

MINUTES OF THE SENATE COMMERCE COMMITTEE

The meeting was called to order by Chairman Karin Brownlee at 8:30 a.m. on February 4, 2010, in Room 548-S of the Capitol.

All members were present except:
Senator Jay Emler - excused

Committee staff present:
Norm Furse, Office of the Revisor of Statutes
Ken Wilke, Office of the Revisor of Statutes
Reed Holwegner, Kansas Legislative Research Department
Kathie Sparks, Kansas Legislative Research Department
Marilyn Arnone, Committee Assistant

Conferees appearing before the Committee:
Randall Hrabec, Western Kansas Rural Economic Development Alliance
Tom Thornton, President Kansas Bioscience Authority

Others attending:
See attached list.

Chairperson Brownlee announced that today is wKREDA's day at the Capitol and she ask Randall Hrabec to give an update on wKREDA's activities and to tell the Committee the good news from Western Kansas.

The Western Kansas Rural Economic Development Alliance (wKREDA) represents 54 western Kansas counties. wKREDA's mission is to work together for the common good of Western Kansas.

When wKREDA was organized 15 years ago, one focus was to recruit large dairies with the ultimate goal of a milk processing or cheese manufacturing plant. This week the goal was reached with \$12.6 million awarded to Ford County for a cheese processing plant in Dodge City. The proposed cheese manufacturing plant will cost \$90 million and have a process capacity of 45,000 pounds. The plant will produce 125 million pounds of cheddar cheese and create a minimum of 99 jobs. In addition, it will help stabilize and expand the dairy industry in Kansas. A public announcement will be made regarding the plant in a few weeks when plans are finalized.

The Rural Business Tax Credits are state tax credits granted to designated 501(c)3 non-profit organizations throughout Kansas. Donations are given for tax credits and the resulting funds are used for business loans and community projects. This is one of the best economic development programs created by the State in recent years. Western Kansas raised \$1,285,000 to use to leverage other financial sources for 28 businesses and bought computers for the Small Business Development Center to put on classes for the region. Because of the budget problems, last year's tax credit percentage was reduced by 10% from 75% credit to 67.5% credit causing a big drop in money raised. It is preferred to have the tax credit amount cut rather than the percentage. If the donor loses the tax advantage, the donor is less likely to donate money. It would be appreciated if the legislature revisited that program and raised the tax credit back to the 75%, and if necessary, cut the tax credit amount but not the percentage.

The most Small Business Administration 504 loans have been made since the 1970's. These loans are for real estate, construction and long term business equipment.

Chairperson Brownlee thanked Mr. Hrabec and told him to keep up the good work and keep in touch so the Committee might be helpful to wKREDA.

Chairperson Brownlee then welcomed Tom Thornton, President of the Kansas Bioscience Authority. Mr. Thornton introduced Former Governor John Carlin who is Chairman of the Bioscience Authority Board of Directors.

Mr. Thornton said that due to the visionary Kansas Economic Growth Act of 2004, which created the Kansas Bioscience Authority, Kansas has been able to vault ahead in bioscience as other states have pulled back from

CONTINUATION SHEET

Minutes of the Senate Commerce Committee at 8:30 a.m. on February 4, 2010, in Room 548-S of the Capitol.

innovation investments. KBA investments are already generating significant and measurable outcomes to fulfill the vision of the Kansas Economic Growth Act to accelerate innovation and position this state to address global bioscience challenges.

The KBA research is spreading throughout Kansas. KBA's success is evidenced by: 1) Kansas is ranked 9th most vibrant bioscience economy in the nation; 2) Kansas being selected as the home of the \$650 million National Bio and Agro-Defense Facility (NBAF); and 3) the realized outcomes of KBA's investments in bioscience companies and research organizations. The result is there is a \$7.59 return for each \$1 invested by KBA with the projected outcomes to rise. The question is no longer, "Can this work?" but "Just how big will this get?"

The unique funding mechanism along with diligent focus makes the KBA a very powerful tool for the State's continued economic development. KBA's investments are focused, diversified, game-changing and evaluative. KBA is a strategic partner oriented around outcomes.

Despite the remarkable success of KBA investments, in these challenging economic times, funding caps have been imposed on KBA causing a reduction of \$37 million in funding over two years and possibly a third year. This has resulted in program cuts and eliminations. As a result, there must be prudent planning and management to shorten the investment horizon and limit new funding commitments. KBA will need to choose from five areas of bioscience strength to be pursued in a game-changing way to benefit the economy most.

