

**HB 2319, HD 2
EDT**



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

NEIL ABERCROMBIE
GOVERNOR

RICHARD C. LIM
DIRECTOR

MARY ALICE EVANS
DEPUTY DIRECTOR

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Revised 3/13/12

Statement of
RICHARD C. LIM
Director

Department of Business, Economic Development, and Tourism
before the

SENATE COMMITTEE ON ECONOMIC DEVELOPMENT AND TECHNOLOGY

March 14, 2012
1:30 P.M.

State Capitol, Conference Room 016

in consideration of
HB 2319 HD2
RELATING TO ECONOMIC DEVELOPMENT.

Chair Fukunaga, Vice Chair Wakai, and Members of the Committee on Economic Development and Technology:

The Department of Business, Economic Development and Tourism supports HB 2319 HD2, provided that its passage does not replace or adversely impact priorities indicated in our Executive Budget.

Small businesses are the engine of job creation. Startup ventures, in particular, create new jobs in high wage, knowledge based industries. This program would help to develop a critical component of the innovation ecosystem that Hawaii currently lacks.

Venture accelerators fill an important gap in the innovation ecosystem by providing business expertise to startup ventures that lack the management experience to quickly build a business organization and by providing seed funding to startup companies unable to use grant funds for commercialization, but too small to raise conventional financing.

By creating the supporting infrastructure to provide entrepreneurs the tools to build businesses able to compete for venture capital financing, venture accelerators will enhance the ability of Hawaii's entrepreneurs to create sustainable businesses and quality jobs for our community.

Venture accelerators can be established to accelerate the commercialization of university research and leverage the University of Hawaii's growing research prowess. Similarly, entrepreneurs in the creative industry can be empowered to compete for investment capital and

increase the export of creative products developed in the state. Currently, there is no lack of creative development in the state, impediments to success are financial and distribution based.

We respectfully defer to the Hawaii Strategic Development Corporation, the expending agency, to provide the specifics on the program's operation, but we would like to voice our support of the bill as we believe part of the future success of Hawaii's economy will come from the growth and development of the commercial high technology and creative industries.

Thank you for the opportunity to offer these comments.



**HAWAII
STRATEGIC
DEVELOPMENT
CORPORATION**

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Written Statement of

**KARL FOOKS
President**

Hawaii Strategic Development Corporation

before the

SENATE COMMITTEE ON ECONOMIC DEVELOPMENT AND TECHNOLOGY

March 14, 2012

1:30 PM

State Capitol, Conference Room 016

In consideration of

HB 2319 HD2 RELATING TO ECONOMIC DEVELOPMENT.

Chair Fukunaga, Vice Chair Wakai, and Members of the Committee on Economic Development and Technology:

The Hawaii Strategic Development Corporation (HSDC) respectfully submits comments in support of HB 2319 HD2, legislation establishing a Venture Accelerator Funding Program.

Exhibit I is a slide from the National Science Foundation that illustrates a systemic gap, often called the “Valley of Death”, in the innovation ecosystem. The venture accelerator model was developed specifically to address this gap by providing business expertise to startup ventures that lack the management experience to quickly build a business organization and by providing seed funding to startup companies unable to use grant funds for commercialization, but too small to raise conventional financing.

This bill would provide grant funds that would be competitively allocated to entities providing hands-on mentoring to startups to accelerate the startups' ability to attract venture capital financing. Some of funds could potentially be used to provide capital for the startups' proof of concept efforts. By creating the supporting infrastructure to provide entrepreneurs the tools to build businesses able to compete for venture capital financing, venture accelerators will enhance the ability of Hawaii's entrepreneurs to create sustainable businesses and quality jobs for our community.

Successful venture accelerators have become the hubs around which entrepreneurial activity in their respective industries and regions can aggregate and create critical mass.

The Venture Accelerator Funding Program will complement the HiERS Hawaii Targeted Investment Program and HSDC's seed capital investment program by launching new ventures that will be attractive investment opportunities for these funds. From the entrepreneur's perspective, joining a venture accelerator would be the next step for entrepreneurs successfully competing in the various business plan competitions and Startup Weekend events already taking place in our community.

The U.S. Department of Commerce and national philanthropic organizations, such as the Kaufman Foundation, have championed the establishment of venture accelerators across the country as they recognize the positive impact these entities have on accelerating the commercialization of new technology, the formation of new businesses, and ultimately on economic growth and job creation.

