Approved: February 5, 2004

MINUTES OF THE HOUSE ECONOMIC DEVELOPMENT COMMITTEE

The meeting was called to order by Chairman Kenny Wilk at 3:30 p.m. on February 3, 2004, in Room 526-S of the Capitol.

All members were present except:
Representative Carl Krehbiel- excused

Committee staff present:
Kathie Sparks, Legislative Research Department
Susan Kannarr, Legislative Research Department
Renae Jefferies, Office of Revisor of Statutes
Helen Pedigo, Office of Revisor of Statutes
Fulva Seufert, Secretary

Conferees appearing before the committee: Tracy Taylor, President, Kansas Technology Enterprise Corp.
Julie Edge, Ph.D., Inside Edge Solutions LLC
Michael Farmer, Kansas Technology Enterprise Corporation

Others attending:
See Attached List.

Chairman Wilk opened the meeting February 3, 2004, at 3:30 p.m. He announced the appointment of the following subcommittee: LCA Subcommittee (Lights, Camera, Action), Rep. Lana Gordon, Chair; Representative Tom Burroughs, Vice Chair; Representatives Terrie Huntington, Annie Kuether, Don Hill, Sydney Carlin, and Valdenia Winn. The Chair said it was his intent to have public hearings on **HB 2647** on Thursday, February 5, 2004.

The Chair welcomed Mr. Tracy Taylor, President, Kansas Technology Enterprise Corporation, who presented an introduction for the briefing on:

HB 2647 - Bioscience authority and development acts

Mr. Taylor then turned the presentation over to Julie Edge, Ph.D., Inside Edge Solutions LLC, who did a power point presentation on the Kansas Economic Growth Act. The first component was an introduction to the legislation itself, and the second was a 10-year bioscience roadmap, and the third was economic modeling. The overview included explanation of each section which included the following:

- Bioscience Authority Act
- Emerging Industry Investment Act
- Bioscience Development Financing Act
- Bioscience Tax Investment Incentive Act
- Bioscience Research and Development (R & D) Voucher Program Act
- Bioscience Research Matching Funds Act

Dr. Edge explained the definition of both eminent scholar and rising star scholar. She stressed the necessity of the Bioscience Authority Act as follows:

- Need an organizational institution to provide the leadership
- Modeled after research hospital authority to ensure accountability and provide for flexibility
- Ensure retention and foster growth of the biosciences in Kansas
- Make Kansas a national leader in the biosciences and a desirable location for bioscience entities to locate and grow.

Dr. Edge stated that the Bioscience Authority Act will have the following economic impact on the state:

- Foster employment in high paying jobs.
- Encourage more eminent and rising star scholars to conduct their research in Kansas which

will raise our national rankings.

- Stem the tide of brain drain and ensure our state has the desirable high quality jobs at home.
- Ensure that Stowers Institute builds Phase II in our Region.
- Bring to market beneficial bioscience discoveries and products to drive better health, food, and a safer environment.

The 10-year bioscience potential budget is estimated to be approximately $500 million over 10 years. This includes Research, $184.5 million; Research facilities, $199.9 million; Commercialization, $86.1 million; and Investment, $27.0 million; for a total of $497.5 million. (Attachment 1)

Chairman Wilk thanked the presenters and complimented the committee on their relevant questions.

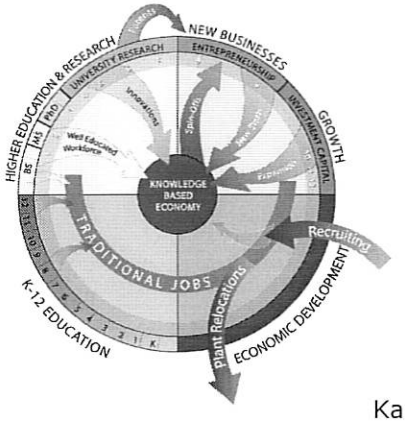
Representative Hill made a motion to approve the minutes of the January 29, 2004, meeting, and Representative Boyer seconded. Motion passed.

The meeting adjourned at 5:35 p.m.

HOUSE ECONOMIC DEVELOPMENT COMMITTEE
GUEST LIST
DATE: Tuesday, February 3, 2004

NAME	REPRESENTING
Stephanie Buchanan	DoB
Kerri Holtzman	KTEC
Michael Farmer	KTEC
Tracy Taylor	KTEC
Julie Edge	Inside Edge Solutions
Heather Grace	Damron + Associates
~~Eric~~ Collins	Ks Govt Consulting
Ryan Gilliland	SNCCD
Cathy Bennett	Greater KC Chamber
Paddy Clark	KDOC
Steve Wentland	KDFA
Mary Carol Pomaska	PSC
Bob Vancrum	Greater KC Chamber
Megan Dunn	Heim Law Firm
Christina Collins	KMS
[signature]	KFB
KEN RAHJES	Ks DAIRY ASSN.
Sandy Braden	KC Area Council

Kansas Economic Growth Act



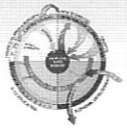
Testimony on House Bill No. 2647

February 3, 2003

Presented by:
Tracy Taylor
Kansas Technology Enterprise Corporation

Julie Edge, Ph.D.
Inside Edge Solutions LLC

10-Year Bioscience Roadmap



Wet Labs Incubator

Executive Entrepreneurs

R&D Vouchers

Corporate Patent Donation

Matching Funds

Seed Fund

World-class Scholars

Angel Investors

Lab Facilities

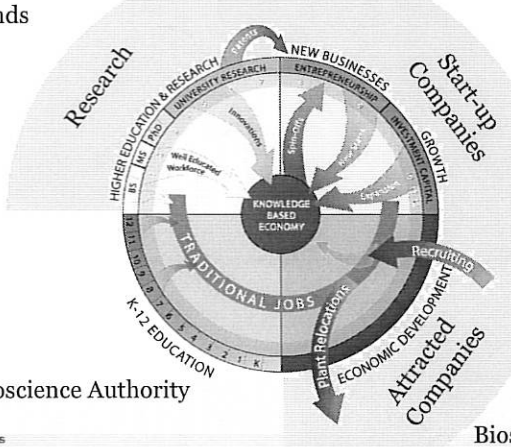
Bioscience Development Financing

Bioscience Tax Incentives

"Legislated"

