

Testimony on SB 305

Thank you Mr. Chairman and members of the Ways and Means committee for the opportunity to speak to you today regarding SB 305.

I am Duane Cantrell, President and CEO of the KBA. I will try and make my remarks somewhat brief as we have a number of individuals and interests represented here today that have taken time out of their busy schedules, on short notice, to be here and address this proposed bill.

The KBA Board engaged me in 2012 to assess the current KBA initiatives, structure and direction and to bring to them a proposal to change the strategic direction of the KBA—one that would fulfill its mission, lead to a sustainable model and provide returns of invested capital to the State.

I think it is important to remember the obvious: that the KBA's mission is to grow the bioscience sector of the Kansas economy—which makes a lot of sense as, I have spoken to before, we are very well suited, even uniquely suited to be a global leader in the bioscience industries of: Animal Health, Human Health, and Agri-Business.

A sector that is one of the fastest growing economic sectors globally and nationally

A sector where the average wage (in Kansas) is nearly \$70K

A sector where the realized and expected returns are attractive to external investment capital

I was asked by the Board to come on the KBA and further develop and implement this new strategic direction. Throughout the entirety of my time at the KBA, not once have we had a split Board vote on the new direction, investment decisions and structures, the changes to the management team and the subsequent compensation for that team—not once.

Over the last 4 years of state budgets (which predates me by one year), there has not been one year of full-funding, in spite of the shift in strategy to be self-sustaining. In fact, in fiscal years 2011-2015 the KBA has received approximately \$23 million versus the statutory amount of \$35 million/ year or \$140 million. Or \$23 million compared to the legislature's appropriations and subsequent signed in to law of \$112 million. In spite of those drastic and inexplicable amounts of funds being withheld—the KBA has been able to move aggressively forward and come to the cusp of realizing a healthy, growing and vibrant bioscience sector in Kansas. We are in a leadership position, not trailing or playing catchup. In many ways the envy of neighboring states and regions across this country.

If we had received those appropriated funds we would already be off of state support and be self-sufficient.

As we stopped giving money away (grants) in late 2012- we have witnessed a re-emergence of the seed capital and angel fund markets focusing on bioscience, with new funds in formation. This is a critical foundation for a complete investment structure for any industry sector.

As the KBA has become a venture fund we now see the early formation of other Venture interest in the state—this was nearly unimaginable 2 years ago.

These investments that the KBA has made (like any investment) take time to mature and realize their full potential and value. Our asset value has grown \$28 million over the last two plus years. And, we have already begun to see the fruit of these efforts. Over the last two years approximately \$19 million has been returned to the KBA—a first. (\$17 million of that in calendar 2014).

It is these very returns that has covered our overhead and nearly \$10 million in investment decisions in light of the shortfall of state funds being realized

In calendar 2014, there was \$95 million of external capital committed to be invested or invested in Kansas companies based on the initial investment by the KBA.—this was not thought possible or realistic 2 years ago.

Today we have the formation of the SIH-Bluemont Bio and Ag Fund, a \$200 million PE fund, focused on investment primarily in Kansas. The KBA has committed \$60 million of the \$200 million. Some have said questioned that, saying that I have committed the state to obligations without the means to cover it.

Well, we assumed that funds appropriated and signed into law would actually be released.

Secondly, as you recall, over the last 2 + years we have been “de-committing” unproductive, legacy grants that were not meeting agreed upon hurdles—those de-commitments total \$63 million.

The very amount we have committed to the SIH-Bluemont Fund

We have not been imprudent or fiscally irresponsible—quite the opposite. I believe we have been terrific stewards of the state’s resources and have not only survived but thrived by our resourcefulness in spite of massive amounts of funds being withheld inexplicably.

With our direct investment alongside co-investors investing another \$200 million in Kansas bioscience over the next 3-5 years, our two investment vehicle structures will bring approximately \$400 million of investment capital to Kansas compared to the previous 5 years of \$109 million (4 fold)—all based on the KBA’s existence and ability to make the first dollar investment.

Today, Kansas has, although in its infancy, a complete bioscience investment ecosystem

A growing and active angel fund base

A venture fund (KBA)

A PE fund

This is what attracts bioscience companies to Kansas, this is what keeps bioscience companies in Kansas.

The dissolution of the KBA at this juncture will have significant negative consequences.

Hard- fought for momentum for these bioscience opportunities will be lost to neighboring states

Investment capital (\$300 million) will not be coming to Kansas without those KBA investments

Without follow-on capital to support the further maturation and development of these companies-they will, out of necessity, seek funding in other states and regions and likely leave Kansas and our value in these companies will be diluted by future investment by others

These young companies depend on the expertise and guidance that is resident within the KBA team as we serve on their respective boards

This is not like a lamp, we cannot unplug this for a while and return later, plug it in and believe the light will again come back on for Kansas.

Passage of this bill will have a lasting, permanent adverse effect on Kansas and our reputation in the investment world.

An opportunity for Kansas to lead, to be a global destination for bioscience companies, innovation and quality jobs. An opportunity that will not be realized as a function of the Department of Commerce.

An opportunity to bring balance, diversity and growth to our Kansas economy will be lost.

I ask that you not vote in the affirmative for SB 305.

Thank you.