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MANAGEMENT DIVISION  
FINANCIAL ADMINISTRATION DIVISION  
OFFICE OF FEDERAL AWARDS MANAGEMENT (OFAM)

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

March 16, 2016  
1:20 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 and a Hawaii Impact Loan Program for Commercialization Special Fund, and appropriates funds.

As a matter of general policy, the Department of Budget and Finance 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.



Statement of  
**Robbie Melton**  
Executive Director & CEO  
High Technology Development Corporation  
before the  
**Senate Committee on Economic Development, Environment, and Technology**  
Wednesday, March 16, 2016  
1:20 p.m.  
State Capitol, Conference Room 414  
In consideration of  
**HB2219 HD1**  
**RELATING TO INNOVATION BUSINESS INTERACTION.**

Chair Wakai, Vice Chair Slom, and Members of the Committee on Economic Development, Environment, and Technology.

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.



Chamber of Commerce HAWAII  
*The Voice of Business*

**Testimony to the Senate Committee on Economic Development, Environment,  
and Technology  
Wednesday, March 16, 2016 at 1:20 P.M.  
Conference Room 414, State Capitol**

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

Chair Wakai, Vice Chair Slom, 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  
**DR. PATRICK K. SULLIVAN**  
**PRESIDENT/CEO OCEANIT**

Before the  
**SENATE COMMITTEE ON ECONOMIC DEVELOPMENT,  
ENVIRONMENT AND TECHNOLOGY**

March 16, 2016  
1:20 p.m.  
Conference Room 414

**HB2219 RELATING TO INNOVATION BUSINESS INTERACTION**

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

From: Dr. Patrick Sullivan, President/CEO

Re: Testimony in **SUPPORT** of HB2219

Honorable Chair, Vice-Chair 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.