

SENATE REVENUE COMMITTEE
APRIL 7, 2005 9:00 AM STATE CAPITOL BUILDING

Members Present: Senator Ryan Deckert, Chair
Senator Gary George
Senator Rick Metsger
Senator Floyd Prozanski
Senator Charles Starr, Vice Chair

Witnesses Present: Sen. Frank Morse, District 8
Pat Scruggs, Oregon Economic and Community Development
Department (OECDD)
John Gorlorwulu, OECDD
Ron Adams, Oregon State University Engineering
Arundeen Pradhan, Oregon Health & Science University
Wayne Embree, Cascadia Partners, LLC
James Bean, U of O Lundquist College of Business
Mason Adair, University of Oregon student
Ralph Groener, AFSCME

Staff Present: Paul Warner, Legislative Revenue Officer
Mary Ayala, Economist
Barbara Guardino, Committee Assistant

TAPE 91, SIDE A

005 Chair Deckert Calls meeting to order at 9:00 a.m.

WORK SESSION, SB 412

019 Mary Ayala Gives overview of SB 412. Begins discussion of SB 412-2 amendments. (**EXHIBITS 1, 2**). Adds increasing the duration of the plan to the types of future amendments that are substantial amendments which require a notice, hearing and approval procedure required on an original plan.

041 Ayala Begins discussion of SB 412-3 amendments (**EXHIBITS 3, 4**). Adds a provision that the urban renewal governing authority can exclude a taxing district from participation in the urban renewal plan.

049 Chair Deckert Summarizes the amendments.

055 Vice Chair C. Starr Comments, he prefers SB 412-3 amendments. Is not clear whether extension of the plan as a major change is included.

066 Ayala Correct. A substantial change is covered under this amendment.

071 Sen. Prozanski Prefers SB 412-3 with one reservation – making sure that if there is a change in the plan it would include the bonders.

099 Sen. George Comments that is a decision local governing bodies will look at.

- 110 Chair Deckert Believes the issuing agency would talk to bond counsels.
- 115 Sen. Metsger Likes the amendment.
- 119 Vice Chair C. Starr **MOTION: MOVES ADOPTION OF SB 412-3.**
- 121 Chair Deckert **ORDER: THERE BEING NO OBJECTIONS THE CHAIR SO ORDERS.**
VOTE: 5-0-0
MEMBERS VOTING AYE: GEORGE, METSGER, PROZANSKI, C. STARR, DECKERT
- 125 Vice Chair C. Starr **MOTION: MOVES SB 412 AS AMENDED TO THE SENATE FLOOR WITH A DO PASS RECOMMENDATION.**
- 127 Chair Deckert **ORDER: THERE BEING NO OBJECTIONS THE CHAIR SO ORDERS.**
VOTE: 5-0-0
MEMBERS VOTING AYE: GEORGE, METSGER, PROZANSKI, C. STARR, DECKERT

WORK SESSION, SB 470

- 135 Paul Warner Gives brief history of SB 470. Establishes a statutory spending limit. Previously discussed March 14. Explains SB 470-1 amendments (**EXHIBIT 5**).
- 166 Warner On page 2 of the bill, line 11 has a blank that needs to be filled in.
- 194 Vice Chair C. Starr **MOTION: MOVES ADOPTION OF SB 470-1.**
- 196 Chair Deckert **ORDER: THERE BEING NO OBJECTIONS THE CHAIR SO ORDERS.**
VOTE: 4-0-1
MEMBERS VOTING AYE: GEORGE, METSGER, C. STARR, DECKERT
MEMBERS EXCUSED: PROZANSKI
- 198 Vice Chair C. Starr **MOTION: MOVES SB 470 AS AMENDED TO THE WAYS AND MEANS COMMITTEE WITH A DO PASS RECOMMENDATION.**
- 201 Sen. Metsger Will not support this bill as amended. Gives reasons, citing page 1, section 1, lines 29-30. Also asks Warner about page 2, lines 6-7 concerning "allocation" and "appropriation."
- 223 Warner Responds, the bill is focused on the general fund. Lottery proceeds would be included as an appropriation for that biennium. It is consistent with current language in terms of the general fund budget.
- 239 Sen. Metsger Would like to talk to legislative counsel about that interpretation.
- 247 Warner There is ambiguity in what is known as general funds.
- 265 Chair Deckert This is part of the reason for referring this bill to the Ways and Means Committee. He can see problems for future legislatures.

