

MINUTES OF THE SENATE COMMERCE COMMITTEE

The meeting was called to order by Chairperson Karin Brownlee at 8:30 A.M. on January 18, 2007 in Room 123-S of the Capitol.

All members were present except:  
David Wysong- unexcused

Committee staff present:  
Amy Deckard, Kansas Legislative Research Department  
Kathie Sparks, Kansas Legislative Research Department  
Norm Furse, Revisor of Statutes  
Jackie Lunn, Committee Assistant

Conferees appearing before the committee:  
Tom Thornton, Executive Director, Kansas Bioscience Authority

Others attending:  
See attached list.

Chairperson Brownlee welcomed guests from the Young Constructors Group stating they were associated with ACG. Then she turned the meeting over to Chairperson Jordan. Chairperson Jordan introduced Mr. Tom Thornton, Executive Director, Kansas Bioscience Authority, (KBA) to give his testimony updating the Committee on the activities of the Kansas Bioscience Authority. Mr. Thornton presented written copy. (Attachment 1)

Mr. Thornton gave a brief review of his background and then started the update on the Kansas Bioscience Authority. He stated there are four basic themes he wanted to share with the Committee.

- The KBA's success in generating a return on their investments
- The KBA's efforts to aggressively enhance bioscience research at our academic institutions
- The KBA's focus on fostering the formation and growth of bioscience startups
- The KBA's commitment to make Kansas an international leader in sectors where they are already well positioned.

Mr. Thornton reviewed each of the four basic themes with the Committee.

Mr. Thornton closed by saying the Kansas Bioscience Authority is fulfilling their mission and providing an excellent return on the investment the state has made.

Questions and answers followed.

Upon the conclusion of questions and answers, Chairperson Jordan adjourned the meeting at 9:25 a.m. with the next scheduled meeting on January 23<sup>rd</sup> at 8:30 a.m. in room 123S.



**Statement**

**Tom Thornton  
President and CEO  
Kansas Bioscience Authority**

**Before the  
Senate Commerce Committee**

**Kansas Bioscience Authority Update**

**January 18, 2007**

Chairwoman Brownlee, members of the Committee, thank you for the opportunity to testify before you this morning to update you on the activities of the Kansas Bioscience Authority

There are four basic themes I want to share with you this morning:

1. Our success in generating a return on our investments
2. Our efforts to aggressively enhance bioscience research at our academic institutions
3. Our new focus on fostering the formation and growth of bioscience startups
4. Our commitment to make Kansas an international leader in sectors where we are already well positioned.

**Return on Investment**

First, the KBA continues to focus on fulfilling the mission we've been given by the Legislature, and the people of Kansas. And we continue to do it well.

You've entrusted us with a three-dimensional mission of expanding bioscience R&D, commercialization, and industrial recruitment that I see at work every day. Whether it's:

1. Aggressively pursuing a new \$450 million federal laboratory to the state;
2. Commercializing bio-fuels technology in western Kansas in conjunction with Sunflower Electric Power and major bio-fuels companies; and
3. Attracting, England-based Oncimmune to locate in Lenexa.

...the KBA is hard at work making our state a leader in the biosciences.

To date most of the KBA's activities have been focused on attracting bioscience companies to the state. That strategy has been sound. It will allow us the opportunity to do the important work in front of us. Going forward, you can expect to see a more

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balanced portfolio of activities out the KBA that equally emphasizes growing our research base, commercialization and industrial attraction.

### **Enhancing the Health and Vitality of the Kansas' Bioscience R&D Enterprise**

Over the past few months, the KBA has moved aggressively to enhance the state's bioscience research base. Our academic research institutions are important pillars in the foundation of long-term growth in Kansas' bioscience sector. They produce skilled graduates, new scientific and technological knowledge and commercial innovations essential to the comparative advantage of Kansas.

The federal government is the largest supporter of research at Kansas research institutions. The health and vitality of Kansas' bioscience sector is inextricably linked to the state's ability to exploit federal R&D funding for its research institutions.

So, you might ask, how are we doing in the return of federal R&D funds? To put it lightly...NOT WELL!

Kansas ranks a lowly 43rd in the return of federal funding for R&D (\$211 million). In fact, Kansas' federal R&D ranking has actually declined in each of the last five years. We're losing ground.

