



# UNIVERSITY OF HAWAI'I SYSTEM

## TESTIMONY

H.B. 2396 – RELATING TO CAPITAL INVESTMENTS

Testimony Presented Before the  
House Committee on Economic Development and Business Concerns

February 5, 2004

By

James R. Gaines  
Interim Vice President for Research  
University of Hawaii

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Chair Brian Schatz and Members of the Committee:

I would like to present testimony in support of this bill, and request the opportunity to work with the authors to clarify some of the language used in it. I will focus my remarks on Section 235 regarding Tax Credits 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.

HB2396 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. HB2396 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.

Certain definitions within the part of HB 2396 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. I 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.