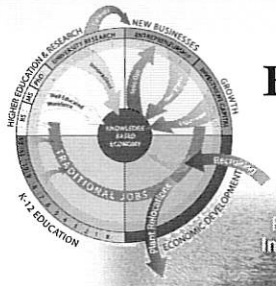
Kansas Bioscience Authority

Relocating Bioscience Companies



KTEC KANSAS TECHNOLOGY ENTERPRISE CORPORATION

House Economic Development
2-3-04
Attachment 1



Bioscience Initiative Legislation

House Bill No. 2647 Overview

1. **Bioscience Authority Act**
2. **Emerging Industry Investment Act**
3. **Bioscience Development Financing Act**
4. **Bioscience Tax Investment Incentive Act**
5. **Bioscience Research and Development (R&D) Voucher Program Act**
6. **Bioscience Research Matching Funds Act**

Process: Discussion of each section, then questions

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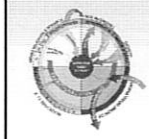

Definition: Biosciences

Biotech Drugs & Therapeutics

Pharmaceuticals

Life Sciences

Plant-made Pharmaceuticals

Bioscience Devices, Instruments, Supplies, and Diagnostics

Human

Animal

Biosciences

Plant

Industrial/Environmental

Nutraceuticals

Plant Sciences

Veterinary Medicine

Agri-biotechnology

Bio-fuels

Homeland Security

Bio-materials

Environmental Remediation

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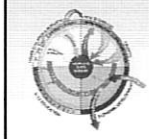

1) Bioscience Authority Act

- **Intent**
  - Streamline and facilitate the research to commercialization process in the biosciences
  - Model other successful authority structures in the state
  - Coordinate state university bioscience research efforts to drive results in the form of new companies and building a critical mass of research to commercialization activities
- **Purpose**
  - Create the Kansas Bioscience Authority (Authority) (p.1, lines 9-12)

Modeled after the Kansas Hospital Authority enacted in 1998

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1) Bioscience Authority Act

- **Authority Structure:**
  - Independent instrumentality of the state (p.4, line 18-19)
  - Headquartered in the county with the highest number of bioscience employees associated with bioscience companies (p.4, line 23-26)
  - Governed by an 11-member Board of Directors (p.4, line 29-37)
  - Authority shall continue until terminated by law
    - Except that no law shall take effect so long as the authority has bonds outstanding unless adequate provisions are made (p.7, line 8-11)

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1) Bioscience Authority Act

- **Board of Directors**
  - 11-Member Board (p.4, line 29-37)
    - Nine shall be voting members representing the general public who demonstrate leadership in an area related to biosciences
      - Five of the nine voting members must be state residents
    - Two shall be ex-officio non-voting members representing state research universities
  - Nominees are subject to Senate confirmation (p.5, line 5-6)
  - Members serve four-year terms after conclusion of initial term with no more than 3 consecutive 4-year terms (p.5, line 15-22)

KTEC KANSAS TECHNOLOGY ENTERPRISE CORPORATION

1) Bioscience Authority Act

- **Board of Directors, cont.**
  - Members serve without compensation (p.6, lines 7-12)
  - Board meets at least 4 times per year (p.6, lines 25-38)
  - Board appoints a president to serve as CEO (p.6, lines 39-43; p. 7, lines 1-4)
  - Board shall establish an executive committee, which may transact business of the Authority (p. 7, lines 17-23)

KTEC KANSAS TECHNOLOGY ENTERPRISE CORPORATION

p.5, line – p. 5, line

1) Bioscience Authority Act

Authority 11-Member Board

Appointments and Terms

3 yr, 3 yr	4 yr, 4 yr	3 yr, 3 yr
House Speaker	Governor	Senate President
2 yr	1 yr	2 yr
House Minority Leader	KTEC	Senate Minority Leader

Ex-officio Non-Voting

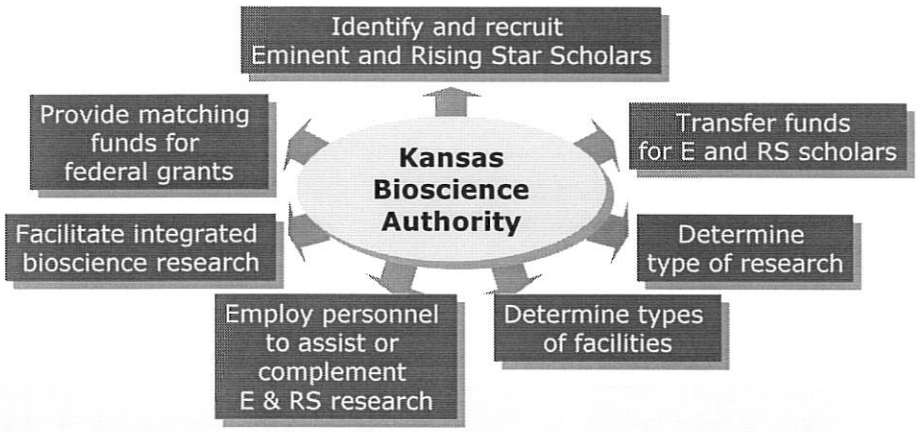
KS Board of Regents

KTEC KANSAS TECHNOLOGY ENTERPRISE CORPORATION

p.4, line 29 – p. 5, line

1) Bioscience Authority Act

Powers of the Authority with State Universities



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Definition: Eminent Scholar

- **Characteristics**
  - World-class, distinguished and established investigators
  - Recognized nationally for research
  - Garner significant funding annually from federal sources
  - Noted for scientific and entrepreneurial spirit
  - Members or likely candidates for National Academy of Sciences (NAS) or similarly distinguished academic society
- **Will be employees of the state universities or the Authority or both**

