HTDC Cultivating Hawaii's tech sector
HIGH TECHNOLOGY DEVELOPMENT CORPORATION

Senate Bill 896
Act 150
Session Laws of Hawaii 2007

January 2009
A Report to the Legislature

on

"High Technology; Incubation Center; Kakaako"

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1. BACKGROUND

The first report to the legislature was filed on January 2008; this is the second and last report on Senate Bill 896 which was signed into law by Governor Lingle on June 7, 2007, as Act 150, Session Laws of Hawaii 2007. The following describes and highlights the purpose and need as proposed in Act 150.

Description of SB 896 CD1

Report Title: *High Technology; Incubation Center; Kakaako*

Description: *Appropriates funds in FY 2007-2008 and FY 2008-2009 to the High Technology Development Corporation to negotiate a ten-year lease to facilitate the development of commercial wet lab space in a life sciences research complex in Kakaako and for planning, development, and operational costs of the center. Requires an annual progress report to the Legislature beginning in 2008. Effective July 1, 2007. (CD1)*

The Need

A new facility is crucial to alleviating a severe shortage of technology-based incubation and innovation space in Hawaii that is due in large part to high construction costs. Wet laboratory space is even scarcer in Hawaii due to the higher costs. Today there are no incubation laboratory facilities in the state. Yet without the opportunity to commercialize research and technologies by private technology companies, there can be no growth in the life sciences and biosciences research and development industry in the state. Higher development and construction costs in Hawaii have created a rent crisis that technology tenants cannot afford to bear, particularly when core-capital must be committed to research and development growth. The State's Comprehensive Economic Development Strategies report completed in 2005 also echoes this type of need for innovation infrastructure.

In a Report to the Legislature (2006), HTDC stated: "To facilitate the goal of building a life sciences and biosciences industry in Kakaako, it is highly recommended that the state immediately begin to seek partnerships with organizations that have already invested time and money in planned bioscience facilities in Kakaako. As previously mentioned, Kamehameha Schools Bishop Estate (KS) has reached beyond their normal investment portfolio criteria to the community-at-large to provide a viable life sciences project. This broad forward-thinking vision is a credit to the state and the objectives of the estate's trust. Current investment by KSBE is $20 million and additional monies have been spent to acquire New Market Tax Credits to lower the high cost of new and expensive bioscience laboratory facilities. Biotechnology and bioscience companies as well as research institutions must keep their overhead (rental and related expense) to a bare minimum of their overall operating expense, instead investing their money in the research and development of their products. However, even with an investment of $20+ million, KSBE will need assistance and support. Since the state will enjoy the benefits of a successful project in terms of economic diversification, higher-paying jobs for its citizens, attraction and creation of wealth, some form of investment by the state should be considered and supported."

Benefits to the State

An estimated 1,000 new living wage jobs will be created within the facility. The life sciences and biosciences sector generally commands a higher salary figure even relative to other technology sub-sectors. Technology job growth in Hawaii for 2005 was 5.4% above prior year with a gain of 707 jobs, for a total estimated 13,813 jobs (excluding self-employed workers). Wage growth in technology companies grew 15.2% during 2001-2005, compared to 1.6% growth in all other private sector wages for the same period 2001-2005.

By creating a catalyst for the life sciences sector, we can ensure that this upward job growth trend continues. It is especially strategic to focus on the life sciences tech sector because they have very little need for heavy manufacturing that would require them to relocate to other locales where land is abundant and less expensive, and where less expensive sources of energy (fuel) are available. When we are able to nurture companies to a more mature stage, more jobs are created and higher profit margins are realized which often equates to higher salary figures. Innovation based companies that have followed the trends in the life science and bio sectors claim that having only a handful of successful companies can make a significant impact (double digit percentages of the whole) to the revenues to the State. There is an opportunity for the state to maximize the chances of our rising star bioscience companies to realize their potential right here in Hawaii by providing a wet laboratory facility like this one. This facility has the potential to place Hawaii in the running as a serious option for companies on the mainland or abroad to consider for relocation or to establish branch laboratories.

