
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 high impact



1 loan program for commercialization (HI-impact) to support
2 Hawaii-based small businesses in the fields of dual-use
3 technologies, tourism-technology, agriculture-technology,
4 manufacturing technology, sports-technology, finance-technology,
5 building and construction-technology, and other cross-industry
6 collaborations (excluding energy) with Hawaii's technology
7 sector.

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

11 "§206M-A Hawaii high impact loan program for
12 commercialization; established. (a) There is established
13 within the development corporation, the Hawaii high impact loan
14 program for commercialization, also to be known as the HI-impact
15 loan program, to support Hawaii-based small businesses in the
16 fields of dual-use technologies, tourism-technology,
17 agriculture-technology, manufacturing-technology, sports-
18 technology, finance-technology, building and construction-
19 technology, and other cross-industry collaborations (excluding
20 energy generation technology).

21 (b) The purposes of the program shall be to:



- 1 (1) Develop, implement, and operate a comprehensive loan
2 program to support product development, technology
3 transfer, and commercialization;
- 4 (2) Provide capital to support accelerated
5 commercialization activities in the fields of dual-use
6 technologies, tourism-technology, agriculture-
7 technology, manufacturing-technology, sports-
8 technology, finance-technology, building and
9 construction-technology, and other cross-industry
10 collaborations (excluding energy generation
11 technology);
- 12 (3) Provide capital to sustain high-potential business
13 infrastructure development to assist the enterprise
14 towards commercial success;
- 15 (4) Promote high-quality, high-income job opportunities
16 for Hawaii's residents and graduates of Hawaii's
17 educational institutions;
- 18 (5) Reverse the loss of qualified workers to other states
19 by providing jobs to retain existing Hawaii technology
20 employees and enable highly qualified scientists and
21 engineers to return to living-wage jobs in Hawaii; and



1 (6) Keep high technology companies doing business in
2 Hawaii by limiting the need to seek out-of-state
3 venture capital, which dilutes local ownership and
4 increases the probability of moving high potential
5 technology companies from Hawaii.

6 (c) The board may hire an administrator for the HI-impact
7 loan program, who shall be known as the HI-impact administrator.
8 The board may set the salary for the HI-impact administrator.
9 The HI-impact administrator position shall be exempt from
10 chapter 76.

11 (d) The development corporation shall model the loan
12 program after the Maryland technology development corporation
13 technology commercialization fund by, among other things:

14 (1) Providing funding in two distinct investments,
15 specifically:

16 (A) A first investment of up to \$100,000 to provide
17 funds for critical product development that
18 enables business to achieve significant product
19 development and technical milestones; and

20 (B) A second investment of up to \$125,000, subject to
21 a concurrent third-party investment and approval



1 by the high technology development corporation,
2 to support further product development and to
3 prepare the business for later-stage investments
4 or product launch and revenue generation;

5 (2) Making program eligibility dependent upon the
6 following two criteria:

7 (A) The business shall be a for-profit entity located
8 in the State with fewer than sixteen full-time
9 equivalent employee positions; and

10 (B) The business is pre-revenue or has received less
11 than an aggregate of \$500,000 in equity
12 investments; and

13 (3) Offering the loans in the form of a convertible note
14 bearing eight per cent interest.

15 (e) To receive funding, a Hawaii-based business shall:

16 (1) Submit qualified proposals to the HI-impact
17 administrator for funding in accordance with program
18 requirements specified by the department of business,
19 economic development, and tourism; provided that a
20 majority of the work under the award shall be
21 performed in the State;



- 1 (2) Submit to the HI-impact administrator a
- 2 commercialization budget, corporate business plan,
- 3 purchase orders or letters of commitment for product
- 4 sales, and a statement of commitment to pay interest
- 5 to the State and repay the total amount of principal
- 6 loaned under the HI-impact loan program for
- 7 commercialization based upon parameters set by the
- 8 department of business, economic development, and
- 9 tourism;
- 10 (3) Execute agreements in accordance with the HI-impact
- 11 administrator; and
- 12 (4) Submit reports and updates of project progress and
- 13 other required documents in accordance with HI-impact
- 14 administrator requirements.
- 15 (f) The HI-impact administrator shall submit an annual
- 16 report to the legislature no later than twenty days prior to
- 17 each regular session on the activities and expenditures of the
- 18 loan program and the high impact loan program for
- 19 commercialization special fund.
- 20 \$206M-B Hawaii high impact loan program for
- 21 commercialization; special fund. (a) There is established in



1 the treasury of the State the Hawaii high impact loan program
2 for commercialization special fund to be administered by the
3 development corporation.