Why Important to Kansas
- Currently only have 2 NAS members (KU)
  - Texas=45; North Carolina=38; Colorado = 30; Missouri=24; Georgia=10; Ohio=10
- Drivers of advanced research and federal funding
- Opportunity to improve national rankings

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Definition: Rising Star Scholar

- **Characteristics**
  - Up-and coming distinguished investigators
  - Growing in national reputation
  - Active and demonstrating leadership in academic societies
  - Attracting significant federal research support
  - Likely future eminent scholars and NAS members
- **Will be employees of the state universities or the Authority or both**

Why Important to Kansas
- Currently "bleeding in the middle"
  - Lose associate professors to other universities
- Succession planning
- Drivers of future eminent scholarly research

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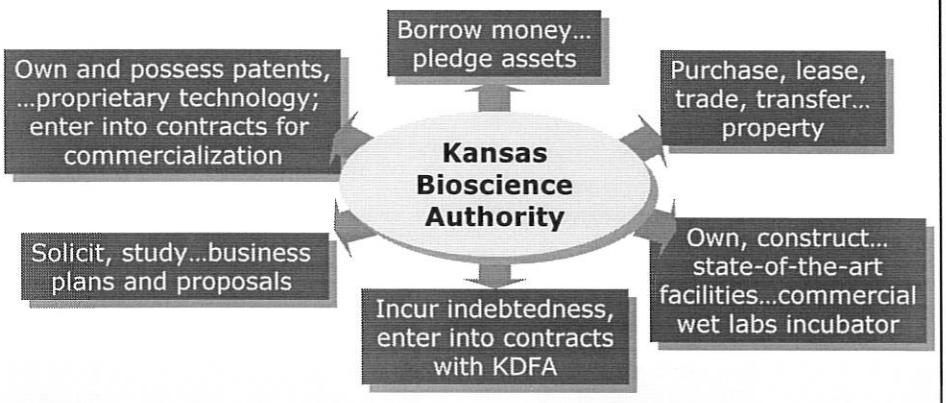
1) Bioscience Authority Act

Powers of the Authority



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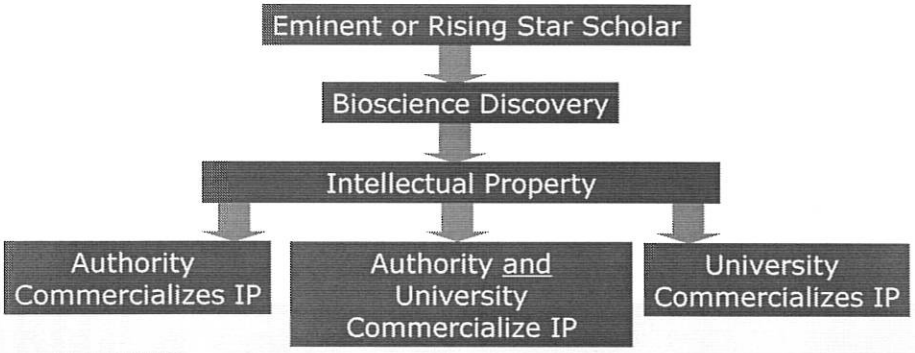
1) Bioscience Authority Act

Powers of the Authority

- **Oversee the commercialization of bioscience intellectual property created by eminent and rising star scholars**



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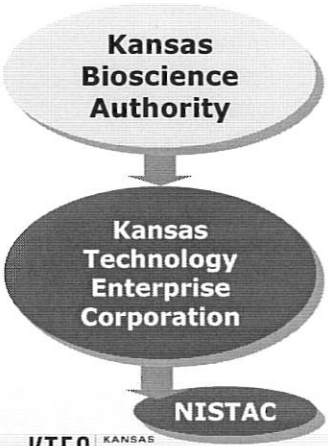
p.12, lines 15-35

1) Bioscience Authority Act

Powers of the Authority



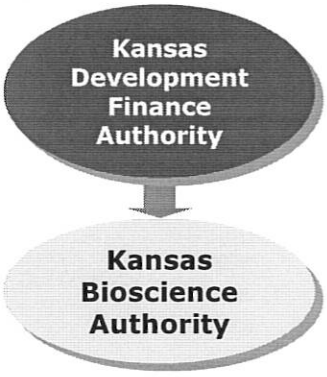
Contractual Relationship for first 5 years of act

- **Invest funds (p. 12, lines 1-9)**
- **Initial commercialization efforts for bioscience intellectual property (p. 12, lines 36-43; p. 13, lines 1-21)**
- **Authority may transfer funds for the operation and management of authority facilities (p. 13, lines 22-30)**
- **Submit a report to the board identifying all patents secured, licenses granted, number of eminent and rising star scholars... (p. 13, lines 31-43)**

KTEC KANSAS TECHNOLOGY ENTERPRISE CORPORATION

1) Bioscience Authority Act

Powers of the Authority



KDFA

- **Issue bonds on behalf of the Authority** (p. 14, lines 8-43; p. 15, lines 1-43)
- **Shall not be liable for bonds of the Authority** (p. 17, lines 16-19)

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1) Bioscience Authority Act

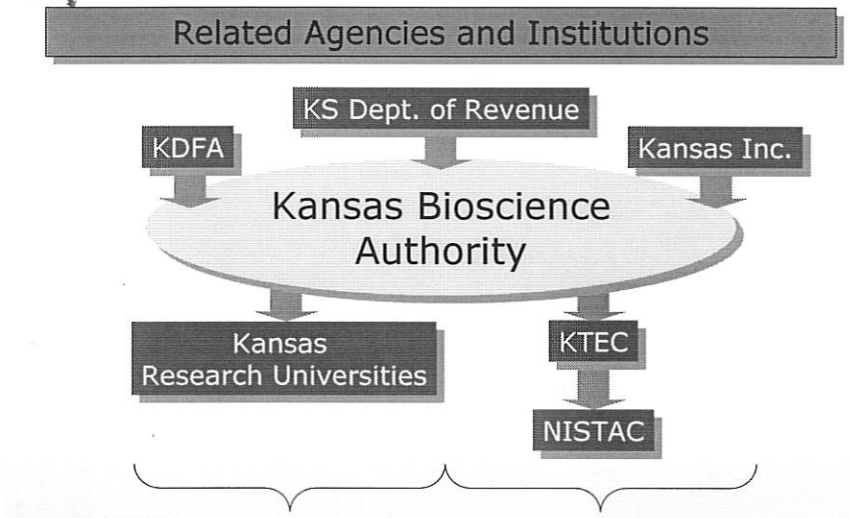
Employees of the Authority

- **Authority may employ such employees as it may require**
- **Authority employees are not considered classified or unclassified state employees**
- **Authority may establish benefits for employees**
  - Health insurance plan
  - Affiliate with Kansas public employees retirement system
  - Retirement plans
  - Death and disability benefits