On the bright side, bioscience research represents the largest component of federal R&D funding. At \$115 million dollars, bioscience research at Kansas universities accounts for nearly 60 percent of all federal R&D funds.

But without adequate federal support, Kansas' basic research efforts will quickly erode. In order to become a national leader in bioscience, Kansas needs an aggressive federal R&D advocacy strategy. And the KBA has developed it and is going to lead it.

Our plan is straightforward. We're going to aggressively communicate the scientific and economic importance of continued federal support for R&D in Kansas research institutions.

- Monitor overall federal budget trends and their impact on Kansas institutions
- Proactively determine federal R&D interests and exploit those opportunities
- Develop a unified Kansas R&D agenda
- Mobilize support for R&D agenda through meetings with public policy leaders and industry "champions"
- KBA can provide matching funds to leverage federal and private sector R&D
- Update R&D report annually focusing on outcomes and partnerships

### **National Bio and Agro-defense Facility (NBAF)**

Importantly, we've already developed aggressive plans to pursue large-scale federal R&D funding opportunities. The most notable among these is the \$450 million Department of Homeland Security's National Bio and Agro-defense Facility, or NBAF.

NBAF represents a seminal opportunity to secure a federal laboratory in Kansas in a research area in which the state has internationally recognized strengths.

- The NBAF will be a magnet for private bioscience companies and will help anchor Kansas' existing strengths in animal health and plant sciences.
- It will bring international recognition to the state and its citizens if Kansas is selected for this facility. It will bring hundreds of millions in research dollars to Kansas' research universities and our world-class animal health industry.
- Most importantly, NBAF research activities will help safeguard and support the general public and Kansas' agricultural and food industries.

The Department of Homeland Security is currently conducting a nationwide site selection competition to build NBAF. Two sites in Kansas are under consideration for the NBAF, a site in Manhattan and one in Leavenworth. Kansas is the ideal location for the NBAF. The primary strength of Kansas' NBAF bid lies in the efficiencies and effectiveness that the NBAF would gain by locating near a critical mass of assets in the state.

But with an estimated economic impact of over \$3.5 billion over 20 years, the competition for NBAF is intense. The KBA has developed an aggressive plan to land the project.

Governor Sebelius announced last week she will soon sign an Executive Order appointing a Task Force comprised of some of Kansas' most influential representatives from business, academia and government to support the siting of the NBAF facility at one of the two sites in Kansas.

We've pulled together a team of internationally recognized experts to help develop our proposals and we're busy securing strong public support for the project.

### **Fostering the Formation and Growth of Bioscience Startups**

We're also taking important steps to foster the formation and growth of bioscience startups. To do this, the KBA Board of Directors has approved the formation of a new program called BioVentures and committed \$4.7 million to support its operations over the next three years.

The mission of this unique program is to provide consulting services to bioscience startups in order to better prepare them to raise private capital and go to market.

Our strategy is focused:

- Tap centers of innovation and encourage regional bioscience entrepreneurship
- Focused services not currently available to bioscience entrepreneurs

- Reach out to bioscience VCs in the Midwest and nationally
- Emphasize niches where we have existing strengths

Our goals are aggressive because they need to be. Kansas ranks nearly dead last in the country in the amount of venture investment in the biosciences.

- We want to put the state on the path to exceed \$100 million annually in bioscience-related venture capital investments. We believe this level of investment denotes regional significance for early-stage bioscience activity.
- We will find and develop average of 10-12 regional bioscience companies annually
  - To do this, we will need to work with universities, entrepreneurs and corporations to develop strong pipeline

Importantly, we're not doing this alone. We intend to engage KTEC as a full partner in the execution of this program.

### **Growing Kansas' Bioscience Sectors**

Lastly, let me address what may be the KBA's most important program, namely the Kansas Bioscience Centers of Innovation. This program recognizes that Kansas has inherent strengths in bioscience clusters such as animal health, plant sciences, biofuels, human health and bio-composites. But, currently, there is no program that specifically targets these sectors. We're going to change that.

The Bioscience Centers of Innovation will be large-scale, multi-institutional initiatives designed to position these sectors for international leadership. (Bio-composites)

But this isn't just research....this is an integrated strategy that will advance scientific knowledge, create globally competitive products, form new companies, attract new companies and key individuals, and employ significant numbers of Kansans.