Research & Development activity job growth has been the strongest component of Hawaii's tech sector, with a 36% increase in jobs from 2001 to 2005, which was nearly 4 times faster than all private sector job growth. The technology sector represented 2.8% of all private sector jobs in Hawaii and 4.7% of total private sector wages. By category type, Technology Services represent 78% of total tech jobs, Research & Development at 19% of total tech jobs, and Manufacturing at 3% of total tech jobs (DBEDT, Oct. 2006). Enterprise Honolulu has reported that the number of technology companies grew 13.7% over from 2001-2005 (Enterprise Honolulu, Nov. 2006).

New wet laboratory space can be a catalyst to grow Hawaii's life sciences technology sector. Creation and growth of the life sciences industry will help to:

- Revitalize the region, diversify the economy, stimulate and sustain economic growth for broader impact on Hawaii's economy,
- Retain, grow and recruit high technology businesses and knowledge-based industry and talent to the islands by increased academic and research excellence,
- Provide infrastructure for further growth in the life sciences sector and position Hawaii for global competitiveness,
- Provide facilities and opportunities to foster public and private sector collaborations for research within close proximity to JABSOM and other planned projects, such as CRCH and the NIH Bio-Safety Laboratory,
- Increase tax revenues, and high value jobs that build career pathways.

2. CURRENT STATUS

Negotiations which began earnestly in June 2007 following enactment of Act 150 ended in the latter half of 2007 primarily due to the land owner's decision not to proceed forward with the project as it was outlined at the time, for a variety of reasons including the unfavorable change in market conditions which led to increased challenges in raising equity. The land owner also objected to the required standard state lease language that terminates any state lease due to lack of state funding appropriations for rent and related rent expenses was not acceptable for purposes of financing the proposed project. While efforts were made to mitigate this requirement with the land owner, developer, lender and attorneys, a mutually satisfactory position could not be reached.

The appropriation for fiscal year 2007-2008 was neither allotted nor expended. Further, HTDC does not intend to request allotment of funds appropriated for fiscal year 2008-2009 given the current status of this project and since these funds were intended for a specific purpose.

3. SUCCESSFUL STATE PROJECTS

Since the early 1990s, we have seen the importance of building technology incubators and innovation centers such as the Manoa Innovation Center (MIC), Maui Research and Technology Center (MRTC), Kauai Techno-Tourism Center, Hawaii Innovation Center at Hilo (HICH), and the Hawaii Ocean Science and Technology Center. As an example, MRTC was the first building in the privately financed Maui Research & Technology Park, which spurred the growth of more buildings. As of 2006, MRTC in Kihei housed four buildings, provided over 1,200 jobs with an average annual salary is $70,000, and technology companies in the tech park sought applicants for over 120 vacancies. Similarly, MIC has been close to 98% full since its first year of operation in 1993. HICH is also 100% full. All of these tech projects were developed or assisted with State funding.

HTDC's statutory mission is to grow Hawaii's high tech industry, including the life science industry. HTDC grows these technology industries by providing incubator and innovation facilities to qualified start-up companies. At MIC, HTDC has demonstrated successful business incubation. Since the center's inception in 1992, MIC's cumulative success rate is an impressive 77%, meaning that 77% of all MIC client companies are viable businesses at the time of graduation. The typical length of tenancy at MIC is three to five years. Comparatively, the Small Business Association cites that 5 out of 6 businesses fail within the first five years (Osnabrugge, Robinson 2000). MIC's success rate demonstrates the effectiveness of business incubation in nurturing small businesses and creating economic value by reversing the odds of business failure within the critical early years of business development.

Hawaii is not alone in this mission, as 90% of all national life science research parks are primarily funded at state, university or foundation level. Through this private-public partnership, KS is making

considerable investment in Hawaii's innovation infrastructure. State investments have set the stage for private sector investment for JABSOM II and CRCH in Kakaako. Kakaako is becoming the hub for life sciences research and development. Combined with KS' mission of education, dedication to the Hawaiian community including a vision of sustainability and greater opportunities, KS sees the importance of creating a catalyst facility such as the proposed life sciences/biosciences facility to facilitate commercialization of biotech research. Establishing a modern life sciences physical infrastructure, will help to grow a strong life sciences sector that will attract global investment, and provide market recognition for Hawaii as a place where serious research and development can be commercialized.

