



Statement of
Robbie Melton
Executive Director & CEO
High Technology Development Corporation
before the
House Committee on Finance
Wednesday, February 24, 2016
3:00 p.m.
State Capitol, Conference Room 308
In consideration of
HB2219 HD1
RELATING TO INNOVATION BUSINESS INTERACTION.

Chair Luke, Vice Chair Nishimoto, and Members of the Committee on Finance.

The High Technology Development Corporation (HTDC) **supports with requested amendments** HB2219 HD1 that establishes a loan program in the HTDC to support high-technology small businesses provided that its passage does not replace or adversely impact priorities indicated in the Executive Budget.

As part of HTDC's vision to create 80,000 new innovation jobs in Hawaii earning \$80,000 or more by 2030, HTDC supports initiatives aimed at promoting technology and innovation jobs. The proposed impact loan program fills a critical void with the capital required for many technologies to advance to market and achieve profitability. The convertible debt is a proven effective financing structure to move technologies further along the commercialization pathway, increase the company's valuation, and lead to follow-on investment for further growth while providing the state opportunity to financially benefit from the success of the company and recoup some capital to sustain the program. The financing structure allows for risk capital to be applied with a balance of economic development and venture capital objectives, which means loans may be provided to companies suited to grow and remain in Hawaii instead of exclusively funding high growth opportunities.

Many of HTDC's suggested amendments were incorporated into HD1. After further discussion with stakeholders, HTDC offers the following suggested amendments to ensure the program connects technology development with the needs of the larger Hawaii business community:

- The name of the program is simplified to the Impact Loan Fund for Hawaii
- Consider the interest rate specified in (d) (3) to be more competitive.
- Clarify that proposals are to be submitted to HTDC vs. Hi Impact administrator in (e)(1)

- Delete (e)(3) “Commit a fifty per cent match of the loan, in cash or in-kind;” and replace with the following requirements:
 - “Secure a contract or purchase order from a customer company equal to or greater than 10% of the convertible debt loan.” The secured contract ensures the technology development has a customer with quantifiable benefit that justifies the purchase.
 - “Submit a technical budgeted plan of work to meet the customer’s need.”
 - “Include a justification letter of commitment from the customer company explaining the business case as to how this will help their company and their commitment to purchase.”
- Reword Sport-technology to Ocean-Recreational-Technology

Thank you for the opportunity to offer these comments.

DAVID Y. IGE
GOVERNOR



WESLEY K. MACHIDA
DIRECTOR

RODERICK K. BECKER
DEPUTY DIRECTOR

EMPLOYEES' RETIREMENT SYSTEM
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
OFFICE OF THE PUBLIC DEFENDER

STATE OF HAWAII
DEPARTMENT OF BUDGET AND FINANCE

P.O. BOX 150
HONOLULU, HAWAII 96810-0150

ADMINISTRATIVE AND RESEARCH OFFICE
BUDGET, PROGRAM PLANNING AND
MANAGEMENT DIVISION
FINANCIAL ADMINISTRATION DIVISION
OFFICE OF FEDERAL AWARDS MANAGEMENT (OFAM)

TESTIMONY BY WESLEY K. MACHIDA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE HOUSE COMMITTEE ON FINANCE
ON
HOUSE BILL NO. 2219, H.D. 1

February 24, 2016
3:00 p.m.

RELATING TO INNOVATION BUSINESS INTERACTION

House Bill No. 2219, H.D. 1, establishes a loan program in the High Technology Development Corporation to support high technology small businesses, a Hawaii Impact Loan Program for Commercialization Special Fund, and appropriates funds.

The Department of Budget and Finance has concerns with the Hawaii Impact Loan Program for Commercialization Special Fund. As a matter of general policy, the department does not support the creation of any special fund which does not meet the requirements of Section 37-52.3, HRS. Special funds should: 1) serve a need as demonstrated by the purpose, scope of work and an explanation why the program cannot be implemented successfully under the general fund appropriation process; 2) reflect a clear nexus between the benefits sought and charges made upon the users or beneficiaries or a clear link between the program and the sources of revenue; 3) provide an appropriate means of financing for the program or activity; and 4) demonstrate the capacity to be financially self-sustaining. In regards to House Bill No. 2219, H.D. 1, it is difficult to determine whether the proposed fund would be self-sustaining. The amount of general revenues proposed for deposit into the special fund is undetermined.



