

**HOUSE OF REPRESENTATIVES STAFF ANALYSIS**

**BILL #:** CS/HB 983 Florida Research Commercialization Matching Grant Program  
**SPONSOR(S):** Economic Development Policy Committee; Hudson and others  
**TIED BILLS:** **IDEN./SIM. BILLS:** SB 1472

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	<b>REFERENCE</b>	<b>ACTION</b>	<b>ANALYST</b>	<b>STAFF DIRECTOR</b>
1)	<u>Economic Development Policy Committee</u>	<u>11 Y, 0 N, As CS</u>	<u>Tait</u>	<u>Kruse</u>
2)	<u>Finance &amp; Tax Council</u>	<u></u>	<u>Wilson</u>	<u>Langston</u>
3)	<u></u>	<u></u>	<u></u>	<u></u>
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**SUMMARY ANALYSIS**

CS/HB 983 creates the Florida Research Commercialization Matching Grant Program to assist small or startup companies that take advantage of federal and state partnerships to accelerate their growth and market penetration. Program applicants must meet several criteria, such as having attracted funding from non-government sources.

Eligible businesses must be registered with the Department of State, have their primary office in Florida as well as the majority of its employees, and conduct its principal research in Florida. They also must have already received a Phase 1 federal research grant and meet several other requirements.

In compliance with the procedures provided for economic development incentive applications in s. 288.061, F.S., the bill requires Enterprise Florida to review and recommend applications for the program to the Governor's Office of Tourism, Trade, and Economic Development, who will make the final approval for grants. The bill directs Enterprise Florida to enter into a contract with the Governor's Office of Tourism, Trade, and Economic Development to administer the program. Enterprise Florida will serve as the program administrator and grant contract manager for recipients of a matching grant. Administrative costs for the program are limited to no more than 5 percent of legislative appropriations for the program.

Enterprise Florida is directed to include a report of the progress of the program in its annual report.

The bill provides for the program to make one-time awards of up to \$250,000 per project to a qualified applicant, subject to legislative appropriation.

The program will sunset July 1, 2013, unless reenacted by the Legislative.

## HOUSE PRINCIPLES

Members are encouraged to evaluate proposed legislation in light of the following guiding principles of the House of Representatives

- Balance the state budget.
- Create a legal and regulatory environment that fosters economic growth and job creation.
- Lower the tax burden on families and businesses.
- Reverse or restrain the growth of government.
- Promote public safety.
- Promote educational accountability, excellence, and choice.
- Foster respect for the family and for innocent human life.
- Protect Florida's natural beauty.

## FULL ANALYSIS

### I. SUBSTANTIVE ANALYSIS

#### A. EFFECT OF PROPOSED CHANGES:

##### Present Situation

For many years, the federal government has recognized the benefits of early capitalization for new businesses. The U.S. Small Business Administration Office of Technology administers the Small Business Innovation Research Program (SBIR)<sup>1</sup> and the Small Business Technology Transfer Program (STTR)<sup>2</sup>. These programs seek to encourage small businesses to explore their technology potential and provide the incentive to profit from its commercialization.<sup>3</sup> The only substantial difference between the programs is that the SBIR rewards for-profit businesses only, while nonprofit research institutions may qualify for a STTR grant.

The risk and expense of conducting serious research and development efforts are often beyond the means of many small businesses. By reserving a specific percentage of federal research and development funds for small business, the SBIR and STTR safeguard small businesses from some of that risk and expense, allowing them to compete on the same level as larger businesses. SBIR and STTR help finance the startup and development stages, and encourage the commercialization of the technology, product, or service.

Small businesses must meet certain eligibility criteria to participate in the SBIR and STTR program. The business must be American-owned and independently operated; must have a principal researcher employed by the business; and must not have more than 500 employees. Each year, the SBIR requires 11 federal departments and agencies,<sup>4</sup> and the STTR requires five,<sup>5</sup> to reserve a portion of their research and development funds for award to small businesses. These agencies designate research and development topics and accept proposals.