4. SUPPORTERS OF SB 896 CD1

The following organizations supported SB 896: University of Hawaii (UH) John A. Burns School of Medicine, State Department of Business, Economic Development & Tourism; High Technology Development Corporation, Hawaii Community Development Authority, University of Hawaii Office of Technology Transfer and Economic Development, Pacific Resource Partnership, Hawaii Science and Technology Council, Phase 3 Properties, KUD International, The Kamehameha Schools, Honolulu Seawater Air Conditioning, LLC, and the American Society of Civil Engineers.

EXPENDITURES

Total funding appropriated for fiscal year 2007-2008 of $150,000 lapsed to the general fund at the end of the fiscal year, June 30, 2008. While funding under this Act 150, SLH 2007, was not allotted and released, HTDC did expend funds to cover due diligence costs and other costs related to the lease negotiations between the State and the project developers, KUD International and Phase 3 Properties. We anticipate funding appropriated for fiscal year 2008-2009 of $250,000 will also lapse after June 30, 2009.

Sources:
DBEDT e-Reports: Hawaii's Technology Sector: 2001-2005, October 2006.
Enterprise Honolulu, Memorandum: Tech Jobs, November 1, 2006.
HTDC: Manoa Innovation Occupant History, January 2007.
Mark Van Osnabrugge and Robert J. Robinson, Angel Investing, 2000.
Kamehameha Schools, PowerPoint presentation: Building Hawaii's Infrastructure to Grow Science & Technology Industry, January 2007.

Attachment A

THE SENATE	S.B. NO.	896
TWENTY-FOURTH LEGISLATURE, 2007		S.D. 1
STATE OF HAWAII		H.D. 2
		C.D. 1

Report Title: High Technology; Incubation Center; Kakaako

Description: Appropriates funds in FY 2007-2008 and FY 2008-2009 to the High Technology Development Corporation to negotiate a ten-year lease to house a technology incubator and innovation center in a life sciences research complex in Kakaako and for planning, development, and operational costs of the center. Requires an annual progress report to the Legislature beginning in 2008. Effective July 1, 2007. (CD1)

A BILL FOR AN ACT RELATING TO HIGH TECHNOLOGY.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

SECTION 1. The legislature finds that private developers are developing a four hundred thousand square foot class A life sciences research complex on 4.98 acres in the Kakaako district of Oahu, adjacent to the University of Hawaii John A. Burns school of medicine. The complex will be the only facility in Hawaii with class A wet laboratory space available to the non-institutional market and is positioned to be a catalyst spawning new international life science collaborations in the Pacific Rim for both public and private sectors.

The high technology development corporation is currently negotiating a ten-year lease agreement for approximately sixty-six thousand square feet of laboratory and office space on three floors of the development. The corporation will operate a technology incubator and innovation center in the leased space, which will support the efforts of the adjacent University of Hawaii school of medicine, Cancer Research Center of Hawaii, and many related bioscience research institutions.

The center will allow the high technology development corporation to grow Hawaii's fledgling life-sciences industry by providing qualified start-up companies with high-quality incubator and innovation facilities. Currently, very little suitable specialty commercial laboratory space exists in Hawaii. Thirteen biotechnology companies did not select Hawaii as a site in the past three years due to the lack of suitable space. These companies needed twice as much space as will become available in the life sciences research complex, with the demand for space increasing even more.

The center will also support Hawaii's fledgling start-up high technology companies by reducing the risk and cost for these start-up companies. Once these companies achieve financing, it is critical that they commit their core capital to research, rather than the security needed to finance business infrastructure such as complex and expensive wet laboratory developments.