The legislature had the foresight to lay the foundation for a 21st century economy, a bioscience foundation that today can lead the State's economic recovery. KBA encourages the legislature to continue their commitment to the vision of the Kansas Economic Growth act. KBA can keep the momentum going and add a strong, fourth leg to the Kansas economy by: creating an environment for bioscience entrepreneurs to succeed in Kansas; linking research and industry to develop nationally prominent bioscience industry clusters; remain focused on getting the NBAF, a key priority, building and maximizing its multiplier effect; and by bringing cutting-edge cancer treatments closer to home.

As other states pull back from innovation investments, Kansas has the rare opportunity to stay the course and vault further ahead, accelerating our economic recovery and yielding benefits in improved health and economic growth for decades to come. (Attachment 1)

The next meeting is scheduled for February 9, 2010.

The meeting was adjourned at 9:30am.

COMMERCE COMMITTEE GUEST LIST

DATE: 2-4-10

| NAME | REPRESENTING |
|---------------------|-----------------------------|
| Lindsay Hohwiak | Kansas Bioscience Authority |
| Taylor Clawson | KTEC |
| JEAN MILLER | CAPITOL STRATEGIES |
| Randall Hradek | w KREDA |
| Mark Schreiber | Westar |
| Rodger DeGarmo | w KREDA |
| John Dobbs | w KREDA |
| John Kennedy | w KREDA |
| Mendi Alexander | w KREDA |
| Christy Hopkins | w KREDA |
| Nicole Pfannenstiel | w KREDA |
| Richard Boeckman | w KREDA |
| Elizabeth Sosa | w KREDA |
| Shirley Hanzel | w KREDA |
| JEFF HOFFMEYER | w KREDA |
| Mike Hein | Hein Law Firm |
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Testimony of Tom Thornton
President and Chief Executive Officer, Kansas Bioscience Authority
Hearing of the Kansas Senate Commerce Committee
February 4, 2010

Chairwoman Brownlee, Vice Chairwoman Lynn, members of the Committee, thank you for your invitation to address this distinguished panel on the tremendous progress Kansas is making in its pursuit of economic growth through national bioscience leadership.

Due to the visionary Kansas Economic Growth Act of 2004, which created the Kansas Bioscience Authority, *Kansas has been able to vault ahead in bioscience* as other states have pulled back from innovation investments.

Just last week we were in Topeka to deliver the Kansas Bioscience Authority's annual progress report. This report is very important to us because transparency is a core KBA operating principle, and the report is also one of the important tools we use to continually mark progress in this bold effort to advance Kansas' national bioscience leadership.

As we worked to prepare the 2009 progress report, a key message came through loud and clear: KBA investments are already generating significant and measurable outcomes, and we are fulfilling the vision of the Kansas Economic Growth Act to accelerate innovation and position this state to address global bioscience challenges.

Simply put, we are realizing the bold vision that the Kansas Legislature established when the KBA was created. No longer are we aspiring to bioscience leadership...we're driving it.

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

The evidence of our success is abundant, and the excitement all over Kansas is real:

- In 2009, a national site selection magazine once again highlighted the strength of Kansas' bioscience economy. In 2008, we ranked as the 10th most vibrant bioscience economy in the nation. In 2009, we moved up to 9th, alongside powerhouses such as California, Massachusetts, and Illinois. Consider, this: we rank 32nd in terms of the size of our overall economy, but *Business Facilities* ranked us 9th for overall biotechnology strength. That's a point of pride for us all and through our investments we are committed to improving that position.
- Kansas was officially selected as the home of the \$650 million National Bio and Agro-Defense Facility, which will have a \$3.65 billion economic impact as it becomes the world's preeminent research center to protect the food supply and agriculture economy. The magnetic affect of this designation was felt quickly when a

Senate Commerce Committee
Date: February 4, 2010
Attachment # 1-1

second federal research lab announced it would relocate to Kansas to accelerate its research efforts.

- The realized outcomes of the KBA's investments in bioscience companies and research organizations are growing as well. Through December 2009, KBA investments have had a cumulative impact of 1,170 new jobs, \$112.0 million in new capital investment, \$46.6 million in new research funding, \$30.8 million in new equity investments in bioscience startup companies, and an estimated \$76.7 million in new wages.

The result: A \$7.59 return to the state's economy for each \$1 invested by the KBA. And as more milestones are achieved by companies and researchers, the projected outcomes associated with existing investments will rise dramatically in the coming years to 5,013 new jobs, \$1.2 billion in capital investment, \$224.3 million in new research funding, and an estimated \$328.5 million in wages.