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<sup>1</sup> The SBIR program was created by the Small Business Innovation Development Act of 1982 (P.L. 97-219), and has been reauthorized several times.

<sup>2</sup> The STTR program was created by Title II of the Small Business Research and Development Enhancement Act of 1992 (P.L. 102-564), and has been reauthorized several times.

<sup>3</sup> U.S. Small Business Administration website at: <http://www.sba.gov/aboutsba/sbaprograms/sbir/index.html>. Site last visited March 4, 2010.

<sup>4</sup> U.S. Departments of: Agriculture, Commerce, Defense, Education, Energy, Health and Human Services, Homeland Security, Transportation, the Environmental Protection Agency, the National Aeronautics and Space Administration, and the National Science Foundation.

<sup>5</sup> U.S. Departments of: Defense, Energy, Health and Human Services, the National Aeronautics and Space Administration; and the National Science Foundation.

The programs consist of three phases. Following submission of proposals, agencies make SBIR and STTR awards based on small business qualification, degree of innovation, technical merit, and future market potential. Small businesses that receive awards then begin a three-phase program:

- Phase I is the startup phase. Awards of up to \$100,000 for approximately 6 months, to support exploration of the technical merit or feasibility of an idea or technology.
- Phase II awards of up to \$750,000, for as many as 2 years, to expand Phase I results. During this time, the research and development work is performed and the developer evaluates the commercialization potential. Only Phase I award winners are considered for Phase II.
- Phase III is the period during which Phase II innovation moves from the laboratory into the marketplace. No SBIR funds support this phase. The small business must find funding in the private sector or other non-SBIR/STTR federal agency funding.

According to a report by the National Academies, about half of SBIR Phase II grant recipients resulted in a commercialized product or service.<sup>6</sup> In addition, from 2002 to 2006, approximately 25 percent of *R&D Magazine's* top 100 annual innovations came from companies that had received SBIR grants.<sup>7</sup>

In 2008, Florida companies received a total of 155 Phase I and Phase II SBIR awards totaling \$46.9 million, ranking 11th among the 50 states.<sup>8</sup> That same year, Florida companies received a total of 22 Phase I and Phase II STTR awards totaling \$4.45 million, ranking 17th in the nation.<sup>9</sup> California and Massachusetts finished 1-2 in both categories.

Florida has no comparable state grant program. However, Enterprise Florida, Inc., a public-private entity that serves as the state's business arm, has implemented the "Phase 0" Pilot Program to assist eligible companies in developing their SBIR/STTR applications.<sup>10</sup> Created in September 2006, the Phase 0 Pilot Program is a partnership between EFI and technology incubators, University Technology Transfer Offices, economic development organizations, and Small Business Development Centers. The program was created to help improve the success rate of Florida-based companies in winning SBIR/STTR grants; in 2006, Florida ranked 45th in the nation in winning grants.

Eligible applicants can receive a maximum of \$3,000, in two installments, as assistance. These funds can be used for such expenses as consulting fees supporting technology development, commercialization strategies or proposal review; legal or accounting fees; services of a professional for writing, word processing, proof-reading and/or editing of the federal application; and travel expenses incurred to visit the federal agency or laboratory potentially sponsoring the technology.

Since the inception of the Phase 0 Pilot Program, Enterprise Florida has received 62 applications and has made 37 awards, totaling approximately \$76,573.00. Five of those companies have received Phase 1 federal SBIR/STTR grants, and there are an additional 5 applicants awaiting a decision from the federal programs for the current fiscal year. For the 2008-2009 fiscal year, the Phase 0 Pilot Program received 16 applications, and granted 12 awards. In addition, Enterprise Florida gave out \$28,394.67 in awards for the 2008-2009 fiscal year; however, due to the timing of some awards, that figure may include some awards from the previous fiscal year.<sup>11</sup>

Florida has also created several programs emphasizing the commercialization of new technologies and products, as well as nurturing emerging companies as they move into the marketplace. Florida's initiatives include the Centers of Excellence established with state universities, the Florida Opportunity

