

**The Florida Senate**  
**BILL ANALYSIS AND FISCAL IMPACT STATEMENT**

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

Prepared By: The Professional Staff of the Governmental Operations Committee

BILL: CS/CS/SB 1120

INTRODUCER: Governmental Operations Committee, Commerce Committee, and Senator Gaetz

SUBJECT: Florida Research Commercialization Matching Grant Program

DATE: April 10, 2008                      REVISED: \_\_\_\_\_

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	<u>Pugh</u>	<u>Cooper</u>	<u>CM</u>	<b>Fav/CS</b>
2.	<u>Wilson</u>	<u>Wilson</u>	<u>GO</u>	<b>Fav/CS</b>
3.	_____	_____	<u>HI</u>	_____
4.	_____	_____	<u>TA</u>	_____
5.	_____	_____	_____	_____
6.	_____	_____	_____	_____

**Please see Section VIII. for Additional Information:**

A. COMMITTEE SUBSTITUTE.....  Statement of Substantial Changes

B. AMENDMENTS.....  Technical amendments were recommended

Amendments were recommended

Significant amendments were recommended

**I. Summary:**

CS/CS/SB 1120 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 bill directs the Enterprise Florida, Inc.'s Technology, Entrepreneurship and Capital Committee, or a subcommittee, to develop program policy, establish criteria for the grant awards, approve the awards, and review the program's progress and results.

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

The bill requires that the Office of Program Policy Analysis and Government Accountability must conduct a review and evaluation of the Florida Research Commercialization Matching Grant Program, and submit a report to the Governor and Legislature by January 1, 2012.

The bill specifies that grants shall be a maximum \$250,000 each, and will be funded through a \$4 million appropriation in recurring general revenue in FY's 08-09, 09-10, 10-11, and 11-12.

The bill creates s. 288.9552, Florida Statutes, and two undesignated sections of Florida law.

## II. Present Situation:

The federal government has for many years 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> created in 1992 to encourage small businesses to explore their technological potential and provide the incentive to profit from its commercialization.<sup>3</sup>

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 help finance the startup and development stages, and encourage 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 nonprofit research institutions may qualify for a STTR grant.

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,<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.

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:

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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>.

<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.

- 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.<sup>6</sup>

In 2006,<sup>7</sup> Florida companies received a total of 127 Phase I and Phase II SBIR awards totaling \$41.2 million, ranking 13th among the 50 states. That same year, Florida companies received a total of 21 Phase I and Phase II STTR awards totaling \$6.4 million, ranking 10th in the country. California and Massachusetts finished 1-2 in both categories.

Florida has no comparable state grant program. However, Enterprise Florida, Inc. (EFI), a public-private entity that serves as the state's business recruitment arm, has implemented the "Phase 0" Pilot Program to assist eligible companies in developing their SBIR/STTR applications.<sup>8</sup> Created in September 2006, the Phase 0 program is a partnership between EFI and technology incubators, University Technology Transfer Offices, economic development organizations, and Small Business Development Centers. 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 its inception, EFI has received 33 applications and awarded grants totaling about \$48,000 to 16 companies.<sup>9</sup> Four of those companies have gone on to receive Phase 1 federal SBIR/STTR grants. It is too early in the process to determine if the companies will successfully commercialize their inventions.

EFI created the Phase 0 program to help improve the success rate of Florida-based companies in winning SBIR/STTR grants; in 2006, Florida ranked 45th in the nation in this category.

Also, the State of Florida in recent years has created several programs emphasizing the commercialization of new technologies and products, and nurturing emerging companies as they move into the marketplace. Florida's initiatives include the Centers of Excellence established

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<sup>6</sup> "Technology-SBIR/STTR" found on the U.S. Small Business Administration website, available online at: <http://www.sba.gov/sbir/indexsbir-sttr.html>.

<sup>7</sup> State-by-state search engine at [http://tech-net.sba.gov/tech-net/public/dsp\\_search.cfmIbid](http://tech-net.sba.gov/tech-net/public/dsp_search.cfmIbid).

<sup>8</sup> More information available at <http://www.eflorida.com/ContentSubpage.aspx?id=872>.

<sup>9</sup> Email from William Kean of Enterprise Florida, Inc., to Commerce Committee staff, dated 3/20/08.

with state universities, the Florida Opportunity Fund, the Florida University Commercialization Grants, and the Institute for Commercialization.

