

# SB 2504

Measure Title: RELATING TO INNOVATION BUSINESS INTERACTION.

Report Title: HTDC; Loan Program (\$)

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



# Chamber of Commerce HAWAII

*The Voice of Business*

**Testimony to the Senate Committee on Economic Development, Environment  
and Technology  
Friday, February 5, 2016 at 1:15 P.M.  
Conference Room 414, State Capitol**

**RE: SENATE BILL 2504 RELATING TO INNOVATION BUSINESS INTERACTION**

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

The Chamber of Commerce Hawaii ("The Chamber") **supports** SB 2504, 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.



Statement of  
**Robbie Melton**

Executive Director & CEO  
High Technology Development Corporation  
before the

**Senate Committee on Economic Development, and Technology**

Friday, February 5, 2016

1:15 p.m.

State Capitol, Conference Room 414

In consideration of

**SB2504**

**RELATING TO THE HIGH TECHNOLOGY DEVELOPMENT CORPORATION.**

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

The High Technology Development Corporation (HTDC) **supports with requested amendments** SB2504 that establishes a loan program in the High Technology Development Corporation 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(TEDCO) 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."



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

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

February 5, 2016  
1:15 p.m.  
Conference Room 414

**SB2504 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 SB2504

Honorable Chairs, Vice-Chairs and Committee Members:

Thank you for the opportunity to submit testimony in **SUPPORT of SB2504**.

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?

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.

wakai1 - Lilinoe

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**From:** mailinglist@capitol.hawaii.gov  
**Sent:** Thursday, February 04, 2016 11:35 AM  
**To:** EET Testimony  
**Cc:** achung@navatekltd.com  
**Subject:** \*Submitted testimony for SB2504 on Feb 5, 2016 13:15PM\*

**SB2504**

Submitted on: 2/4/2016

Testimony for EET on Feb 5, 2016 13:15PM in Conference Room 414

Submitted By	Organization	Testifier Position	Present at Hearing
ann chung	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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**wakai1 - Lilinoe**

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**From:** mailinglist@capitol.hawaii.gov  
**Sent:** Thursday, February 04, 2016 12:57 PM  
**To:** EET Testimony  
**Cc:** sara.n.lin@hawaii.gov  
**Subject:** Submitted testimony for SB2504 on Feb 5, 2016 13:15PM

**SB2504**

Submitted on: 2/4/2016

Testimony for EET on Feb 5, 2016 13:15PM in Conference Room 414

Submitted By	Organization	Testifier Position	Present at Hearing
Sara Lin	Hawaii Strategic Development Corporation	Support	No

Comments: Please see attached testimony.

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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