

## **Hawai'i Small Business Innovation Research (HSBIR) Award Allocation Policy Statement**

### ***HSBIR Grant Statute and Rules***

The program is authorized and defined by [HRS 206M-15](#).  
The rules for this program are defined in [HAR 15-32](#).

### ***HSBIR Program Purpose and Goals***

The purpose of the HSBIR program, as defined in HAR 15-32, is to provide funds to complement federal SBIR and STTR awards to increase the competitiveness of small businesses in Hawaii and to enhance their prospects for bringing subsequent SBIR and STTR awards of federal funds into the State, including awards that assist the businesses in surpassing the research and development level and transforming their research into innovative and commercial products and services.

The goal of the program is to help companies grow and create sustained engineering and research jobs in the state of Hawai'i.

### ***HSBIR Program Strategy***

The amount allocated to the HSBIR program is dependent every year on legislative appropriation and Governor's holdback. Every year there are more qualified applicants than funds available.

Funds are allocated strategically instead of equally amongst applicants. The funding preferences and priorities are stated briefly below with the program objectives.

- Encourage more companies to apply for and win federal SBIR awards to increase Hawai'i's share of the annual federal SBIR appropriation by giving preference to:
  - businesses receiving their first federal SBIR award
  - businesses located on the neighbor island
- Encourage businesses to position themselves for success beyond the federal SBIR program by giving preference to businesses that have completed an I-CORP of SBIR commercialization assistance program
- Give preference to SBIR awards ("Projects") that:
  - are focused on Department of Business, Economic Development and Tourism (DBEDT) priority industries (IT/Software, Manufacturing/Value added Agriculture, Defense, Creative Media, Aquaculture, and Renewable Energy)
  - communicate economic significance of the Project
  - highlight how funds will be used to achieve success
  - demonstrate potential for job creation in Hawai'i

Follow-on awards for Phase I or II projects, e.g., Phase IB or Phase IIB, will be considered for another match. Review committee to determine award.



### ***HSBIR Program Allocation***

Phase 0 – Award all first time applicants that use a vetted grant writing contractor. Phase 0 is a reimbursable grant and requires proof of payment to qualify for award.

Phase I - Projects are scored and ranked. There could be 2-3 tiers with funding amounts depending on available funding and number of businesses. The top tier get the highest percentage of the eligible amount. Businesses that score below 75 (out of 100) will not receive funding.

Phase II/III – Same process as Phase I but receives a separate budget appropriation.

### ***HSBIR Selection Process***

Review committee is selected by the HTDC Executive Director. The review committee is comprised of 2-3 HTDC staff and 2-3 non HTDC state employee subject matter experts (SME).

1. Preselect presentation dates for Review committee
2. Applications are accepted via online form
3. Applications are sent to HTDC Grant Admin to review applications for completion
4. Review Committee is sent applications to review and form questions
5. Applicant presents to Review Committee
6. Review committee scores based on forecasted economic impact to the state
7. Scoresheets are compiled and companies ranked then tiered for award amounts
8. Recommendations presented to Board for approval

### ***Reporting / Contracting***

Phase I – One update report one year from award and notification of Phase II application/award or other follow-on funding.

Phase II/III – Payment in tranches of \$100,000 with first payment upon signing award letter and following payments made upon completion of company set, Grant Admin approved, milestones. Update reports due with milestones and meeting to present to Grant Admin.

### ***Metrics***

#### **Annual Reported Metrics:**

- # of companies receiving federal SBIR phase I, II/III awards
- Total federal SBIR dollars awarded to Hawai'i companies for phase I, II/III
- # of companies applying for and receiving HSBIR phase I, II/III matching grants
- Total state HSBIR dollars awarded to Hawai'i companies for phase I, II/III
- # of first time applicants
- # and \$ of Phase 0 grants awarded to first time application

#### **Survey Metrics:**

- Economic Impact from companies participating in the HSBIR program
- # of New Full-time employees over 5 years
- # of Jobs Saved over 5 years



To: Hawai'i Technology Development Corporation Board of Directors  
From: Len Higashi, HTDC Acting Executive Director  
Date: September 30, 2022  
Subject: Hawai'i Small Business Innovation Research (HSBIR) Award Allocation Policy Statement

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#### SPECIFIC ACTION REQUESTED:

Request Motion to Approve Hawai'i Small Business Innovation Research (HSBIR) Award Allocation Policy Statement

#### RECOMMENDED EFFECTIVE DATE:

Upon Approval

#### BACKGROUND:

##### Description

The Small Business Administration (SBA) Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) programs provide over \$4 billion in funding to small businesses each year in a wide variety of technology areas.

