



**DEPARTMENT OF BUSINESS,  
ECONOMIC DEVELOPMENT & TOURISM**

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Statement of  
**THEODORE E. LIU**  
**Director**  
Department of Business, Economic Development, and Tourism  
before the  
**COMMITTEE ON ECONOMIC DEVELOPMENT AND TAXATION**  
Tuesday, March 18, 2008  
1:15 P.M.  
State Capitol, Conference Room 224

in consideration of  
**HB 2415 HD1 Proposed SD1**  
**RELATING TO HIGH TECHNOLOGY**

Chair Fukunaga, Vice Chair Espero and Members of the Committee on Economic Development and Taxation.

The Department of Business, Economic Development and Tourism (DBEDT) supports Part I Section 1 of HB 2415 HD 1 Proposed SD1. However, DBEDT opposes Part I Section 2 and Part II Section 3 of HB 2415 HD 1 Proposed SD1.

The Hawaii Innovation Initiative encourages technological innovation and understands that small businesses are the true innovators. The Hawaii Matching Grant Program helps support Hawaii companies by matching federal awards at 50 per cent, but not to exceed \$25,000. This matching formula was created when the maximum Phase I federal award was \$50,000.

HB 2415 HD 1 Proposed SD1 Part I Section 1 would remove this cap and the Hawaii matching grant would be at 50 per cent of the federal award. This is a vital improvement as the

present Phase I federal award ceiling is \$100,000. The current \$25,000 Hawaii match has not kept up with the increased federal funding levels and this amendment would remedy the imbalance.

HB 2415 HD 1 Proposed SD1 Part I Section1 also amends the current statute to give preference to qualified companies receiving their first award over previous awardees. This revision would be in the spirit of the SBIR Program investing in and fostering Hawaii's small businesses.

As mentioned above, DBEDT opposes HB 2415 HD 1 Proposed SD1 Part I Section 2 and Part II Section 3, which proposes to disband the High Technology Innovation Corporation (HTIC). HTIC plays an important role in promoting high technology in conjunction with the High Technology Development Corporation (HTDC). With its non-profit status, HTIC executes programs and projects that allow for tax deductible foundation contributions toward the development of the State's high technology industry. In addition, HTIC manages programs such as the National Governors Association Science, Technology, Engineering, and Math (STEM) Grant. Disbanding HTIC would adversely affect this grant and other HTIC programs.

Thank you for the opportunity to provide these comments.



**Hawaii  
Aquaculture  
Association**

To:

THE SENATE  
THE TWENTY-FOURTH LEGISLATURE  
REGULAR SESSION OF 2008

COMMITTEE ON ECONOMIC DEVELOPMENT & TAXATION  
Sen. Carol Fukunaga, Chair  
Sen. Will Espero, Vice Chair

HEARING

DATE: Tuesday, March 18, 2008  
TIME: 1:15 PM  
PLACE: Conference Room 224, State Capitol  
415 South Beretania Street

From: Ron Weidenbach, President, Hawaii Aquaculture Association  
Phone: 429-3147, Email: hawaiiifish@gmail.com

Re: **HB 2415 HD1 Proposed SD1** RELATING TO HIGH TECHNOLOGY

Chair Fukunaga, Vice Chair Espero, and Committee Members:

The Hawaii Aquaculture Association (HAA) **strongly supports HB 2415 HD1 Proposed SD1**, relating to high technology that in Part I removes the \$25,000 limit on HTCD grants to recipients of federal Small Business Innovation Research Phase I awards or contracts, or federal Small Business Technology Transfer Program awards, retains limits of 50 percent of the federal award or contract, requires HTDC to expend any remaining 2006-2007 funds on grants in 2008 and 2009 and to report to the 2009 and 2010 legislature on expenditures, and in Part II repeals chapter 206M, Part IV, HRS.

Many members of the Hawaii aquaculture industry have been successful in competing nationally for Federal SBIR and SBTT grants to support the development of new aquaculture technologies and products. The HTDC grants help Hawaii's technology companies to better compete nationally, to purchase specialized research equipment, and to hire international consultants not otherwise covered by the Federal SBIR/SBTT programs, so as to enable them to be more successful in meeting Federal research objectives and in subsequent commercialization efforts, and helps Hawaii companies bridge the funding gap between the Phase I grants and follow-on Phase II grants thereby enabling companies to retain critical staff and live research plants and animals.

In summary, HTDC's grant program is very beneficial to Hawaii's technology companies and, as such, HAA strongly supports passage of HB 2415 HD1 Proposed SD1. Thank you for the opportunity to testify.