Examples of nationally recognized venture accelerators are Jumpstart, Inc., i2E, Inc., regionally focused accelerators; TechStars, a software focused accelerator; the Deshpande Center, a university focused accelerator; and the Sundance Labs, a film/digital media focused accelerator. These models can be adapted to fit Hawaii's competitive advantages.

Venture accelerators provide an effective pathway to commercialization for innovations developed with grant funding and can accelerate the commercialization of university research. Given the intersection of creative and technology sectors, Hawaii's technology and creative industry entrepreneurs would be empowered to increase job growth and provide advanced opportunities for Hawaii creative content export.

HSDC recommends an appropriation of \$5 million for the Venture Accelerator Funding Program. This level of funding will allow the establishment of up to three accelerators to focus on specific industries and provide these accelerators with three years of operating capital. This funding strategy will allow each accelerator the time needed to establish an operating track record and to find other sources of funding to sustain its operations.

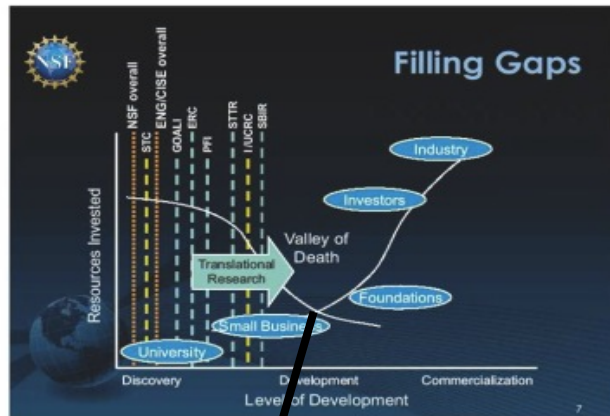
Small businesses are the engine of job creation and startup ventures in particular create new jobs in high wage, knowledge based industries. HB 2319 HD2 will provide the resources to develop a critical component of the innovation ecosystem that Hawaii currently lacks.

Thank you for the opportunity to submit testimony on this bill.

EXHIBIT I

Venture Accelerators Address a Funding Gap in the Innovation Ecosystem

- Grants focus on research and not development
- Bank lending is not suitable for technology startups
- Venture capital is not interested in “proof of concept” risk
- States have developed innovative venture accelerator programs to address this systemic gap



**Venture
Accelerator**

Written Statement of
ALAN S. HAYASHI
MEMBER
Hawaii Strategic Development Corporation Board
before the

SENATE COMMITTEE ON ECONOMIC DEVELOPMENT AND TECHNOLOGY (EDT)

March 14, 2012

1:30 PM

State Capitol, Conference Room 016

In consideration of: **HB 2319 HD1 RELATING TO ECONOMIC DEVELOPMENT.**

Chair Fukunaga, Vice Chair Wakai, and Members of the EDT Committee:

My name is Alan S. Hayashi, member (elect) of the HSDC Board and I respectfully submit my comments in support of HB 2319 HD1, legislation appropriating \$5 million for a Venture Accelerator Funding Program.

Small businesses are the engine of job creation and startup ventures in particular create new jobs in high wage, knowledge based industries. HB 2319 HD1 will provide the resources to develop a critical component of the innovation ecosystem that Hawaii currently lacks.

In the relatively short time I have been on the HSDC Board I have come to appreciate the need for a continuing spectrum of funding resources for the companies as they reach various stages of maturity.

This bill would provide grant funds that would be competitively allocated to entities providing hands-on mentoring to startups to accelerate their ability to attract venture capital financing. Some of funds could potentially be used to provide capital for the startups' proof of concept efforts. By creating the supporting infrastructure to provide entrepreneurs the tools to build businesses able to compete for venture capital financing, venture accelerators will enhance the ability of Hawaii's entrepreneurs to create sustainable businesses and quality jobs for our community.

Successful venture accelerators have become the hubs around which entrepreneurial activity in their respective industries and regions can aggregate and create critical mass. The Venture Accelerator Funding Program will complement the HiERS' Hawaii Targeted Investment Program and HSDC's seed capital investment program by launching new ventures that will be attractive investment opportunities for these funds. From the entrepreneur's perspective, joining a venture accelerator would be the next step for entrepreneurs successfully competing in the various business plan competitions and Startup Weekend events.