4 (b) The revenues of the special fund shall consist of loan
5 repayments, fees, fines and penalties, legislative
6 appropriations for the program or the special fund, and interest
7 accrued upon the funds in the special fund.

8 (c) The special fund shall be used to make loans to
9 support Hawaii-based small businesses in the fields of dual-use
10 technologies, tourism-technology, agriculture-technology,
11 manufacturing-technology, sports-technology, finance-technology,
12 building and construction-technology, and other cross-industry
13 collaborations (excluding energy generation technology);
14 provided that no more than fifteen per cent of the moneys may be
15 expended for administration and program oversight of the program
16 awardees; provided further that funds received from loan
17 operations shall be used in accordance with this section and
18 section 206M-A."

19 SECTION 3. There is appropriated out of the general
20 revenues of the State of Hawaii the sum of \$ or so much
21 thereof as may be necessary for fiscal year 2016-2017 for



1 deposit into the Hawaii high impact loan program for
2 commercialization special fund.

3 SECTION 4. There is appropriated out of the Hawaii high
4 impact loan program for commercialization special fund the sum
5 of \$ or so much thereof as may be necessary for fiscal
6 year 2016-2017 for the purposes of this Act.

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

9 SECTION 5. In codifying the new sections added by section
10 2 of this Act, the revisor of statutes shall substitute
11 appropriate section numbers for the letters used in designating
12 the new sections in this Act.

13 SECTION 6. New statutory material is underscored.

14 SECTION 7. This Act shall take effect on July 1, 2016.

15

INTRODUCED BY:

Irindachiyama
Richardson
Bethford
Hakuruma

[Signature]
OKi
[Signature]
Tom Bon
RL McDermott
Cindy Evans



H.B. NO. 2219

~~J. M. White~~

Karl Blank

Felix Pouch

R. D.

~~John M. White~~

James B. King

J. M. White

JAN 25 2016



H.B. NO. 2219

Report Title:

HTDC; Loan Program

Description:

Establishes a loan program in the HTDC to support high-technology small businesses. Appropriate funds.

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





HAWAII
STRATEGIC
DEVELOPMENT
CORPORATION

Written Statement of

KARL FOOKS

President

Hawaii Strategic Development Corporation

Before the

COMMITTEE ON ECONOMIC DEVELOPMENT AND BUSINESS

Tuesday, February 9, 2016

9:00 AM

State Capitol, Conference Room 312

In consideration of

HB 2219 RELATING TO INNOVATION BUSINESS INTERACTION

Chair Kawakami, Vice Chair Kong, and Members of the Committee on Economic Development and Business:

HSDC supports the intent of HB2219, a bill that provides funding for a commercialization program for Hawaii's innovative businesses, provided that its passage does not replace or adversely impact priorities indicated in the Executive Budget.

Access to capital for product development and proof of commercial concept is a key need for Hawaii's businesses. The HI Growth Initiative has identified this gap and currently invests in efforts to commercialize University of Hawaii research, clean technologies, film and media content, software, value-added agriculture and fashion design through its investments in accelerator programs and support for mentoring and networking programs. However, more needs to be done to create local access to investment capital.

HSDC supports a key purpose of the bill, stated on Page 4, Line 1, which is to "Keep high 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."

The HI Growth Initiative has been able to establish 6 Hawaii based investment funds, over the past several years, to address this specific concern. However, more needs to be done to create local access to investment capital and more needs to be done to invest in the talent and infrastructure that will allow Hawaii companies to grow and compete globally. It is the successful companies that feel the need to move from Hawaii in order to access resources needed for their continued success.

It should be noted that the funding program outlined in HB2219 requires companies to attract 3rd party investment as a condition of qualifying for the second round of funding. Moreover, the companies must prepare for later stage investment as part of their development plan. HSDC, through the HI Growth Initiative, is committed to creating opportunities for Hawaii companies to access the 3rd party and later stage investment capital required by this program from Hawaii-based investment funds.

The Maryland program, upon which this bill is modeled, also recognizes the need to have the commercialization effort connected to sources of investment capital. The Maryland Technology Commercialization Fund is one part of that state's comprehensive effort to support innovation by providing support to create mentoring, networking, and funding resources for companies, including the Maryland Venture Fund.

Thank you for the opportunity to submit testimony.



Statement of
Robbie Melton
Executive Director & CEO
High Technology Development Corporation
before the
House Committee on Economic Development & Business
Tuesday, February 9, 2016
9:00 a.m.
State Capitol, Conference Room 312

In consideration of
HB2219
RELATING TO INNOVATION BUSINESS INTERACTION.