Chamber of Commerce HAWAII

The Voice of Business

**Testimony to the House Committee on Finance
Wednesday, February 24, 2016 at 3:00 P.M.
Conference Room 308, State Capitol**

**RE: HOUSE BILL 2219 HD 1 RELATING TO INNOVATION BUSINESS
INTERACTION**

Chair Luke, Vice Chair Nishimoto, and Members of the Committee:

The Chamber of Commerce Hawaii ("The Chamber") **supports** HB 2219 HD 1, which establishes a loan program in the HTDC to support dual-use technology small businesses. Appropriate funds.

The Chamber is Hawaii's leading statewide business advocacy organization, representing about 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 efforts to assist the high technology industry in Hawaii. This loan program would provide much needed assistance to grow the tech industry in Hawaii and create more jobs and incentives to keep local talent here. Of the many growing industries in Hawaii, the tech industry is one to focus on as it is the industry to continue to move Hawaii forward in this twenty-first century with innovation and development.

Thank you for the opportunity to testify.



Written Statement of
EDWARD CHEN
PRESIDENT HOANA MEDICAL

Before the
HOUSE COMMITTEE ON FINANCE

February 24, 2016
3:00 p.m.
Conference Room 308

HB2219 RELATING TO INNOVATION BUSINESS INTERACTION

To: Chair Representative Sylvia Luke, Vice Chair Representative Scott Y. Nishimoto
Kong and Members of the Committee

From: Edward Chen

Re: Testimony in **SUPPORT** of HB2219

Honorable Chairs, Vice-Chairs and Committee Members:

Thank you for the opportunity to submit testimony in **SUPPORT of HB2219**.

Hoana Medical, Inc. is one of the few medical device manufacturers founded and based in the State of Hawaii. We have developed a passive, life-saving sensing technology that can be used for medical, military and consumer environments.

In this twenty first century global economy, the creation and growth of technology companies is crucial for the State of Hawaii. It has been proven that through various federal funding sources, Hawaii companies have demonstrated the ability to develop “disruptive technologies” for the U.S. Department of Defense. However, the ability to take disruptive technologies to the next level or for dual use, ie, tourism industry, agriculture industry, sports industry, finance industry, building and construction industry and other industries, has been a challenge. Federal R&D funding is restricted to research and development activities, i.e., no marketing or commercialization activities allowed. Furthermore, only a small percentage of tech businesses are venture fundable. So how do we help the majority of Hawaii technology companies who are stuck in the “ditch” between research and product realization?

HB2219, which establishes the commercialization loan program for commercialization (HI-impact) will assist Hawaii startups, such as Blue Startups, XLR8UH, and companies in the fields of dual-use technologies. In addition, it will support the market transformation of technologies from the tech, agriculture, tourism, software, creative media, and defense sectors to name a few. In return, the State will benefit from tax revenues, job creation and economic growth.

We strongly urge you to support of HB2219 and we appreciate your continued support of the technology industry.

Thank you.

December 6, 2002
Page 2

Sincerely,

Ed Chen

Edward Chen
Hoana Medical, Inc.
President

LATE

To: Chair Senator Jill Tokuda, Vice Chair Senator Donovan M. Dela Cruz and Members of the Committee

From: Bryan Butteling, Software Engineer / Startup Weekend Hawaii Advisor

Re: Testimony HB2219

Honorable Chairs, Vice-Chairs and Committee Members:

I am a 30 year old local software engineer (born and raised in Lahaina) and over the last 5 years I have sacrificed pay and comfort to push for innovation and job creation in Hawaii. I've been involved with the startup / innovation sector at every major entry point, from leading a non-profit event focused on connecting and building entrepreneurs - to part-owner of Hawaii's first and largest coworking space - to recently working at a local venture-fund.

I can confidently say that I'm one of the very few people in our state who has seen both sides of our innovation / tech sector - the business and technical environments.

I write to you to show my support for HB2219 but only IF there are detailed outlines for ROI to the state. Yes, the investment will help tech companies, but I've already seen that people easily throw money at "ideas" instead of actual prototyped products with traction. In addition I would recommend visiting other areas such as tax exemption for such companies who do hire tech workers. This area alone is a major reason why business leave Hawaii or are afraid to scale. Also please consider assigning a committee of qualified members with varying backgrounds from the private sector (business and technical) along with the public sector to review proposals and outline PRACTICAL product roadmaps from companies that are applying.

It is time we stop the "spaghetti on the wall" investments and get out of the mindset that we have to do things like other states. We are Hawaii

the most isolated land mass in the world with one of the most diverse market segments. It's time we ALL worked hard together and start producing meaningful and impactful companies that compete on a global scale. Think local but build for global.

Mahalo,

Bryan Butteling



LATE

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

Before the
HOUSE COMMITTEE ON FINANCE

February 24, 2016
3:00 p.m.
Conference Room 308

HB2219 RELATING TO INNOVATION BUSINESS INTERACTION

To: Chair Representative Sylvia Luke, Vice Chair Representative Scott Y. Nishimoto Kong and Members of the Committee

From: Dr. Patrick Sullivan, President/CEO

Re: Testimony in **SUPPORT** of HB2219

Honorable Chairs, Vice-Chairs and Committee Members:

Thank you for the opportunity to submit testimony in **SUPPORT of HB2219** with the following amendments at the end of this testimony.

Oceanit is a local diversified science and engineering company with capabilities/facilities in advanced technology, life sciences, information systems, aerospace, energy, oil and gas and consulting engineering services.

In this twenty first century global economy, the creation and growth of technology companies is crucial for the State of Hawaii. It has been proven that through various federal funding sources, Hawaii companies have demonstrated the ability to develop “disruptive technologies” for the U.S. Department of Defense. However, the ability to take disruptive technologies to the next level or for dual use, ie, tourism industry, agriculture industry, ocean recreation technology industry, finance industry, building and construction industry and other industries, has been a challenge. Federal R&D funding is restricted to research and development activities, i.e., no marketing or commercialization activities allowed. Furthermore, only a small percentage of tech businesses are venture fundable. So how do we help the majority of Hawaii technology companies who are stuck in the “ditch” between research and product realization?

HB2219, which establishes the commercialization loan program for commercialization (HI-impact) will assist Hawaii startups, such as Blue Startups, XLR8UH, and companies in the fields of dual-use technologies. In addition, it will support the market transformation of technologies from the tech, agriculture, tourism, software, creative media, and defense sectors to name a few. In return, the State will benefit from tax revenues, job creation and economic growth.

We urge you to support HB2219 and appreciate your continued support of the technology industry, with the following amendments:

- CHANGE Page 2, line 3; Page 2, line 17; Page 3, line 7; Page 7, line 8: “Sport-technology” to “Ocean-Recreational-Technology”
- REMOVE Page 4, line 3 to 7: “(6) Keep technology companies doing business in Hawaii by limiting the need to seek out-of-state venture capital, which dilutes local ownership and increases the probability of moving high potential technology companies from Hawaii.”
- REMOVE Page 4, line 13 to 15: “(d) The development corporation shall model the loan program after the Maryland technology development corporation technology commercialization fund by, among other things:”
- CHANGE Page 5, line 9: “(3) Offering the loans in the form of a convertible note bearing four per cent interest.”
- REMOVE and REPLACE Page 5, line 12 to 17 with: “The applicant submits a technical budgeted plan of work that needs to be completed to meet the customer’s need. The applicant includes a justification letter of commitment from the customer company explaining the business case as to how this will help their company and their commitment to purchase.”
- CHANGE Page 5, line 18 to 21: “The documentation that the startup companies are required to provide is simplified to financials, pro-formas, and a promissory note with provisions for other information required by HTDC.”
- REMOVE Page 6, line 1: “~~Commit a fifty per cent match of the loan, in cash or in-kind~~” replace with “The applicant must secure a contract or purchase order from a customer company equal to or greater than 10% of the convertible debt loan.”



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H.B. NO.2219
(proposed HD2)

A BILL FOR AN ACT

RELATING TO INNOVATION BUSINESS INTERACTION.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

1 SECTION 1. The legislature finds that to be successful in
2 the twenty-first century global economy, Hawaii must position
3 itself as a leader in technology development, transfer, and
4 commercialization. Significant progress has been made in the
5 past years through programs supported by federal and state
6 initiatives, such as programs administered by the high
7 technology development corporation, Hawaii strategic development
8 corporation, and the Hawaii technology development venture, but
9 more is required to move Hawaii's technology industry to achieve
10 local technology commercialization. Innovation in science and
11 technology fields will not only enable the State to succeed in
12 the global marketplace, but will also support the State's
13 sustainable economic development goals to include a viable and
14 vibrant technology and manufacturing labor force.

