

A Report to the Legislature

on

**“High Technology;
Incubation Center; Kakaako”**

January 2010

**Senate Bill 896
Act 150
Session Laws of Hawaii 2007**

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BACKGROUND

As required by Senate Bill 896 which was signed into law by Governor Lingle on June 7, 2007, as Act 150, Session Laws of Hawaii 2007, the first report to the legislature was filed on January 2008, and a second on January 2009. Since no agreement or lease was entered into with the project developers and funds under this Act have not been expended, this will be the last report to the legislature on Senate Bill 896.

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)*

CURRENT STATUS

Following enactment of Act 150, negotiations which began earnestly in June 2007 ended in the latter half of 2007 primarily due to the landowner's decision not to proceed forward with the project as outlined at the time. A variety of reasons contributed to the decision, including the unfavorable change in market conditions which led to increased challenges in raising equity.

The landowner 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. This was not acceptable for purposes of financing the proposed project. While efforts were made to mitigate this requirement with the landowner, developer, lender and attorneys, a mutually satisfactory position could not be reached.

The appropriation for fiscal years 2007-2008 and 2008-2009 were neither allotted nor expended. The High Technology Development Corporation (HTDC) did expend funds to cover due diligence and other costs related to lease negotiations between the State, and the project's developers.

While HTDC no longer has the original role as outlined in the Act, HTDC continues to keep abreast of the development. Currently, stakeholders regrouped and are organizing to implement a different plan. HTDC will offer assistance as appropriate in projects which contribute to tech-based economic development in the Kakaako area.

Attachment A

THE SENATE
 TWENTY-FOURTH LEGISLATURE, 2007
 STATE OF HAWAII

S.B. NO.

896
 S.D. 1
 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.
HD62.37.H4.2010