Many states, including our neighbor to the east, are trying to figure out Kansas' secret sauce and develop their own KBA-like entities. Our strategy is straightforward: we focus in areas of strength where we can win; resist a peanut butter approach; leverage our research assets; and emphasize getting the products of research to the market.

By setting clear priorities and pulling together a range of public and private partners, Kansas has established a new way of doing business — and it's working.

At the Kansas Bioscience Authority, 2009 was an exciting year filled with remarkable results. The question is no longer, "Can this work?" The question has become, "Just how big will this get?!"

The Vision of the Kansas Economic Growth Act

With that brief update, let me take a moment to step back and give some perspective on how we've gotten to where we are today.

The bold vision of the Kansas Economic Growth Act was to create a unique, stable, and non-politicized funding mechanism that would allow the KBA to invest in game-changing opportunities and pursue nothing less than national bioscience leadership.

The act also provided for a substantial sum of funding before sunseting. The \$581 million investment was designed to enable Kansas *not just to dabble in bioscience* but to truly pursue national leadership in five areas of strength in our state: animal health, bioenergy, biomaterials, human health, and plant biology.

The KBA funding mechanism has the following unique features:

- The state general fund receives \$67 million (the baseline), plus 5% of any growth above the baseline before the KBA receives any transfers.

- The KBA funding mechanism has built-in accountability: (1) we don't receive funds unless the biosciences sectors are expanding; and (2) the returns of KBA investments fund additional KBA investments.
- As the NBAF example shows, the funding mechanism allows the KBA to pursue aggressively game-changing investments that require quick action and multi-year commitments.

The unique funding mechanism matched by our diligent focus make the KBA a very powerful tool for the state's continued economic development. In many ways the KBA operates like a venture capital fund:

1. The KBA's investments are **focused**. The KBA is focusing in key clusters, like animal health, drug discovery, bioenergy and biomaterials, 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**: Every investment we make must get us closer to undisputed national leadership.
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.

This is an approach that has been hailed across the country as a model for success, and it is certainly a program that is the envy of many states as they try to play catch up with Kansas.

Most importantly, it's a visionary approach that is working for the Kansas economy!

Coming to a Crossroads

Despite the remarkable success of KBA investments, it has been understandable in these challenging economic times that funding caps were imposed on the KBA in FY 2009 and 2010. Those caps over two years reduced transfers to the KBA by \$37 million.

As a result, the KBA has cut its program spending by \$38.9 million causing a reduction in the number of centers of innovation we considered for funding; bonding of the Venture Accelerator instead of cash payments; elimination of the Business Investment Incentive Program; and reductions to the Eminent Scholar, Rising Star and other programs.

Now there is consideration of continuing the funding cap in FY 2011, which would reduce estimated transfers to the KBA by another \$35 million, for a total of \$72 million over three years. *That's a 41 percent reduction in three years.*

In that context, we must be very honest with ourselves this year. If a funding cap is imposed at \$35 million for a third consecutive year, it will set an unmistakable pattern deviating significantly from the funding mechanism created by a visionary law.

As a result, prudent planning and management will require us to shorten our investment horizon and dramatically limit new funding commitments.

What does that mean?

Sustained caps and the uncertainty they bring will require the KBA to change the execution of its investment strategy and the core nature of what we are able to accomplish. Essentially, it will be mandatory for the KBA to tighten its investment focus around a smaller number of priorities. We will need to choose which of our five areas of bioscience strength we can continue to pursue in a game-changing way that will benefit the economy most.

With a third year of funding caps, it will be difficult to continue our pace of investment in the Eminent Scholar program, the Kansas Bioscience Centers of Innovation, the cancer fighting cures initiative, and efforts to maximize the economic impact of the NBAF.

There would be no flexibility to pursue additional large-scale projects on the order of the NBAF.

Sustained caps will result in an ever-increasing percentage of annual KBA expenditures devoted to meeting existing commitments — and a corresponding reduction of new investments that can drive economic growth.

We will be letting off the accelerator at a key moment of extraordinary momentum and just when our impact is needed most.

Bioscience leading the state's economic recovery

There is much to be optimistic about. There's no doubt our state's hard work and commitment to bioscience has paid off — yet this success was not inevitable or by accident.