Since 1988, HTDC has been providing matching grant funds and wrap around technical assistance services to Hawaii companies who received SBIR Grants. Initially the grant program only funded companies that received Phase I awards. In 2016, the program was expanded to match SBIR Phase II and Phase III awards.

The purpose of the matching grant program is to increase the competitiveness of small businesses in Hawaii and to enhance their prospects for bringing subsequent SBIR and STTR awards of federal funds into the State, including awards that assist the businesses in surpassing the research and development level and transforming their research into innovative and commercial products and services. The goal of the program is to help companies grow and create sustained engineering and research jobs in the state of Hawai'i.

##### Award Process

HTDC makes grant awards through a competitive application process. Previously, the HTDC Federal Projects Committee reviewed applications and made award recommendations for the board approval. Over the past 2 years, HTDC staff and non-HTDC state employees did the review and made award recommendations to the HTDC Executive Director for approval.

The committee reviews approximately 10 to 15 Phase 1 applications and 5 to 10 Phase 2/3



applications every year. The HSBIR Phase 1 appropriation for Fiscal Year 2022-2023 is \$520,000. The HSBIR Phase 2 / 3 appropriation is \$1,500,000. Awards are governed by HRS 206M-15 and HAR 15-32 and need to be completed in the fiscal year ending June 30 or the funds lapse back into the general treasury.

This year, the Federal Projects Committee met to evaluate and make recommendations on the process HTDC should adopt for the program. The committee met twice with each meeting lasting 3 hours. Not all committee members could attend each meeting, which was the main recurring problem for the program when the Federal Projects Committee was responsible for reviewing the applications. The Committee requested and reviewed a range of similar programs from other states.

After the second meeting, the committee requested HTDC staff to summarize the program policy into a format similar to the HI-CAP invest policy. The policy was drafted and circulated back to the committee for concurrence.

#### Summary of Recommendations

The Hawai'i Small Business Innovation Research (HSBIR) Award Allocation Policy Statement sets the policy for the evaluation committee to make awards. The policy requires staff to continue doing the evaluations and to make recommendations to the full board for approval. Additional preference was given to DBEDT priorities, mirroring the HI-CAP Invest Investment Strategy and Allocation policy and to applicants that can clearly communicate the economic significance of the project. The policy states that awards will be done in 2-3 funding level tiers and applicants that score less than 75 will not be funded. The policy specifies the metrics that will be reported to the board and to the legislature annually.

