



**TESTIMONY OF
THE DEPARTMENT OF THE ATTORNEY GENERAL
TWENTY-SEVENTH LEGISLATURE, 2014**

ON THE FOLLOWING MEASURE:

H.B. NO. 2282, H.D. 1, S.D. 1, RELATING TO HIGH TECHNOLOGY.

BEFORE THE:

SENATE COMMITTEE ON WAYS AND MEANS

DATE: Friday, March 28, 2014

TIME: 9:35 a.m.

LOCATION: State Capitol, Room 211

TESTIFIER(S): WRITTEN COMMENTS ONLY. For more information, call Margaret S. Ahn, Deputy Attorney General, at 586-1188

Chair Ige and Members of the Committee:

The Department of the Attorney General takes no position on this bill but would like to point out the following concerns and recommend the following amendments.

Part II of the bill reestablishes the High Technology Innovation Corporation (HTIC). The bill provides that the composition of the HTIC Board of Directors shall include one member appointed by the Speaker of the House of Representatives and one member appointed by the President of the Senate. The bill further provides that the rest of the board shall be composed of the heads of enumerated state agencies or department divisions.

Direct legislative appointments to boards that perform executive functions violate the constitutional separation of powers doctrine. HTIC's functions include facilitating "the growth and development of the commercial high technology industry in Hawaii," and its powers include holding property, entering into contracts, and hiring staff. These are unquestionably executive functions. HTIC, the corporation, is under the management and control of its board of directors. Consequently, the HTIC board would be performing executive functions.

Therefore, we recommend that this bill be amended to provide that, instead of the two direct legislative appointments, the Governor appoints the members from lists provided by the President of the Senate and the House of Representatives.

Finally, if it is the Legislature's intent to allow the remaining ex officio members to designate a representative to serve in the official's place, we recommend that this be made explicit in the bill.



HAWAII
STRATEGIC
DEVELOPMENT
CORPORATION

Written Statement of

KARL FOOKS
President

Hawaii Strategic Development Corporation

Before the
COMMITTEE ON WAYS & MEANS

March 28, 2014
9:35 AM
State Capitol, Conference Room 211

In consideration of
HB 2282 HD 1 SD 1 RELATING TO HIGH TECHNOLOGY

Chair Ige, Vice Chair Kidani, and Members of the Committee on Ways & Means:

The Hawaii Strategic Development Corporation (HSDC) respectfully submits comments on Part II of HB 2282 HD 1 SD 1.

This bill, as well as HB 2841 HD 1 SD 1, seeks to create new entities to support the development of high growth companies in the State. HTDC and HSDC are existing state agencies with all the powers, staff and experience to provide the services and resources that HB 2822 HD 1 SD1 Part II and HB 2841 HD 1 SD 1 are seeking to provide. In fact, Part I of HB2282 HD1 SD1 is an example of the activity that will be duplicated in these new entities. Moreover, HSDC and HTDC have appointed boards for oversight. These agencies are required to monitor and report on their activities to insure public funds are used to achieve public benefits.

Successful economic development programs in other regions have demonstrated that providing a comprehensive framework to organize the state's investments, providing a critical mass of funding to allow these programs to attract private sector partners, and reporting on the metrics and progress of the programs are key ingredients of their success.

Thank you for the opportunity to provide testimony.

Fw: Submitted testimony for HB 2282 on Mar 28, 2014 09:35AM

Karl Fooks to: Lauren M Primiano

03/27/2014 09:02 AM

----- Forwarded by Karl Fooks/DBEDT on 03/27/2014 09:01 AM -----

From: mailinglist@capitol.hawaii.gov
To: WAMtestimony@capitol.hawaii.gov,
Cc: karl.fooks@dbedt.hawaii.gov
Date: 03/27/2014 09:00 AM
Subject: Submitted testimony for HB2282 on Mar 28, 2014 09:35AM

HB2282

Submitted on: 3/27/2014

Testimony for WAM on Mar 28, 2014 09:35AM in Conference Room 211

Submitted By Organization Testifier Position			Present at Hearing
Karl Fooks	HSDC	Comments Only	No

Comments: see attached file.

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

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27 March 2014

Committee on Ways and Means
Chair: David Ige
Vice Chair: Michelle Kidani

Growth of the state's technology sector is an important component of any plan to achieve diversification in Hawaii's economy. The most cost-effective method for stimulating growth in the technology sector is through the founding and maturation of Hawaii-based small businesses. The federal government provides early-stage research and development funds for small businesses through the Small Business Innovation Research ("SBIR") program. Implementation of a state-sponsored matching incentive program, designed to augment all three phases of the federal SBIR program, will significantly accelerate the rate at which small businesses can develop and commercialize new technologies. HB2282-HD1-SD1 will supplement the SBIR program and leverage our existing Hawaii Technology Development Corporation's grant program.

