

MINUTES OF THE SENATE COMMERCE

The meeting was called to order by Chairman David Wysong at 8:30 a.m. on January 15, 2009 in Room 545-N of the Capitol.

All members were present except:

Senator Roger Reitz - excused

Committee staff present:

Ms. Margaret Cianciarulo, Administrative Assistant

Mr. Norm Furse, Kansas Legislative Revisor

Mr. Ken Wilke, Kansas Legislative Revisor

Mr. Reed Holwegner, Kansas Legislative Research

Mr. Julian Efird, Kansas Legislative Research

Conferees appearing before the Committee:

Mr. Alan Conroy, Director,

Kansas Legislative Research Department

Mr. Tom Thornton, President & Chief Executive Officer,

Kansas Bioscience Authority

Others attending:

Please see attached list.

Introductions

Upon opening the meeting, Chairman Wysong recognized his Staff, Committee Secretary, Vice-Chairperson, Ranking Minority, and Secretary welcoming all including Representative Lana Gordon and members of her House Economic and Development and Tourism Committee who has been invited to the meeting.

Introduction of Bills

For the next order of business Chairman Wysong asked that the Committee introduce legislation on the following:

- 1) municipal bonds and interest rates;
- 2) cities and counties related to transportation and developing districts
- 3) tax increment financing regarding bond revenue sources

Senator Emler made a motion that the Committee introduce the proposed legislation. It was seconded by Senator Wagle and the motion carried

Presentation on the Kansas Defect

The Chair then called upon Mr. Allen Conroy, Director, Kansas Legislative Research Department who offered a summary of the State General Fund Outlook for the fiscal years 2008 through 2010. He stated that when the Consensus Revenue Estimating Group met, they revised down the current year estimate about \$211M in the current year, the second highest amount ever mainly in individual income tax. He went on to say that there is a possibility of a federal economic stimulus package that may address some of the shortfalls, but one of the components of the package being discussed is a tax reduction at the federal level and depending on the form and shape that may take, it could mean a reduction in State tax receipts. And lastly, Mr. Conroy offered several other pieces of information including profiles, receipts, how they worked through December, and the Consensus Estimated Memo that do give some discussion in terms of the ag sector. A copy of his testimony and attachments are (Attachment 1) attached hereto and incorporated into the Minutes as referenced.

Chairman Wysong then asked for questions from the Committee which came from Senator Kelsey asking is it accurate to say that Governor Sebelius cut entirely from her budget, the money for the Kansas Math and

Science Academy and in your view, doesn't that eliminate this program?

As there was no further discussion on this presentation, the Chair offered some housekeeping information regarding when they tentatively plan to meet, a review of agendas for the next two weeks, and who to contact for specific bills.

Overview of the Kansas Bioscience Authority

The Chair then introduced Mr. Tom Thornton, President and Chief Executive Office, Kansas Bioscience Authority (KBA) who offered testimony on the progress of the Authority, its research infrastructure and development, and other parts of the business cycle including commercialization as well as expansion and attraction of businesses. He went on to say that KBA works to create, retain and expand bioscience job opportunities for all Kansans including several key investments made in 2008 and touched on outcomes (ex. In FY 2008 committed \$25.5M to 24 projects) and projected outcomes over the next five years (ex. Job creation jumps to 4,500 new jobs). He concluded by saying the Bioscience is leading the State's economic recovery citing the building of the National Bio and Agro-Defense Facility next year. A copy of his testimony and attachments are (Attachment 2) attached hereto and incorporated into the Minutes as referenced.

Chairman Wysong asked for questions and/or comments from the Committee which came from Senators Wagle, Kelsey, Lynn, and Representative Gordon including: Can you comment about the lawsuit from Texas on the NBAF location and will it delay implementation? Do you feel it important that we try to continue with the KAMS programs for the young people of Kansas? What do the Governor's recommendations in her budget reductions for this current year do to the KBA? And, was asked for suggestions regarding work force development at an early age, would KBA be willing to take this on, and is there a way to formalize the vision?

Adjournment

As there was no further business, Chairman Wysong thanked Mr. Thornton and announced the meeting was adjourned. The time was 9:30 a.m.

The next meeting is scheduled for Tuesday, January 20, 2009.

SENATE COMMERCE COMMITTEE

GUEST LIST

DATE: Thursday, January 15, 09

NAME	REPRESENTING
Eric Stafford	AGC of KS
Sandy Braden	GBBA
Mark Boranycak	Capital Strategies
Kent Eckles	Kansas Chamber
Leslie Kaufman	Ks Coop Council
Ken Saker	KHRA/Bio
Karl Duntun	KU
Tom Luntz	KBA
Denny Koch	Polsinelli Law
Steve Boland	Sen. Majority leader
Steve Ahlert	Kansas, Inc
Dan Kober	Kansas, Inc
Wigh Keck	Hlin Law Firm
Sean Tomb	Division of the Budget
Nick Jordan	Capital Strategies
Dave Holtwick	Overland Park Chamber
LISA BENLON	HOUSE ECO DEVO COMM
Dolores Furtado	House Eco Devo/Forum " "
Mike Slattery	House Eco Devo

Please continue passing

27 in
att.

