

April 20, 2020

The Honorable Nancy Pelosi
Speaker of the House of Representatives
United States Capitol Building
Washington, DC 20515

The Honorable Kevin McCarthy
Minority Leader
United States House of Representatives
Washington, DC 20515

Dear Madam Speaker and Minority Leader McCarthy:

Thank you for your tireless leadership through one of the most difficult times in American history. The State Science and Technology Institute (SSTI) and our Innovation Advocacy Council (IAC) sincerely appreciate your efforts to alleviate the economic impact of the coronavirus on both individuals and small businesses through P.L. 116-136, the *Coronavirus Aid, Relief and Economic Security (CARES) Act*.

The IAC is the federal communications arm of SSTI, a national nonprofit founded in 1996 to strengthen initiatives to create a better future through science, technology, innovation and entrepreneurship. More than 150 state and local governments, institutions of higher education and nonprofit organizations work with us to share information and work together to advance this goal.

As Congress considers the next phase of stimulus legislation, the IAC has the following recommendations:

Expand emergency technical assistance to small businesses

In response to the COVID-19 epidemic, Congress has taken unprecedented steps to assist small businesses across the country. The assistance already approved will do a great deal to help mitigate the immediate need and help small businesses stay afloat. However, small businesses will continue to face tremendous sales and operational challenges into the near future. The third emergency package recognized these threats and provided technical assistance grants to the Small Business Administration's (SBA) Small Business Development Centers (SBDCs) and Women's Business Centers (WBCs). While these well-known centers fill an important role and reach many entrepreneurs, they are not every small business owner's first point-of-contact with SBA.

SBA also operates the Regional Innovation Clusters (RIC), the Federal and State Technology (FAST) Partnership Program and Growth Accelerators. These specialized service providers are selected by SBA for their specific expertise in working with tech- and innovation-driven companies, which may have geographically-concentrated groups of interconnected businesses and may be STEM-related industries that drive local innovation, job creation and will be critical in restarting our economy in the coming months.

There are many examples of the important work being advanced by these programs to address different economic aspects of the COVID-19 pandemic. The Ozarks RIC, serving small businesses in Northwest Arkansas, Northeast Oklahoma and Southwest Missouri, has helped client companies in the food sector pivot to focus on home and grocery delivery, leading one client to achieve a 350 percent increase in volume. Launch Tennessee has registered 900+ vendors and received 300+ proposals through their efforts to channel medical and manufacturing innovations toward areas of need throughout the state. Optics Valley Arizona and University of Oklahoma have each helped companies apply for Small Business Innovation Research (SBIR) support to accelerate COVID-19 tests and therapeutics.

Due to their proven track record, ability to quickly put federal funds to work, existing networks of thousands of small businesses and the unique challenges facing their clientele, we recommend that Congress provide

SBA with \$10 million in additional technical assistance funding, that does not require a match, specifically for organizations contracted by SBA to work directly with small businesses and entrepreneurs (e.g., Regional Innovation Clusters, FAST partners, Growth Accelerators), so they can afford to continuing doing so during this national emergency.

Support broader base of biosciences-related innovation and startups

American innovation is critical to the national recovery: biosciences discoveries and creative manufacturing will help to solve the medical crisis, and innovative companies will help drive our economic recovery. Unfortunately, private and public investments in such activities are being curtailed during the ongoing health crisis and recession. To help contribute to the discovery of solutions sooner, and to help position regional economies to be ready to recover as quickly as possible, Congress should make sure that its investments in technology-based economic development are aligned through the Economic Development Administration (EDA) Build to Scale (B2S) program (appropriated as Regional Innovation Program).

Successful Venture Development Organizations (VDOs) are familiar with B2S and there would be significant, immediate interest. Over the last six years, EDA's B2S has received more than 1,300 proposals and awarded more than \$100 million in grants across 224 projects. The program has a proven track record that can be quickly replicated in a short amount of time, is able to distribute funding in a geographically balanced manner and has already helped create over 14,200 jobs across the country. Unlike many other federal development programs, B2S specifically catalyzes investment from non-federal sources and has driven more than \$1.6 billion in follow on investment capital into startups and new venture funds. This will be critical to our upcoming economic recovery.

Since the program's inception in 2014, B2S has made strong investments in entities supporting bioscience. The program is responsible for mentoring, access to laboratory space, business development assistance, intellectual property and regulatory support, and proof-of-concept funding that is not available to innovative start-ups anywhere else. An example of the creative use to which regions can put the program is an accelerator developed by Innovation Works, serving Southeast Pennsylvania. With support from B2S, they implemented an assistance model pairing entrepreneurs developing new hardware with regional contract manufacturers. The result was new sales relationships for manufacturing companies and better insight for innovators on how to optimize their technologies for realistic production capabilities. Other impactful projects include creating a prize competition for students at historically black colleges and universities (HBCUs) in Louisiana, and launching a seed fund focused on women-owned ventures in the Kansas City region.