.Thank you for the opportunity to submit my remarks on this bill.

Written Statement of
YUKA NAGASHIMA
Executive Director & CEO
High Technology Development Corporation
before the
SENATE COMMITTEE ON ECONOMIC DEVELOPMENT AND TECHNOLOGY
Wednesday, March 14, 2012
1:30 PM
State Capitol, Conference Room 016
In consideration of
HB2319 HD2 RELATING TO ECONOMIC DEVELOPMENT.

Chair Fukunaga, Vice Chair Wakai, and Members of the Senate Committee on Economic Development and Technology:

The High Technology Development Corporation (HTDC) strongly supports HB2319 HD2 regarding establishing a venture accelerator funding program under the Hawaii Strategic Development Corporation (HSDC).

The venture accelerator funding program aims directly at seed/early stage capital - one of the most significant challenges a high tech startup faces. Targeting this critical junction allows money and mentor's guidance to have great impact - concepts mature rapidly into prototypes and products, and business models are tested and validated or respun.

The venture accelerator model has been successfully implemented in many other states. Most notably by Y-Combinator (Silicon Valley) and Tech Stars (multiple sites – Boulder, Boston, Seattle, New York City) the latter boasting impressive statistics – since the program started in 2007 82% of companies are still alive, 63% of companies secured funding (orders of magnitude greater than the original investments), and over 8% of alumni companies have already been acquired.

For the State, the program offers the following immediate benefits:

- Recruiting and developing a fresh pipeline of tech startups that can feed into the HTDC incubation program
- Advancing early stage tech companies and positioning them to secure equity financing from local, domestic, and foreign investors / feed into HSDC's investment portfolio
- Creating a competitive advantage in securing federal economic development grants that require in-kind matches

The venture accelerator funding program is a missing piece in creating a strong core of innovation programs to promote technology based economic development in the state.

We respectfully request correction of the defective effective date and assure clear passage of this bill. Thank you for the opportunity to submit testimony on this bill.

**Testimony to the Senate Committee on Economic Development and
Technology
Wednesday, March 14, 2011 at 1:30 p.m.
Conference Room 016, State Capitol**

**RE: HOUSE BILL NO. 2319 HD2 RELATING TO ECONOMIC
DEVELOPMENT**

Chair Fukunaga, Vice Chair Wakai, and Members of the Committee:

The Chamber of Commerce of Hawaii ("The Chamber") **supports the passage of HB 2319 HD2** relating to Economic Development for further discussion.

The Chamber is the largest business organization in Hawaii, representing more than 1,100 businesses. Approximately 80% of our members are small businesses with less than 20 employees. As the "Voice of Business" in Hawaii, the organization works on behalf of its members, which employ more than 200,000 individuals, to improve the state's economic climate and to foster positive action on issues of common concern.

This measure establishes a venture accelerator funding program under the Hawaii strategic development corporation to assist the State's technology businesses to compete for investment capital and appropriate funds.

In Hawaii, small companies are the engine for Hawaii's economy through the creation of jobs and the generation of economic activity. However, in many situations, especially in the start-up stage, they lack the resources and tools to create sustainable businesses. This is especially prevalent with the research and development sector.

Research and development is a highly critical component to a sustainable economy. R&D provides well-paying jobs to highly-educated employees. These employees pay significant taxes back to the state and spend considerable amounts of income within the state for goods and services. Furthermore, as the R&D matures it creates product companies that increase the number of jobs and tax base significantly.

Therefore, this measure will provide start-up companies guidance and business processes to effectively turn research into successful venture creations.

Thank you for the opportunity to submit testimony.



The Senate Committee on Economic Development and Technology

**Wednesday, March 14, 2012; 1:30 p.m.
Conference Room 016**

**HB 2319, HD2
Testimony in Support**

Chair Fukunaga, Vice Chair Wakai and Members of the Committee, my name is Jon Wallenstrom and I am the President of Forest City Hawaii. It has been Forest City's honor to be a member of the Hawaii business community.