KANSAS LEGISLATIVE RESEARCH DEPARTMENT

010-West-Statehouse, 300 SW 10th Ave.
Topeka, Kansas 66612-1504
(785) 296-3181 ♦ FAX (785) 296-3824

kslegres@klrd.state.ks.us

<http://www.kslegislature.org/klrd>

January 15, 2009

To: Senate Commerce Committee
From: Alan D. Conroy, Director
Re: State General Fund Outlook - Summary

1. **Actual FY 2008** receipts were \$41.4 million below the estimate. Ending balance was \$528.1 million or 8.7 percent of expenditures.
2. **Consensus Revenue estimates maybe overly optimistic.** Through December, State General Fund receipts are \$44.6 million below the estimate. There is a good possibility that actual collections through April could be considerably below the estimate. As of November 4, 2008 when the estimates were made no layoffs had been announced in the aviation manufacturing industry. The nation's economy has weakened over the last 60 days and will probably continue to weaken.
3. The **FY 2010 State General Fund revenue estimates are basically flat** - an increase of \$1.2 million or 0.0 percent. Some growth in tax receipts - 1.9 percent or \$110 million.
4. The **FY 2010 expenditures have increases** projected or already authorized of approximately \$195 million.
5. Factoring in the amount of receipts are behind through December, the projected State General Fund **ending balance is a negative \$185.8 million in FY 2009 and a negative \$1.1 billion in FY 2010.**
6. **State General Fund can not end the year in the negative**, the shortfall must be addressed. Assuming the ending balance in FY 2009 is zero, then the shortfall in FY 2010 is \$924 million.

Senate Commerce Committee
Date: January 15, 2009
Attachment 1

KANSAS LEGISLATIVE RESEARCH DEPARTMENT

010-West-Statehouse, 300 SW 10th Ave.
Topeka, Kansas 66612-1504
(785) 296-3181 ♦ FAX (785) 296-3824

kslegres@klrd.state.ks.us

<http://www.kslegislature.org/klrd>

November 7, 2008

To: Governor Kathleen Sebelius and Legislative Budget Committee

From: Kansas Legislative Research Department
Kansas Division of the Budget

Re: State General Fund Receipts Estimates for FY 2009 and FY 2010

Estimates for the State General Fund (SGF) are developed using a consensus process that involves the Legislative Research Department, Division of the Budget, Department of Revenue, and three consulting economists from state universities. This estimate is the base from which the Governor and the Legislature build the annual budget. The Consensus Group met on November 4, 2008, and decreased the estimate for FY 2009 and developed the first estimate for FY 2010.

For FY 2009, the estimate was decreased by \$211.4 million, or 3.5 percent, below the previous estimate (made in April and subsequently adjusted for legislation enacted during the veto session). The revised estimate of \$5.781 billion represents 1.5 percent growth above final FY 2008 receipts.

The initial estimate for FY 2010 is \$5.782 billion, which is virtually unchanged from the newly revised FY 2009 figure. Various factors influencing this growth rate in addition to the state of the economy include several pieces of legislation enacted in 2005-2007 that are continuing to reduce relative to prior law the amount of severance, estate, corporation franchise, and motor carrier property tax receipts deposited into the SGF.

Table 1 compares the new FY 2009 and FY 2010 estimates with actual receipts from FY 2008. Table 2 shows the changes in the FY 2009 estimates.

Economic Forecast for Kansas

The slowing of the national and state economies that began in 2007 has taken a significant turn for the worse this fall. Recent measures of consumer spending and confidence indicate that the economy is sliding deeper into a major downturn, the depth and severity of which remains unclear as of early November. The accelerating financial crisis engulfing the housing, credit, and stock markets makes the level of uncertainty regarding this Consensus estimate much higher than normal. Although forecasts of virtually all major income-related economic variables for the nation and the state have been lowered since April, the possibility remains that the relative health of certain key sectors of the state's economy, including aviation manufacturing and energy, could enable Kansas to experience a milder contraction than the country as a whole. These estimates in fact are based on the assumption that Kansas Gross State Product will grow by 3.5 percent in 2008 and 2009 before accelerating to 5.0 percent in 2010.

production from shale formations elsewhere in the United States. Kansas natural gas production in FY 2008 of 379 million cubic feet represented a significant decrease from the modern era peak of 730 million cubic feet in FY 1996 (largely as a result of depletion of reserves in the Hugoton Field). Production has nevertheless rebounded slightly in recent years and is expected to stabilize at 390 million cubic feet for both FY 2009 and FY 2010.

Inflation Rate

The Consumer Price Index for all Urban consumers (CPI-U) increased by 2.9 percent in 2007, matching the final November forecast. Higher energy prices have contributed to the current 2008 CPI-U forecast being increased to 4.3 percent (relative to the 2.9 percent estimate used in April). The latest forecasts for 2009 and 2010 are for inflation to return to more moderate levels, 2.4 percent and 1.9 percent, respectively.

