



Chamber of Commerce HAWAII
The Voice of Business

**Testimony to the House Committee on Economic Development & Business
Wednesday, February 7, 2018 at 9:30 A.M.
Conference Room 309, State Capitol**

RE: HOUSE BILL 2556 RELATING TO INNOVATION BUSINESS

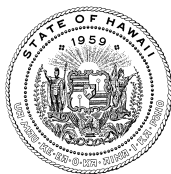
Chair Evans, Vice Chair Keohokalole, and Members of the Committee:

The Chamber of Commerce Hawaii ("The Chamber") **supports** HB 2556, which establishes the Research and Development Program in the Hawaii Technology Development Corporation (HTDC) to help Hawaii-based small businesses collaborate with commercial partners to further refine and optimize research and development performed in Hawaii. The bill also establishes the Research and Development Special Fund and appropriates funds for the purposes of the program.

The Chamber is Hawaii's leading statewide business advocacy organization, representing about 2,000+ 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 continues to support the State's efforts to promote and foster innovation research and development in Hawaii. Innovation is a proven catalyst for economic growth and the creation of high-skilled and high-paying jobs. The Chamber supports this legislation provided that it offers adequate funding and does not adversely impact HTDC's priorities in the Executive Budget.

Thank you for the opportunity to testify.



**STATE OF HAWAII
DEPARTMENT OF BUDGET AND FINANCE**

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

WRITTEN ONLY

**TESTIMONY BY LAUREL A. JOHNSTON
ACTING DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT AND BUSINESS
ON
HOUSE BILL NO. 2556**

**February 7, 2018
9:30 a.m.
Room 309**

RELATING TO INNOVATION BUSINESS

House Bill No. 2556 establishes the Research and Development (RD) Program in the Hawaii Technology Development Corporation to help Hawai'i-based small businesses collaborate with commercial partners to further refine and optimize research and development performed in Hawai'i; establishes the RD Special Fund; appropriates an unspecified amount of general funds for FY 19 to be deposited into the RD Special Fund; and appropriates an unspecified amount from the RD Special Fund for FY 19 to carry out the purposes of the program.

While the Department of Budget and Finance takes no position on the RD Program, 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. 2556, it is difficult to determine whether the proposed special fund would be self-sustaining.

Thank you for your consideration of our comments.



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

Before the

HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT & BUSINESS

February 7, 2018

9:30 a.m.

State Capitol, Conference Room 309

In Support of

HB2556 RELATING TO INNOVATION BUSINESS

To: Chair Representative Cindy Evans, Vice Chair Jarrett Keohokalole and Members of the Committees

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

Re: Testimony in Support of HB2556

Honorable Chair, Vice-Chair and Committee Members:

Thank you for the opportunity to submit testimony **in support of HB2556**

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 commercialization and dual use, ie, tourism industry, agriculture industry, sports industry, finance industry, building and construction industry and other industries, has been a challenge.

HB2556 establishes a grant to accelerate commercialization which in turn will benefit the State from tax revenues, job creation and economic growth.

Therefore, we are in support of HB2556.

HB-2556

Submitted on: 2/5/2018 5:47:45 PM

Testimony for EDB on 2/7/2018 9:30:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Melodie Aduja	OCC Legislative Priorities	Support	No

Comments:

**PRESENTATION OF THE
OAHU COUNTY COMMITTEE ON LEGISLATIVE PRIORITIES
DEMOCRATIC PARTY OF HAWAII
TO THE COMMITTEE ON ECONOMIC DEVELOPMENT & BUSINESS
HOUSE OF REPRESENTATIVES
TWENTY-NINTH LEGISLATURE
REGULAR SESSION OF 2018
Wednesday, February 7, 2018
9:30 a.m.
Hawaii State Capitol, Conference Room 309**

RE: Testimony in Support of HB 2556, RELATING TO INNOVATION BUSINESS

To the Honorable Cindy Evans, Chair; the Honorable Jarrett Keohokalole, Vice-Chair and Members of the Committee on Economic Development & Business:

Good morning. My name is Melodie Aduja. I serve as Chair of the Oahu County Committee ("OCC") Legislative Priorities Committee of the Democratic Party of Hawaii. Thank you for the opportunity to provide written testimony on House Bill No. 2556, regarding a research and development program in the Hawaii technology development corporation to help Hawaii-based small businesses.

The OCC Legislative Priorities Committee is in favor of House Bill No. 2556 and support its passage.