The highly competitive SBIR program makes non-dilutive seed funds available to small businesses in a purposefully structured, multi-phase programmatic structure aimed at developing and commercializing early stage innovations. Spectrum Photonics has benefitted significantly from this program, with more than \$5,000,000 in federal SBIR funds contracted since 2009. These SBIR funds, in turn, have helped to make our technologies competitive for follow-on federal acquisition programs and commercial transition opportunities such as the Rapid Innovation Fund (RIF) program. Enactment of HB2282-HD1-SD1 will greatly accelerate technology development and commercialization activities in the state.

Phase I SBIR awards are generally only sufficient to conduct a paper study or to conduct a primitive proof-of-concept experiment. Phase II project awards, while more substantial, are typically only sufficient to assemble and conduct limited testing of a first generation brassboard capability. Additional follow-on funding is essential to move the technology beyond the initial prototype towards field demonstrations, customer interface, and beta-stage development. From an economic development perspective, the return on State investment may be maximized through the leveraging of federal Phase II and Phase III SBIR program awards with an incentive matching program aimed at increasing the trained labor base and shortening product development cycle times.

The Hawaii Technology Development Corporation's grant program, which has been in place since 1983, has been used to match SBIR Phase I contracts. It has been effective in helping to secure Phase II awards for grant recipients. HB2282-HD1-SD1 will fill critical follow-on funding needs by supplementing all three phases of the federal SBIR program. By adding matching funds to Phase II and Phase III SBIR contracts, the bill will significantly enhance the output of the SBIR project deliverables by facilitating critical supporting efforts aimed at maturing and commercial transition of novel technologies. The proposed bill is tied to the Governor's appropriation fund and is included in the original Executive Budget. If passed with language similar to the language in SB2832 S.D.2, the bill will not require the creation of new agencies or additional operating expenses to the State. Passage will directly leverage competitively-awarded federal R&D awards, accelerate growth of Hawaii's tech industry, and will help to create new jobs and increased innovation in the State of Hawaii.

We strongly urge you to support of HB2282-HD1-SD1.

Sincerely,

A handwritten signature in blue ink that reads "Edward T. Knobbe".

Edward T. Knobbe, Ph.D.
President and CEO

Written Statement of
ROBBIE MELTON
Executive Director & CEO
High Technology Development Corporation
before the
SENATE COMMITTEE ON WAYS AND MEANS

Friday, March 28, 2014
9:35 a.m.
State Capitol, Conference Room 211
In consideration of

HB 2282 HD1 SD1 RELATING TO HIGH TECHNOLOGY.

Chair Ige, Vice Chair Kidani, and Members of the Committee on Ways and Means.

The High Technology Development Corporation (HTDC) **supports with comments** HB 2282 HD1 SD1 relating to High Technology. HTDC has been assisting Phase I SBIR awarded companies since 1989 and continues to do so each year. For every dollar invested through this program, Hawaii companies have attracted 16 federal dollars in return to the state, plus commercialization funding. The federal SBIR grant program has increased their efforts to move companies through grant awards to commercial product sales. However, the federal SBIR program has not dedicated additional funds towards these efforts. HB 2282 HD1 SD1 allows HTDC the opportunity to further assist these companies in the SBIR path to commercialization. For clarification, the Hawaii Capital Revolving Loan fund mentioned in the bill was repealed by section 7 of Act 178, SLH 2003. HTDC respectfully requests the correction of the defective effective date.

HTDC supports reestablishing the High Technology Innovation Center (HTIC). HTDC respectfully requests that HTIC reside within the High Technology Development Corporation as stated in the Articles of Incorporation. HTDC requests that the composition of the board of directors be changed as follows: (1) Instead of the 2 direct legislative appointments to the board, have the Governor appoint the 2 members from lists of private sector nominees from the Speaker of the House and President of the Senate; and (2) Allow the ex-officio members to designate representatives to the board (e.g., the president of HSDC, "or the president's designated representative").

HTDC supports changing the name of the High Technology Development Corporation to Hawaii Technology Development Corporation which more broadly describes our mission to work with all technology industries.

Thank you for the opportunity to offer these comments.



Chamber of Commerce HAWAII
The Voice of Business

**Testimony to the Senate Committee on Ways and Means
Friday, March 28, 2014 at 9:35 A.M.
Conference Room 211, State Capitol**

RE: HOUSE BILL 2282 HD1 SD1 RELATING TO HIGH TECHNOLOGY

Chair Ige, Vice Chair Kidani, and Members of the Committee:

The Chamber of Commerce of Hawaii ("The Chamber") **supports** HB 2282 HD1 SD1, which amends section 206M-15, Hawaii Revised Statutes, to add Phase II or III Small Business Innovation Research grants to qualifying criteria and reestablishes the high technology innovation corporation.