KTEC KANSAS TECHNOLOGY ENTERPRISE CORPORATION

(p. 18, lines 14-29; p. 19, lines 33-43)

1) Bioscience Authority Act



KTEC KANSAS TECHNOLOGY ENTERPRISE CORPORATION

Why approve the Bioscience Authority Act?

- **Need an organizational institution to provide the leadership for this initiative**
  - A third party to ensure technology transfer and commercialization w/ Kansas research universities
  - An independent instrument to drive Kansas's status as a national leader in bioscience, to create new jobs, and foster economic growth
- **Modeled after research hospital authority to ensure accountability and provide for flexibility**
  - Historically, Authority's have worked well for Kansas (KDFA, KTPA, KTA)
  - Modeled after Georgia Research Alliance established in 1989
- **Ensure retention and foster growth of the biosciences in Kansas**
- **Make Kansas a national leader in the biosciences and a desirable location for bioscience entities to locate and grow**

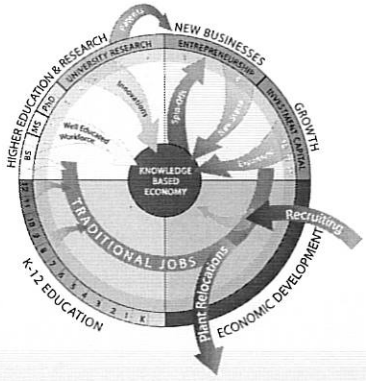
KTEC KANSAS TECHNOLOGY ENTERPRISE CORPORATION

Why approve the Bioscience Authority Act?

- **Foster employment in high paying jobs**
- **Encourage more eminent and rising star scholars to conduct their research in Kansas — raise our national rankings**
- **Stem the tide of brain drain — ensure our state has the desirable high quality jobs at home**
- **Ensure that Stowers Institute builds Phase II in Region**
- **Bring to market beneficial bioscience discoveries and products to drive better health, food, and a safer environment**

KTEC KANSAS TECHNOLOGY ENTERPRISE CORPORATION

Questions on the Kansas Bioscience Authority Act?



2) Emerging Industry Investment Act

- **Intent**
  - Provide a mechanism to fund the Authority and its programs based on the growth of the bioscience industry and research base
  - Tap into the incremental growth of net new jobs in the biosciences encouraged by the state's investment
- **Key Provisions**
  - Create the Emerging Industry Investment Act Investment Fund (EIIA Investment Fund), which shall not be a part of the state treasury
  - Funds in the EIIA Investment Fund shall belong exclusively to the Authority
  - Secretary of Revenue and Authority shall establish the base year of taxation for all bioscience companies and all state universities conducting bioscience research in the state

KTEC KANSAS TECHNOLOGY ENTERPRISE CORPORATION

(p. 22, lines 17-42)

2) Emerging Industry Investment Act

- **Key Provisions, cont.**
  - Secretary of Revenue, the Authority, and the Board of Regents shall establish the number of bioscience employees associated with state universities and report annually and determine the taxation base annually
  - Time Frame: 15 years from the effective date of the act

KTEC KANSAS TECHNOLOGY ENTERPRISE CORPORATION

(p. 22, lines 17-42

2) Emerging Industry Investment Act

- **How it Works...**
  - All the incremental state taxes generated by the growth of bioscience companies and research institutions over and above the base taxation year
    - Keys off net new jobs growth
  - State Treasurer will allocate increment of growth in state taxes to EIIA Investment Fund
  - EIIA Investment Fund will be used to fund programs and/or repay bonds

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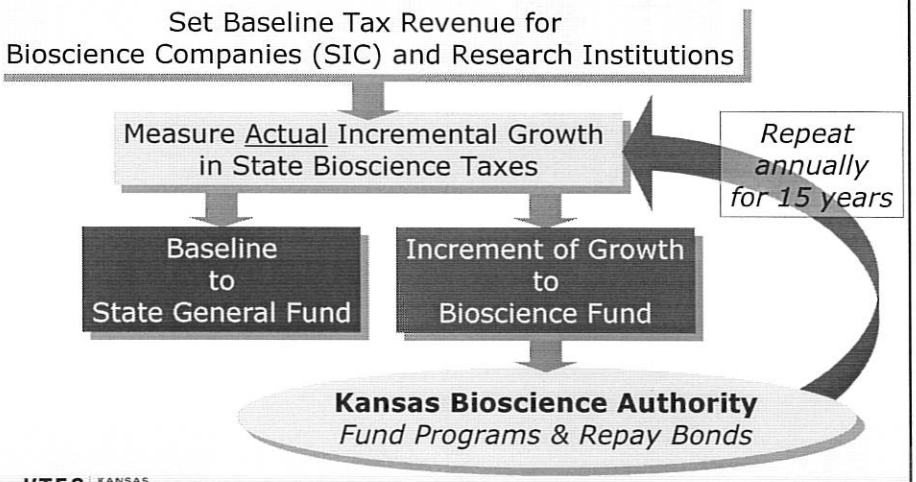
2) Emerging Industry Investment Act

How it Works...