- 280 Sen. Metsger Will vote no on the language as proposed.
- 285 Vice Chair C. Starr Restates motion.
- 295 Sen. Prozanski Questions whether it is necessary to vote with a “do pass” recommendation. Would be more comfortable to send it with no recommendation since there is no consensus.
- 308 Chair Deckert Can go either way on this.
- 314 Sen. George Asks Warner if there is anything in this legislation that couldn’t be overridden by the next legislative assembly.
- 318 Warner Suspects that future legislators would find a need to clarify these definitions.
- 322 Vice Chair C. Starr The split vote will give Ways and Means plenty of heads up to look at this bill closely.
- 331 Sen. Prozanski Asks Warner question concerning Section 1 (1). Is this list ranked in any priority?
- 341 Warner No. It is just a listing of the major elements.
- 377 Chair Deckert **ROLL CALL VOTE: 4-1-0**
MEMBERS VOTING AYE: GEORGE, PROZANSKI, C. STARR, DECKERT
VOTING NO: METSGER

PUBLIC HEARING, SB 853

- 392 Warner Gives overview of SB 853-A. Refers to work group packet issued earlier. (SB 853 was heard by the Committee on Education and Workforce on March 23, and then referred to Revenue.) Also see Staff Measure Summary (**EXHIBIT 6**). Authorizes state universities to set venture capital development funds.
- 419 Sen. Frank Morse Testifies in favor of SB 853. This bill draws together major components of universities to focus on how to commercialize the concepts, inventions and technologies that come from them. The fund creates a \$4 million cap for Oregon Health and Science University and \$10 million for Oregon University Systems. The fund is created by donations, and the intent is making grants for the earliest phase of commercialization – known as “the valley of death” concept. Hopes the committee will grasp the importance of this first phase of funding and the funding gap.

TAPE 92, SIDE A

- 025 Morse This fund could make grants to secure patents. Added to this is a tax credit recapture component. As commercialization occurs and the income stream returns to university, 20% would come back to the state treasury, thus recapturing the investment with multiple returns.
- 055 Pat Scruggs Testifies in favor of SB 853. See written testimony (**EXHIBIT 7**). Oregon Economic and Community Development Dept. has identified three key points:

- 1) Oregon needs good entrepreneurial talent at the start-up stages
- 2) Research needs to be commercialized much faster than present
- 3) Commercialization must be leveraged into more venture capital

085	Scruggs	Refers to chart, page 2. Refers to letter from EGI, page 3, from Anne Lunenburg. This is an example of what the drafters of this bill are trying to accomplish.
114	Chair Deckert	Asks if there's any evidence that this tax credit would actually work.
122	Scruggs	There are 12 states that offer this tax credit. They range from 20-40% with similar caps. These numbers do come from other working funds. The difference is they don't spread the tax credit over time.
152	John Gorlorwulu	Testifies in support of SB 853. See written testimony paraphrased (EXHIBIT 8). Emphasis is on three sources of impacts: <ol style="list-style-type: none"> 1) Research jobs created as a result of this funding 2) Royalties created by these licenses 3) Companies developed in association with new ideas Comments on spread sheet, exhibit 7, page 4.
229	Sen. George	Comments on a bill moved out in 1999 to set up research on a transit tracking system. That project collapsed because the university did not have the mechanism to move it forward. This bill is a giant step forward. This project would have benefited transit throughout the world, and should have been done in Oregon.
260	Sen. Metsger	If this became law, how would it work in terms of an investor receiving tax credits? Questions the language, "an investor shall be allowed to get a tax credit."
280	Sen. Morse	That language needs to be changed. It was an oversight in the SB 853-2 amendments. Page 1 language should be changed from "investors" to "donors." In response to Chair's question, people donate because they believe in what the institution is doing. Also, once people start giving they are more prone to continue and expand their giving.
353	Sen. George	Asks, what's wrong with the concept of profiting from this?
358	Sen. Morse	Responds, that was his first thought. This first stage is better focused on grants than on investments because it is high risk.
678	Warner	Comments on spread sheet, exhibit 7, page 4. There would be a wide range of variability. This is a very plausible scenario.
414	Ron Adams	Focuses comments on venture fund aspect in regard to proof of concept. Gives example of a printer project at Techtronics, in which he was involved in 1995. It has produced 1,000 new jobs and Techtronics is now headquartered in Wilsonville.

047	Adams	The fund would also provide help for International Patent. Gives example. Closing remarks, this tax credit does two things: results in jobs for Oregon and helps develop Oregon's future entrepreneurs.
053	Arun Pradhan	See remarks (EXHIBIT 9). Most of research at OHSU is funded by the federal government. This creates a "valley of death" – funding that takes research from concept to development. OHSU created an innovation fund a year ago and has a mechanism set up to identify those projects with likelihood of commercial success. They provide valley of death pre-seed funding.
095	Pradhan	OHSU has a panel set up to evaluate research proposals, and funds 4-5 projects a year. Once projects are approved, faculty ensures they meet milestones.
097	Chair Deckert	Questions concerning OHSU panel's process. How would this new tax credit help OHSU at the valley of death stage?
105	Pradhan	Responds, once those commercialization milestones are met a company is spun out. A lot of new companies tend to flounder, so the credit could augment valley of death funding to attract a CEO or other individual to shepherd the company.
128	Pradhan	Discusses the "springboard" program. Gives example.
145	Wayne Embree	Begins paper version of a PowerPoint presentation: Testimony Supporting Senate Bill 853 (EXHIBIT 10). Page 2, Facts: <ul style="list-style-type: none"> • Major US research institutions have had a decline in startups • Startup companies based on university technology are disproportionately successful Cities with greater patent and science and engineering capacity show increased innovation commercialization. But...
179	Embree	Page 3: Evolution of Private Equity – A Nine-Year Slide in Startup Funding
205	Embree	Page 4: ...universities alone provide a huge market in startups each year. Licenses result in 350 to 700 viable startups. Page 5: It's about opportunity and IRR <ul style="list-style-type: none"> • Since 1980 nearly 3,400 spinouts • 70% still in business
239	Chair Deckert	Asks, out of that 3,400 what percentage comes from the major research institutions?
247	Embree	Does not know, but believes success does not have to do with size. Comments, on a successful small Canadian university whose efforts are aggressive and commercialized. Comments on various U.S. institutions.
277	Embree	Page 6: MIT Value Pyramid 1980-1996 Page 7: Furthering Development
296	Embree	Page 8: Effects