There are many existing federal programs that are well positioned to aid in our economic recovery, but none can provide an immediate, proven, regional economic development assistance the way that B2S has been doing. Therefore, we recommend that Congress expands EDA's emergency funding authorization to allow B2S (Regional Innovation Program) to provide further assistance to organizations supporting companies working on biosciences development (e.g., anti-viral vaccines and therapeutics) and the production of medical devices and supplies.

Authorize & Fund an Intermediary Small Business Finance Program

One of the most successful programs implemented as a response to the Great Recession was the State Small Business Credit Initiative (SSBCI), which Congress created in 2010 and expired in 2017. SSBCI was a uniquely flexible program that strengthened and catalyzed state efforts to facilitate affordable capital access to small business and startups around the country, not just the areas where the financial markets are most likely to invest. One significant aspect of SSBCI was that states were allowed to use the funds to support equity investment, which helped launch and scale tech- and innovation-driven companies in non-traditional

venture capital markets like Pittsburgh, Columbus, and Tulsa. Unfortunately, SSBCI's expiration in 2017 has left a void in small business capital markets. Inter-coastal markets have been feeling the loss of equity support for years, and traditional small business lending is now feeling this pain as debt markets tighten in response to the current economic crisis.

Congress can build on the lessons from SSBCI to authorize a new and stronger intermediary small business finance program to unlock capital for tens of thousands of employers around the country. This program should ensure that state initiatives are focused on not just bolstering debt and equity programs to help companies through the current crisis, but also on doing so in a way that creates evergreen programs to continue supporting small businesses indefinitely. Further, while SSBCI was entirely based on formula funds awarded to the states, the new effort should mix a formula base level of funding with competitive awards so that the majority of funds will be directed toward the most promising and impactful uses.

The creation of such a program is particularly critical for tech- and innovation-driven companies around the country. The additional lending capacity Congress has authorized for SBA will not impact the majority of these small businesses, which often lack hard assets that can be collateralized and may be too early in their business cycle to show reliable revenue. Getting support to such companies is the right economic choice, however, as they can grow to hire dozens, and even thousands, of employees, and do so while launching new products and services to improve Americans' health and quality of life and lower costs and create new opportunities for traditional businesses.

One of the many examples of the need and opportunity for investment support can be found in Nebraska. During the Great Recession, the state used part of their SSBCI funds to establish a seed investment funds at Invest Nebraska, the state's partner for assisting startup companies. One of their investments was in Ecomitize, an online commerce solutions company. This company would not have been able to qualify for bank financing but, thanks to this investment from the state- and federally-backed program, continues to thrive from its Papillion, Nebraska headquarters. Other states often overlooked by private investors that now have similar success stories include Alaska, Michigan, and Oklahoma.

Nonprofit VDOs operate in many regions of the country to help scale new companies through technical assistance and investment. VDOs rely on a mix of public backing, entrepreneurial expertise, and connections to private markets to successfully help these companies grow into stable establishments. Unfortunately, in the face of the current crisis, private investors are pulling back from new investments, and state budgets will not have the capacity to expand such critical investment tools on their own. Federal support is necessary to catalyze state-level funding to VDOs and other startup-focused tools and ensure that the country does not lose an entire generation of innovative companies to COVID-19.

Congress should authorize an intermediary small business finance program that provides at least \$10 billion to facilitate lending and investment throughout the country. Each state should receive a guaranteed allotment, and additional funds should be awarded competitively to states, VDOs and Community Development Financial Institutions (CDFIs) that demonstrate expertise in operating impactful, evergreen financing programs.

Implement a new program to transform federal research and development into new products and jobs

America's greatest source of global competitiveness is our capacity for innovation. As we look to generate an economic recovery, Congress should make an investment in transforming American innovation into new products and services, a process that creates new companies and employment opportunities. Billions of dollars per year of private and public investment in research and development (R&D) yields thousands of discoveries and technologies that have the potential to be brought to market and to help solve problems or

advance new benefits in healthcare, energy, defense, and other fields: indeed, many products emerging from research transformation efforts are hard goods that have the potential to create new manufacturing jobs, an especially important opportunity for the American economy in the coming decades.

