



UNIVERSITY OF HAWAII SYSTEM

Legislative Testimony

Testimony Presented Before the
Senate Committee on Energy, Economic Development, and Tourism
and
Senate Committee on Higher Education
March 15, 2019 at 3:15 p.m.

By
Vassilis L. Syrmos
Vice President for Research and Innovation
University of Hawai'i System

HB 624 HD1 – RELATING TO THE STRUCTURE OF GOVERNMENT

Chairs Wakai and Kim, Vice Chairs Taniguchi and Kidani, and Members of the Committees:

The University of Hawai'i (UH) would like to provide comments to HB 624 HD1, which transfers the rights, powers, functions, and duties of the Hawai'i Technology Development Corporation and Hawai'i Strategic Development Corporation to the University of Hawai'i.

One of UH's four strategic directions is to grow the portfolio of its sponsored research and to promote innovation and workforce diversification in the state's economy. To help enable this, the Hawai'i State Legislature passed both Act 38 and Act 39, Session Laws of Hawai'i, 2017, to allow UH to better engage in innovation and commercialization activities that include: the vetting the commercial potential of discoveries based on UH research, providing mentorship and entrepreneurial guidance to faculty or research staff, transferring UH-owned intellectual property to third parties via patents or licenses, and actively participating in public/private joint development, startup companies and partnerships.

The mission of the Hawai'i Technology Development Corporation (HTDC) is to help develop and retain high technology in the state through core initiatives that include the development and management of network of incubation services and facilities; business development services for new start-ups in the technology sector; secure and administer federal and private grants and contracts in support of technology research; and to support skilled workforce development for the technology sector through outreach programs and partnerships.

The charge of the Hawai'i Strategic Development Corporation (HSDC) is to develop investment capacity in the state and has combined various funding sources to implement a comprehensive investment program designed to generate a critical mass of startup activity to attract private capital investment.

Hawai'i's innovation ecosystem comprises of a vibrant and diverse number of incubators, accelerators, organizations, institutions of higher education and state agencies working to create a knowledge based economy that complements and transforms tourism, construction and military sectors to assure robust future growth by diversifying industries and revenues.

By transferring the current functions of HTDC and HSDC into UH's existing research and innovation ecosystem, it is anticipated that both offices are aligned and complimentary to better assist with both the State of Hawai'i's continuing efforts and the University of Hawai'i's current and future innovation initiatives and programs.

Thank you for the opportunity to provide comments on this measure.



Written Statement of
Len Higashi
Acting Executive Director
Hawaii Technology Development Corporation
before the
Senate Committee on Higher Education
And the
Senate Committee on Energy, Economic Development, and Tourism
Friday, March 15, 2019
3:15 p.m.
State Capitol, Conference Room 414

In consideration of
HB624, HD1
RELATING TO THE STRUCTURE OF GOVERNMENT.

Chairs Mercado Kim and Wakai, Vice Chairs Kidani and Taniguchi, and Members of the Committee.

The Hawaii Technology Development Corporation (HTDC) respectfully **opposes** HB624, HD1 that transfers the rights, powers, functions, and duties of the Hawaii Technology Development Corporation and Hawaii Strategic Development Corporation to the University of Hawaii.

As part of HTDC's vision to create 80,000 new innovation jobs in Hawaii earning \$80,000 or more by 2030, HTDC works closely with DBEDT, HSDC and University of Hawaii on initiatives aimed at promoting technology and innovation jobs. In the 2017 HTDC economic impact survey, 149 companies participating in HTDC programs reported 3,736 jobs in Hawaii, \$589 million in total revenue generating \$1 billion in total economic impact.

The Hawaii SBIR program is a good example of a program that HTDC developed to support tech businesses. HTDC has been providing Phase I matching grants to SBIR awarded companies since 1989. For every dollar invested through the Hawaii SBIR program, Hawaii companies have attracted over 20 federal dollars in return to the State, plus commercialization funding. In addition to the grants, HTDC's Hawaii SBIR program provides wrap-around business support services to companies. For example, HTDC provides assistance with grant writing, prototyping, manufacturing, partnering with the Federal Labs, patents, federal cost accounting, trade shows, and access to the Federal agencies and program managers. HTDC has built an extensive network of service providers and strong relationships with the Federal agencies. In FY16, the program was expanded to help companies get their technologies to market. Since, HTDC has been awarding Phase II/III matching grants and providing assistance with commercialization, market analysis, and industrial/rugged design. A few examples can be found at:

<https://www.htdc.org/wp-content/uploads/2018/01/2017SBIR-product-SuccessBook-ver-2-final.pdf>

HTDC has the following concerns with this measure:

- If the HTDC statute were repealed, the State would lose the 5 year \$2,500,000+ federal funding cooperative agreement for the National Institute of Standards and Technology (NIST) Manufacturing Extension Partnership program. The \$600k annual federal funding and the 4 federally funded positions would be lost. NIST does not allow the program to be transferred between hosting agencies. Our Federal program advisory board has voiced concerns and is requesting a plan in the event the bill becomes law. Our NIST sponsors have contacted us with concerns and submitted the attached letter reiterating their desire to maintain the current organizational structure and operating environment for our INNOVATE Hawaii program.