Chair Kawakami, Vice Chair Kong, and Members of the Committee on Economic Development and Business.

The High Technology Development Corporation (HTDC) **supports with requested amendments** HB2219 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. In addition, the program's success relies on the impact loan program administrator providing mentorship to the companies.

The suggested language for the bill is provided as Attachment 1. A brief summary of the requested amendments and comments are provided below:

- The name of the program is simplified to the Impact Loan Fund for Hawaii
- The list of eligible technologies is expanded to include life science, biomedical engineering and aerospace. These sectors are active in Hawaii.
- Manufacturing technology is removed from the list. Manufacturing technology describes the development of new manufacturing processes which is not a highly

active sector in Hawaii. Removing it clarifies that the program is not targeting manufacturers.

- Providing one round of funding up to \$100,000 with a 50% matching commitment of cash or in-kind . The matching requirement ensures the company has “skin in the game”. The proposed second round of funding may be added after the program is established and proven successful, following the Maryland Technology Development Corporation implementation strategy.
- Clarify that proposals are to be submitted to HTDC.
- The documentation that the companies are required to provide is simplified to financials, pro formas, and a promissory note with provisions for other information required by the impact loan administrator.
- Add subsection (g) to allow HTDC to adopt rules pursuant to chapter 91 to implement the program.

Thank you for the opportunity to offer these comments.

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

The purpose of this Act is to build on the successes of Hawaii's science and technology industries and establish a commercialization loan program, known as the Hawaii impact loan program for commercialization to support Hawaii-based small businesses in the fields of tourism-technology, agriculture-technology, sports-technology, finance-technology, building and construction-technology, life science technology, biomedical engineering, aerospace, and other cross-

industry collaborations (excluding energy) with Hawaii's technology sector.

SECTION 2. Chapter 206M, Hawaii Revised Statutes, is amended by adding two new sections to be appropriately designated and to read as follows:

"§206M-A Hawaii impact loan program for commercialization; established. (a) There is established within the development corporation, the Hawaii impact loan program for commercialization, also to be known as the impact loan program for Hawaii, to support Hawaii-based small businesses in the fields of tourism-technology, agriculture-technology, sports-technology, finance-technology, building and construction-technology, life science technology, biomedical engineering, aerospace, and other cross-industry collaborations (excluding energy generation technology).

(b) The purposes of the program shall be to:

(1) Develop, implement, and operate a comprehensive loan program to support product development, technology transfer, and commercialization;

(2) Provide capital to support accelerated commercialization activities;

(3) Provide capital to sustain potential business infrastructure development to assist the enterprise towards commercial success;

(4) Promote high-quality, high-income job opportunities for Hawaii's residents and graduates of Hawaii's educational institutions;

(5) Reverse the loss of qualified workers to other states by providing jobs to retain existing Hawaii technology employees and enable highly qualified scientists and engineers to return to living-wage jobs in Hawaii; and

(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.

(c) The board may hire an administrator for the impact loan program, who shall be known as the impact loan administrator. The board may set the salary for the impact loan administrator. The impact loan administrator position shall be exempt from chapter 76.

(d) The development corporation shall model the loan program after the Maryland technology development corporation technology commercialization fund by, among other things:

(1) Providing funding, specifically:

(A) A loan of up to \$100,000 to provide funds for critical product development that enables business to achieve significant product development and technical milestones; and

(2) Making program eligibility dependent upon the following two criteria:

- (A) The business shall be a for-profit entity located in the State with fewer than sixteen full-time equivalent employee positions; and
- (B) The business is pre-revenue or has received less than an aggregate of \$500,000 in equity investments; and

(3) Offering the loans in the form of a convertible note bearing eight per cent interest.

(e) To receive funding, a Hawaii-based business shall:

(1) Submit qualified proposals to the impact loan administrator for funding in accordance with program requirements specified by the development corporation; provided that a majority of the work under the award shall be performed in the State;

(2) Submit to the impact loan administrator a commercialization budget, corporate business plan, corporate financials pro forma statements, and other information required by the impact loan administrator;

(3) Commit a fifty percent match of the loan, in cash or in-kind;

(4) Sign a promissory note when the loan is made;

(5) Execute agreements as required by the impact loan administrator; and

(6) Submit reports and updates of project progress and other documents as required by the impact loan administrator.

(f) The impact loan administrator shall submit an annual report to the legislature no later than twenty days prior to each regular session on the activities and expenditures of the loan program and the impact loan program for commercialization special fund.

(g) The development corporation may adopt rules pursuant to chapter 91 necessary for the purposes of this section." (Or something to this effect, similar to 206M-15.