#### **ACTION RECOMMENDED:**

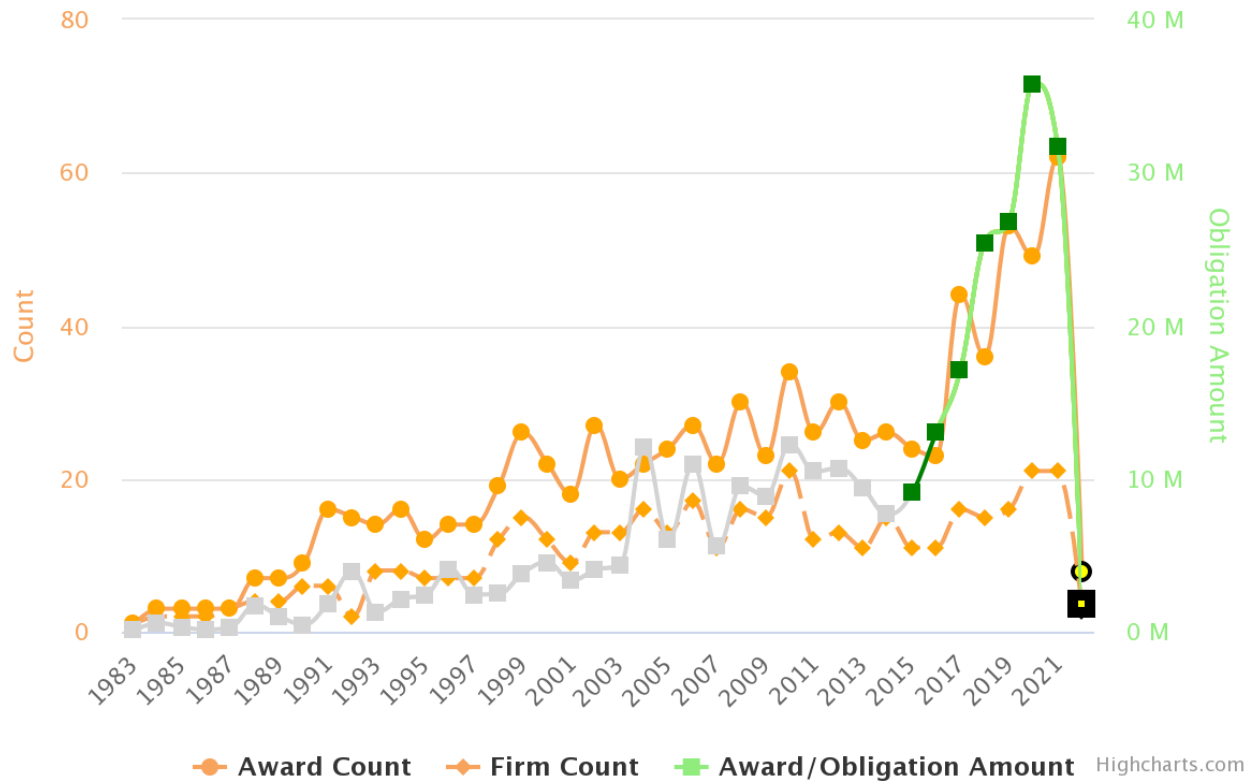
Approve

#### **ADDITIONAL BACKGROUND INFORMATION**

##### Program Performance

The HSBIR matching grant program is HTDC's most successful program. Over the life of the program over 20 federal dollars have come into the state per each state dollar. Since implementing the Phase II matching grants, the number of awards and dollars awarded have increased significantly.

### Award Summary By Year



A summary of the Phase II/III awards made by the matching grant program is listed below:

	FY16	FY17	FY18	FY19	FY20	FY21
Appropriation	\$2 MM	\$2 MM	\$1 MM	\$1.5 MM	\$1MM	-
# of Applications	11	9	9	12	16	-
# of Awards	7	8	5	6	14	-
\$\$ Awarded	\$2 MM	\$1.9 MM	\$900 K	\$1.4 MM	\$900K	-
Federal SBIR \$\$ (match)	\$7.9 MM	\$10.9 MM	\$8.0 MM	\$11.0 MM	\$53.0 MM	-
Estimated New Jobs	17	70	15	135	509	-

The federal SBIR funds are highly competitive with a fixed budget each year. Therefore, the industry is securing for Hawai‘i federal funds that would otherwise be awarded to companies in other states. Every year, there have been more qualified applicants for HTDC matching grants than available funds. Since the Phase II/III program started in FY16, none of the applicants have received the full eligible amount.

## Investment Update to HTDC Board

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**From:** Len Higashi, Acting Executive Director, HTDC  
Paul Hsi, Hi-CAP Program Manager  
**Date:** October 6, 2022  
**Subject:** **Blue Ventures, Fund III Reinvestment**

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**Investment Update:**

HTDC is an investor in **Blue Ventures, Fund III** (“BVIII” or the “Fund”). In June 2022, HTDC was allocated a Limited Partner (“LP”) distribution of \$439,759.95, for its pro rata investment in the Fund.

The distribution was from the secondary sale of stock of Utah-based portfolio company **Via Customers** (“Via”) following a \$50 million Series B funding round by Tiger Global (sole investor). The funding round valued the Company at \$350 million on a post-money basis. The sale of stock by BVIII in 2021, was at a >100x multiple to its invested capital.

Via provides Short Messaging Service (“SMS”) marketing and customer care services for e-commerce companies. Most recent annualized monthly revenue is in double digits (\$ millions) with > 99 employees.

HTDC intends to “recycle” the distribution on its investment, which allows BVIII to continue follow-on funding of the most promising portfolio companies as they seek additional financing. BVIII’s Accelerator model (**Blue Startups**) generally limits the amount of investment in a single portfolio company to \$100,000, up to the institutional funding round (typically Series A).

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**HTDC Investment:** HTDC invested \$900,000 in BVIII in 2019. The Fund raised \$2.5 million of committed capital, and has 41 portfolio companies with a current book value at a multiple above commitment capital on August 2022. HTDC was also an investor in Blue Ventures, Fund I and Fund II.

