



**DEPARTMENT OF BUSINESS,
ECONOMIC DEVELOPMENT & TOURISM**

LINDA LINGLE
GOVERNOR
THEODORE E. LIU
DIRECTOR
MARK K. ANDERSON
DEPUTY DIRECTOR

No. 1 Capitol District Building, 250 South Hotel Street, 5th Floor, Honolulu, Hawaii 96813
Mailing Address: P.O. Box 2359, Honolulu, Hawaii 96804
Web site: www.hawaii.gov/dbedt

Telephone: (808) 586-2355
Fax: (808) 586-2377

Statement of
THEODORE E. LIU
Director
Department of Business, Economic Development, and Tourism
before the
SENATE COMMITTEE ON ECONOMIC DEVELOPMENT AND TECHNOLOGY
Friday, February 6, 2009
1:15pm
State Capitol, Conference Room 016

in consideration of
SB523
RELATING TO HIGH TECHNOLOGY.

Chair Fukunaga, Vice Chair Baker and Committee members:

The Department of Business, Economic Development and Tourism (DBEDT) would like to provide comments on SB523, which makes revisions to High Technology Development, Section 206M-15, Hawaii Revised Statutes. We defer to the High Technology Development Corporation to discuss the merits or demerits of the concept of this measure.

The bill, however, references the Hawaii capital loan revolving fund as a source of funding. It should be noted that the Hawaii capital loan revolving fund was repealed by Act 178, SLH 2003, and all monies (loan principal and interest) are deposited into the State's general fund. The repeal of this revolving fund became effective on July 1, 2004.

Thank you for the opportunity to offer these comments.

Written Statement of
YUKA NAGASHIMA
Executive Director & CEO
High Technology Development Corporation
before the
SENATE COMMITTEE ON ECONOMIC DEVELOPMENT AND TECHNOLOGY
Friday February 6, 2009
1:15 PM
State Capitol, Conference Room 016

In consideration of
SB 523 RELATING TO HIGH TECHNOLOGY.

Chair Fukunaga, Vice Chair Baker and Members of the Senate Committee on Economic Development and Technology.

The High Technology Development Corporation (HTDC) supports SB 523 which outlines housekeeping modifications to three sections of the existing statute (HRS Section 206M-15), and we wish to point out an error in the proposed bill. This statute provides state matching grant funding to Hawaii companies that have been awarded federal Small Business Innovation Research (SBIR) Phase I awards and federal Small Business Technology Transfer (STTR) Phase I awards.

SBIR is a three-phase federal program that provides small businesses the opportunity to win federal R&D grants and contracts. In Phase I, the small business explores the technical merit or feasibility of an idea or technology. In Phase II, the small business expands upon Phase I results. In Phase III, the project matures and is commercialized. No SBIR funds support Phase III activities. STTR is a sister R&D funding program to SBIR and is similarly organized in three phases. STTR primarily differs in that the small business must partner with a research organization to carry out the research, thus encouraging greater collaboration between the university and industry. The SBIR and STTR programs provide the necessary funding for

innovative research and development efforts that is normally not available from traditional sources.

Hawaii companies that receive SBIR and STTR Phase I feasibility study awards can apply for state Hawaii SBIR and STTR matching grants. The state grants enhance a company's Phase I project development while helping it to develop stronger proposals for the more lucrative federal Phase II awards (normally \$750,000 or more to build a prototype), and ultimately to commercialize their innovations successfully and profitably. Ultimately the goal of the matching grant helps Hawaii companies launch new commercial products into the marketplace.

The first requested change is to adjust the limit of the Hawaii SBIR grant to be consistent with the original intent of section 206M-15. When the Hawaii SBIR grant program was created nineteen years ago, the federal SBIR Phase I award was \$50,000. The state matching grant was based upon 50-percent of the federal Phase I amount, which happened to be \$25,000. Currently the federal SBIR Phase I awards average \$100,000 and up. The state matching grant has not proportionately increased or kept up with the federal award due to the \$25,000 limit in the existing statute. Therefore we request that the \$25,000 cap be removed, so as to allow the higher amounts to be awarded. The increase does not mean that larger grants will be regularly awarded, but rather that they can be awarded particularly for exceptional research projects.

The second requested change redefines award priority for small businesses that receive an SBIR award for the first time. Currently the statute reads that an SBIR Phase I awarded company will receive funding preference if it applies for the state grant for the first time in a fiscal year. This means that if a multiple-SBIR award winner applies for a Hawaii grant for the first time in a fiscal year, it will be given funding preference—the same preference that is given to a first-time-ever SBIR awardee. Since HTDC places priority on supporting new companies to

the SBIR program, we would like to revise the language to read: “Give preference to all qualified businesses receiving their first award over multiple award grantees”.

The third requested change relates to the situation when there is not sufficient Hawaii SBIR budget available to fulfill the applicants’ requests. The current language states that HTDC “shall apply for funds to be transferred from the Hawaii capital loan revolving fund” if the budget is inadequate to satisfy all qualified requests. In effect, HTDC must request the loan. HTDC prefers fiscal oversight and the choice to borrow funds from the state loan program in case of a budget shortfall, as opposed to “automatically” borrowing from the loan program. Therefore, HTDC would like to replace the word “shall” to “may”, so the language reads “the development corporation may apply for funds to be transferred from the Hawaii capital loan revolving fund”.

Finally the error in the proposed bill is on page one, line four, and reads: "(b) The development corporation [may] shall provide grants..." No change is necessary and we ask that the existing word “may” remain in this section of the statutes. This error was discovered late in the review process and after the bill was introduced.

In summary, the requested language changes strengthen the successful Hawaii SBIR and STTR programs by allowing small businesses with exceptional SBIR/STTR projects to receive larger state grants to accelerate commercialization; placing priority on awarding true first-time SBIR and STTR companies; and allowing HTDC the flexibility in times of budget shortfall, to *choose* to borrow other state funds instead of making it a requirement.

Thank you for the opportunity to submit testimony in support of SB 523.