Interest Rates

The Pooled Money Investment Board is authorized to make investments in US Treasury and Agency securities, highly rated commercial paper, repurchase agreements and certificates of deposit in Kansas banks. In FY 2008, the state earned 4.26 percent on its SGF portfolio (compared with a 5.27 percent rate in FY 2007). The average rate of return forecasted for FY 2009 is 2.55 percent. For FY 2010, the forecasted rate is 2.70 percent.

Economic Forecasts

	<u>CY 2008*</u>	<u>CY 2009*</u>	<u>CY 2010*</u>
KPI Growth	4.2%	3.2%	4.3%
Inflation (CPI-U)	4.3%	2.4%	1.9%
	<u>FY 2008</u>	<u>FY 2009*</u>	<u>FY 2010*</u>
SGF Interest	4.26%	2.55%	2.70%
Oil and Gas			
Oil Price per bbl	\$80.71	\$80.00	\$70.00
Gross Prod. (000)	38,008	40,000	38,000
Gas Price per mcf	\$6.13	\$6.25	\$5.75
Gas Taxable Value	2,188,973	2,291,250	2,107,950

* Estimated

FY 2011 and thereafter. Although the Consensus Group will not make its initial estimate for FY 2011 until next fall, worthy of note is the fact that a number of provisions in previously enacted legislation will further reduce SGF receipts beginning in FY 2011:

- Legislation enacted in 2006 that decoupled the Kansas estate tax from the federal law beginning in 2007 and eliminates the Kansas tax altogether in 2010 will reduce receipts relative to the prior law by \$47 million in FY 2011; and \$52 million in FY 2012.
- Legislation enacted in 2007 that phases out the corporation franchise tax will reduce receipts relative to the prior law by an estimated \$37.0 million in FY 2011; and \$48.0 million in FY 2012.
- Legislation enacted in 2006 relative to a property tax exemption for business machinery and equipment is expected to further reduce motor carrier property tax receipts to the SGF by \$5.6 million in FY 2011; and \$7.4 million in FY 2012.
- Additional legislation enacted in 2005 will reduce severance tax receipts to the SGF by \$10.9 million in FY 2011; and \$14.4 million in FY 2012; and \$18.0 million in FY 2013.

Accuracy of Consensus Revenue Estimates

For 34 years, SGF revenue estimates for Kansas have been developed using the consensus revenue estimating process. Besides the three state agencies identified on the first page, the economists currently involved in the process are Joe Sicilian from the University of Kansas, Ed Olson from Kansas State University, and John Wong from Wichita State University. Each of the agencies and individuals involved in the process prepared independent estimates and met on November 4, 2008, to discuss estimates and come to a consensus for each fiscal year.

Concluding Comments

Consensus revenue estimates are based on current federal and state laws and their current interpretation. These estimates will be further adjusted in mid-April prior to the conclusion of the 2009 Legislative Session.

Table 2
 State General Fund Receipts
 FY 2009 Revised
 Comparison of November 2008 Estimate to June 2008 Estimate
 (Dollars in Thousands)

	FY 2009 CRE Est. as Adj. for Legis.	FY 2009 CRE Estimate	Difference	
			Amount	Pct. Chg.
Property Tax:				
Motor Carrier	\$ 29,500	\$ 30,500	\$ 1,000	3.4 %
Income Taxes:				
Individual	\$ 3,069,420	\$ 2,890,000	\$ (179,420)	(5.8) %
Corporation	332,200	340,000	7,800	2.3
Financial Inst.	40,000	32,000	(8,000)	(20.0)
Total	\$ 3,441,620	\$ 3,262,000	\$ (179,620)	(5.2) %
Estate Tax	\$ 32,000	\$ 32,000	\$ --	-- %
Excise Taxes:				
Retail Sales	\$ 1,725,702	\$ 1,715,000	\$ (10,702)	(0.6) %
Compensating Use	268,000	220,000	(48,000)	(17.9)
Cigarette	108,000	111,000	3,000	2.8
Tobacco Product	5,600	5,600	--	--
Cereal Malt Beverage	2,200	2,200	--	--
Liquor Gallonage	17,800	18,000	200	1.1
Liquor Enforcement	52,000	52,000	--	--
Liquor Drink	9,500	9,500	--	--
Corporate Franchise	32,000	32,000	--	--
Severance	151,300	156,700	5,400	3.6
Gas	92,600	92,300	(300)	(0.3)
Oil	58,700	64,400	5,700	9.7
Total	\$ 2,372,102	\$ 2,322,000	\$ (50,102)	(2.1) %
Other Taxes:				
Insurance Premium	\$ 119,000	\$ 118,000	\$ (1,000)	(0.8) %
Miscellaneous	3,500	2,500	(1,000)	(28.6)
Total	\$ 122,500	\$ 120,500	\$ (2,000)	(1.6) %
Total Taxes	\$ 5,997,722	\$ 5,767,000	\$ (230,722)	(3.8) %
Other Revenues:				
Interest	\$ 61,000	\$ 51,000	\$ (10,000)	(16.4) %
Net Transfers	(119,610)	(118,200)	1,410	(1.2)
Agency Earnings	53,510	81,400	27,890	52.1
Total Other Revenue	\$ (5,100)	\$ 14,200	\$ 19,300	(378.4) %
Total Receipts	\$ 5,992,622	\$ 5,781,200	\$ (211,422)	(3.5) %