**Fund Performance:** Based on current book value of current investments (and cash distributions made to LPs) from invested capital, BVIII has a solid Total Value to Paid-In Capital (“TVPI”) multiple, and a very strong Internal Rate of Return (“IRR”) on an unrealized basis.

The Fund invests based on its global Accelerator model, which has been ranked in the top 20 US accelerators by TechCrunch. Blue Startups is based in Hawaii and has funded and mentored over 100 start-ups from Hawaii, the mainland, South America, Asia and Pacific Rim countries.

**Fund Approach:** BVIII typically invests up to \$100,000 per start-up through three rounds of financing, focusing on the most promising companies nurtured under the Blue Startups accelerator program (typically 7-8 companies per cohort). Blue Startups has managed 14 cohorts of 108 companies since inception. BVIII adheres to the following funding approach, based on the caliber of the start-up company:

*First round:* \$25,000 upon program start; typically a small % of the company

*Second round:* \$25,000 upon completion of program (Friends & Family round); typically a smaller % of the company

*Third round:* \$50,000 (Angel seed round); typically a fractional percentage

**Fund Background:**

1. The Fund is managed by Chenoa Farnsworth, along with founder Henk Rogers and Maya Rogers, all based in Hawaii.
2. The Fund focuses on pre-seed and seed capital financing. It does not typically invest in Series A institutional financing rounds of portfolio companies. The affiliated Blue Accelerator program allows BVIII to select, groom, advise and fund for seed round financing the most promising start-ups that participate in its accelerator program.
3. Blue Accelerator has had over 100 start-ups participate in its 14 accelerator programs, and manages a 2-3% acceptance rate from start-ups which apply to its programs.
4. BVIII had a very small number of portfolio companies declare bankruptcy, which compares relatively well given 41 company investments by the Fund. Of the two failures, one bankrupt company made a partial return of investment (business was liquidated), while the other did not return any of the invested funds.

**Benefits of the Investment:**

1. Of the 21 portfolio companies that are still eligible for additional funding by BVIII (up to \$100,000 each), eleven (11) companies are based in Hawaii, providing critical funding for local start ups. BVIII has identified several portfolio companies based in Hawaii that are eligible for additional investment through recycled distributions.

2. BVIII has been actively involved in the grooming and development of the portfolio companies beginning with its accelerator programs, which lessens the risk of making first time investments in an unknown pool of start-ups.

**HTDC**

**Considerations:**

1. Given the current performance of BVIII and its strong presence in Hawaii running the Blue Startups accelerator program, HTDC believes that reinvesting distributions from BVIII will help generate higher potential returns on its investment and continue growth of the ecosystem for local technology-based start-ups. Over half of the portfolio companies eligible for additional investment through BVIII are based in Hawaii, improving prospects for job growth and economic diversification in the islands.

2. Other potential uses of the distributed capital from SSBCI 1.0 include redeploying the monies for investment in other VC funds focused on investing in Hawaii-based companies. In the near term, HTDC expects to evaluate SSBCI 2.0 investments from SSBCI 2.0 funds in a few seasoned VC firms and one inaugural venture fund.

**Other Issues:**

1. BVIII's concentration of software-based companies has the potential to result in migration of successful Hawaii-based companies to the mainland, where the ecosystem of risk capital, IT talent, corporate partnerships and potential acquirors is much more developed than in-state.

However, note that major consumer goods companies started in Hawaii have also migrated to the mainland to gain access to capital, distribution and manufacturing (e.g., Dakine, Maui Jim, Paul Mitchell).

2. Software-based companies (particularly start-ups) tend to rely on low headcount, offshoring of low-end IT development work, and the high scalability of web browser-based and app-based products. Comparisons of job growth with traditional industry sectors may be hard to make (e.g, construction, healthcare, hospitality, retailing or professional services).

3. The nature of incubator and accelerator based venture investing relies on making a number of small bets on a relatively large pool of very early stage start-ups. Returns generated by the entire portfolio often rely on a small number of portfolio companies that reach a critical mass of scalable revenue and the ability to realize an exit on the investment.

4. Development of the portfolio companies, and realization of returns, will depend on the ability to receive additional VC funding through institutional rounds such as Series A and B financing at increasingly higher valuations as the companies grow.