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 encourage your continued commitment to the vision of the Kansas Economic Growth Act so we keep the momentum going and add a strong, fourth leg to the Kansas economy. We can do this by:

- ***Creating an environment for bioscience entrepreneurs to succeed in Kansas:*** 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.
- ***Linking research and industry to develop nationally prominent bioscience industry clusters:*** The KBA's Kansas Bioscience Centers of Innovation will be key here as we ensure that companies in the state's key bioscience clusters have access to the innovations and talent they need to develop new products, create jobs and expand in Kansas.
- ***Remain focused on getting the NBAF built and maximizing its multiplier effect:*** We must remain focused and committed to getting the NBAF built and work now to maximize the extraordinary opportunities afforded by this seminal victory. Starting in FY 2011, over 1,500 men and women from all over our state will go work to build the facility, which will have a total economic impact in the state of over \$3.6 billion over 20 years. And by working to initiate the NBAF mission now, by facilitating university/industry research collaborations, by supporting the growth of startups, and recruiting companies to the region, we can and should be able to double that figure to over \$7 billion.
- ***Bringing cutting-edge cancer treatments closer to home:*** With cancer as one of the nation's great bioscience challenges, we have begun investing heavily in the state's drug development capabilities to increase Kansas' strength in this critical human health sector. One way we are doing that is with a significant commitment to the University of Kansas' multi-year effort to dramatically expand its renowned pharmaceutical strengths. This effort, which includes partners across the state, will bring cutting-edge treatments closer to home for Kansans, share Kansas' unique cancer-fighting capabilities with the nation — and generate real economic growth.

The mantle of national and even international bioscience leadership is within grasp. As other states pull back from innovation investments, Kansas has the rare opportunity to stay the course and vault further ahead, accelerating our economic recovery and yielding benefits in improved health and economic growth for decades to come.

Thank you.

Kansas Bioscience Authority
Eminent Scholars

The KBA has designated five eminent scholars. This includes three eminent scholars successfully recruited in FY 2008 and two recruited in FY 2010.

Dr. Paul Wooley, Wichita State University: Dr. Wooley came to Wichita State University from Wayne State University where his expertise included pathology and treatment of connective tissue diseases, biocompatibility, tissue engineering, and gene therapy. Dr. Wooley serves as director of research at Via Christi's Orthopaedic Research Institute and research professor at Wichita State University. His research includes the study of biocompatibility of composite implants with the goal of developing alternatives to the metal joints used today in knee and hip replacements, which weaken bone mass and often, require additional replacements over time.

KBA award: \$911,954 over five years

Expected outcomes: \$5 million in new external research to Kansas over five years

Realized outcomes: \$1,225,750

Dr. Juergen Richt, Kansas State University: Dr. Richt is a world-class animal health researcher who joined Kansas State University's (K-State) faculty from the National Animal Disease Center and Iowa State University. Recently he has worked in two important areas: emerging viral diseases of swine and prion diseases, such as mad cow disease. He brings expertise in diagnostics and vaccinations to K-State's Biosecurity Research Institute, where his research is expected to attract funding approaching \$1 million annually within several years.

KBA award: \$2.05 million over five years

Expected outcomes: \$4 million in new research funding over five years

Realized outcomes: \$1,529,540

Dr. Blake Peterson, University of Kansas: Dr. Peterson, a professor of medicinal chemistry who joined the University of Kansas (KU) from Pennsylvania State University, works to develop synthetic cell receptors as a new tool for drug delivery and studies small molecule-protein interactions to generate potential therapeutic leads. At KU, his research focuses on developing anti-cancer drugs and delivery systems, combining his passions for chemistry, biology, and medicine.

KBA award: \$5 million over five years

Expected outcomes: \$25.9 million in research funding over 10 years

Realized outcomes: \$21,598,098

Dr. David Volkin, University of Kansas: Dr. Volkin is a prominent pharmaceutical scientist and research and development manager with 20 years of experience in biopharmaceuticals and vaccines. Dr. Volkin came to KU from Centocor R&D, a subsidiary of Johnson & Johnson, where he will direct and expand the Laboratory for Macromolecule and Vaccine Stabilization at the University of Kansas.

KBA award: \$2.49 million over five years

Expected outcomes: Expanded Laboratory for Macromolecular and Vaccine Stabilization and an increase in the number of discoveries moved from the lab to the marketplace

Realized outcomes: none to date

Dr. Rakesh Srivastava, University of Kansas: Dr. Srivastava, who came from the University of Texas Health Science Center at Tyler, researches the molecular mechanisms of cancer cell growth and death and works to develop novel drugs that treat and prevent cancers. He brings National Cancer Institute (NCI) funding of \$600,000 a year and other external grant funding of \$225,000 annually. He is expected to play an important role in the University of Kansas Cancer Center's quest for NCI designation.

KBA award: \$1.8 million over five years

Expected outcomes: 10 new jobs and \$10 million in new research funding

Realized outcomes: \$600,000