House Bill No. 2556 is in accord with the Platform of the Democratic Party of Hawai'i ("DPH"), 2016, as it establishes a research and development program in the Hawaii technology development corporation to help Hawaii-based small businesses collaborate with commercial partners to further refine and optimize research and development performed in Hawaii.

Specifically, the DPH Platform provides that "[w]e recognize that the responsible use and development of technology in all its manifestations offers immense potential for our community, government, including institutions of higher education and business sectors. We encourage synergistic research, development, commercialization and education programs to promote technological proficiency and innovation. In particular, we support Science, Technology, Engineering and Math (STEM) initiatives in our public, private and charter schools as these prepare the next generation to address the needs of our state. We also support programs that facilitate incubator, i.e., start-up, opportunities for new and promising technologies, and encourage the local retention of our intellectual resources." (Platform of the DPH, P. 3, Lines 149-156 (2016)).

Given that House Bill No. 2556 provides for a research and development program in the Hawaii technology development corporation to help Hawaii-based small businesses, it is the position of the OCC Legislative Priorities Committee to support this measure.

Thank you very much for your kind consideration.

Sincerely yours,

/s/ **Melodie Aduja**

Melodie Aduja, Chair, OCC Legislative Priorities Committee

Email: legislativepriorities@gmail.com, Tel.: (808) 258-8889

HB-2556

Submitted on: 2/6/2018 7:12:15 AM

Testimony for EDB on 2/7/2018 9:30:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
ann chung		Support	Yes

Comments:

Dear Chair Evans and members of the EDB Committee:

Navatek strongly supports HB2556. There are many companies doing critical research and development in Hawaii and it is vital to Hawaii's future economic growth. The innovations that these companies are researching and developing bring in new dollars to our State's economy and create strong high-skilled, high-paying jobs - jobs for our kama'aina and to bring skilled kama'aina back home.

We urge you to pass this bill and suggest the following additions to further clarify and ease the administration of the program:

- Page 3, Line 20 --- add "small" to a Hawaii-based small business

-Page 4,Line 1 --- add after corporation. "Proof shall be in the form of copies of the small business Federal Form 6765 credit for Increasing Research Activities as filed.

-Page 4, Line 2 --- then receive "a grant in " an amount

-Page 4, Line 3 --- replace past with "prior". and add this definition:
A Hawaii-based small business is defined as

-80% or more Hawaii resident owned. For purposes of this paragraph, "resident" shall have the same meaning as defined in Section 235-1, HRS.

-Have been doing business in the state for not less than 10 years

-Have Hawaii-based employees, subject to the taxes imposed under HRS 235.

Mahalo for this opportunity to testify.

HB-2556

Submitted on: 2/6/2018 7:31:39 AM

Testimony for EDB on 2/7/2018 9:30:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Audra White		Support	No

Comments:

I strongly support this bill.

HB-2556

Submitted on: 2/6/2018 7:59:46 AM

Testimony for EDB on 2/7/2018 9:30:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Kacey Lock		Support	No

Comments:



Written Statement of
Robbie Melton
Executive Director & CEO
Hawaii Technology Development Corporation
before the
House Committee on Economic Development & Business
Wednesday, February 7, 2018
9:30 a.m.
State Capitol, Conference Room 309

In consideration of
HB2556
RELATING TO INNOVATION BUSINESS

Chair Evans, Vice Chair Keohokalole, and Members of the Committee on Economic Development & Business.

The Hawaii Technology Development Corporation (HTDC) **supports the intent of HB2556** that establishes the research and development program in the Hawaii Technology Development Corporation to help Hawaii-based small businesses collaborate with commercial partners to further refine and optimize research and development performed in Hawaii.

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 growing the technology and innovation sector. Companies conducting R&D provide interesting, high wage jobs for our Hawaii workforce. Promoting R&D activities will spur innovation and job growth.

HTDC comments that the bill offers grants equal to the average federal Research and Development tax credit to companies. Tax credits are typically yes/no eligibility and not typically administered by HTDC.

HTDC administers several grant programs. HTDC grant programs typically consider the potential economic impact before making awards. The program makes awards to the projects that are deemed most beneficial to the State. HTDC comments that the proposed program should have an application process that considers which projects are most advantageous to the State. The bill should clarify that "The business shall be eligible to receive an amount equal to the average of the federal tax credit for the past three tax years".

HTDC comments that other HTDC grant programs have a matching requirement to ensure leverage for the State and co-investment by the company. Thank you for the opportunity to offer these comments.