15 *The purpose of this Act is to build on the successes of*
16 *Hawaii's science and technology industries and establish a*
17 *commercialization loan program, known as the Hawaii impact loan*

H.B. NO.2219

(proposed HD2)

1 *program for commercialization to support Hawaii-based small*
2 *businesses in the fields of dual-use technologies, tourism-*
3 *technology, agriculture-technology, oceant-technology, finance-*
4 *technology, building and construction-technology, life science-*
5 *technology, biomedical engineering-technology, aerospace-*
6 *technology, and other cross-industry collaborations (excluding*
7 *energy) with Hawaii's technology sector.*

8 SECTION 2. Chapter 206M, Hawaii Revised Statutes, is
9 amended by adding a new part to be appropriately designated and
10 to read as follows:

11 "PART . HAWAII IMPACT LOAN PROGRAM

12 §206M-A Hawaii impact loan program; establishment,
13 administrator. (a) There is established within the development
14 corporation the Hawaii impact loan program. The purpose of the
15 program is to:

- 16 (1) Provide funding to Hawaii-based early-stage and start-
17 up businesses to encourage the commercialization of
18 technology research and technology product
19 development; and
- 20 (2) Facilitate the commercialization and transfer of
21 technology to Hawaii-based commercial industries,
22 including finance, building and construction,

H.B. NO.2219

(proposed HD2)

1 agriculture, tourism, medicine and life sciences,
2 engineering, and engineering.

3 (b) The development corporation may:

4 (1) Provide a loan for a first investment of not more than
5 \$_____ to provide funds for critical product
6 development that will enable the business to achieve
7 significant product or technical development; or

8 (2) Provide a loan in the form of a convertible note
9 bearing interest at not more than eight per cent.

10 (c) The board shall appoint a Hawaii impact loan program
11 administrator exempt from chapters 76 and 89, and set the salary
12 of the administrator.

13 **§206M-B Eligible businesses; application.** (a) To qualify
14 for the Hawaii impact loan program a business shall submit an
15 application to the administrator, which shall include
16 information that includes:

17 (1) Proof that it is a for-profit business that has its
18 principal business operations located in the State;

19 (2) Proof that it has not more than sixteen full-time
20 employees and less than \$500,000 in equity
21 investments;

22 (3) A business plan for the commercialization of
23 technology research and development of technology

H.B. NO.2219

(proposed HD2)

1 products that may also provide technology jobs to
2 qualified scientists and engineers in Hawaii and
3 reduce the need to seek out-of-state venture capital;
4 and

5 (4) A commitment to provide matching funds.

6 (b) The administrator may adopt rules relating to other
7 information to be submitted in an application, including a
8 commercialization budget, corporate financials, pro forma
9 statements, and other information.

10 (c) Upon approval of the loan, the applicant shall submit
11 a signed promissory note for the amount of the loan.

12 **§206M-C Hawaii impact loan program special fund.** (a)

13 There is established in the treasury of the State of Hawaii the
14 Hawaii impact loan program special fund, into which shall be
15 deposited:

16 (1) Revenues from loan repayments;

17 (2) Moneys made available through gifts, grants, or
18 private contributions;

19 (3) Any funds made available through federal programs;

20 (3) Legislative appropriations; and

21 (4) Interest accruing from investment of moneys in the
22 special fund.

H.B. NO.2219

(proposed HD2)

1 (b) Moneys in the Hawaii impact loan special fund shall be
2 used the development corporation for the purposes of this part;
3 provided that not more than _____ per cent of the moneys in
4 the fund shall be used for administrative expenses.

5 **§206M-D Reports.** The development corporation shall submit
6 a report to the legislature no later than twenty days prior to
7 the convening of each regular session on the activities and
8 expenditures of the Hawaii impact loan program."

9 SECTION 3. There is appropriated out of the general
10 revenues of the State of Hawaii the sum of \$ _____ or so
11 much thereof as may be necessary for fiscal year 2016-2017 to be
12 deposited into the Hawaii impact loan program special fund.

13 SECTION 4. There is appropriated out of the Hawaii impact
14 loan program special fund the sum of \$ _____ of so much
15 thereof as may be necessary for fiscal year 2016-2017 for the
16 purposes of this Act.

17 The sum appropriated shall be expended by the high
18 technology development corporation for the purposes of this Act.

19 SECTION 5. In codifying the new sections added by section
20 2 of this Act, the revisor of statutes shall substitute
21 appropriate section numbers for the letters used in designating
22 the new sections in this Act.

23 SECTION 6. This Act shall take effect on July 1, 2016.

H.B. NO.2219

(proposed HD2)

1
2
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INTRODUCED BY: _____

BY REQUEST

H.B. NO.2219

(proposed HD2)

Report Title:

HTDC; Loan Program; Appropriation

Description:

Establishes a loan program in the HTDC to support dual-use technology small businesses. Appropriates funds.

The summary description of legislation appearing on this page is for informational purposes only and is not legislation or evidence of legislative intent.