### III. Effect of Proposed Changes:

**Section 1** 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.

This section directs EFI's Technology, Entrepreneurship and Capital Committee, or a subcommittee thereof with no fewer than seven members, to develop the grant program's policy goals and criteria, establish criteria for the grant awards, approve the awards, and review the program's progress and results. The advisory committee members will serve without compensation.

The committee is directed to review and determine grant awards within 45 days of receiving applications. Also, beginning December 1, 2009, and every year thereafter, the committee will submit an annual report to the Governor, the President of the Senate, and the Speaker of the House of Representatives.

EFI will provide support staff to the advisory committee, serve as the fiduciary agent for the grant funds, and serve as program administrator. No more than 10 percent of a legislative appropriation may be used to pay the administrative costs associated with the program.

EFI's duties as program administrator will include, but not be limited to:

- Establishing and coordinating the grant review, approval, and contracting activities;
- Administering the grant-selection process, such as issuing open-call requests for applications and processing grant applications;
- Serving as grant contract manager;
- Reporting on the program's progress and results; and
- Establishing a mechanism by which information about companies receiving the grants is disseminated to angel, seed, or venture capital investors.

Grant applicants must meet the following criteria:

- Be a business entity that is registered with the DOS.
- 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 company 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.

EFI, as the program's fiduciary, will award the grant if:

- The committee approves the award;
- The qualified applicant demonstrates that it has obtained a federal SBIR or STTR award; and
- The qualified applicant executes a performance contract with EFI.

The one-time award amount is set at a maximum \$250,000.

**Section 2** of the bill provides that the Office of Program Policy Analysis and Government Accountability must conduct a review and evaluation of the Florida Research Commercialization Matching Grant Program, and submit a report to the Governor and Legislature by January 1, 2012.

**Section 3** of the bill establishes a \$4 million appropriation in recurring general revenue to EFI in FYs 08-09, 09-10, 10-11, and 11-12 to implement the program.

**Section 4** of the bill provides that this bill shall take effect upon becoming law.

#### **IV. Constitutional Issues:**

A. Municipality/County Mandates Restrictions:

None.

B. Public Records/Open Meetings Issues:

None.

C. Trust Funds Restrictions:

None.

**V. Fiscal Impact Statement:****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:**

The bill includes a \$4 million recurring appropriation from the state's General Revenue Fund for the 08-09, 09-10, 10-11, and 11-12 fiscal years.

The bill also 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.

**VI. Technical Deficiencies:**

None.

**VII. Related Issues:**

None.

**VIII. Additional Information:****A. Committee Substitute – Statement of Substantial Changes:**

(Summarizing differences between the Committee Substitute and the prior version of the bill.)

**CS by Governmental Operations on April 9, 2008:**

Adds a requirement that the Office of Program Policy Analysis and Government Accountability must conduct a review and evaluation of the Florida Research Commercialization Matching Grant Program, and submit a report to the Governor and Legislature by January 1, 2012.

Changes the appropriation from \$5 million in nonrecurring funds to \$4 million in recurring funds for the 08-09, 09-10, 10-11, and 11-12 fiscal years.

**CS by Commerce on April 1, 2008:**

The CS differs from the bill as filed in the following ways:

- EFI's Technology, Entrepreneurial and Capital Committee (or a subcommittee thereof with at least seven members) replaces the 15-member Advisory Committee selected by the Governor and legislative leaders and the grant selection committee in

the original bill. The EFI group will set the new program's policy, approve the grant recipients, and do all of the other tasks originally assigned to two committees.

- Deletes the requirement that EFI, as program administrator, establish a "technical assistance network of small business development centers, technology incubators, and university technology transfer centers to help publicize the program and facilitate the awarding of the grants. EFI already has a similar network in place.
- Requires award recipients not only to be registered with the Department of State, but to have its primary office in Florida, have the majority of its employees here, and conduct its principal research in Florida.
- Provides that applicants must be "business entities," and not specifically corporations, registered with DOS. This ensures that partnerships, limited liability companies, and other types of companies can qualify for the program.
- Eliminates all but one of the percentage breakdowns for the various types of funding. Retained is the provision that the Florida grant will comprise no more than 25 percent of the project's total funding.
- Sets a maximum grant amount of \$250,000, and deletes the provision that between 20 and 30 awards will be made.
- Directs the committee to review each application, and approve or reject it for a grant, within 45 days of receiving it.
- Moves the annual report submittal date from September 1 to December 1.
- Specifies that the \$5 million appropriation for the grants will be nonrecurring general revenue.

**B. Amendments:**

None.