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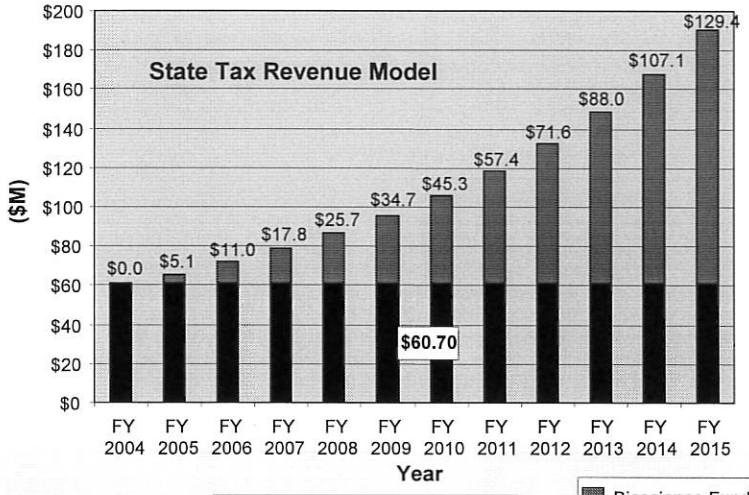
2) Emerging Industry Investment Act



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Model assumes a 8.45% annual growth rate for bioscience industry and research institutions

Why approve the Emerging Industry Investment Act?

- **Provide necessary funding for the Bioscience Authority and its programs**
- **Utilize logical and accountable mechanisms to report growth**
- **Provide ability to "audit" industry growth through annual tax return filing**
- **Ensure a dedicated, growing revenue stream for accelerating, growth initiative**

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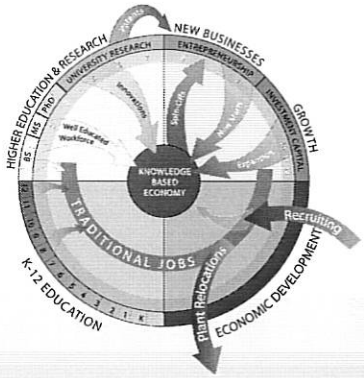
Questions on the Emerging Industry Investment Act?



3) Bioscience Development Financing Act

Concept: Tax increment financing for bioscience development

- **Intent**
  - Provide the Authority with the means to approach local municipalities on behalf of a bioscience company
  - Facilitate bioscience companies locating in Kansas
- **Key Provisions**
  - One or more bioscience development projects can occur within an established bioscience development district
  - KDFA may issue special obligation bonds to finance a bioscience development project
    - Payable from ad valorem tax increments, private sources, contributions, or other financial assistance from state and federal government…

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(p. 33, line 18-37)

3) Bioscience Development Financing Act

- **Key Provisions, cont.**
  - Creation of Bioscience Development Bond Fund
    - Not part of the state treasury
    - Managed by BioAuthority
    - Separate account will be created for each bioscience development district (BDD)
    - Distributions will pay for the bioscience development project costs in a BDD

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(p. 34, line 36-41)

Why approve the Bioscience Development Financing Act ?

- **Establish development districts to further bioscience research and commercialization activities**
- **Encourage "clustering" of new bioscience companies around existing companies**
- **Attract potential bioscience relocation opportunities**
- **Ensure infrastructure development within development district**

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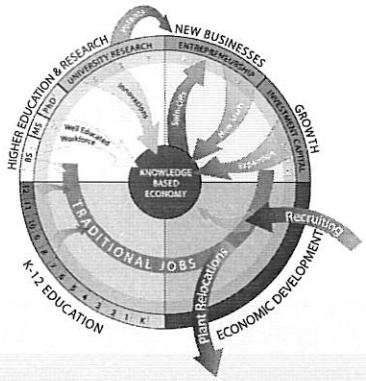
Questions on the Bioscience Development Financing Act ?



4) Bioscience Tax Investment Incentive Act

- **Intent**
  - Make additional cash resources available to start-up companies
  - Mirror actions in other states (e.g., NJ)
- **Key Provisions**
  - Net Operating Loss (NOL) Certificate Transfer Program
    - Bioscience companies with an unused NOL may surrender, sell, or transfer such NOL for use by a recipient taxpayer
    - Managed by Kansas Dept. of Revenue
    - Limited to $1 million
    - Recipient may not be associated with seller

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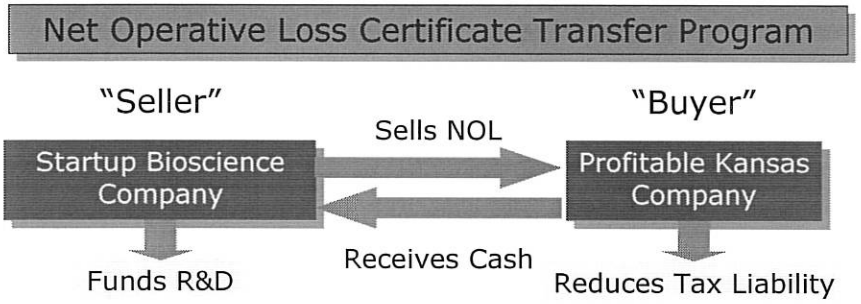
(p. 38, line 1-42)

4) Bioscience Tax Investment Incentive Act



Scenario: A bioscience startup has accumulated $1 million in net operating losses in 2004. Another established profitable Kansas company that could use these losses buys the $1 million net operating losses for $55,000. This generates $55,000 in cash for the bioscience company, with the buyer saving about $70,000 in taxes for the $55,000 payment.

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Why approve the Bioscience Tax Investment Incentive Act?

- **Provide incentives for bioscience businesses to locate and grow in the state**
- **Financially assist cash strapped start-up companies focused on R&D to reach commercialization**
- **Encourage investment by individuals and existing businesses in bioscience start-up companies**

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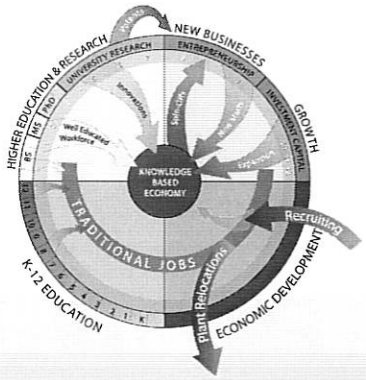
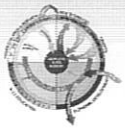
Questions on the Bioscience Tax Investment Incentive Act?