Converting a research discovery in a lab to a successful product or service requires numerous steps and overcoming many challenges and barriers, including understanding specific customer needs, developing prototypes, running pilots or trials, securing regulatory approval, meeting necessary product cost targets, and other activities, depending on the technology and industry. Yet, for the most part, the federal government has been a passive actor in turning the research it funds into new products, process development and companies. The approach for decades has been to rely on researchers to self-identify that their research has commercial potential and then disclose that information to university-funded technology transfer offices and minimally staffed federal laboratory offices of research and technology application. There have been some successes with this approach, but we can do better.

Experienced VDOs and others can provide assistance to help overcome these barriers and accelerate growth. Partners in regions like Northeast Ohio, Central Florida, and Portland, Oregon have invested in this type of support and seen their innovators and entrepreneurs thrive. An example of the impact of such assistance is Confluence Life Sciences in Missouri. The firm was formed in 2011 when two researchers were laid off from their corporate positions. With the aid of business services and an initial \$100,000 in financial support from BioGenerator in St. Louis, Confluence grew to 45 employees (more than half hired from among other workers who had been laid off in the region) and was ultimately acquired by Aclaris Therapeutics in 2017, which continues to grow the firm in St. Louis and re-invest in local research and development.

In this time of economic need, an appropriately-scaled federal investment should drive the transformation of innovation throughout the country. The right approach for this effort is a substantial, long-term partnership between regional organizations executing on-the-ground commercialization assistance and the National Institute of Standards & Technology (NIST), which coordinates federal tech transfer activity. By operating at sufficient scale, this partnership will be able to work effectively with other federal initiatives that address specific steps in the complex process of transforming R&D into new products—initiatives like SBIR and Innovation Corps (I-Corps)—and also integrate with regional economic development efforts—such as through B2S and SBDCs. In short, the right context for this program is to help unify disparate efforts to advance commercialization and then connect supported innovators and entrepreneurs with the assistance to grow the operation into a fully-fledged company.

Congress should create a new program at NIST to support regional efforts to transform federal R&D (both intramural and extramural) into new products and jobs. To achieve the best results and provide support that encourages local partners to make the best long-term choices, the federal funding for this effort should be patient, taking the form of cooperative grants for up to 10 years. To achieve impact in as much of the country as possible, we recommend 50 awards of up to \$1 million per year per award.

Modernize our nation’s infrastructure to include and support new technologies

Strong infrastructure is the backbone of the economy, but our infrastructure needs to be revitalized in order to enable robust economic growth. Strategic investments in traditional infrastructure can not only improve the quality and safety of bridges, airports, and utilities, but also provide opportunities for innovative entrepreneurs and corporations to contribute to a modern infrastructure through the next wave of manufactured goods and smart technologies.

- Improve the country’s broadband and wireless internet infrastructure to provide greater access for all citizens to information and opportunities. As a facilitator of customer identification, brand

management, employee coordination, and direct sales, internet access is critical to present-day business operation. In the interest of facilitating rural business and quality of life, IAC recommends that the federal government incentivize internet service providers to build out broadband and wireless networks in rural and other low-access areas.

- Bring new technologies to traditional infrastructure investments, such as more efficient and productive energy generation, improved cost-efficiency of airports and other facilities, and smart technologies that make communities safer. Infrastructure is no longer necessarily a “dumb” object, planned and built once and then left to sit silently while it decays. Today’s technology enables infrastructure to be a proving ground for new materials, adaptable to changing conditions, and a source for sensors revealing customer patterns and alerting owners to actual—not projected—maintenance needs. Investments in public infrastructure must be made in conjunction with the research centers, startups, and manufacturers that are actively developing these innovations. IAC recommends that federal investments in infrastructure should encourage technological advancement both by encouraging special consideration for innovation as part of proposal scoring, and by specifically funding projects to demonstrate potential commercial value of new technologies in regulated sectors.
- Invest in the infrastructure needed to grow a 21st Century economy, such as the development of medical and scientific research parks, labs, and incubators - The process of making scientific and medical research progress and converting these innovations into real solutions and businesses is an infrastructure-intensive process. A common concern of cities throughout the country is a lack of sufficient laboratory space to investigate new drugs, robotics, and other innovations, and new products often thrive when cultivated in a scalable site co-located with collaborators and competitors. IAC proposes that federal infrastructure spending plans include a modest, but impactful set-aside for technology parks, labs, incubators, and other research-related infrastructure.

Thank you for your attention to our recommendations. SSTI and the IAC stand ready to assist your efforts to re-start our technology-driven economy.

Sincerely,

A handwritten signature in black ink, appearing to read 'Ben Johnson', with a stylized flourish at the end.

Ben Johnson
Chairman
Innovation Advocacy Council