



**DEPARTMENT OF BUSINESS,
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Statement of
THEODORE E. LIU
Director
Department of Business, Economic Development, and Tourism
before the
COMMITTEE ON ECONOMIC DEVELOPMENT AND TAXATION
Tuesday, January 29, 2008
1:15 P.M.
State Capitol, Conference Room 224

in consideration of
SB 2394
RELATING TO HIGH TECHNOLOGY

Chair Fukunaga, Vice Chair Espero and Members of the Committee on Economic Development and Taxation.

The Department of Business, Economic Development and Tourism (DBEDT) supports the concept behind SB 2394. There have been many good ideas introduced this legislative session that support the State's economic development goals. We hope the legislature will see it fit to support, pass and fund these ideas, together with the priorities of the "Executive's Supplemental Budget."

The Hawaii Innovation Initiative encourages technological innovation and understands that small businesses are the true innovators. The Hawaii Matching Grant Program helps support Hawaii companies by matching federal awards at 50 per cent, but not to exceed \$25,000. This matching formula was created when the maximum Phase I federal award was \$50,000.

SB 2394 would remove this cap and the Hawaii matching grant would be at 50 per cent of the federal award. This is a vital improvement as the present Phase I federal award ceiling is \$100,000. The current \$25,000 Hawaii match has not kept up with the increased federal funding levels and this amendment would remedy the imbalance.

SB 2394 also amends the current statute to give preference to qualified companies receiving their first award over previous awardees. This revision would be in the spirit of the SBIR Program investing in and fostering Hawaii's small businesses.

Thank you for the opportunity to provide these comments.

Statement of
YUKA NAGASHIMA
Executive Director & CEO
High Technology Development Corporation
before the
SENATE COMMITTEE ON ECONOMIC DEVELOPMENT AND TAXATION
Tuesday January 29, 2008
1:15 PM
State Capitol, Conference Room 224

In consideration of
SB 2394 RELATING TO HIGH TECHNOLOGY.

Chair Fukunaga, Vice Chair Espero, and Members of the Senate Committee on Economic Development and Taxation.

The High Technology Development Corporation strongly supports the passage of SB 2394. The bill makes "housekeeping" modifications to three sections of HTDC enabling legislation (HRS Section 206M-15). 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 ceiling 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 ceiling 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 ceiling 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 clause provides the same level of preference to a multiple-SBIR award winner so long as it was their first time in a fiscal year, as it would 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 last 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".

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 2394.