Forest City supports HB 2316, HD2 which seeks to establish a venture accelerator funding program under the Hawaii Strategic Development Corporation (HSDC). This measure would allocate much needed funding to entities providing hands-on mentoring to startups to accelerate the startups' ability to attract venture capital financing. By fostering entrepreneurs by giving them the tools to build businesses that are able to compete for venture capital financing, we would expand Hawaii's entrepreneurs ability to create sustainable businesses. This in turn would create quality jobs in our community. It is critical for the livelihood and long-term financial sustainability of our state that we explore and find significant economic drivers, other than tourism and the military.

Thank you for the opportunity to provide testimony on this matter.



**Testimony in Support of HB 2319 HD2
Chenoa Farnsworth
Managing Director
Hawaii Angels**

HOUSE COMMITTEE ON FINANCE
March 14, 2012
1:30 PM

In consideration of
HB 2319 HD1 RELATING TO ECONOMIC DEVELOPMENT

Hawaii Angels strongly supports HB 2319 HD2, a bill that provides funding for Hawaii based venture accelerators that can support Hawaii's economic recovery and growth. This funding request is relatively minimal but may have a major impact on Hawaii's entrepreneurial community.

Business Acceleration a Proven Strategy

Business accelerator programs are a key ingredient of an innovation ecosystem in many states. Indeed, California has benefited from numerous examples of these types of entities from Y Combinator to 500 Start-ups. Business Accelerators have also played a key role in the economic diversification and recovery of states such as Ohio which did not previously benefit from activity in sectors such as technology. Through its Jumpstart program, they were able to build a robust start-up community which has attracted venture capital and entrepreneurs from around the country. They have also provided a model that can be emulated here in Hawaii and elsewhere.

Technology Sector Economic Impact

Driven primarily by incentive programs such as Act 221, technology sector company formation and job creation in the sector skyrocketed from the 2000-2010 timeframe. In total, since 2002, Hawaii Angels was instrumental in the launch and funding of 40 new companies in the sector. However, deal flow has now slowed significantly due to a lack of incentives and available funding. Where previously we reviewed a dozen qualified deals a month, we now see only 2-3 from Hawaii – the rest of the opportunities are from out of state. Entrepreneurs in Hawaii do not have support to grow nor the availability of initial funding that many of these venture accelerators provide. Hawaii Angels believes the development of these programs is key to jumpstart our start-up community again after the loss of Act 221.

Consistent with Best Practices

Many states have supported the development of venture accelerators in order to fuel new business growth and attract venture capital to their states. Due to fiscal constraints, states have looked at supporting programs at the beginning of the entrepreneurial life cycle. Many of these programs require very little funding but have a significant impact by creating quality dealflow that result in investible companies. If we build quality start-ups the funders will come to finance these start-ups.

Thank you for the opportunity to submit testimony on this bill.



Chair: Senator Carol Fukunaga, Chair
Senator Glenn Wakai, Vice Chair

Committee: Committee on Economic Revitalization & Business
Bill No & Title: HB2319 HD2

Day, Date, Time: Wednesday, March 14, 2012
1:30pm

Place: State Capitol Conference Room 016

Chair Carol Fukunaga , Vice Chair Glenn Wakai and Members of the Committee on Economic Development and Technology:

I am Jared I. Kuroiwa and am one of the founding members of the Hawai'i Innovation Alliance (HIA). The Hawai'i Innovation Alliance is an organization formed earlier this year that aims to create a more unified voice representing the islands' innovation community (technology, startups, entrepreneurs, new and social media, etc.) to foster innovation, educate lawmakers, and advocate appropriate policy.

The Hawai'i Innovation Alliance **strongly supports HB2319 HD2**, Relating to Economic Development. The purpose of this measure is to establish and appropriate funds for a Venture Accelerator Funding Program under the Hawaii Strategic Development Corporation to help the State's technology businesses compete for investment capital.

We believe that the future of Hawai'i's economy is in high technology and the Venture Accelerator Funding Program outlined in this bill will go a long way in supporting growth in this sector. Technology permeates all of the industries outlined in this bill from renewable energy, broadband, aerospace, film, digital media, and agriculture. By their nature, many high technology companies are small with low overhead and a low physical footprint. Perfect for Hawaii.

One of the effects of creating a vibrant technology start-up environment is in retaining the homegrown talent in the technology fields. This symbiotic relationship between science and technology education and the small business community is an area that HIA supports as the higher quality of talent in the state increases the range of businesses that we can produce.

Thank you for the opportunity to submit testimony in support of this important bill.