Many other jurisdictions are aggressively recruiting technology companies and start-ups and have undertaken similar efforts to create a life-sciences industry in communities such as San Diego, San Francisco, Boston, and North Carolina. New York uses a $2,000,000,000 initiative fund to lure top tier biotechnology and pharmaceutical companies. The Kobe city government has paid for two-thirds of the development of the Kobe Bio Science Park in Kobe, Japan. These jurisdictions attract high technology companies by offering grants, subsidies, and other incentives to develop and grow businesses.

The competition to attract high technology companies is intense, and governments have had to lend financial support to compete in this market. They do so because high technology companies hire the knowledge and concept workers that are attracted by high-paying jobs and the opportunity to collaborate with other scientists and technicians. These jurisdictions know that high-technology industries produce high-quality jobs at all levels, from the beginning technician to the senior researcher, increase the jurisdiction's tax base and, most importantly, provide the critical mass and synergy for a sustainable industry.

The most successful states and communities locate their technology companies adjacent to major research institutions, creating a cluster effect. Hawaii's life sciences research complex will be located next to the recently completed University of Hawaii school of medicine in Kakaako, which will soon be joined by the Cancer Research Center of Hawaii and a regional biosafety laboratory.

The life sciences research complex is intended to be the catalyst for the development of the life-sciences industry in Hawaii and a place where the private research sector joins with the public research sector for innovation and entrepreneurship in the Kakaako core. It will more than double innovation space in Kakaako for future cluster growth, ultimately resulting in a total of four hundred thousand square feet of laboratory and office space dedicated to the high-technology industry.

The life sciences research complex will, in addition to new and meaningful career pathways for Hawaii's youth and residents, create an estimated one thousand new living-wage jobs. The project will allow the State to take the initiative in expanding incubation and innovation space for the life-sciences industry without bearing the cost or burden of construction alone.

The purpose of this Act is to support the development of the life-sciences industry in Hawaii by providing funding for a ten-year lease and the operations and programs of a state-operated technology incubator and innovation center in a life sciences research complex to be developed in the Kakaako district of downtown Honolulu.

SECTION 2. The high technology development corporation, with assistance from the department of business, economic development, and tourism, shall negotiate with the developers, on terms acceptable and satisfactory to the corporation's board of directors and the director of finance, a lease agreement for a period of ten years for approximately sixty-six thousand square feet of laboratory and office space in a life sciences research complex in Kakaako.

SECTION 3. The high technology development corporation may enter into contracts to support the planning and development of a state-operated high technology incubator and innovation center as part of a life sciences research complex in the Kakaako district near downtown Honolulu.

SECTION 4. There is appropriated out of the general revenues of the State of Hawaii the sum of $150,000 or so much thereof as may be necessary, for fiscal year 2007-2008, and the sum of $250,000 or so much thereof as may be necessary, for fiscal year 2008-2009, for the lease agreement between the high technology development corporation and the developers or owners of a life sciences research complex in Kakaako, and for plans for and operations of a high technology incubator and innovation center to be located in that complex.

The sums appropriated shall be expended by the high technology development corporation for the purposes of this Act, including expenditures for the initial phase of the development, the hiring of consultants and analysts to conduct necessary due diligence, the costs of the planning and pre-design phases, and the ongoing operations of the high technology incubator and innovation center, including any transitional costs and interim revenue losses due to the movement of tenants.

SECTION 5. The high technology development corporation shall submit to the legislature an annual progress report on its plans, agreements, expenditures, and other activities under this Act. The first report shall be submitted no later than twenty days prior to the convening of the regular session of 2008 and reports shall be submitted annually thereafter until the expiration of the lease agreement.

SECTION 6. The provisions of this Act are not intended to and shall not restrict or constrain the lease negotiations of the high technology development corporation, the department of business, economic development, and tourism, and the department of budget and finance with the developers of a life sciences research complex.

SECTION 7. This Act shall take effect on July 1, 2007.

This report has been cataloged as follows:

High Technology Development Corporation.
Report to the Legislature on high technology incubation center; Kakaako. Honolulu: 2008.

1. High technology industries-Hawaii. 2. Biotechnology laboratories-Hawaii. 3. Business incubators-Hawaii.
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