Statement of  
**YUKA NAGASHIMA**  
**Executive Director & CEO**  
High Technology Development Corporation  
and  
**President**  
High Technology Innovation Corporation  
before the  
**SENATE COMMITTEE ON ECONOMIC DEVELOPMENT AND TAXATION**  
Tuesday, March 18, 2008  
1:15 PM  
State Capitol, Conference Room 224

In consideration of  
**HB 2415 HD1 PROPOSED SD1 RELATING TO HIGH TECHNOLOGY.**

Chair Fukunaga, Vice Chair Espero, and Members of the Senate Committee on Economic Development and Taxation.

The High Technology Development Corporation strongly supports only PART I SECTION 1 and opposes PART I SECTION 2 and PART II SECTION 3 of HB 2415 HD1 Proposed SD1.

**1. We offer these comments in support of PART I SECTION 1:**

Hawaii SBIR Matching Grant Program Results

The State's Hawaii Small Business Innovation Research (HSBIR) Program which is a matching grant program shows that 67 local companies were awarded 305 federal SBIR Phase I and Phase II grants totaling nearly \$71 million to date. During this same period the State awarded \$4.5 million in matching grants to local companies and these companies have attracted \$57.5 million in federal SBIR Phase III commercialization funding. Generally, for every State dollar (\$1) invested in SBIR matching grant program, Hawaii companies have attracted over fifteen dollars (\$15) in federal SBIR awards or twenty-eight dollars (\$28) in total federal SBIR monies when you include funding for technology commercialization.

Future Trend Estimate for Hawaii SBIR Matching Grant Program

There is an increase in federal SBIR awards won by Hawaii companies and this is a trend that is likely to continue to increase. In the first 14 years of the program, local companies won

an average of 10 federal Phase I awards per year, with a total value of \$10.5 million over the 14 years. These local companies attracted another \$21.7 million in follow-on federal SBIR funding to Hawaii. Within the past five years of the program, local companies won an average of 18 federal awards per year (27 in 2006 alone), with a total value of \$12.5 million over five years. These companies attracted another \$25.5 million in follow-on federal SBIR funding to Hawaii in just the past five years.

#### Summary of PART I SECTION 1 of HB 2415 HD 1, Proposed SD1

The bill makes “housekeeping” modifications to three sections of HTDC enabling legislation (HRS Section 206M-15). This statute provides state matching grant funding to Hawaii companies that have been awarded federal Small Business Innovation Research (SBIR) Phase I awards and federal Small Business Technology Transfer (STTR) Phase I awards.

SBIR is a three-phase federal program that provides small businesses the opportunity to win federal R&D grants and contracts. In Phase I, the small business explores the technical merit or feasibility of an idea or technology. In Phase II, the small business expands upon Phase I results. In Phase III, the project matures and is commercialized. No SBIR funds support Phase III activities. STTR is a sister R&D funding program to SBIR and is similarly organized in three phases. STTR primarily differs in that the small business must partner with a research organization to carry out the research, thus encouraging greater collaboration between the university and industry. The SBIR and STTR programs provide the necessary funding for innovative research and development efforts that is normally not available from traditional sources.

Hawaii companies that receive SBIR and STTR Phase I feasibility study awards can apply for state Hawaii SBIR and STTR matching grants. The state grants enhance a company’s Phase I project development while helping it to develop stronger proposals for the more lucrative federal Phase II awards (normally \$750,000 or more to build a prototype), and ultimately to commercialize their innovations successfully and profitably. Ultimately the goal of the matching grant helps Hawaii companies launch new commercial products into the marketplace.

#### (1) First Housekeeping Amendment

The first requested change is to adjust the ceiling of the Hawaii SBIR grant to be consistent with the original intent of section 206M-15. When the Hawaii SBIR grant program was created nineteen years ago, the federal SBIR Phase I award was \$50,000. The state matching grant was based upon 50-percent of the federal Phase I amount, which happened to be \$25,000. Currently the federal SBIR Phase I awards average \$100,000 and up. The state matching grant has not proportionately increased or kept up with the federal award due to the \$25,000 ceiling in the existing statute. Therefore, we request that the \$25,000 cap be removed, so as to allow the higher amounts to be awarded. The ceiling increase does not mean that larger grants will be regularly awarded, but rather that they can be awarded particularly for exceptional research projects.

(2) Second Housekeeping Amendment

The second requested change redefines award priority for small businesses that receive an SBIR award for the first time. Currently the statute reads that an SBIR Phase I awarded company will receive funding preference if it applies for the state grant for the first time in a fiscal year. This clause provides the same level of preference to a multiple-SBIR award winner so long as it was their first time in a fiscal year, as it would to a first-time-ever SBIR awardee. Since HTDC places priority on supporting new companies to the SBIR program, we would like to revise the language to read: “Give preference to all qualified businesses receiving their first award over multiple award grantees”.