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<sup>6</sup> Statement for *Senate Committee on Small Business and Entrepreneurship*, SBIR Roundtable, June 2009, available online at: [http://search.sba.gov/cst/cs.html?url=http%3A//www.sba.gov/idc/groups/public/documents/sba\\_homepage/mills\\_testimony\\_sbir\\_senate.pdf&charset=iso-8859-1&qt=url%3A/sbir+%7C%7C+phase+iii&col=sbaweb&n=4&la=en](http://search.sba.gov/cst/cs.html?url=http%3A//www.sba.gov/idc/groups/public/documents/sba_homepage/mills_testimony_sbir_senate.pdf&charset=iso-8859-1&qt=url%3A/sbir+%7C%7C+phase+iii&col=sbaweb&n=4&la=en). Site last visited March 4, 2010.

<sup>7</sup> Ibid.

<sup>8</sup> State-by-state search engine at [http://web.sba.gov/tech-net/public/dsp\\_search.cfm](http://web.sba.gov/tech-net/public/dsp_search.cfm). Site last visited March 4, 2010.

<sup>9</sup> Ibid.

<sup>10</sup> More information available at <http://www.eflorida.com/ContentSubpage.aspx?id=872>. Site last visited March 4, 2010.

<sup>11</sup> Information obtained from e-mails from Peyton Woodard, Director of Capital Programs, Enterprise Florida to Economic Development Policy Council staff. E-mails received March 4, 2010.

### **Effect of Proposed Changes**

The bill creates s. 288.9552, F.S., the Florida Research Commercialization Matching Grant Program (program). The program's goals are to:

- Increase the amount of SBIR and STTR research funds received by Florida companies;
- Accelerate the entry of new technology-based products into the market;
- Create technology-based jobs for Floridians;
- Provide leveraged resources to grant applicants to attract more investment;
- Speed the commercialization of promising technologies;
- Encourage the establishment and growth of high-quality technology firms in Florida; and
- Accelerate venture-capital deal flow and enhance the state's investment infrastructure.

Grant applicants must meet the following criteria:

- Be a business entity that is registered with the Department of State.
- Must have its primary office and a majority of its employees domicile in Florida, and conduct its principle research activities in Florida.
- Be a small business<sup>12</sup> for which a state matching grant is necessary for project development and implementation.
- Must have received a Phase I SBIR or STTR grant and an invitation to apply for a federal Phase II award. Applicants who have already received a Phase II award may apply for a state grant, but they must identify the end date of the federal award and provide justification of how the state grant will enhance, and not supplant, the federal funds.
- Utilize all sources of federal, local and private resources for the project to the maximum extent possible. No more than 25 percent of project funding may come from the new Florida program, and private sector investments should offset the total costs of the project.
- Conduct their projects receiving state grants in Florida.

Applications for matching grant awards must be reviewed and approved or denied utilizing the procedures provided for economic development incentive applications in s. 288.061, F.S. This process requires that Enterprise Florida review an application for the program and notify the applicant business whether or not the application is complete within 10 business days after receiving a submitted application. Within 10 business days after the application is deemed complete, Enterprise Florida is required to evaluate the application and recommend approval or disapproval of the application to the director of the Governor's Office of Tourism, Trade, and Economic Development. Enterprise Florida must include a recommended grant award amount and a review of the applicant's ability to meet specific program criteria.

After receiving the application from Enterprise Florida, the Office of Tourism, Trade, and Economic Development is required to notify Enterprise Florida within 10 calendar days if the application is reviewable. Within 22 calendar days after receiving the application from Enterprise Florida, the director of the Office of Tourism, Trade, and Economic Development must review the application and issue a letter of certification to the applicant that approves or disapproves an applicant business and includes a justification of that decision, unless the business requests an extension of that time. The letter must specify the total amount of the award, the performance conditions that must be met to obtain the award, and the schedule for payment.