The Chamber is the largest business organization in Hawaii, representing over 1,000 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 members and the entire business community to improve the state's economic climate and to foster positive action on issues of common concern.

The Chamber supports continuing efforts to develop the innovation sector of our economy. A diversified economy is important to Hawaii's economic long term viability. This bill will help provide much needed funding to a wider spectrum of small businesses as well as create opportunities for investments in a booming and diverse economy.

Thank you for the opportunity to testify.

Testimony in Support of HB2282



To: Ways and Means Committee,

Dear Chair Ige, Vice Chair Kidani, and Members of the Committee:

This letter is to provide my support for HB2282 regarding increasing the scope of the Hawaii Technology Development Corporation's SBIR matching program to include phase 2 and 3. We request that HB2282 be passed and to follow the language of SB2832 S.D.2.

TeraSys Technologies has received, to date, almost 40% of our revenue through the Small Business Innovative Research (SBIR) program, totaling \$2.8M over the past 6 years. We have received a total of \$120K through the HTDC SBIR matching grant program. TeraSys has been successful in securing \$2.5M in phase 2 funding, representing a 20X return on investment from the HTDC SBIR matching funds received by TeraSys.

What has proven elusive to us so far, however, is to reach the "holy grail" of the SBIR program which is to secure a phase III large scale commercial order. One of the greatest hurdles in securing a phase 3 contract is the often cited "funding valley of death" which occurs between phase 2 and phase 3. This valley of death is aptly named, since many companies simply "die" attempting to reach phase III because there are very few bona fide sources of funding that can bridge the gap between phase 2 and phase 3.

Typically, the phase 2 results are the first demonstration of a working prototype which provides the customer with the confidence that the research is successful. However, entering into a phase 3 contract requires a working product which is a large step from successful research. Very few funding sources exist for performing the packaging, optimization, and feature development necessary to turn applied scientific research into a fully functional product, hence the phrase funding valley of death. Initiatives such as HB2282 are critical in filling this gap to enable the true commercialization of SBIR funded research.

HB 2282 would broaden the existing program by adding a matching grant component to mid- to later- stage funding at the SBIR Phase 2 or Phase 3 stages to support the development of working prototypes that stem out of these technologies. This would fill a large gap in the technology development process and would promote the maturation and commercialization of novel technologies. In addition, the bill will support of the growth of the tech industry and the creation of jobs and innovation in the State of Hawaii.

We strongly urge you to support of HB2282 and thank you for your time and attention,

Mahalo Nui Loa,

Digitally signed by Kevin Miyashiro
DN: cn=US, ou=U.S. Government, ou=CA, ou=IdentiTrust, ou=TERASYS TECHNOLOGIES LLC, cn=Kevin Miyashiro
Date: 2014.03.27 09:05:53 -10'00'

Kevin Miyashiro
President



Written Statement of
DR. PATRICK K. SULLIVAN
PRESIDENT/CEO OCEANIT

Before the
SENATE COMMITTEE ON WAYS AND MEANS
March 28, 2014
9:35 a.m.
State Capitol, Conference Room 211
In Support of
HB2282 RELATING TO HIGH TECHNOLOGY

To: Chair Senator David Ige, Vice Chair Michelle N. Kidani and Members of the Committee

From: Dr. Patrick K. Sullivan, President/CEO

Re: Testimony in Support of the intent of HB2282

Honorable Chair, Vice-Chair and Committee Members:

Thank you for the opportunity to submit testimony in **Support of the intent of HB2282**. We respectfully request that **HB2282** follow the language as set forth in **SB2832 S.D.2**, which has been referred to the House Finance Committee.

The tech industry in Hawaii has grown over the past 10 years and has made significant strides toward achieving the goal of diversifying Hawaii's economy. Many companies compete for federal support through the Small Business Innovation Research ("SBIR") grant program, which encourages and funds early stage ideas and innovations.

As a local diversified science and engineering company with capabilities/facilities in advanced technology, life sciences, information systems, aerospace and energy, Oceanit supports the intent of HB2282.

Specifically, we support the objectives of this bill which:

- acts as a bridge across the "valley of death" and to assist in commercializing research discoveries for societal benefit;
- supports economic growth and the diversification of our economy;
- will allow companies to launch new ventures based on technology innovations; and
- supports the growth of the tech industry and the creation of jobs and innovation in the State of Hawaii.

In addition, HB2282 is tied to the Governor's appropriation fund and is in the original Executive Budget, so if passed with language similar to the language in SB2832 S.D.2, will not require the creation of new agencies or additional operating expenses to the State.