KANSAS LEGISLATIVE RESEARCH DEPARTMENT

010-West-Statehouse, 300 SW 10th Ave.
Topeka, Kansas 66612-1504
(785) 296-3181 ♦ FAX (785) 296-3824

kslegres@klrd.state.ks.us

<http://www.kslegislature.org/klrd>

January 7, 2009

To: Legislative Budget Committee

STATE GENERAL FUND (SGF) RECEIPTS July through December, FY 2009

This is the second monthly report based on the revised estimate of SGF receipts in FY 2009 made by the Consensus Revenue Estimating Group on November 4, 2008. The figures in both the "Estimate" and "Actual" columns under FY 2009 on the following table include actual amounts received in July-October. Thus, the report essentially deals with the difference between the estimated and actual receipts in November and December.

Total receipts through December of FY 2009 were \$44.6 million, or 1.6 percent, below the estimate. The component of SGF receipts from taxes only was \$46.9 million, or 1.7 percent, below the estimate. Total receipts through November of FY 2009 were \$13.7 million, or 0.6 percent, below the estimate and taxes only were \$13.9 million, or 0.6 percent, below the estimate.

Generally, a comparison of only two months is of little value in identifying a trend for the remainder of the year, as the timing and processing of receipts substantially can affect comparisons of the estimate with actual receipts over such a short period of time. In addition, receipts through the end of January will include sales tax receipts on Christmas business and individual income tax estimated payments due in January. Both of these factors will make the January report more helpful in ascertaining a picture of SGF receipts. However, there remains considerable concern of achieving the estimate, given the continued weakening of the national economy.

There was only one tax source that **exceeded** the estimate by more than \$1.0 million, that being retail sales (\$2.9 million, or 0.3 percent).

Taxes that fell **below** the estimate by more than \$1.0 million were: corporation income (\$21.5 million, or 12.7 percent); compensating use (\$11.1 million, or 8.8 percent); individual income (\$9.8 million, or 0.8 percent); severance (\$2.3 million, or 2.5 percent); financial institutions privilege (\$2.0 million, or 13.8 percent); insurance premiums (\$1.7 million, or 3.6 percent).

Interest earnings and agency earnings both exceeded the estimate by \$1.8 million and \$2.7 million, respectively. Net transfers fell below the estimated amount by \$2.3 million.

Total SGF receipts through December of FY 2009 were \$224.6 million, or 8.9 percent, above FY 2008 for the same period. But remember that in FY 2008, there were two large transfers out of the State General Fund (Keeping Promises Education Trust Fund and the Statewide Maintenance and Disaster Relief Fund) which, in part, distort year-to-year

comparisons. Tax receipts only for the same period were below FY 2008 by \$22.4 million, or 0.8 percent.

This report excludes the two deposits to the SGF which total \$550 million, pursuant to issuance of certificates of indebtedness. These certificates will be discharged prior to the end of the fiscal year.

STATE GENERAL FUND RECEIPTS
July - December, FY 2009
 (dollar amounts in thousands)

	Actual	FY 2009		Percent increase relative to:		
	FY 2008	Estimate*	Actual	Difference	FY 2008	Estimate
Property Tax:						
Motor Carriers	\$ 18,213	\$ 19,200	\$ 18,264	\$ (936)	0.3%	(4.9)%
Income Taxes:						
Individual	\$ 1,242,122	\$ 1,286,000	\$ 1,276,170	\$ (9,830)	2.7%	(0.8)%
Corporation	191,182	169,000	147,500	(21,500)	(22.8)	(12.7)
Financial Inst.	20,559	14,600	12,589	(2,011)	(38.8)	(13.8)
Total	\$ 1,453,863	\$ 1,469,600	\$ 1,436,259	\$ (33,341)	(1.2)%	(2.3)%
Estate Tax	\$ 31,020	\$ 17,000	\$ 15,272	\$ (1,728)	(50.8)%	(10.2)%
Excise Taxes:						
Retail Sales	\$ 852,048	\$ 860,000	\$ 862,928	\$ 2,928	1.3%	0.3%
Comp. Use	135,969	126,000	114,928	(11,072)	(15.5)	(8.8)
Cigarette	58,613	56,500	57,449	949	(2.0)	1.7
Tobacco Prod.	2,815	2,850	2,830	(20)	0.5	(0.7)
Cereal Malt Bev.	1,168	1,050	1,071	21	(8.3)	2.0
Liquor Gallonage	8,976	9,300	9,353	53	4.2	0.6
Liquor Enforce.	23,754	25,900	26,889	989	13.2	3.8
Liquor Drink	4,248	4,500	4,564	64	7.4	1.4
Corp. Franchise	9,904	8,900	8,198	(702)	(17.2)	(7.9)
Severance	62,141	92,200	89,911	(2,289)	44.7	(2.5)
Gas	39,051	52,200	51,518	(682)	31.9	(1.3)
Oil	23,090	40,000	38,393	(1,607)	66.3	(4.0)
Total	\$ 1,159,635	\$ 1,187,200	\$ 1,178,120	\$ (9,080)	1.6%	(0.8)%
Other Taxes:						
Insurance Prem.	\$ 51,155	\$ 47,000	\$ 45,330	\$ (1,670)	(11.4)%	(3.6)%
Miscellaneous	2,384	750	653	(97)	(72.6)	(13.0)
Total	\$ 53,539	\$ 47,750	\$ 45,983	\$ (1,767)	(14.1)%	(3.7)%
Total Taxes	\$ 2,716,270	\$ 2,740,750	\$ 2,693,898	\$ (46,852)	(0.8)%	(1.7)%
Other Revenue:						
Interest	\$ 58,594	\$ 26,800	\$ 28,598	\$ 1,798	(51.2)%	6.7%
Transfers (net)	(269,465)	(19,800)	(22,093)	(2,293)	(91.8)	11.6
Agency Earnings and Misc.	32,193	59,100	61,820	2,720	92.0	4.6
Total	\$ (178,678)	\$ 66,100	\$ 68,325	\$ 2,225	(138.2)%	3.4%
TOTAL RECEIPTS	\$ 2,537,592	\$ 2,806,850	\$ 2,762,223	\$ (44,627)	8.9%	(1.6)%

