

The Florida Senate
PROFESSIONAL STAFF ANALYSIS AND ECONOMIC IMPACT STATEMENT

(This document is based on the provisions contained in the legislation as of the latest date listed below.)

Prepared By: Commerce Committee

BILL: CS/SB 2378

INTRODUCER: Commerce Committee and Senator Saunders

SUBJECT: Florida Research Commercialization Matching Grant Program

DATE: April 23, 2007

REVISED: _____

| | ANALYST | STAFF DIRECTOR | REFERENCE | ACTION |
|----|---------|----------------|-----------|--------|
| 1. | Pugh | Cooper | CM | Fav/CS |
| 2. | | | GO | |
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I. Summary:

CS/SB 2378 creates the Florida Research Commercialization Matching Grant Program (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 being registered to do business in Florida, and having attracted funding from non-government sources.

The CS also creates an advisory committee to oversee the program, and a selection committee to review applicants for the grants and select the recipients.

CS/SB 2378 specifies that grant amounts will range from \$100,000 to \$250,000 each, but it does not provide an appropriation, or specify when grant money will be available.

CS/SB 2378 creates s. 288.9552, Florida Statutes.

II. Present Situation:

The State of Florida in recent years has begun emphasizing the commercialization of new technologies and products, and nurturing emerging companies as they move into the marketplace. According to Enterprise Florida, Inc. (EFI), these innovative companies spur economic productivity and growth, becoming the main sources of wealth and prosperity for a society in which change is the norm and high-speed evolution is vital to financial success and economic vitality.¹

¹ From EFI's 2007 Legislative Initiatives. Copy on file with the Senate Commerce Committee.

The federal government also has recognized the benefits of early capitalization. The U.S. Small Business Administration Office of Technology administers the Small Business Innovation Research Program (SBIR) and the Small Business Technology Transfer Program (STTR) to encourage small business to explore their technological potential and provide the incentive to profit from its commercialization.²

The SBIR and the STTR target the entrepreneurial sector because that is where most innovation and innovators thrive. However, 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, these programs protect the small business and enable it to compete on the same level as larger businesses. SBIR and STTR funds the critical startup and development stages and it encourages the commercialization of the technology, product, or service, which, in turn, stimulates the U.S. economy. The only substantial difference between the programs is that the SBIR rewards for-profit businesses only, while a nonprofit research institution may qualify for the STTR.

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 business; and must not have more than 500 employees. Each year, the SBIR requires 11 federal departments and agencies,³ and the STTR requires five,⁴ to reserve a portion of their research and development funds for award to small business. These agencies designate research and development topics and accept proposals.

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 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.

The SBA's follow-up research on SBIR/STTR Phase II grant recipients reveals that more than 39 percent of the projects have resulted in a commercialized product or service.⁵

² U.S. Small Business Administration, available online at: <http://www.sba.gov/sbir/indexsbir-sttr.html#sttr>.

³ U.S. Departments of: Agriculture, Commerce, Defense, Education, Energy, Health and Human Services, Homeland Security, Transportation; and the Environmental Protection Agency, the National Aeronautics and Space Administration, and the National Science Foundation.

⁴ U.S. Departments of: Defense, Energy, Health and Human Services; the National Aeronautics and Space Administration, and the National Science Foundation.

In 2004,⁶ Florida companies received a total of 153 Phase I and Phase II SBIR awards totaling \$42,228,732, ranking 12th among the 50 states. That same year, Florida companies received a total of 29 Phase I and Phase II STTR awards totaling \$7,764,217, ranking seventh in the country.

Florida has no comparable state grant program.

III. Effect of Proposed Changes:

Section 1 of CS/SB 2378 creates s. 288.9552, F.S., the Florida Research Commercialization Matching Grant Program (program). The program will assist small or startup companies that secure federal and state partnerships to accelerate their growth and market penetration.

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 attract more investment; and
- Accelerate venture-capital deal flow and enhance the state's investment infrastructure.

CS/SB 2378 creates a 15-member statewide advisory committee to fully develop the grant program's policy goals and criteria. The Governor, the President of the Senate, and the Speaker of the House of Representatives each shall appoint one member from each of the following groups: Florida university technology commercialization organizations; Florida research institutes; representatives of Florida's early stage venture capital community; and entrepreneurs representing startup companies. The Governor also shall appoint two additional members: a representative of a regional technology development organization in Florida and a person who serves on the board of the Florida Research Consortium. The final member of the advisory committee is the chair of EFI's Technology Entrepreneurship and Capital Board Committee.

The advisory committee members shall serve without compensation, but would be eligible to receive per diem and travel expenses, pursuant to s. 112.061, F.S. EFI shall serve as administrative staff for the advisory committee, as the fiduciary agent for the grant funds, and as program administrator. No more than 10 percent of a legislative appropriation may be used to pay the administrative costs associated with this act.

CS/SB 2378 also directs EFI to establish a 5-member selection committee to review applications, implement consistent selection criteria, and select award recipients. The members of the selection committee must be experienced in conducting, reviewing, and evaluating research and development projects, or persons who have been successful in developing commercialization programs and managing investment in early-stage companies. The selection committee's key

⁵ "Technology-SBIR/STTR" found on the U.S. Small Business Administration website, available online at: <http://www.sba.gov/sbir/indexsbir-sttr.html>

⁶ Ibid.

responsibilities are to review grant applications and recommend grant awards and grant amounts to successful applicants. The grants will be at least \$100,000 and no more than \$250,000.

Grant applicants must meet the following criteria:

- Be a small business that is registered with the Department of State (DOS). If they are not, their eligibility for this program is contingent upon registering with DOS.
- Be a small company for which a state matching grant is necessary for project development and implementation.
- Must have received a Phase 1 SBIR or STTR grant and an invitation to apply for a federal Phase 2 award. Although a successful state matching grant recipient can use its matching grant status to strengthen its application for a federal Phase 2 award, no state matching funds will be disbursed until the federal Phase 2 award is actually obtained.
- Verify all sources of project income. Additionally, at least 20 percent of total project funding must come from the federal government; no more than 25 percent of project funding may come from the new Florida program; and at least 25 percent of the project funding must come from sources other than the federal government and the state program. These external funds may be either cash or in-kind contributions.
- Locate their projects receiving state grants in Florida.

Section 2 of the bill provides an effective date of July 1, 2007.

IV. Constitutional Issues:

A. Municipality/County Mandates Restrictions:

None.

B. Public Records/Open Meetings Issues:

None.

C. Trust Funds Restrictions:

None.

V. Economic Impact and Fiscal Note:

A. Tax/Fee Issues:

None.

B. Private Sector Impact:

Indeterminate, but positive. 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.

C. Government Sector Impact:

CS/SB 2378 specifies that EFI will be the fiduciary agent and program manager for the new grant program, and that no more than 10 percent of a legislative appropriation may be spent on administrative costs. Since the CS does not appropriate any state funds for the program, the administrative costs can not be determined at this time.

VI. Technical Deficiencies:

None.

VII. Related Issues:

None.

VIII. Summary of Amendments:

None.

This Senate Professional Staff Analysis does not reflect the intent or official position of the bill's introducer or the Florida Senate.