- University of British Columbia
Oregon Resource & Tech. Dev. Corp.

349 James Bean Testifies in favor of SB 853. See written testimony (**EXHIBIT 11**). This tax credit is important to filling the valley of death because when a technology is developed, it is not always associated with a market opportunity. Programs provide people to develop business plans to move to a concept that a venture capitalist might be interested in. Independently the three major business schools have developed programs, each with different missions.

409 Bean Explains Portland State University's lab to market program.
Explains Oregon State venture.
Explains University of Oregon program.

TAPE 92, SIDE B

037 Chair Deckert Asks Bean to comment on Michigan's Wolverine Fund, mentioned in his written testimony. Oregon is badly in need of that type of activity.

047 Bean Responds, Michigan has the advantage of size. Oregon schools are smaller and need to work together and, with the help of this bill, to accomplish the same thing.

050 Chair Deckert Comments, this might be one step in the right direction.

057 Mason Adair Gives anecdotal glimpse from his experience at University of Oregon in developing a business plan. Last summer he and his teammates met with representatives from Pacific Northwest National Laboratories and the UO Biosciences Department to review and discuss commercialization potential of technologies. This process moved into a course held in the fall. Three weeks ago his team competed internationally and took the first runner-up position. This opportunity was going to be a function of whether they would receive a one-time gift. This is not just an academic exercise. His team is structured as an LLC and will incorporate as an S-Corporation.

104 Adair Concludes, this process has helped team members develop a network of contacts in the business community that will help them in their careers. They have also identified an exciting market space and first-hand experience.

122 Chair Deckert Asks Dr. Bean if donors at UO would utilize this tax credit.

126 Bean A definite "yes".

145 Ralph Groener Testifies in support of SB 853 on behalf of AFSCME. See written testimony, OHSU Economic Impact (**EXHIBIT 12**). Asks that universities be more specific on how these dollars would be spent. Notes, for every \$1 received by OHSU, \$27 comes back in gifts, contracts, etc.

164 Chair Deckert Closes public hearing on SB 853. Will bring back two reserve fund bills, SJR 29 and SB 841 for work sessions on April 8. Adjourns meeting at 10:37 a.m.

Tape Log Submitted by,

Barbara Guardino, Committee Assistant

Exhibit Summary:

1. SB 412, Staff Measure Summary, 4/6/05, Ayala, 1 pp.
2. SB 412, proposed -2 amendments, 4/6/05, Ayala, 16 pp.
3. SB 412, Staff Measure Summary, 4/6/05, Ayala, 1 pp.
4. SB 412, proposed -3 amendments, 4/6/05, Ayala, 17 pp.
5. SB 470, proposed -1 amendments, 3/28/05, Warner, 1 pp.
6. SB 853-A, Staff Measure Summary, 4/7/05, Warner, 1 pp.
7. SB 853-A, Testimony of Patricia Scruggs Before the Senate Revenue Committee on SB 853, 4/7/05, 5 pp.
8. SB 853-A, Testimony Before the Oregon Legislative Assembly: Senate Bill 853 (Proof of Concept Funding for OHSU and OSU), 4/7/05, Golorwulu, 2 pp.
9. SB 853-A, OHSU, Remarks by Arun Pradhan, Director, Office of Technology & Research Collaboration, Oregon Health & Science University, 4/7/05, 1 pp.
10. SB 853-A, slide presentation, Senate Revenue Committee, Testimony Supporting Senate Bill 853, 4/7/05, Embree, 8 pp.
11. SB 853-A, University of Oregon Charles H. Lundquist College of Business, testimony of James C. Bean, 4/5/05, 3 pp.
12. SB 853-A, Oregon AFSCME, OHSU Economic Impact, Groener, 1 pp.
13. SB 853-A, OSU College of Business letter, 4/4/05, Scruggs, 2 pp.
14. SB 853-A, Portland State University letter to Senator Ryan Deckert and Members of the Revenue Committee, 4/6/05, Scruggs, 2 pp.
15. SB 853-A, Northwest Technology Ventures, letter to Chairman Deckert and Members of the Senate Revenue Committee, 4/6/05, Scruggs, 3 pp.
16. SB 853-A, University of Oregon, letter in support of bill from Richard Linton, 4/6/05, Scruggs, 2 pp.