* Consensus estimate as of November 4, 2008.
 Excludes \$550 million to the State General Fund due to an issuance of a certificate of indebtedness.

NOTES: Details may not add to totals due to rounding.

1-10

November, 2008 Consensus Revenue Estimates for FY 2009 and FY 2010; 4.0 Percent Growth in FY 2011 and FY 2012
 FY 2008 Actual Receipts and Expenditures
 Legislature Approved Expenditures for FY 2009, Plus Shifting of \$36.3 million from FY 2008, Plus Consensus Expenditures
 State Employee Pay Plan (2008 Senate Substitute for HB 2916)
 Keeping Promises Education Trust Fund - SB 531
 Assumes No Expanded Gaming Revenue
 Actual Receipts through December, 2008 - Reduction of \$44.6 million

STATE GENERAL FUND RECEIPTS, EXPEND. AND BALANCES
FY 2008 - FY 2012
 In Millions

	Actual FY 2008	Revised FY 2009	Projection FY 2010	Projection FY 2011	Projection FY 2012
Beginning Balance	\$ 935.0	\$ 528.1	\$ (185.8)	\$ (1,110.2)	\$ (1,809.8)
Receipts (November 2008 Consensus) - 4.0 % Growth	5,694.9	5,818.4	5,745.2	6,015.6	6,240.6
Keeping Education Promises Trust Fund (SB 531)	0.0	(37.2)	37.2	0.0	0.0
Spring, 2008 Federal Economic Stimulus Legislation	0.0	0.0	0.0	15.7	11.1
Prior Legislation Making Receipt Adjustments	0.0	0.0	0.0	(17.6)	(5.7)
Receipts Adjusted for Actual Through December, 2008	0.0	(44.6)	(44.6)	0.0	0.0
Adjusted Receipts	5,694.9	5,736.6	5,737.8	6,013.7	6,246.0
Total Available	\$ 6,629.9	\$ 6,264.7	\$ 5,552.0	\$ 4,903.5	\$ 4,436.1
K-12 Additional Funding - 2008 SB 531 in FY 2010/CPI-U	149.0	122.7	75.6	20.0	20.0
Maintain Special Education at 92% of Excess Costs	-	4.5	33.7	25.0	25.0
State Employee Market Adjustments - 2008 HB 2916	-	-	8.5	8.5	8.5
Human Services Caseloads (November, 2008)	-	5.3	30.9	60.0	60.0
KPERS Employer Contrib. Increase (School;Nonschool)	-	-	42.0	42.0	42.0
Restoration of Local Ad Valorem Tax Reduction Fund	-	-	13.5	13.5	13.5
Less All Other Expenditures	5,952.8	6,318.0	6,458.0	6,667.2	6,851.2
Total Expenditures	6,101.8	6,450.5	6,662.2	6,822.7	7,020.2
Ending Balance	\$ 528.1	\$ (185.8)	\$ (1,110.2)	\$ (1,919.2)	\$ (2,584.1)
Ending Balance as a Percentage of Expenditures	8.7%	-2.9%	-17.0%	-28.7%	-37.6%
Receipts Above Expenditures	\$ (406.9)	\$ (713.9)	\$ (924.4)	\$ (809.0)	\$ (774.2)