Statement of
Duke Hartman, P.E.
Vice President, Business Development
Makai Ocean Engineering, Inc.
before the

COMMITTEE ON ECONOMIC DEVELOPMENT & BUSINESS

Wednesday February 7th, 2018
9:30 a.m.
State Capitol, Conference Room 309
In consideration of
HB 2556
RELATING TO ENERGY

Chair Evans,
Vice Chair Keohokalole,
And members of the Committee on Economic Development & Business

Makai Ocean Engineering, Inc. **STRONGLY SUPPORTS HB 2556** that establishes the research and development program in the Hawaii technology development corporation..

Makai is a locally-owned and operated technology company based in Hawai'i for over 44 years. One of the driving reasons behind Makai's existence is to help Hawai'i achieve energy independence using clean, alternative and renewable resources.

Makai is currently performing R&D on a variety of exciting ocean energy and ocean technology projects, including autonomous underwater vehicles, ocean thermal energy conversion (OTEC) and seawater air conditioning (SWAC) systems, submarine and subsea cable systems, and a Department of Energy project to grow and harvest macroalgae (limu) offshore in Hawaiian waters to produce a clean-burning biofuel alternative for transportation.

Makai has been successful in bringing in tens of millions of dollars in R&D funds from federal and international sponsors to Hawai'i, helping to stem the tide of "brain drain" of talented kama`aina kids going to the mainland. I myself am a Kahuku High School and University of Hawaii College of Engineering graduate who was ready to leave for an engineering job on the mainland before Makai offered me a job. With the help of State programs like this bill, Makai has been able to secure additional competitively awarded federal funding from the U.S. Navy, Air Force, DARPA, and Department of Energy, and bring home national honors, such as the Small Business Administration's Tibbetts Award. This national award recognizes the very best in small innovative companies in the country whose technologies have made a strong economic impact in terms of high paying jobs, and demonstrating success in actually commercializing federal R&D and increasing taxable revenue for the state.



This bill would enhance the ability of companies like Makai to outshine their mainland peers early in competitive federal R&D projects, bring home R&D dollars that greatly exceed the initial investment, and create a critical mass of innovative R&D companies in Hawaii and a truly vibrant industry. It would help homegrown companies turn R&D into commercially viable products and services, ultimately expanding and diversifying Hawaii's economy, and enable our tech industry to and support high-paying, highly-skilled professional jobs for our keiki here at home.

This is why we **STRONGLY SUPPORTS HB 2556.**

Thank you for the opportunity to offer these comments.



HAWAII
STRATEGIC
DEVELOPMENT
CORPORATION

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250 South Hotel Street, Suite 509
P.O. Box 2359
Honolulu, Hawaii 96804
Telephone: (808) 587-3830

Statement of
Karl K. Fooks
President

Hawaii Strategic Development Corporation

Before the
HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT & BUSINESS

Wednesday, February 7, 2018
9:30 AM
State Capitol, Conference Room 309

With comments on

HB 2556
RELATING TO INNOVATION BUSINESS

Chair Evans, Vice Chair Keohokalole and Members of the Committee on Economic Development and Business:

The Hawaii Strategic Development Corporation (HSDC) **provides comments on** HB 2556, which establishes the research and development special fund.

HSDC defers to HTDC on the specifics relating to this measure.

To receive funding under HB 2556 a company needs to submit proof it received Federal R&D tax credits. It would then be entitled to receive a grant equal to the average of its past 3 years of Federal R&D tax credits.

There is no requirement that the state grant, under HB 2556, needs to be spent commercializing the specific technology developed by the Federal R&D tax credits. Unlike the HSBIR program, there is no process to evaluate either 1) the efficacy or potential commercial success of the technology developed by the Federal R&D tax credits as the tax credits only reward effort and not outcomes; or 2) the efficacy or potential commercial success of the technology that would be supported by the grant. Finally, there is no process to evaluate whether the amount granted under HB 2556 would be sufficient to achieve a successful commercialization outcome.

Many successful technology commercialization programs require a structured approach that stresses customer discovery and the preparation for attracting follow-on funding. These elements of a successful program to accelerate commercialization are not included in HB 2556.

Thank you for the opportunity to provide testimony.

LATE

HB-2556

Submitted on: 2/6/2018 4:43:10 PM

Testimony for EDB on 2/7/2018 9:30:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Gary Shimosono		Support	No

Comments: