it is required to perform for HTDC under this Agreement. HGIA shall be solely responsible for its subcontractors and for the accuracy, completeness, and adequacy of its and its subcontractors' performance under this Agreement.

## II. COMPENSATION AND PAYMENT SCHEDULE.

In consideration for services to be rendered by HGIA under this Agreement, HTDC agrees to allow all fees and interest generated from these programs to be used to cover administrative costs associated with the program and shall be used in compliance with SSBCI guidelines.

## III. TIME OF PERFORMANCE

Performance of services by HGIA shall commence on the effective date of this Agreement. All services shall be completed by December 31, 2030, after which date, at its option, HGIA may retain the SSBCI funds and continue to administer the Collateral Support and Loan Participation Programs (“Programs”), or a variation thereof, as allowed by the U.S. Treasury. Should HGIA deem it necessary to extend the time of performance beyond December 31, 2030, pursuant to paragraph IV. A. of this Agreement, a Supplemental Memorandum of Agreement shall be executed

For as long as it may be necessary, HGIA agrees to provide program and reporting updates as required by the U.S. Treasury.

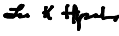
Should HGIA choose not to continue administration of said Programs after December 31, 2030, all remaining unencumbered SSBCI Funds shall be returned to HTDC as it becomes available.

## IV. MISCELLANEOUS.

- A. This Agreement represents the final agreement of the parties and shall not be amended or modified in any respect except by Supplemental Memorandum of Agreement in writing executed by both parties.
- B. This Agreement shall be governed by the laws of the State of Hawai‘i.
- C. This Agreement may be executed in any number of counterparts, each of which shall constitute an original, but all of which-taken together shall constitute but one and the same agreement.
- D. Each party represents that the individual signing on its behalf has full authority to bind said party.


THE PARTIES HERETO HAVE REVIEWED, AGREED TO, AND EXECUTED THIS AGREEMENT EFFECTIVE ON THE DATE FIRST NOTED ABOVE.

HAWAII TECHNOLOGY DEVELOPMENT  
CORPORATION, STATE OF HAWAI'I

By:   
Len Higashi  
Acting Executive Director

Date: Mar 23, 2022

HAWAII GREEN INFRASTRUCTURE  
AUTHORITY, STATE OF HAWAI'I

By:   
Gwen S. Yamamoto Lau  
Executive Director

Date: Mar 22, 2022



To: Hawai'i Technology Development Corporation Board of Directors  
From: Len Higashi, HTDC Acting Executive Director  
Date: July 6, 2022  
Subject: Request for Board Members assigned to the Federal Projects and Finance Committee and Delegates for the NELHA Board

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#### SPECIFIC ACTION REQUESTED:

Request Board Assignments and NELHA designees

Motion: Assign \_\_\_\_\_ to the Federal Project Committee and assign \_\_\_\_\_ to the Finance Committee

Motion Designate \_\_\_\_\_ as the HTDC representative and \_\_\_\_\_ as the alternate on the NELHA Board of Directors

#### RECOMMENDED EFFECTIVE DATE:

Upon Approval

#### BACKGROUND:

The HTDC staff is requesting to fill the HTDC Federal Projects and Finance standing committees. The first order of business for the committees will be to evaluate the current process used to approve grants and the budget and make recommendations to the board on proposed changes.

Standing committees allow less than a quorum of board members to meet and conduct an in-depth discussion on specific topics. Public notice, agenda, and minutes must be provided.

The HTDC staff is also requesting a designee and an alternate to serve on the NELHA Board of Directors.

#### HTDC STANDING COMMITTEES

- **Federal Projects Committee (up to 4 member committee)**



The Federal Projects Committee was established in compliance with the Hawaii Revised Statutes to administer the Hawai'i Small Business Innovation Research (HSBIR) matching grant program. HTDC convenes the meeting of the Federal Projects Committee to review applications for the matching grant and to ask any questions relating to the applications. The committee will recommend grant amounts to the full board at the following HTDC board meeting.

The committee reviews approximately 10 to 15 Phase 1 applications and 5 to 10 Phase 2/3 applications every year. The HSBIR Phase 1 appropriation for Fiscal Year 2022-2023 is \$520,000. The HSBIR Phase 2 / 3 appropriation is \$1,500,000.

