



# UNIVERSITY OF HAWAI'I SYSTEM

## TESTIMONY

S.B. 2871 – RELATING TO CAPITAL INVESTMENTS

Testimony Presented Before the  
Senate Committee on Science, Arts, and Technology and  
Senate Committee on Economic Development

February 10, 2004

By

James R. Gaines  
Interim Vice President for Research  
University of Hawai'i

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Chairs David Y. Ige, Carol Fukunaga and Members of the Committees:

I would like to present testimony in support of this bill with one proposed amendment, and request the opportunity to work with the authors to clarify some of the language used in it. I will focus my remarks on the section regarding the proposed 20% tax credit for business –research institute R&D projects.

Industry-university collaborative research is one of the primary drivers behind successful technology centers around the nation, such as the Bay Area, Boston, Research Triangle, and San Diego. The standard measure of the extent of industry-university research collaboration is the percentage of university research that is financed by industry. About 6.75% of all research at the top 100 universities in the U.S is funded by industry. UH is among these top 100 universities, but only about 2.5% to 3.5% of our research is funded by industry. Likewise, while Hawaii companies are very successful in getting federal SBIR grants, Hawaii has one of the lowest rates in the nation for obtaining federal STTR grants, which fund industry-university R&D projects for commercialization. These are clear indications that industry is not leveraging the R&D assets at UH and other research institutes in Hawaii.

Part of the reason for this is the fact that Hawaii's technology companies have insufficient resources to finance R&D. According to the National Science Foundation, Hawaii has the lowest percentage of industry R&D financed by non-federal sources. About 90% industry R&D in the U.S. is financed by non-federal sources like private investment, sales, and retained earnings. In Hawaii, only 25% of industry R&D is financed by non-federal sources. Our heavy reliance on federal funding for industry R&D suggests our companies lack enough discretionary, private resources to pursue their own, internally-generated goals for innovation. State tax incentives that help them stretch their limited research dollars will strengthen their capacity to innovate.

UH proposes one amendment to SB2871: The 20% tax credit for business-research institute R&D projects should be made a refundable credit to provide more incentives for companies without Hawaii tax liabilities to collaborate with Hawaii research institutes, particularly those smaller local technology companies within Hawaii that do not yet have profits.

Overall, SB2871 is a well-developed package of incentives that will help Hawaii's technology sector get to the next level. The combination of capital formation and R&D tax credits will enable technology companies to continue to grow in Hawaii and better leverage the R&D infrastructure at UH and other institutions. SB2871 is particularly helpful to the development of the biosciences industry around Kakaako, since biotech companies are very dependent on venture capital, and on research at medical schools. The early years of any biotechnology company are focused on research. The ability to access venture capital and stretch their research budgets is crucial to their viability. The proposed tax credit for industry research at UH and other institutes is also a valuable incentive for larger R&D companies to consider opening operations in Hawaii.

In addition to the proposed amendment regarding the refundable tax credit, certain definitions within the part of SB2871 that deal with tax credits for business

–research institute projects should be clarified so that it will be easier for companies to determine their eligibility. UH would appreciate the opportunity to work with the authors to clarify these definitions for subsequent versions of the bill.

Thank you for the opportunity to comment on this bill.