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Statement of
THEODORE E. LIU
Director
Department of Business, Economic Development, and Tourism
before the
COMMITTEE ON ECONOMIC DEVELOPMENT AND TECHNOLOGY
Wednesday, April 1, 2009
1:00 p.m.
State Capitol, Conference Room 308

in consideration of
SB 523 SD2 HD1
RELATING TO HIGH TECHNOLOGY.

Chair Oshiro, Vice Chair Lee, and Members of the Committee. The Department of Business, Economic Development, and Tourism (DBEDT) supports the intent of SB 523 SD2 HD1 which proposes a modification to HRS Section 206M-15, which defines how the High Technology Development Corporation (HTDC) may grant funds 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, and would like to suggest that the language developed for SB 523 SD2 be put back into the bill.

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. SB 523 SD2 HD1 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 average award is \$100,000 or more. The current \$25,000 Hawaii match has not kept up with the increased federal funding levels and this amendment would remedy the imbalance. The first important difference is that in HD1, it is stipulated that HTDC “shall” rather than “may” provide the grants. HTDC has indicated that this change from “may” to “shall” was made in error when they proposed a similar change in a different part of the bill. The existing language is preferable and is included in SD2.

SB 523 SD2 also amends the current statute to give preference to qualified companies receiving their first award ever, instead of just in a fiscal year, over previous awardees. This revision would be in the spirit of the SBIR Program investing in and fostering Hawaii’s small businesses.

Finally, SB 523 SD2 HD1 does not address a concern that DBEDT raised in testimony before the Senate that was remedied in SB 523 SD2. HRS Section 206M-15(d) references the Hawaii capital loan revolving fund as a source of funding that HTDC could apply to have transferred to support SBIR and STTR grants. It should be noted that the Hawaii capital loan revolving fund was repealed by Act 178, SLH 2003, and all monies (loan principal and interest) are deposited into the State’s general fund. The repeal of this revolving fund became effective on July 1, 2004. SB 523 SD2 removes the reference to the Hawaii capital loan revolving fund, but leaves the language in place so that HTDC could apply for a transfer of funds from some other source if they were available.

Thank you for the opportunity to provide these comments.

Written Statement of
YUKA NAGASHIMA
Executive Director & CEO
High Technology Development Corporation
before the
HOUSE COMMITTEE ON FINANCE
Wednesday, April 1, 2009
01:00 PM
State Capitol, Conference Room 308

In consideration of
SB 523 SD2 HD1 RELATING TO HIGH TECHNOLOGY.

Chair Oshiro, Vice Chair Lee and Members of the House Committee on Finance

The High Technology Development Corporation (HTDC), **with the exception of Section 1 (b) on line 3 of HD 1 which changes the current language from “may” to “shall”,** supports SB 523 SD2 HD1 which outlines housekeeping modifications to **two sections** of the existing statute (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 are used to support Phase III commercialization 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. This

program helps to create sustainable companies while growing a critical mass of research and development.

HTDC Does NOT Support:

Section 1(b) on line 3, does NOT support the purpose of the Hawaii Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) Programs. In fact, by forcing a grant on each recipient of a federal SBIR or STTR grant, the State will not only run out of funds, but it will force funding of projects which are not as meritorious as others which happen to apply later because federal agencies are on differing funding cycles during a year. Currently, Hawaii has strengths in marine, ocean, astronomy, dual-use, agriculture, and certain other technologies. Federal agencies vet technologies including potential ability for commercialization, we would miss funding viable technologies with immediate and significant impacts to Hawaii if we were forced to give a grant to each applicant.

HTDC Does Support:

(i) 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 limit 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 with commercial potential well-suited for the State of Hawaii.

(ii) 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 language means that if a multiple-SBIR award winner applies for a Hawaii grant for the first time in a fiscal year, it will be given funding preference—the same preference that is given to a first-time-ever SBIR awardee. Since HTDC places priority on supporting new companies to the SBIR program and multiple-SBIR award winner should require relatively less support from the State, we would like to revise the language to read: “Give preference to all qualified businesses receiving their first award over multiple award grantees”.

In summary, the requested language changes **with the exception of the change which appears in Section 1 (b), line 3 of HD1,** 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, and places priority on awarding true first-time SBIR and STTR companies.

Thank you for the opportunity to submit testimony.