



**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
Friday, March 28, 2008
9:30 A.M.
State Capitol, Conference Room 211

in consideration of
HB 2415 HD1 SD1
RELATING TO HIGH TECHNOLOGY

Chair Baker, Vice Chair Tsutsui and Members of the Committee.

The Department of Business, Economic Development and Tourism (DBEDT) supports Part I of HB 2415 HD 1 SD1. However, DBEDT opposes Part II of HB 2415 HD 1 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 SD1 Part I 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 SD1 Part I 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 SD1 Part II, 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 Center for Best Practices (NGA) Science, Technology, Engineering, and Math (STEM) Grant. Disbanding HTIC would adversely affect this grant and other HTIC programs.

Part II, Section 3 presents a particular problem regarding the NGA grant since it states that, "Any contractual obligations entered into by the high technology innovation corporation shall cease upon repeal of chapter 206M, Hawaii Revised Statutes, and any unexpended contractual funds shall lapse to the general fund." Funds received through the NGA STEM grant are from private sources and should not revert to the General Fund. They would need to be transferred to another fiscal entity agreed upon by the State and the NGA to carry out the purposes of the grant.

During the hearing before the Senate Committee on Economic Development & Taxation on March 18, 2008, and in a memorandum to DBEDT dated March 19, 2008, Chair Fukunaga expressed concerns about the operations of HTIC and its management of the STEM grant

mentioned above. We believe that these concerns were based on incomplete information and addressed them in our response to Senator Fukunaga. A copy of that response is attached.

Thank you for the opportunity to provide these comments.

Written Statement of
YUKA NAGASHIMA
Executive Director & CEO
High Technology Development Corporation
and
President
High Technology Innovation Corporation
before the
SENATE COMMITTEE ON WAYS AND MEANS
Friday March 28, 2008
9:30 AM
State Capitol, Conference Room 211

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

Chair Baker, Vice Chair Tsutsui, and Members of the Senate Committee on Ways and Means.

The High Technology Development Corporation appreciates this committee's efforts to diversify Hawaii's economy through support of technology-based economic development programs such as those provided in PART I SECTION 1 of HB 2415 SD1; and, we offer the following testimony:

1. HTDC supports PART I SECTION 1 relating to amendments to the Small Business Innovation Research and Small Business Technology Transfer Programs; and, PART II SECTION 4 which appropriates funds from the general fund for these programs. These programs are of major importance to our growing industry sectors particularly dual-use and biotechnology.
2. HTDC and the High Technology Innovation Corporation (HTIC) opposes PART II SECTIONS 2 and 3:
 - a. Part II Section 2 of HB 2415 HD1 SD1 proposes to dissolve the High Technology Innovation Corporation (HTIC). We oppose this Section 2 for these reasons:
 - (1) 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 and administers projects it secures on its own (NGA STEM sub grant). 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.

(2) Current Contracts Would Be Negatively Impacted: HTIC currently provides fiscal management for a sub grant from the National Governors' Association (NGA) for Best Practices STEM Program. 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 JABSOM UCERA agreement, to perform consulting work for the Triple Helix Project, to survey entities in China on medical best practices for academia, government and industry to work together.

(3) 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 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 for the tech sector, the State would be losing a valuable partner should we lose HTIC's State-associated non-profit structure. Other lost opportunities include foundation monies and other grants only available to non-profits. For example, companies such as AT&T Foundation, Verizon Wireless, NEC, Toshiba America, and Motorola fund non-profits with technology capacity-building grants. If we are to succeed, we will need to allow the HTIC to continue its operations.

b. Part II Section 3 of HB 2415 HD1 SD1 proposes that any contractual obligations entered into by HTIC shall cease upon repeal of chapter 206M and any unexpended contractual funds shall lapse to the general fund We oppose this Section 3 for these reasons:

(1) We fear that abrupt termination of any and all contracts HTIC has with other entities will jeopardize relationships nurtured to date as well as the reputation of the state government and business climate this action would reflect.

(2) There appears to be a possible oversight in drafting section 3 that could lead to a different interpretation from the intent of the Legislature from the Attorney General's Office or Budget and Finance as we have experienced in a past change to HTIC's statute. Section 3 as written in SD1 could potentially repeal all of 206M that is all of HTDC, instead of specifically 206M, part IV relating to HTIC.

(3) HTIC's sub grant agreement with the NGA for Best Practices provides for a funding advance of \$125,000, of which a balance of \$85,000 is currently deposited in HTIC's bank account. Section 3 would require the unexpended contractual funds to lapse into the general fund. Again, there is room for legal and /or fiscal interpretation that the funding advance for this project must be deposited into the general fund as well.

SCR 212 requests the State Auditor to conduct a management and financial audit of HTDC and entities. We take this to include a concurrent management and financial audit of HTIC. We are looking forward to working with the State Auditor's Office to examine and review any issues or concerns the legislature may have concerning the mission and operations of HTDC and HTIC.

Thank you for the opportunity to submit comments.



**Hawaii
Aquaculture
Association**

To:

THE SENATE
THE TWENTY-FOURTH LEGISLATURE
REGULAR SESSION OF 2008

COMMITTEE ON WAYS AND MEANS
Sen. Rosalyn H. Baker, Chair
Sen. Shan S. Tsutsui, Vice Chair

HEARING

DATE: Friday, March 28, 2008
TIME: 9:30 AM
PLACE: Conference Room 211, State Capitol
415 South Beretania Street

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

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

Chair Baker, Vice Chair Tsutsui, and Committee Members:

The Hawaii Aquaculture Association (HAA) **strongly supports HB 2415 HD1 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, and in Part II repeals chapter 206M, Part IV, HRS, requires any contractual obligation to cease with the repeal and unexpended moneys to lapse to the general fund, and finally appropriates \$200,000 in 2008-2009 for SBIR and STTR grants.

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 SD1**. Thank you for the opportunity to testify.