- Technology focus must be world-class,
- Sustainable, and
- Supportive of economic development priorities in one or more Kansas regions.
- We will manage the Manage Eminent Scholars Program through the Centers. The recruitment of talent to Kansas is a requirement for these Centers – at least three prominent hires from outside Kansas, including eminent and entrepreneurial researchers.
- Centers must demonstrate continuous, industry driven market insight and that such insight will drive decision-making. The private sector participation is required in all aspects of operations. Private sector must lead and dominate boards.
- KBCIs must accelerate pace of commercialization and address full-cycle of activities.

- Business model must credibly describe how the Center will be maintained without further KBA support.
- Key outcomes include jobs, product sales, research funding, capital investment, and attraction of new companies and individuals.

Over the next few months, the KBA will issue an RFP challenging public and private organizations to develop compelling strategies in these sectors.

### **Accountability**

As the chief executive of the KBA and with experience in the management of publicly supported technology development programs, I understand that the KBA is the steward of more than just the public's treasury... we are stewards of the public's trust.

I'm pleased to tell you my first hire at the KBA was a chief financial officer with over 20 years experience in the private sector. She is hard at work developing the internal financial management controls and procedures that will provide the transparency you expect from us. We are working to develop tighter and more clearly defined evaluation criteria for our investments and working closely with each of our investments to ensure they hit the milestones they supposed to.

### **Conclusion**

In summary: We are fulfilling KBA's mission and providing an excellent return on the state's investment in us. We deeply appreciate the leadership that you have shown in developing the Kansas Economic Growth Act which established the KBA. Thank you for giving me the opportunity to testify. I'll be glad to answer your questions.

**Kansas Bioscience Authority  
Funded Projects  
(1/9/07)**

**Project:** Prescription Solutions, Overland Park, KS

**KBA Funding:** \$150,000 (7/11/05)

**Description:** Prescription Solutions is a pharmacy and medical management company that manages the prescription drug benefits of public, private and union health plans. They are opening a state-of-the-art mail order facility in Overland Park. Funding is for a research voucher to be used for pharmaceutical or robotics research at a university in Kansas.

**Leverage/Partners:** None

**Number of Jobs:** 850 initially; 1,900 projected

**Project:** KansasBio

**KBA Funding:** \$10,000 (10/5/05)

**Description:** KansasBio is the trade organization representing the bioscience continuum in Kansas: human, plant, and animal; academic, industry, and government; entrepreneurial ventures, start-ups, and service providers. Funding is for membership dues for 2005-2006.

**Leverage/Partners:** Numerous members statewide

**Number of Jobs:** NA

**Project:** Heartland BioEnterprise

**KBA Funding:** \$200,000 (1/5/06)

**Description:** BioEnterprise is a business formation, recruitment, and acceleration initiative designed to grow health care companies and commercialize bioscience technologies based in Cleveland, Ohio. There is board interest in implementing a similar initiative in Kansas. Funding is to support further exploration of a Kansas initiative.

**Leverage/Partners:** None

**Number of Jobs:** NA

**Project:** KansasBio – BIO 2006 International Convention

**KBA Funding:** \$100,000 (1/5/06)

**Description:** The BIO 2006 International Convention will be held in Chicago, April 9-12, 2006. Funding is to support a Kansas presence at the event.

**Leverage/Partners:** Numerous sponsors statewide

**Number of Jobs:** NA



**Project:** Hospira, Inc., McPherson, KS

**KBA Funding:** \$200,000 (4/11/06); \$64,000 (1/9/07)

**Description:** Hospira, Inc. is a global specialty pharmaceutical and medication delivery company with 14 manufacturing facilities worldwide, including a facility in McPherson. A \$60 million expansion of the McPherson plant is in progress. Funding is to support an effort to encourage qualified students to investigate careers in the biosciences and to recruit, hire, and retain recently graduated scientists from Kansas universities.

**Leverage/Partners:**

- Hospira/Kansas Bioscience Authority Interns Scholar Program: \$45,000 over three years.
- Kansas Higher Education Graduate Job Recruitment Program: \$219,000 (\$155,000 over three years initially; funding increased by \$64,000 to recruit eight additional science graduates).