§206M-B Hawaii impact loan program for commercialization; special fund. (a) There is established in the treasury of the State the Hawaii

impact loan program for commercialization special fund to be administered by the development corporation.

(b) The revenues of the special fund shall consist of loan repayments, fees, fines and penalties, legislative appropriations for the program or the special fund, and interest accrued upon the funds in the special fund.

(c) The special fund shall be used to make loans to support Hawaii-based small businesses in the fields of tourism-technology, agriculture-technology, sports-technology, finance-technology, building and construction-technology, life science technology, biomedical engineering, aerospace, and other cross-industry collaborations (excluding energy generation technology); provided that no more than fifteen per cent of the moneys may be expended for administration and program oversight of the program awardees; provided further that funds received from loan operations shall be used in accordance with this section and section 206M-A."



Chamber of Commerce HAWAII
The Voice of Business

**Testimony to the House Committee on Economic Development & Business
Tuesday, February 9, 2016 at 9:00 A.M.
Conference Room 312, State Capitol**

RE: HOUSE BILL 2219 RELATING TO INNOVATION BUSINESS INTERACTION

Chair Kawakami, Vice Chair Kong, and Members of the Committee:

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

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.

Hawaii Venture Capital Association
P.O. Box 4677
Honolulu, HI 96812
808-371-9403

February 7, 2016

To: HOUSE COMMITTEE EDUCATION AND BUSINESS

Regarding: HB 2219 RELATING TO INNOVATION AND BUSINESS INTERACTION, Tuesday, February 9, 2016 9:00 AM State Capitol, Conference Room 312

Dear Chair, Vice Chair and Members of the committee:

As the former President of The Hawaii Venture Capital Association (HVCA) and a current member of the Board of Directors of HVCA **I strongly supports** HB2219 as a way to stimulated innovation and cross business interaction.

My name is Bill Spencer and I have been the President of the Hawaii Venture Capal Association between 1999 and 2014 and board members since 2014.

I have seen the great value that the HTDC has provided to entrepreneurs and others in the state through their excellent efforts and programs housed at the Manoa Innovation Center. This program modeled after a very effective initiative of a similar structure in Maryland, would be an excellent start in helping Hawaii's innovation industry attract investment capital, build high paying jobs and maintain their operations in Hawaii.

I encourage this committee to pass HB2219

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

Sincerely,

Bill Spencer
Director
Hawaii Venture Capital Association

Date: February 8, 2016

From: Guide Star Engineering, LLC
2045 Lauwiliwili St., Ste. 1301
Kapolei, HI 96707
Attn: Seibert Murphy

To: Chair Senator Glenn Wakai, Vice Chair Senator Sam Slom and Members of the Committee

Honorable Chairs, Vice-Chairs and Committee Members:

Chair Wakai and members of the committee, I am Seibert Murphy, chief executive officer and owner of Guide Star Engineering (GSE) Kapolei, HI, and I am pleased to provide testimony **in support of S.B. 2504**.

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?

SB2504, 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 SB2504 and we appreciate your continued support of the technology industry.

If you have any questions please contact either me at the contact information given below.

Sincerely,

Seibert Murphy
CEO/President
(808)497-0144
smurphy@gsellc.com



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

Before the
HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT AND BUSINESS

February 9, 2016
9:00 a.m.
Conference Room 312

HB2219 RELATING TO INNOVATION BUSINESS INTERACTION

To: Chair Representative Derek S.K. Kawakami, Vice Chair Representative Sam Satoru 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**

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, 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 HB2219 and appreciate your continued support of the technology industry.

kong2 - Christie

LATE

From: mailinglist@capitol.hawaii.gov
Sent: Monday, February 08, 2016 1:37 PM
To: edbtestimony
Cc: brian@hfbf.org
Subject: *Submitted testimony for HB2219 on Feb 9, 2016 09:00AM*

HB2219

Submitted on: 2/8/2016

Testimony for EDB on Feb 9, 2016 09:00AM in Conference Room 312

Submitted By	Organization	Testifier Position	Present at Hearing
Randy Cabral	Hawaii Farm Bureau	Support	No

Comments:

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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kong2 - Christie

From: mailinglist@capitol.hawaii.gov
Sent: Sunday, February 07, 2016 8:42 PM
To: edbtestimony
Cc: dkealoha@gmail.com
Subject: *Submitted testimony for HB2219 on Feb 9, 2016 09:00AM*

HB2219

Submitted on: 2/7/2016

Testimony for EDB on Feb 9, 2016 09:00AM in Conference Room 312

Submitted By	Organization	Testifier Position	Present at Hearing
Donavan Kealoha	Individual	Support	No

Comments:

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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