

SB 523



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 WAYS AND MEANS

Thursday, February 26, 2009

9:00 a.m.

State Capitol, Conference Room 211

in consideration of

SB 523 SD1

RELATING TO HIGH TECHNOLOGY.

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

The Department of Business, Economic Development, and Tourism (DBEDT) supports SB 523 SD1 which proposes housekeeping modifications to HRS Section 206M-15, which defines how the High Technology Development Corporation 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.

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 SD1 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.

Thank you for the opportunity to provide these comments.

**Written Statement of
YUKA NAGASHIMA
Executive Director & CEO**
High Technology Development Corporation
before the
SENATE COMMITTEE ON WAYS AND MEANS
Thursday, February 26, 2009
9:00 AM
State Capitol, Conference Room 211

In consideration of
SB 523 SD1 RELATING TO HIGH TECHNOLOGY.

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

The High Technology Development Corporation (HTDC) supports SB 523 SD1 which outlines housekeeping modifications to two sections of the existing statute (HRS Section 206M-15), and **we wish to point out an error in the proposed bill.** 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.

As background, 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.

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.

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 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, we would like to revise the language to read: “Give preference to all qualified businesses receiving their first award over multiple award grantees”.

Finally the error in the proposed bill is on page one, line four, and reads: "(b) The development corporation [may] shall provide grants..." No change is necessary and we ask that the existing word "may" remain in this section of the statutes. This error was discovered late in the review process and after the bill was introduced by the Senate and House. We also noted in our testimony to the Senate Committee on Economic Development and Technology of this error.

In summary, 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.

Thank you for the opportunity to submit testimony.