5) Bioscience R&D Voucher Program Act

- **Intent**
  - Encourage research collaboration between state research universities and bioscience companies
  - Provide vouchers to small and medium-sized companies to undertake bioscience research and development work in partnership with universities and colleges in the state
    - May contract with KTEC to develop application criteria and application process
- **Key Provisions**
  - Establish the Bioscience R&D Voucher Fund in the state treasury
    - May receive state appropriations, gifts, grants, federal funds, revolving funds, and any other public or private funds
    - State treasurer disperses funds with the consent of the BioAuthority Chairperson

KTEC KANSAS TECHNOLOGY ENTERPRISE CORPORATION

(p. 40, line 23-43; p. 41, line 1-43)

5) Bioscience R&D Voucher Program Act

- **Key Provisions, cont.**
  - Limitations
    - At least 51% of voucher award funds shall be expended with the university in the state under contract and shall not exceed 50% of the research cost
    - The maximum voucher funds awarded shall not exceed $1 million, each year for two years, equal to a maximum of $2 million; not to exceed 50% of research cost
    - Qualified company shall match the project award by a one-to-one dollar ratio for each year of the project

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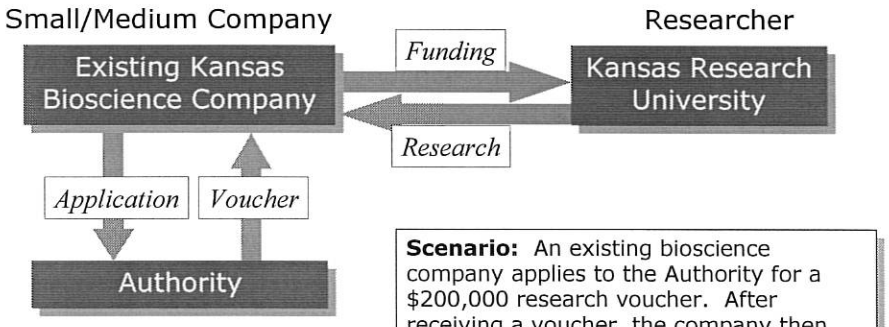
(p. 42, line 5-19)

Bioscience R&D Voucher Program Act



Scenario: An existing bioscience company applies to the Authority for a $200,000 research voucher. After receiving a voucher, the company then locates a researcher at Kansas universities to conduct a directed research project. After location of the researcher, the Authority then commits the $200,000 for the cost of the research.

KTEC KANSAS TECHNOLOGY ENTERPRISE CORPORATION

Why approve the Bioscience R&D Voucher Program Act?

- **Provide incentives for bioscience companies to collaborate with Kansas state research universities for R&D projects**
- **Accelerate the transfer of bioscience knowledge and technological innovation between academia and industry**
- **Improve competitiveness of and stimulate economic growth in small to medium-sized bioscience companies**
- **Provide valuable research to existing Kansas bioscience industry companies**

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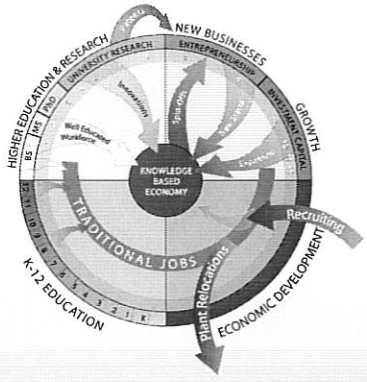
Questions on the Bioscience R&D Voucher Program Act?



6) Bioscience Research Matching Funds Act

- **Intent**
  - Increase the pool of state funds available to provide matches for federal grants
- **Key Provisions**
  - Establishes Bioscience Research Matching Fund
  - BioAuthority administers Fund
  - Recipients must be a university in the state
  - Universities are eligible and encouraged to jointly apply for funds
  - Used to promote bioscience research and to recruit, employ, fund and endow bioscience faculty, research positions and scientists at universities in the state
  - Universities will apply to the BioAuthority for matching funds

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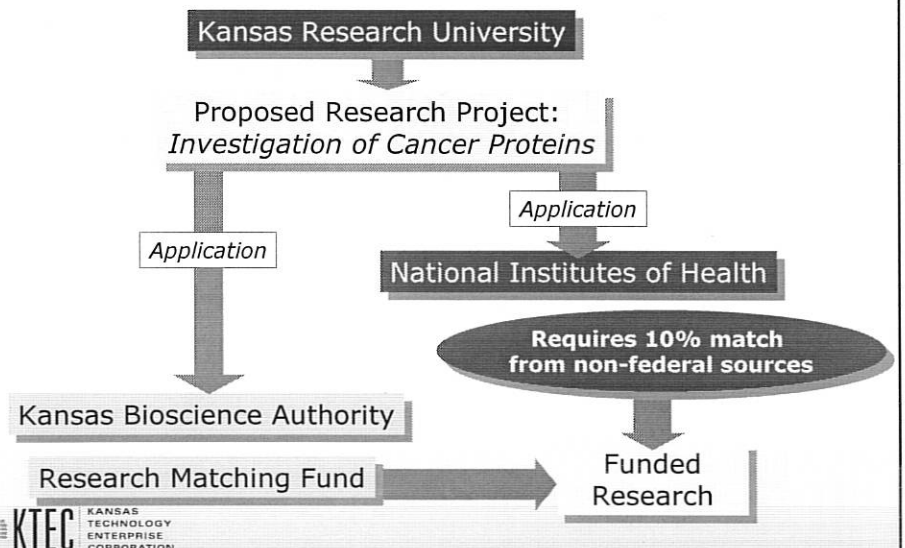
(p. 43, line 30-43; p. 44-45)

6) Bioscience Research Matching Funds Act



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Why approve the Bioscience Research Matching Funds Act?