**Number of Jobs:** 100+

**Project:** Quintiles, Inc.

**KBA Funding:** \$3,500,000 (4/11/06)

**Description:** Quintiles, Inc. provides services to the pharmaceutical, biotechnology, and health care industries. They plan to move their Clinical Development Services, Clinical Pharmacology, and Phase I Clinical Research units to Overland Park. Funding is to help defray the costs related to relocating and training employees.

**Leverage/Partners:** Funds will be paid in \$500,000 increments over a four year period with no more than \$1 million being paid in any year.

**Number of Jobs:** 650

**Project:** JACAM Chemicals, L.L.C., Sterling, KS

**KBA Funding:** \$500,000 (4/11/06)

**Description:** JACAM Chemicals, L.L.C. provides services and products to numerous industries including oil, gas, pipeline, and municipal and industrial water systems. Funding is for the purchase of scientific equipment and recruitment of research personnel for an expanded facility in Rice County.

**Leverage/Partners:** Initial funding of \$100,000 for equipment and research personnel (4/11/06); subsequent funding of \$170,000 for laboratory equipment for the new onsite laboratory (1/9/07); total financial support up to a maximum of \$500,000 for a variety of business efforts related to facility expansion.

**Number of Jobs:** 110

**Project:** IdentiGEN North America, Inc., Lawrence, KS

**KBA Funding:** \$125,000 (4/11/06)

**Description:** IdentiGEN is an innovative provider of DNA-based solutions to the Agri-food industry with plans to locate headquarters for its U.S. operations in Lawrence. Funding is for a research voucher to a K-State professor and financial assistance to defray the cost of scientific equipment in Kansas laboratories.

**Leverage/Partners:** Funding is contingent on reaching milestones for employees based in Kansas.

**Number of Jobs:** 35

**Project:** City of Manhattan, Kansas

**KBA Funding:** \$1,000,000 (7/13/06)

**Description:** Community Bioscience Facilities Matching Funds Program for construction and equipment for wet lab incubator space.

**Leverage/Partners:** City of Manhattan has committed over \$5 million in funds to a wet lab incubator facility under construction in the K-State Research Park. Bioscience Authority funding will be paid in \$100,000 increments over ten years.

**Number of Jobs:** Unknown

**Project:** CritiTech, Inc., Lawrence, KS

**KBA Funding:** \$48,700 (7/13/06)

**Description:** CritiTech, Inc. was created in 1997 by the University of Kansas Center for Research, Inc. to create smaller and more uniform particles in the area of drug delivery. Funding is for the purchase and setup of a new and improved coating unit, greatly expanding CritiTech's capacity to perform feasibility and development projects for pharmaceutical companies.

**Leverage/Partners:** None

**Number of Jobs:** Unknown

**Project:** Kansas City Area Development Council (KCADC)

Business Recruitment Marketing Plan

**KBA Funding:** \$41,200 (7/13/06)

**Description:** The KCADC is a private, non-profit organization that represents two states, eighteen counties and 52 cities in the Kansas City region. As the metro's umbrella economic development organization, its role is to position the area competitively against other major metros to ensure that the Kansas City area is a final contender for the attraction of new companies. Funding is for the enhancement of marketing efforts aimed at attracting life science companies including the promotion of animal health assets in Kansas City and personnel costs associated with an economic development professional focused solely upon attracting life science companies to the region.

**Leverage/Partners:** None

**Number of Jobs:** NA

**Project:** Kansas City Area Life Sciences Institute (KCALS I)  
Economic Development Administration Grant Request  
for the benefit of a KU Medical Center Wet Lab

**KBA Funding:** \$10,000 ((7/13/06)

**Description:** The KCALS I submitted a request to the Economic Development Administration (EDA) for a \$60,000 planning grant entitled "Kansas City Regional Wet Laboratory Incubator." The development of a wet lab incubator is a key addition for growth, diversification, and clustering of bioscience companies in the area. The submission seeks \$30,000 from the EDA and requires a \$30,000 match.