The committee previously had 5 members assigned, but due to scheduling difficulties, would typically include 3 members at each meeting. The committee reviews all of the applications and convenes to hear presentations from each of the applicants. After deliberation, the committee makes recommendations on the grant amounts and presents to the full board at the following board meeting. Awards are governed by [HRS 206M-15](#) and [HAR 15-32](#) and need to be completed in the fiscal year ending June 30 or the funds lapse back into the general treasury.

In most years there are more qualified applicants than available funds. In some years, up to 10% of the Phase 1 appropriation has been used to hire temporary staffing to assist with the administration.

HTDC has also used this committee to facilitate the Hawai'i Office of Naval Research Alternative Energy matching grant awards. The program has a separate appropriation and typically can be reviewed and presented in 1 application period and 1 day.

The committee may discuss considerations for the Manufacturing Assistance Program (MAP) matching grant programs. MAP grants are typically processed by staff and presented directly to the board.

- **Finance Committee (up to 4 member committee)**

The Finance Committee provides guidance and recommendations to the agency regarding fiscal and budgetary issues. Typically the committee meets only once or twice in the year. The committee meets before the fiscal year to review and recommend approval of the budget to the board. The Board may refer an issue to the committee to discuss and provide a recommendation to the board.



In recent years, the finance committee has not been active. In the past, the finance committee would review the budget prior to the board meeting to assist with the budget approval process.

## **HTDC STATE BOARD REPRESENTATIVES**

- NELHA Representative
- NELHA Alternate Representative

The Natural Energy Laboratory of Hawaii Authority (NELHA) is a master-permitted ocean science and technology park whose mission is to bring economic development and diversification to the State of Hawaii and specifically West Hawaii. HOST Park is comprised of 870 acres of at Keahole Point, Kailua-Kona, on the Island of Hawaii. NELHA was created to host and support research, development, pre-commercial, and commercial enterprises that make use of the unique resources at the laboratory's site at Keāhole Point, particularly the clean, cold, deep ocean water accessible near shore as well as high solar irradiation. Its assets include a unique complement of support facilities, infrastructure, pristine natural resources, and leasable land for a wide range of business research, commercial and educational applications. The NELHA story now spans over 45 years and is an example of public investments by visionary State leaders that have yielded multiple returns for the benefit of all.

The original ocean science and energy concept for HOST Park was developed in 1974 as a response to the national oil crisis. The Research Corporation of the University of Hawai'i and the Hawaii Technology Development Corporation originally developed two sites in Kona separately. The two projects in Kona were combined with a geothermal test site in Puna in 1990 and placed in the newly formed NELHA. For more info please see their annual report:

[https://nelha.hawaii.gov/wp-content/uploads/2022/01/Annual-Report\\_2021-nelha-tagged.pdf](https://nelha.hawaii.gov/wp-content/uploads/2022/01/Annual-Report_2021-nelha-tagged.pdf)

The NELHA board has 12 members and meets the 3rd Tuesday of every odd numbered month. Meetings are held hybrid and board members may attend either in person or Zoom, whatever is convenient.



In the past, HTDC has also formed Ad Hoc committees to consider development projects. These committees were formerly called “Industrial Park Investigative Committee” but the HTDC statute changed this year replacing “Industrial Park” with “Economic Zone” in HTDC statute.

## **HTDC AD HOC COMMITTEES**

Committee formed for a specific [task](#) or [objective](#), and dissolved after the [completion](#) of the task or achievement of the objective.

- **Economic Zone Investigative Committee (up to 4 member committee)**

Purpose: To investigate the development of economic zones as high technology innovation centers and the development of projects within or outside of industrial parks, including participating with the private sector in such development. Meetings: As-needed

### **ACTION RECOMMENDED:**

1. Assign 2-3 members to the Federal Projects committee
2. Assign 2-3 members to the Finance Committee
3. Designate a representative for the NELHA board.

Request the Federal Projects Committee schedule a meeting with staff to discuss the current approval process and recommendations for changes

Request the Finance Committee schedule a meeting with staff to discuss the current approval process and recommendations for changes

As needed, consider formation of Ad-Hoc Committees for development projects.