- 1) FY 2008 expenditures are actual. FY 2009 expenditures are as approved by the Legislature, plus shifting of \$36.3 million from FY 2008, plus consensus caseloads (human services and education).
- 2) FY 2009 receipts reflect the estimates of the Consensus Revenue Estimating Group as of November 4, 2008. FY 2008 receipts are actual receipts. FY 2009 and FY 2010 each reduced \$44.6 million, the amount that receipts through December, 2008 were below the Consensus Revenue estimates.
- 3) FY 2010 and FY 2011 base receipts assume a 4.0 percent growth.
- 4) \$466.2 million in new K-12 Funding FY 2007 - FY 2009 - and \$99 Base State Aid Per Pupil increase in FY 2010 in SB 531 or \$4,532 per pupil.
- 5) FY 2010 and FY 2011 expenditures would include on-going obligations such as social services caseloads, KPERS and school finance, partial restoration of the LAVTRF, and the Regents Deferred Maintenance Plan. In addition, the second and third year of the market pay adjustments for Executive Branch classified state employees (2008 Senate Sub. HB 2916)
- 6) Keeping Promises Education Trust Fund transfer of \$122.7 million out of the State General Fund in FY 2008 and returned to the State General Fund in FY 2009 for the FY 2009 school finance increase amount as provided in the 2006 school finance bill. Keeping Promises Education Trust Fund transfer out of \$37.2 million in FY 2009 and in FY 2010 \$37.2 million transferred back to the State General Fund. The latest estimate is that \$108.3 million will be needed for the required minimum increase in school finance funding to meet the CPI-U increase.

Kansas Legislative Research Department
January 11, 2009

File: FY 2010 SGF Profile - Including December Actual SGF Receipts

Testimony of Tom Thornton
President and Chief Executive Officer, Kansas Bioscience Authority
Hearing of the Senate Commerce Committee
January 15, 2009

Chairman Wysong and Vice Chairwoman Lynn, thank you for your invitation to address this distinguished panel on the tremendous progress Kansas is achieving in its pursuit of economic growth through national bioscience leadership.

With the Kansas Economic Growth Act of 2004, the legislature took a bold step to establish the Kansas Bioscience Authority and vest it with unique tools to aggressively position our state as a bioscience leader.

With the vision, mandate, dedicated resources, independence, and flexibility you provided, we have accomplished extraordinary things.

Our research base is expanding. We have asserted ourselves in key bioscience clusters. Kansas entrepreneurs are developing cutting edge products to fight cancer, osteoporosis and other health care challenges. Foreign companies and researchers are moving to Kansas. Investors nationally are betting on Kansas companies.

Just a few years into our state's concentrated pursuit of bioscience leadership, the health of the Kansas bioscience economy has never been stronger, and our state is getting the national attention it deserves.

Consider this:

- Just this week, the federal government recognized our state's strength in animal health research and industry, selecting Kansas State University as the preferred location for a \$650 million research laboratory that will protect the American food supply and agriculture economy.
- KBA-supported projects have generated more than 1,100 new jobs and attracted more than \$100 million in capital expenditures and investments in the bioscience industry. More than \$37 million in new research funding has been secured with the KBA's help.
- A national site selection magazine highlighted Kansas' success by placing us in its Top 10 list of states in the nation for biotechnology, alongside powerhouses such as California, Massachusetts, and Illinois.

Senate Commerce Committee

Date: January 15, 2009

Attachment 2

Our state's hard work is paying off, yet this success was not inevitable or by accident.

You may recall that many originally met our efforts with skepticism. A 2004 article in the *Wall Street Journal* about state bioscience efforts said, "Even Kansas is in the game with a new state authority."

Even Kansas? The insinuation was, good luck, but you're not worthy.

We've been taking on those skeptics with our state's spirit of innovation, and, in 2008, after a review of all states' bioscience efforts, Battelle Memorial Institute concluded, "Kansas continues to assert its leadership in the biosciences."

Continues to assert leadership! That's the Kansas bioscience community I know. We have, indeed, come a long way in a short time.

How we're making progress

An entrepreneur recently said the KBA is increasingly viewed as "smart money." We are "smart money" because, like a venture investor, we have adopted an investment strategy with the following elements:

1. The KBA's investments are **focused**. The KBA is focusing in key clusters, like animal health, drug discovery, and bioenergy, in which Kansas has the opportunity for undisputed national leadership.
2. The KBA **diversifies**: We emphasize research, commercialization and expansion. No one of these alone will get us to national leadership. We must invest in each, and each supports the other.
3. KBA investments are **game-changing**: We are looking to invest in disruptive technologies in a dynamic industry.
4. The KBA investment process is highly **evaluative**: Each application is subject to a rigorous evaluation by KBA staff and the board of directors.
5. The KBA serves as a **strategic partner**: We are not a fire-and-forget organization. The KBA is committed to provide strategic assistance to every investment we make to ensure its ultimate success.

6. The KBA is oriented around **outcomes**: We expect a return on investments for the state, measured by such factors as increased federal R&D investment, venture capital investment, and job creation.

Progress is achieved through three inter-related goals: expanding bioscience research; fostering the formation and growth of bioscience startups; and facilitating industry expansion statewide.