**Leverage/Partners:** KCALS I, \$10,000; National Institute for Strategic Technology Acquisition and Commercialization (NISTAC), \$10,000

**Number of Jobs:** NA

**Project:** Midwest Grains Products Ingredients, Atchison, KS

**KBA Funding:** \$40,000 (7/13/06)

**Description:** MGPI is a recognized pioneer in the development and commercialization of bio-based produces as well as specialty starches and proteins for use in a wide array of consumer goods. It is embarking on an aggressive plan to develop a substantial business based on bio-based, biodegradable resins designed to economically replace plastic resin. Funding is for research vouchers to K-State for creating higher value products from distillers dried grains, millfeeds, corn stalks and wheat straw which segregate into several fractions and are used in subsequent biorefinery operations and products.

**Leverage/Partners:** Funds will be distributed over two years at \$20,000 per year.

**Number of Jobs:** Unknown

**Project:** Nutri-Shield, Courtland, KS

**KBA Funding:** \$40,000 (7/13/06)

**Description:** Nutri-Shield is a Midwest-based company engaged in development, manufacturing, marketing and sales of preservatives. Currently, their primary business is the removal of odors and flavors from commercial grade preservatives used in food and health care and cosmetic products. Funding is for assistance in developing and transitioning a process for synthesizing sorbic acid from the carbohydrate fraction of corn from proven lab scale to a plant setting.

**Leverage/Partners:** Funds will be split between research vouchers (\$15,000) and equipment and lab needs (\$25,000).

**Number of Jobs:** Unknown

**Project:** Sunflower Bioenergy Integration Team, Phase I  
Sunflower Integrated Bioenergy Center, Phase II

**KBA Funding:** \$13,000 (7/13/06 for Phase I); \$500,000 (1/9/07 for Phase II)

**Description:** With the support of the KBA and several key state Legislators, the National Institute for Strategic Technology Acquisition and Commercialization (NISTAC) initiated a project in January 2006 to identify and commercialize renewable energy technology for western Kansas.

**Leverage/Partners:**

- Phase I, Sunflower Electric Power Corporation, \$13,000; NISTAC, \$13,000; and the KBA agreed to proceed as founding partners to fund the initial team that would further assess project viability and identify technology and financial partners.
- Phase II, \$500,000 grant to NISTAC, with an option to convert to one-third equity in the Sunflower Integrated Bioenergy Center to fund engineering and economic/legal due diligence. Release of the grant funds is pursuant to KBA Chief Financial Officer review and approval of the Phase II budget by the KBA Chief Executive Officer. Sunflower Electric Power Corporation will contribute the land and NISTAC will contribute intellectual property.

**Number of Jobs:** Unknown

**Project:** Wet Lab Upgrade at KU Medical Center (KUMC)

**KBA Funding:** \$100,000 (7/13/06; re-approved 1/9/07)

**Description:** The existing wet lab at KU Medical Center (Kansas City Biotechnology Development Center at the KUMC Research Institute) needs to be improved. The cost of the upgrade will be shared with the Kansas City Area Life Sciences Institute (KCALSIS). Changes to the initial scope of work to upgrade the wet lab incubator space required the resubmission of the request for re-approval of the funding.

**Leverage/Partners:** KCALSIS, \$100,000

**Number of Jobs:** NA

**Project:** Wet Lab Planning and Architecture

KU Medical Center and Olathe Project

**KBA Funding:** \$150,000 (7/13/06)

**Description:** Upgrade of the existing KU Medical Center wet lab is a temporary fix. A state-of-the-art bioscience incubator is needed. The City of Olathe plans to donate 105 acres to K-State and the KBA for a bioscience incubator. Funding is for planning and architectural work for the two projects.

**Leverage/Partners:** City of Olathe and K-State. Land donation puts a three-year limit on the KBA and a five-year limit on K-State to get the project going.

**Number of Jobs:** NA

**Project:** Topeka Chamber of Commerce

**KBA Funding:** \$13,388 (7/13/06)

**Description:** Ventria is a plant-made pharmaceutical and plant-made industrial products company seeking to expand its nursery, greenhouse, field production and bioprocessing operations. They plan to grow genetically modified rice which can be processed into pharmaceutical, medical food ingredients and bioprocessing ingredients. The Bioscience Authority and the City of Topeka both are considering offering incentives to Ventria. Funding is for due diligence procedures to facilitate the decision process.