- Make bioscience research and development a priority
- Target improving Kansas' national ranking in bioscience R&D at state universities
- Provide matching funds for research dollars from federal, private, and other sources of funding

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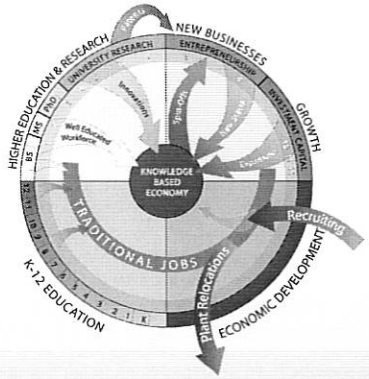
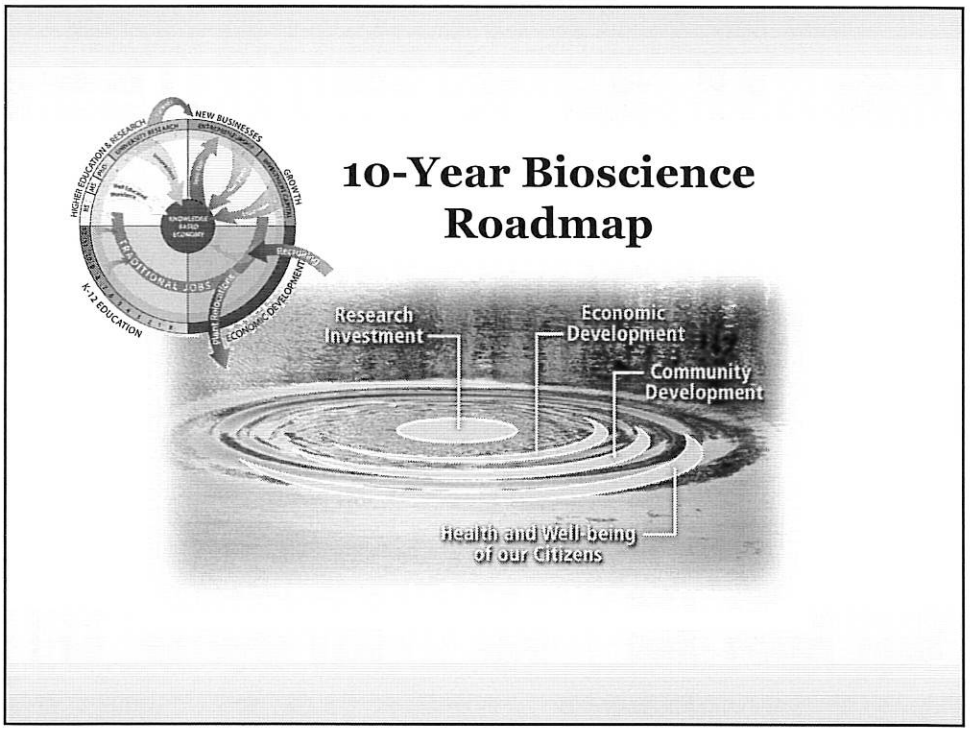
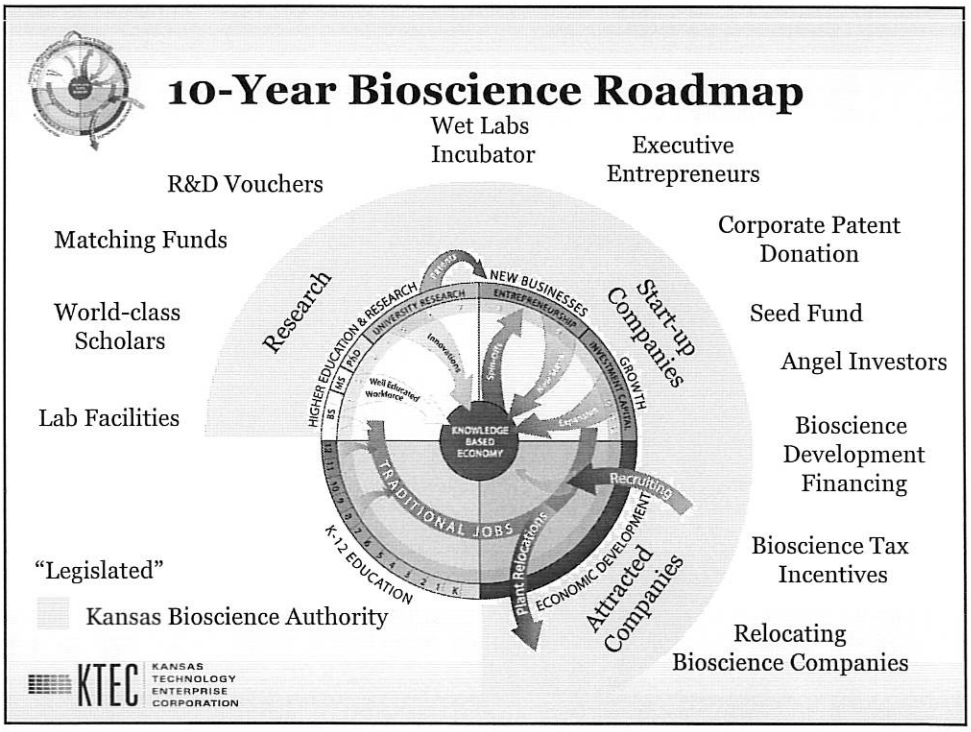
Questions on the Bioscience Research Matching Funds Act?