Hawaii Venture Capital Association
805 Kainui Dr.
Kailua, HI 96734
808-225-3579

To: Chair Carol Fukunaga, Vice Chair Glenn Wakai – Senate Committee on
Economic Development and Tourism

Subject: **HB2319 HD2** Relating to Economic Development, being heard Monday,
March 14, 2012 at 1:30PM, State Capitol, Conference Room 106

Dear Chair, Vice Chair and Members of the Committee on Finance

The Hawaii Venture Capital Association (HVCA) strongly supports HB2319 HD2
regarding a venture accelerator program under the Hawaii Strategic Development
Corporation (HSDC).

In order to attract investment capital to Hawaii businesses, quality deal flow is a
must. Entrepreneurs face a long finance continuum that starts with self-funding and
moves to angel investment, early stage venture capital and later stage venture
capital. The process of developing a quality business investment opportunity
requires a wide range of skills. These skills do not just show up naturally among
entrepreneurs.

It has been demonstrated in many other states that a competent mentor/advisor
program targeting early stage companies can have a significant impact on
entrepreneurs' ability to attract key people and finance to their company.

Hawaii has tremendous potential in a variety of areas especially technology, clean
energy, food sustainability and biotech, but its entrepreneurs need support and the
advantage of coaching and mentorship that a properly funded accelerator can
provide.

This bill can serve an important role in strengthening entrepreneurs and the
businesses they are developing. I urge your committee to pass this bill.

Sincerely,

Bill Spencer
President



March 10, 2012

Hawaii State Legislature
House Committee on Economic Development and Technology

RE: Bill # HB 2319 HD2

Dear Esteemed Members of the Committee,

As a tech entrepreneur who has benefitted from Hawaii state incentives, and as a fund manager, with movie finance and distribution expertise, who has been working with difficulty to raise capital for three years in order to fund local innovation through a new fund, I am in strong support of Bill# HB 2319 HD2.

I back the overall vision of diversifying Hawaii's income potential and keeping our best and brightest in the islands with exciting and worth-while professional opportunities. I do believe that this bill could help accomplish this vision by developing projects that creative professionals would otherwise have to seek elsewhere.

Thank you for your time.

Sincerely,

Eric C. Carlson
Kukui Entertainment, LLC
eric@kukuifilmgroup.com

fukunaga2 - Ashley-Jane

From: mailinglist@capitol.hawaii.gov
Sent: Friday, March 09, 2012 4:42 PM
To: EDTTestimony
Cc: faruq.ahmad@gmail.com
Subject: Testimony for HB2319 on 3/14/2012 1:30:00 PM

Testimony for EDT 3/14/2012 1:30:00 PM HB2319

Conference room: 016
Testifier position: Support
Testifier will be present: No
Submitted by: Faruq Ahmad
Organization: Individual
E-mail: faruq.ahmad@gmail.com
Submitted on: 3/9/2012

Comments:

My name is Faruq Ahmad, and I am writing in support of HB 2319, legislation to appropriate funds for a Venture Accelerator Funding Program. Subject to proper implementation, it is my opinion that such a program will be essential to the success of Hawaii's innovation and entrepreneurial ecosystem.

Thank you for this opportunity to provide testimony, and I would be happy to clarify or expand on any aspect of my comments.

I am resident in Silicon Valley, and have over recent years developed and maintained close connections with the innovation and entrepreneurial community in Hawaii. I have had the honor to serve several times as finals' judge at the UH Manoa PACE business plan competition, and as a Virtual Professional in Residence; I am privileged to have been and continue to be advisor to startup companies in Hawaii, and to some in the venture capital community; and, I have personally been a Hawaii-startup investor. I have a home in Hawaii and affection for the state; and, if given suitable opportunities intend to continue to expand my links to Hawaii in the future.

I have been impressed with the diligence, thoughtfulness and receptiveness to input of officials I have met and worked with over the years, including those from DBEDT, HSDC, and other government agencies, as well as the spirit and tenacity of private sector groups committed to fostering high-value jobs and the success of Hawaii's entrepreneurial ecosystem.

In Silicon Valley, I have been founder of a venture-capital backed software company, a venture capitalist, and an institutional investor in venture capital funds, so that I have personal experience with all these levels of the innovation ecosystem for over 20 years. In my professional capacity I have invested in "startup markets" like India and China during their early days, in addition to companies and funds in Silicon Valley and other established markets.