This bill directs Enterprise Florida to enter into a contract with the Governor's Office of Tourism, Trade, and Economic Development to administer the program. Enterprise Florida will serve as the program

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<sup>12</sup> CS/HB 983 does not define "small business." Unless otherwise specified, the SBA definition of "small business" would apply. SBA has established two widely used size standards: no more than 500 employees for most manufacturing and mining industries, and \$7 million in average annual receipts for most nonmanufacturing industries. While there are many exceptions, these are the primary size standards by industry. See: [http://www.sba.gov/idc/groups/public/documents/sba\\_homepage/serv\\_sstd\\_tablepdf.pdf](http://www.sba.gov/idc/groups/public/documents/sba_homepage/serv_sstd_tablepdf.pdf). Site last visited March 4, 2010.

administrator and grant contract manager for recipients of a matching grant. Enterprise Florida is allowed to contract with a third party for the limited purpose of providing expertise in the technical review of applications for the performance of technology review and related functions.

Subject to legislative appropriations, the maximum, one-time award amount per project to a qualified applicant is set at \$250,000. The bill also limits the expenses for administrative purposes to not more than 5 percent of a legislative appropriation.

Enterprise Florida is directed to include a report of the progress of the program in its annual report.

The program will sunset July 1, 2013, unless reenacted by the Legislative.

The bill has an effective date of July 1, 2010.

**B. SECTION DIRECTORY:**

**Section 1:** Creates s. 288.9552, F.S., relating to the Florida Research Commercialization Matching Grant Program.

**Section 2:** Provides an effective date of July 1, 2010.

**II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT**

**A. FISCAL IMPACT ON STATE GOVERNMENT:**

1. Revenues:

None.

2. Expenditures:

None, see FISCAL COMMENTS.

**B. FISCAL IMPACT ON LOCAL GOVERNMENTS:**

1. Revenues:

None.

2. Expenditures:

None.

**C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:**

Positive, but indeterminate. Companies that have received federal funding through the SBIR or STTR would be eligible for additional funding through the Florida Research Commercialization Matching Grant Program, which may induce the expansion of technology-based research efforts of eligible Florida companies and may attract out-of-state corporations to relocate to Florida as commercialization of basic research occurs.

**D. FISCAL COMMENTS:**

Subject to legislative appropriations, the matching grant program may make one-time awards of up to \$250,000 per project to a qualified applicant. The bill does not provide a limit to the number of awards that may be granted.

The bill specifies that no more than 5 percent of a legislative appropriation may be spent on administrative costs.

### III. COMMENTS

#### A. CONSTITUTIONAL ISSUES:

##### 1. Applicability of Municipality/County Mandates Provision:

Not applicable. The bill does not appear to effect county or municipal government.

##### 2. Other:

None.

#### B. RULE-MAKING AUTHORITY:

None.

#### C. DRAFTING ISSUES OR OTHER COMMENTS:

CS/HB 983 does not define "small business." Unless otherwise specified, the SBA definition of "small business" would apply. SBA has established two widely used size standards: no more than 500 employees for most manufacturing and mining industries, and \$7 million in average annual receipts for most nonmanufacturing industries. While there are many exceptions, these are the primary size standards by industry.

The bill does not specify a funding source, and allows that subject to legislative appropriations, the matching grant program may make one-time awards of up to \$250,000 per project to a qualified applicant. The bill does not provide a limit to the number of awards that may be granted.

### IV. AMENDMENTS/COUNCIL OR COMMITTEE SUBSTITUTE CHANGES

On March 10, 2010, the Economic Development Policy Committee adopted a strike-all amendment, which:

- Requires Enterprise Florida to review and recommend an application to the Governor's Office of Tourism, Trade, and Economic Development, who will make the final approval for grants. The application process must follow the procedures outlined in s. 288.061, F.S., which governs the state's current incentive approval timing processes.
- Enterprise Florida must enter into a contract with the Office of Tourism, Trade, and Economic Development to administer the program.
- Reduces the amount of an appropriation that may be used to cover administrative expenses from 10 percent to 5 percent.
- Removes the requirement that Office of Program Policy Analysis and Government Accountability conduct a study.
- Requires Enterprise Florida to include the program's progress report in its annual report.
- Removes the appropriation language.
- Sunsets the program after three years unless reenacted by the Legislature.

The bill was reported favorably and the analysis has been updated to reflect the committee substitute.