10-Year Bioscience Roadmap
Research Investment
Economic Development
Community Development
Health and Well-being of our Citizens


10-Year Bioscience Roadmap
Wet Labs
Incubator
Executive Entrepreneurs
R&D Vouchers
Corporate Patent Donation
Matching Funds
Seed Fund
World-class Scholars
Angel Investors
Lab Facilities
Bioscience Development Financing
Bioscience Tax Incentives
"Legislated"
Kansas Bioscience Authority
Relocating Bioscience Companies
Research
Start-up Companies
Attracted Companies
NEW BUSINESSES
HIGHER EDUCATION & RESEARCH
UNIVERSITY RESEARCH
ENTREPRENEURSHIP
INVESTMENT CAPITAL
GROWTH
KNOWLEDGE BASED ECONOMY
TRADITIONAL JOBS
K-12 EDUCATION
ECONOMIC DEVELOPMENT
Recruiting
Plant Relocations
KTEC
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10-Year Bioscience Roadmap: Research

- **Kansas Eminent Scholars Program**
  - Goal: Recruit 25 over 10 years
    - Expectation: Provide competitive salaries and start-up packages
- **Kansas Rising Star Scholars Program**
  - Goal: Recruit 35 over 10 years
    - Expectation: Provide competitive salaries and start-up packages
- **State-of-the-art Bioscience Research Laboratory Facilities**
  - Goal: Add enough research space to house the eminent and rising star scholars and their staffs
    - Expectation: Add approximately 500,000 sq. ft. in the first 5 years of the program

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10-Year Bioscience Roadmap: Commercialization

- **Technology Transfer**
  - Goal: Increase the number of technology transfer agents and lawyers working to identify and evaluate university-based research discoveries for commercial potential
- **Business Assistance and Acceleration**
  - Goal: Build a state-of-the-art wet labs incubator to house start-up companies
    - Expectation: Add approximately 50,000 sq. ft. over 10 years
  - Goal: Bring experienced executive entrepreneurs to run start-up companies and ensure success
  - Goal: Enhance KTEC's nationally recognized incubation system

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10-Year Bioscience Roadmap: Commercialization

- **Funding**
  - Goal: Increase available seed funding for start-up ventures
    - Expectation: Fund 10-15 start-up companies annually
- **Attraction**
  - Goal: Identify viable patents available for corporate patent donation (short-term strategy) to jump start bioscience start-up companies
  - Goal: Recruit bioscience companies interested in expanding their operations (e.g., manufacturing)

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10-Year Bioscience Roadmap: Potential Budget

- **Approximately $500M over 10 years**

Program Areas	Estimated Budget ($M)
Research*	**$184.5**
Research Facilities	**$199.9**
Commercialization	**$86.1**
Investment	**$27.0**
Totals	**$497.5**

*Depending on the timing of the scholar recruitment, some expenditures could extend beyond the planned 10-year time frame

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10-Year Bioscience Roadmap

- **Why this investment...Why now?**
  - Kansas has a strong foundation in research and a growing base in commercial activities focused on the biosciences that need further investment to succeed in the 21st century
  - Investing in the biosciences brings high paying jobs and innovative commercial products
  - Research, development, manufacturing, licensing, and commercialization of products benefit the state's economy

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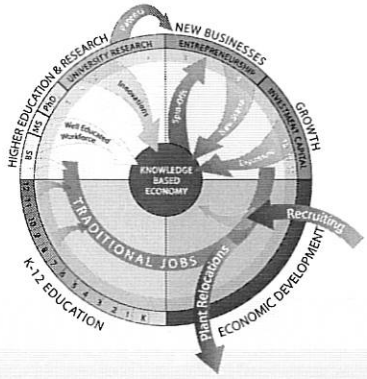
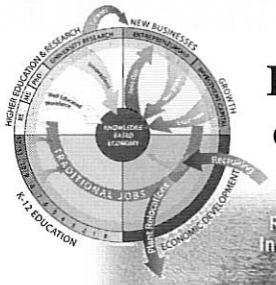
Questions on the 10-Year Bioscience Roadmap?





Potential Results Based on Economic Modeling

Bioscience Economic Modeling

- **Worked with Ernst & Young LLP Quantitative Economics and Statistics Group:**
  - To determine the feasibility of funding the initiative with incremental industry growth over a 10-15 year period
  - To estimate the potential growth in direct and indirect jobs

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Bioscience Economic Modeling

Measured current number of bioscience employees in state by SIC code

11,000 to 13,000 industry jobs

8,500 university research jobs

Estimated growth in compounded annual growth rate

8.45% CAGR

Based on growth rates in states like NC

Increase total direct jobs by ~23,000 over 10 years

Generates $356.5M in state tax revenue in 10 years; >$500M in 12 years

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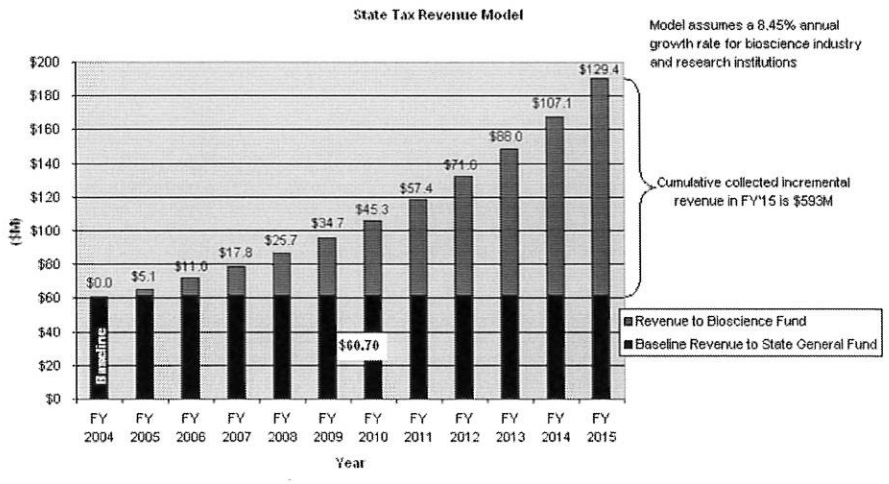
Bioscience Economic Modeling



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Bioscience Economic Modeling: Potential Outcomes

- **Outcomes Modeling**
  - Based on Association of University Technology Managers (AUTM) data; Ernst & Young estimates

Potential Outcomes	Cumulative After 10 Years
Research Expenditures	More than $1B
Potential New Start-up Companies	More than 100
Anticipated New Bioscience Jobs	More than 23,000
Projected New Non-Bioscience Industry Jobs (Indirect)	More than 20,000

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Questions on the Bioscience Economic Modeling?