Research and Development

A fundamental aspect of bioscience growth is a strong research infrastructure. According to the National Science Foundation, the state's bioscience research base expanded from \$130 million in 2004 to over \$232 million in 2007 — that's right, over \$100 million in new research investment in three years.

The KBA has several important tools to advance research excellence. Key among them is the Eminent Scholars Program, which provides financing, matched by private and institutional funds, to recruit renowned scientists to Kansas academic research institutions.

In FY 2008, we invested in three eminent scholars at Wichita State University, Kansas State University, and the University of Kansas. It is expected that these eminent scholars will account for nearly \$35 million in new external research funding in Kansas over the next five years. This is an example of the leverage the KBA is trying to provide for the state — using KBA dollars to attract additional funding from outside sources.

Another great example of the KBA's commitment to research, and the manner in which we approach this, is our efforts to attract the National Bio and Agro-Defense Facility, or NBAF.

This game-changing success was possible because we created a remarkable public-private collaboration that can be a model going forward.

Simply put, we were unified as a state, at all levels, and our approach offered the federal government the most cost-effective and flexible path to accelerate the NBAF research mission and protect our livestock from foreign animal disease threats.

The KBA advanced this effort by investing more in foreign animal disease research last year than any other state. We've proven we can play at the national level, and our no-regrets investments ensure we will remain a national leader in the animal health industry.

Commercialization

In addition to research and development, the KBA is clearly working along other parts of the business cycle to advance Kansas' national bioscience leadership. That cycle includes commercialization as well as expansion and attraction of businesses.

The KBA supports the growth of emerging bioscience companies in the three inter-related ways:

1. Providing consulting services to high prospect bioscience companies emphasizing business formation and acceleration to help them raise venture capital investment and go-to-market;
2. Making discrete investments to help companies achieve key milestones that reduce the risk of private investment;
3. Providing unique capital resources to bridge the early-stage capital gap.

An example of a KBA investment in an early-stage bioscience company in this community is CritiTech.

CritiTech started a decade ago as an outgrowth of studies by a University of Kansas professor. Research dealing with super-critical fluid technology enabled the company to develop its first drug, which is intended to fight ovarian and pancreatic cancers.

Nanotax, now in Phase I clinical trials right here in Kansas, builds on the success of a drug with a long history with the FDA. The company has improved the drug's formulation by increasing the effectiveness of the medicine and by reducing the side effects brought about by the harsh solvent previously used as the drug delivery system.

The company also has developed a manufacturing process that addresses the inherent weakness in the drug delivery systems of existing pharmaceuticals, allowing drug material to be reformulated and leading to improvements to existing drugs as well as drugs not yet ready for market.

The KBA has committed more than \$300,000 to invest in CritiTech's progress.

Increasingly, Kansas has a strong pipeline of early stage bioscience deal-flow, and venture investors are increasingly recognizing that fact. In fact, according to the Battelle report, Kansas bioscience companies attracted more than \$61 million in venture capital investment in 2007, which puts Kansas first in the nation in the percentage increase of venture capital investment.

Expansion

The KBA works to create, retain and expand bioscience job opportunities for all Kansans. One of its strategic focus areas is to facilitate the retention and attraction of bioscience companies in the state. Our bias continues to be to work with companies that are already here in Kansas, employing Kansans to expand their operations.

In 2008, we made several key investments, such as a \$1.25 million award to Thermo Fisher Scientific for the expansion of its Kansas operations. Over the next five years, Thermo Fisher expects to increase employment by between 90 and 180 employees and make between \$7 million and \$12 million in capital investment.

This company is a manufacturer of a wide range of high-quality microbiology products used in clinical, industrial, research, and academic laboratories around the world. It could have expanded its operations anywhere but chose to grow in Kansas because of our talented workforce, access to markets, and cost of living.

Outcomes

In FY 2008, the KBA committed \$25.5 million to 24 projects. The authority has awarded a total of \$74.1 million since its inception. As a public authority, we are committed to making investments that are outcomes focused, and we can show strong returns since our inception:

- 1,110 new jobs
- Nearly \$93 million in capital investment in Kansas

- Over \$37 million in new R&D investment

And these outcomes don't account for projected outcomes over the next five years. When those are included:

- Job creation jumps to 4,500 new jobs
- Capital expenditures jumps to over \$1 billion
- Research funding jumps to over \$49 million in new federal R&D investment

Bioscience leading the state's economic recovery

So where do we go from here?

I want to first congratulate the legislature for having the foresight to lay the foundation for a 21st century economy — a bioscience foundation that today can lead the state's economic recovery.

I also strongly encourage your continued commitment to this endeavor.

In times gone by, the plow and reaper and the establishment of the nation's first land grant research university opened up the greatest agricultural area in the world and laid the economic foundation for the nation's heartland.

Today, Kansas' pioneering spirit lives on in its world-class bioscience researchers and entrepreneurs.

As other states pull back from innovation investments, Kansas has the rare opportunity to stay the course and vault ahead, accelerating our economic recovery and yielding benefits in improved health and economic growth for decades to come.