- The transition will result in loss of experienced staff and disruption to the existing programs and projects including the Entrepreneurs Sandbox in Kakaako, tech park development projects, Manufacturing Assistance (MAP) Grant Program, accelerator programs, etc.

- This bill is impacting HTDC operations. Our many partners and stakeholders have expressed concerns. Most importantly, staff are concerned. HTDC cannot afford to lose any more staff.

HTDC's economic development mission is clearly aligned with DBEDT. With technology a part of many industries, HTDC has partnerships in place with many of the DBEDT divisions and attached agencies. HTDC looks forward to working with all stakeholders to move the innovation economy forward. Thank you for the opportunity to offer these comments.



MAR 13 2019

Len Higashi
Acting Executive Director
Hawaii Technology Development Corporation
2800 Woodlawn Drive
Suite 120
Honolulu, HI 96822

Dear Len,

To begin, I want to acknowledge your leadership at Innovate Hawaii – the MEP Center in Hawaii. **Innovate Hawaii is a high performing organization providing valuable services to the manufacturers in Hawaii.** The results speak for themselves. In 2018, Innovate Hawaii clients reported the following impacts \$172.8 million in new and retained sales, 895 new and retained jobs, \$35.2 million in new client investment and \$4.2 million in cost savings. The client-reported impacts, no doubt, are contributing to Hawaii having a more robust and thriving manufacturing sector.

I am writing this letter to further clarify the relationship between the Hollings Manufacturing Extension Partnership Program (MEP), managed by the U.S. Department of Commerce's National Institute of Standards and Technology (NIST), and Innovate Hawaii, managed by Hawaii Technology Development Corporation (HTDC).

The MEP Program was established pursuant to the Omnibus Trade and Competitiveness Act of 1988, in which **Congress directed NIST to create a public-private partnership program to improve the** productivity and technological performance of small and medium-sized manufacturers. Our program has over 30 years of experience helping improve the performance and productivity of America's over 290,000 small manufacturers. The MEP National Network™ (Network) consists of 51 independent, locally operated, staffed, and controlled organizations in all 50 States and Puerto Rico, that leverage federal, state, local, and private resources to provide the critical services needed by small manufacturers plus NIST. The MEP program is guided by four principles:

- **Customer focus:** MEP services and products are developed and delivered based on manufacturer's needs locally and not by federal program managers;
- **Co-investment:** the federal investment is leveraged many times by state investment, industry, and the direct investment of MEP clients through fees for services;
- **Collaboration:** across the Network of Centers, NIST MEP, and with thousands of service providers across all 50 states and Puerto Rico; and
- **Continuous improvement:** MEP's impact, performance, efficiency, and effectiveness have grown over time even without large increases in federal investment.

The MEP program has been repeatedly reauthorized by Congress as a value-added program for economic development in manufacturing, most recently through the American Innovation and Competitiveness Act of 2016 (AICA) that instituted several reforms to the program including: permanently adjusting the cost share to 1:1 for the life of the cooperative agreement and requiring that each cooperative agreement be competed every 10 years. The AICA statutorily mandates a review by the Secretary of Commerce of every MEP Center prior to their 6th year of operation. Additionally, the AICA mandates a review, by a panel of peers, in the 3rd and 8th of operation. As the Federal funding partner in the network of MEP Centers, NIST oversees this rigorous reporting regime and conducts annual reviews for every Center.

Current annual Federal funding for the MEP Program is \$140 million, allocated amongst the States in proportion to the number of manufacturers in a State. In addition to the predictability and stability of the Federal contribution, designation as a MEP Center connects that Center to the Network with over 1,300 non-federal trusted advisors, thereby permitting a valuable and unique benefit to Hawaii from the collective expertise of the Network and the support of NIST.

It is our policy to have one MEP in each State. After a rigorous review process, the HTDC won the competition for the management of the MEP Program in April 2017 and at that time the HTDC became the official designee and representative of the MEP National Network for Hawaii. The entire 5-year award for the MEP center in Hawaii is for \$2,845,425, with the possibility of an additional 5-year award following a successful Secretarial review. Any changes to the organizational structure and operating environment of the MEP Center in Hawaii would compel us to re-evaluate our cooperative agreement.

A requirement of the MEP Program is that Centers can only draw down the federal share on a 1:1 cost reimbursement basis. Centers can utilize private sector revenue (fee-for-service), non-federal grants and other contributions, including from third party sub-recipients of the Center, and State appropriations and grants. Alignment between the Federal program's goals and State economic development goals is important.

We understand that in any State there may be numerous entities, businesses, universities and trade associations working on behalf of manufacturers; however, there can only be one MEP designated to manage NIST MEP resources and be eligible for the multi-year 1:1 federal match.

NIST MEP is committed to supporting HTDC and Innovate Hawaii with the goal of operating a successful and high performing center. Our leadership team here at NIST MEP will continue to be available to answer questions and provide guidance and support.

Sincerely,



Carroll Thomas
Director, Manufacturing Extension Partnership
National Institute of Standards and Technology
U.S. Department of Commerce