I have also witnessed how geographically insular communities like Singapore were able to connect effectively with Silicon Valley to train their entrepreneurs and attract investment, establish high standards and best practices, promote their competitive edge to investors and entrepreneurs, and more successfully manage their offshore venture fund portfolios to strategic benefit.

Coaching, mentorship, and formalized support of the type venture accelerators provide is increasingly essential for startup companies, whether their business plan is based on

University IP, the commercialization of dual-use technology, inventions in healthcare and lifesciences, innovative impact investing and double-bottom-line social investing, or startups that are taking advantage of growing opportunities in mobile, collaborative and social domains.

For Hawaii companies to succeed and for Hawaii's innovation ecosystem to gain critical mass, such support is an essential complement to investment capital.

March 13, 2012

Aloha members of the committee.

My name is Darius Monsef and I'm an internet entrepreneur, born and raised on the Big Island and recently moved back from the mainland to raise my family at home.

From the Big Island I run my growing internet company. We have 9 employees working remotely from HI to NY. We've raised \$1M in venture capital from some of the top Bay Area VCs and angel investors and we're in the process of raising another round of capital to continue growing our company at an accelerated pace.

One issue I constantly face is whether I'll be able to stay in Hawaii. Without a thriving tech startup community in Hawaii it gets harder and harder to justify the isolation of living here. I fear we'll have to move the company back to SF where there is a network of startups being run by my peers, investment capital ready to be invested and established internet companies capable of partnering up with.

The best way we can support the early growth of a tech startup community is by developing seed stage funding and incubator programs. These micro investments and designated programs to help formulate early ideas into startups are key to getting more companies formed, more entrepreneurs committing to building them and more investment capital flowing into the state.

I'm confident a seed stage fund & incubator can be the foundation for a thriving startup environment and a huge benefit to the economy. I feel this way, because I've been part of it succeeding in other locations and I've been involved with the top seed funds & incubators in the country.

I am an alumni, mentor & peer of the most prestigious and successful tech incubators like Y Combinator, TechStars, 500Startups & PIEPDX. These incubators have funded hundreds of companies at the \$20-30k stage and have gone on to raise several hundred million in venture capital, hiring thousands of employees at high professional salaries and dozens have been acquired for many hundreds of millions of dollars.

I spent several years in Portland, OR and that was where I originally began building my company. Unfortunately the startup community in Portland 5 years ago was largely how Hawaii is now. There are the right ingredients, but no pot ready to mix them all in. In the past year Portland has seen PIEPDX form to incubate web startups. The first batch of the program was successful in launching several companies that have gone on to raise million dollar seed rounds of capital and have hired on dozens of professional workers. Not only did the program help incubate local companies, it brought mentors & investors from around the country to come visit and work with the incubated startups, exposing the local community to this wealth of outside talent.

As that first batch grows it will hire on hundreds of professional workers, who in turn support the economy all the way down to service providers. As some of those companies are acquired or begin to generate large profits, those founding entrepreneurs will become angel investors supporting the next generation of entrepreneurs.

I'm committed to staying in Hawaii and helping our web and technology community become a thriving economic driver. I'm committed to supporting the early stage seed funds & incubator programs that are created as a result of passing this measure. But, we need your support in moving HB2319 forward and giving Hawaii the opportunity to see this sector of our economy flourish.

Mahalo,
Darius A Monsef



I am writing in support of HB 2319. This bill, if passed, will provide the final essential key to assist with technology commercialization in the islands.

The portion regarding prototyping funds is especially salient. As many states and institutions before us have found, there is simply no money better spent than the modest amounts needed to push early stage technology to a working prototype that will allow entrepreneurs and investors to have a much better understanding of the commercial viability of a product or service.

The University of Utah, home to more technology start up companies than any other school in the US, recently cited its prototyping funds as the most significant element in its commercialization success.

Moreover, in the physical sciences the funding needed is usually well below \$50,000 for each individual technology and sometimes as low as \$10,000.

I have seen first hand the local enthusiasm and vital need for these funds and therefore wholeheartedly support the passage and adequate funding of HB 2319.

Respectfully,

Lee Marvin Taylor, Esquire
Hawaii 8937
California 251920
USPTO 69200