(3) Third Housekeeping Amendment

The third requested change relates to the situation when there is not sufficient Hawaii SBIR budget available to fulfill the applicants’ requests. The current language states that HTDC “shall apply for funds to be transferred from the Hawaii capital loan revolving fund” if the budget is inadequate to satisfy all qualified requests. In effect, HTDC must request the loan. HTDC prefers fiscal oversight and the choice to borrow funds from the state loan program in case of a budget shortfall, as opposed to “automatically” borrowing from the loan program. Therefore, HTDC would like to replace the word “shall” to “may”, so the language reads “the development corporation may apply for funds to be transferred from the Hawaii capital loan revolving fund”.

To summarize PART I, SECTION 1, the requested language changes strengthen the successful Hawaii SBIR and STTR programs by allowing small businesses with exceptional SBIR/STTR projects to receive larger state grants to accelerate commercialization; placing priority on awarding true first-time SBIR and STTR companies; and allowing HTDC the flexibility in times of budget shortfall, to *choose* to borrow other state funds instead of making it a requirement.

**2. And, we offer these comments in opposition to PART I SECTION 2 and PART II**

**SECTION 3:**

Part I Section 2 of HB 2415 HD1 Proposed SD1 proposes to dissolve the High Technology Innovation Corporation (HTIC) then redirect remaining funds appropriated from Act 255, Session Laws of Hawaii 2006, relating to the establishment of an international business and technology incubator program with Hawaii and China technology businesses through the state’s HTIC, a non-profit state agency. We believe the proposed SD1 is not feasible for these reasons:

(a) State’s Efforts to Grow Tech Industry Abruptly Stopped: HTIC was created by the legislature in 2005 without funding or resources to further support the state’s efforts to grow its emerging technology industry. HTIC applied and is a 501(c) (3) state operated non-profit corporation and is not exempt from the state procurement code (103D). HTIC plans, creates and implements programs and projects of HTDC that are assigned to HTIC by HTDC including federal funded programs and projects. HTIC non-profit status would allow entities such as

foundations to make contributions to grow the state's technology industry that would also be tax deductible.

(b) Current Contracts Would Be Negatively Impacted: HTIC currently manages contracts for HTDC that includes the National Governors' Association STEM Grant. The State (HTIC) is not able to assign, sublet or transfer all or any portion of this agreement without prior written approval of the NGA. HTIC also maintains a small representative office in China as part of its International Incubator Program; further, there are current plans to expand this program to Japan. There is also the UCERA agreement, to perform consulting work for the Triple Helix Project, to survey entities in China on best practices for academia, government and industry to work together.

(c) Funds Remaining from Act 255: Based on discussions with Budget & Finance, funding from Act 255 which created the International Incubator Program lapsed on 6/30/07. Language in Section 2 Part I and Section 3 Part II repeals the HTIC leaving the funds remaining from Act 255, SLH 2006 to be redirected to the Hawaii Small Business Innovation Research program. The State accounting system reflects a remaining unobligated balance that lapsed from Act 255 as of June 30, 2007 was approximately \$29.00. Also, if the intent of Section 2 Part I and Section 3 Part II is to redirect the remaining unspent balance in the international business and technology incubator program contract between HTDC and HTIC, we further understand that if the contract was dissolved the remaining funds in the contract would lapse, revert to the general treasury and not be available for the Hawaii Small Business Innovation Research Program. In order to carry out the purpose of these sections, a new appropriation for fiscal year 2009 and 2010 would be needed to be able to carry out the intent of PART I SECTION 2 and PART II SECTION 3 of HB2415 HD1 Proposed SD1.

(d) Loss of Opportunity to further develop the International Business and Technology Incubation Program, and future projects requiring non-profit status: The process of establishing a non-profit state entity (since July 2005) as well as establishing the International Incubator Program (since July 2006) has been an excellent opportunity of learning how to do business internationally; and in this case with China as its first office. Learning from this process we hope to extend the program and include Japan; however, if HTIC were repealed as proposed in SD1, that opportunity would be lost. Further, the establishment of a state non-profit entity is new among state departments. This effort was without startup funding through state appropriations and has been in existence for less than 18 months. The NGA grant HTIC now administers allows Dept. of Education (DOE) to benefit from the funding the grant provides while being able to concentrate on its core mission of education. Having an external fiscal agency attached to the state but having a non-profit status, provided comfort to NGA and other stakeholders for this grant to be properly administered. With STEM being such a fundamental piece to the workforce development challenge, the State would be losing a valuable partner should we lose HTIC's State-associated non-profit structure. If we are to succeed, we will need to allow the HTIC to continue its operations.

Thank you for the opportunity to submit comments in strong support of PART I SECTION 1 and in opposition to PART I SECTION 2 and PART II SECTION 3 of HB 2415 HD1 Proposed SD1.