**Leverage/Partners:** Funding represents one-third of the expenses incurred for the due diligence procedures.

**Number of Jobs:** NA

**Project:** American Ingredients Company

**KBA Funding:** \$1,000,000 (7/13/06)

**Description:** American Ingredients is a leading researcher and manufacturer of functional bakery ingredients and health products with plans to relocate its national headquarters to Lenexa, Kansas. Funding will be equally divided between Kansas research universities in the form of research vouchers and American Ingredients Company for purchasing and sustaining research equipment.

**Leverage/Partners:** Funds will be paid in increments of \$100,000 per year over ten years.

**Number of Jobs:** 103

**Project:** OncImmune

**KBA Funding:** \$2,500,000 (10/12/06)

**Description:** OncImmune was founded in 2003 to commercialize technology developed in the laboratories of Professor John Robertson, a professor of surgery at Nottingham University. The focus of OncImmune's technology is on the early detection of cancer, in particular breast cancer. Plans are to expand the technology to the early detection and characterization of all the major solid tumor cancers. OncImmune plans to collaborate with the University of Kansas, specifically with Pharmaceutical Chemistry on the Lawrence campus and the KU Medical Center for cancer clinical research. They will work with an existing private, for-profit research organization in Lenexa initially and plan construction of their own laboratory in Johnson County.

**Leverage/Partners:**

- \$2 million loan (1/2 of a \$4 million investment) paid in \$500,000 increments at 6% interest for five years. For every 25 jobs created, there would be a \$250,000 loan credit against the principle and interest. The loan and investment by OncImmune will be used to construct and equip the laboratory.
- \$300,000 research voucher with the KU School of Pharmacy for an immediate project
- \$200,000 research voucher (1/2 of a \$400,000 research project) for a future project within 12 months

**Number of Jobs:** 200

**Project:** Junction City, KS

**KBA Funding:** \$1,000,000 (10/12/06); funding tabled 1/9/07 due to failure of applicant to have an agreement with Ventria in place thus preventing the KBA from establishing milestones upon which to base the KBA's commitment.

**Description:** Ventria is a plant-made pharmaceutical and plant-made industrial products company that plans to expand its nursery, greenhouse, field production and bioprocessing operations to Junction City. They plan to grow genetically modified rice which can be processed into pharmaceutical, medical food ingredients and bioprocessing ingredients.

**Leverage/Partners:** Junction City has pledged \$5.5 million in incentives to Ventria. Bioscience Authority funding will be paid to Junction City in \$100,000 increments over ten years if Ventria meets milestones.

**Number of Jobs:** Unknown

**Project:** KansasBio

**KBA Funding:** \$10,000 (10/12/06)

**Description:** KansasBio is the trade organization representing the bioscience continuum in Kansas: human, plant, and animal; academic, industry, and government; entrepreneurial ventures, start-ups, and service providers. Funding is for membership dues for 2006-2007.

**Leverage/Partners:** Numerous members statewide

**Number of Jobs:** NA

**Project:** National Bio and Argo-defense Facility (NBAF)

**KBA Funding:** \$250,000

**Description:** The Department of Homeland Security is seeking a location to build a \$451 million federal laboratory to research and develop countermeasures to animal, human and zoonotic diseases. Two sites in Kansas are under consideration for the NBAF: Manhattan and Leavenworth. Funding is to support the Heartland Bio and Argo Consortium to pursue aggressively the siting of NBAF in Kansas.

**Leverage/Partners:** TBD

**Number of Jobs:** 300

**Project:** Benefit District for K-State Olathe Innovation Campus/Kansas Bioscience Park

**KBA Funding:** \$7.6 million

**Description:** The City of Olathe plans to donate 105 acres to K-State and the KBA for a K-State Olathe Innovation Campus/Kansas Bioscience Park. The KBA authorizes entry into a Benefit District to build infrastructure at the campus/park. The City of Olathe requires that a Benefit District Application form and Estimated or Probable Cost form be submitted to the City in order to create a Benefit District. These forms will include the scope of the project as well as cost estimates for all items included in the district. Items may include landscaping, utility installation and relocation, engineering, street construction, surveys, detention, excavation, grading, sidewalks, streetlights, and preparation for the sites for academic buildings.

**Leverage/Partners:** The cost will be pro-rated on the acreage owned by KBA, K-State and future parties locating in the Research Park.

**Number of Jobs:** Unknown