Especially in challenging economic times, we must not retreat from the vision, mandate, and resources that are helping Kansas achieve big outcomes and making a real impact in the state. Instead, we must seize opportunity.

Next year, for example, more than 1,500 people will go to work building the National Bio and Agro-Defense Facility, and others will come from all over

the country to conduct urgently needed research to protect American agriculture.

Kansas is on the right track. From research, to commercialization, to cluster expansion, we're asserting our leadership in the biosciences. Equally as important, we have become a community. Researchers are collaborating with researchers and companies; companies are solving national challenges and attracting capital, and companies all across Kansas are expanding.

With that, I am optimistic about the future, and I welcome your questions.



Partners in Bioscience Growth

January 12, 2009

Innovation Will Lead Kansas' Economic Recovery: Where Others See Challenges, We See Opportunity

Science and technology are two of the most powerful and enduring contributors to the economic vitality and quality of life of all Kansans: The plow and reaper and the establishment of the nation's first land grant research university symbolize the state's great technological heritage. These 19th century developments opened up the greatest agricultural area in the world and laid the economic foundation for the nation's heartland.

Innovation will lead Kansas' economic recovery: Today, Kansas' pioneering spirit lives on in its world-class bioscience leadership. This time, innovation is coming from universities, medical centers, and a multitude of technology-intensive businesses. Kansas' economic recovery will be led by innovative bioscience companies all across the state that are developing and producing new innovations, creating new jobs, attracting capital, and producing wealth.

Kansas has unique tools already in place to seize national and even international leadership in the biosciences: The legislature established the Kansas Bioscience Authority to promote bioscience research and development in areas such as animal health, bioenergy, biomaterials, drug development, and plant biology. The KBA has a focused and disciplined investment thesis: leverage the state's existing strengths in these areas to expand bioscience research; foster the formation and growth of bioscience startups; and facilitate industry expansion statewide. *The goal is nothing short of undisputed international leadership.*

The KBA has achieved results beyond expectations and deserves continued support: Though there were skeptics when the KBA was formed, today Kansas ranks in the Top 10 states in the nation for biotechnology according to *Business Facilities* magazine — a clear sign of the strong momentum we have built in the biosciences. Thanks to the KBA, over the past four years research spending has surged by over \$100 million; bioscience companies have made more than \$100 million in capital expenditures and investments; and the industry has added more than 1,100 new jobs.

Importantly, the KBA led the National Bio and Agro-Defense Facility effort: The KBA mobilized an extraordinary consortium of public and private leaders to pursue this \$650 million federal lab and committed substantial funds to it. The results will be remarkable with 1,500 jobs during construction and up to 500 jobs during operations. But more than jobs, the NBAF will protect American agriculture and establishes Kansas as the undisputed leader in animal health research. As a priority, the KBA must meet its obligations or we risk this important project and the trust of the federal government.

Now more than ever, Kansas can seize leadership: As other states pull back from innovation investments and the federal government prepares to invest billions into the biosciences, Kansas has the rare opportunity to vault into international bioscience leadership, which will lead our economic recovery and yield benefits in improved health and economic growth for decades to come. We must seize this day, not retreat.



Kansas Chosen for \$650 Million Federal Research Lab to Protect the American Food Supply and Agriculture Economy

OLATHE, Kan. — Kansas' internationally recognized animal health research expertise, state-of-the-art research and industry infrastructure, and deep agricultural heritage have made it the federal government's choice for a \$650 million scientific laboratory that will boost efforts to protect the American food supply and agriculture economy.

U.S. Sen. Pat Roberts announced today that a record of decision has been signed naming Kansas State University in Manhattan the future home of the National Bio and Agro-Defense Facility (NBAF). The decision finalizes a recommendation made last month by the U.S. Department of Homeland Security (DHS) after a three-year site selection process that began with 29 potential locations across the country.

Kansas Bioscience Authority president Tom Thornton said the decision was right for the country.

“When it comes to the critically urgent work of protecting America’s food supply, Kansas offers a solution, not a site,” Thornton said. “We already have national leadership in this research, which will allow us to move forward on day one as the federal government’s partner in achieving the NBAF mission.”

“DHS is to be commended for the extremely comprehensive, logical, and fair process it has undertaken to ensure the success of the NBAF. We will now reach out immediately to DHS to continue the momentum with the singular goal of accelerating the research mission.”

Thornton also applauded the KBA-led Kansas consortium involved in the NBAF project.

“Our congressional delegation, governor, lieutenant governor, state legislature, city leaders and K-State leaders have shown amazing vision, unity, and determination,” Thornton said. “And the leadership provided by the KBA board of directors has been remarkable, both in the commitment of time and resources that have ensured Kansas will be at the center of meeting this national challenge.”

Once built, the NBAF will serve as the nation’s premier research facility for developing vaccines and countermeasures for diseases that threaten livestock and other animals, which agricultural and bioterrorism experts consider an urgent national priority.

###

For more information, please see: www.k-state.edu/media/nbaf and www.nbafinkansas.org.

KBA media contact: Chad Bettes, (913) 375-5139