

SENATE REVENUE COMMITTEE

April 2, 2001 — 8:30 A.M. - HEARING ROOM A - STATE CAPITOL BUILDING

Members Present: Senator Ted Ferrioli, Chair

Senator Lee Beyer, Vice Chair

Senator Susan Castillo

Senator Tony Corcoran

Senator John Minnis

Senator Charles Starr

Members Excused: Senator Gary George

Staff: Paul Warner, Legislative Revenue Officer

Richard Yates, Economist, Legislative Revenue Office

Carol Phillips, Committee Assistant

Witnesses: Dr. Peter Kohler, President, Oregon Health Services University

Randall Edwards, Oregon State Treasurer

John Kitzhaber, Governor, State of Oregon

Ray Colten, Vice President, Chemica Technologies, Inc.

Cindy Littrell, patient testimony

Doug Goe, Bond Counsel to OHSU, Ater Wynne, LLC

Scott Gibson, Scott Gibson Enterprises

TAPE 091, SIDE A

- 004 Chair Ferrioli Meeting called to order at 8:40 a.m.
- 013 Richard Yates Discussed SB 832-A. Stated the bill requires Oregon Health Sciences University (OHSU) to create the Oregon Opportunity program with \$200 million. The bill requires investment in facilities, endowments, research infrastructure, recruitment of scientists and researchers, scholarships, and programs to usher in a new era of breakthrough in health care and biotechnology for Oregonians and to expand OHSU's rural health initiatives program.
- 027 Yates Stated this program would be funded in one of two ways: it provides for revenue bonds based on moneys Oregon will receive from the tobacco Master Settlement Agreement, and alternatively it provides for the issuance of general obligation bonds authorized in a vote by citizens of Oregon in HJR 46. HJR 46 will go to voters on November 6, 2001 if it is passed by the legislature. If HJR 46 passes the legislature and voters, the OHSU program would be funded through general obligation bonds. If HJR 46 does not get out of the legislature or is not passed by voters, then the program would be funded with revenue bonds.

OPENED PUBLIC HEARING ON SB 832-A

- 059 Dr. Peter Kohler Testified in favor of SB 832-A. Exhibit 5. Stated that discussions regarding this project began over a year ago. The National Institutes of Health (NIH) have been funding biomedical research with the intent to double their budget over a five-year time period. OHSU has been capturing its share of the NIH budget. The worldwide human genome project has been concluded, causing an acceleration in biomedical research activities.

Various questions and answers interspersed.

- 072 Kohler Stated their initial plan was to use part of the tobacco Master Settlement Agreement money in order to fund research activities. Believed 15% of the overall settlement could be invested into research to find cures for various smoking-related diseases. Believes this is the best time in history for biomedical research advances. The health and humanitarian benefits of the research will be extraordinary. For example, this week OHSU will announce some breakthroughs in cancer treatment. The economic benefit of that particular activity will accrue to Switzerland because OHSU did not have the right infrastructure in place at the appropriate time (seven years ago) to capture the value for Oregon.
- 090 Kohler SB 832-A will make sure for the future, as OHSU's research programs continue to turn out more inventions and discoveries that can lead to prevention and cure, that Oregon retains the health benefit and the commercial benefit as well. The Oregon Opportunity is designed to build out the infrastructure needed in the state so Oregon can be a leader in biomedical research. OHSU is also matching with private fund-raising, to reach an entire program build-out figure of near \$500 million.
- 118 Kohler Stated that, contrary to popular opinion, biotech can exist outside large metropolitan areas. A representative from Chemica Technologies located in Bend is scheduled to speak to the committee later in today's public hearing. There are several biotech companies located around Oregon.
- 134 Kohler Added that the first and most immediate benefit of funding SB 832-A in terms of annual benefit accrued is that OHSU can guarantee immediate two-to-one or three-to-one matching with federal grant support dollars. Other benefits will be second level clinical trials, infrastructure build-out, and biotech companies OHSU hopes will be part of the diversification of Oregon's future economy. Biotech is believed to be the next

large economic opportunity. It is important for Oregon to be prepared to benefit from that.

151 Kohler Said OHSU has some projects currently in laboratories right now being recruited away from Oregon, i.e. an extremely promising treatment for breast cancer. If it works as well as it looks like it might, it by itself could be a billion dollar a year piece of the economy. People in California are working very hard to move the technology to their state as are companies in Switzerland and Germany. It is mandatory for the future that Oregon be able to develop companies in Oregon to keep jobs and money in the state.

Questions and answers followed.

165 Vice Chair L. Beyer Asked Dr. Kohler what could be done by Oregon, if SB 832-A passes, to make sure spin-off jobs and benefits stay in Oregon and that the intellectual properties developed will be used in Oregon rather than being sold to companies who would take the ideas to other states or other countries.

181 Dr. Kohler Responded that properties developed at OHSU are similar to other universities in the state. Ownership of the properties is usually split three ways: one-third with innovator or investigator, one-third with their department or unit, and one-third with the institution. What is needed within Oregon is the infrastructure to utilize discoveries.

Extensive questions and answers.

280 Chair Ferrioli Agreed that periodic reporting back from OHSU to give updates on program success or findings is essential. Because public funds (general obligation bonds or tobacco settlement dollars) would be used in this project, citizens have a right to know how wisely public funds are being used. Will ask leadership what committee should

have regular reports made to it. Noted that the State Treasurer is noted in the bill as being in line for receiving periodic financial reporting.

Further questions and answers.

362 Randall Edwards
Testified in support of the bill. Read Exhibit 6. Noted that the Oregon Opportunity is a unique chance to invest in what is likely to be the next technology revolution in the country --- biotechnology. The intersect of medicine and high technology is the future, and Oregon should position itself to benefit from it. Oregon Health Sciences University has a long track record of success as a medical school, hospital, and research facility. The Oregon Opportunity is an attractive investment for Oregon to make.

TAPE 092, SIDE A

031 Edwards
Continued comments, followed by extensive questions and answers

045 Sen. Minnis
Asked when it was expected this project would be up and running.

047 Dr. Kohler
Responded that different aspects would be on-line at various times. Clinical trials could be located in certain areas within 8 to 12 months. Other aspects require construction of specialized facilities, and that would take possibly three years to bring on line.

053 Sen. Minnis
Continued questions to Mr. Edwards, followed by responses.

130 Chair Ferrioli
Comments on testimony by Mr. Edwards.

163 Vice Chair L. Beyer
Asked Dr. Kohler if money from the bonds would be used for bricks and mortar.

165 Dr. Kohler Responded that a large percentage would be used for construction, but funds would also be used for recruitment of key scientists needed to round out research programs. High quality scientists bring money with them, but they have to be acquired first.

Further comments, questions, and answers.

193 Edwards Stated for the record that there is risk involved in the investment specified in SB 832-A. Has an interest, however, being the person issuing the bonds, that the venture succeeds. There is a long-term benefit for Oregon to move forward with this project.

Further questions and answers interspersed.

280 Sen. Minnis Asked what percentage of this \$500 million project will be capital construction.

285 Dr. Kohler Answered that 40%, or \$200 million, would be capital construction.

290 Sen. Minnis Stated there should be no problem with general obligation bonds for brick and mortar construction. Suggested using bonds for the construction part of the program and raise private dollars for other components not necessarily covered under general obligation bonds.

300 Dr. Kohler Stated that if getting an early rapid start is a priority, private money comes in at variable amounts and may be earmarked for particular programs that may have to wait for construction to have been completed. It is less flexible money and hard to use until it is actually received.

340 Edwards Referred to Exhibit 7.

- 350 Chair Ferrioli Stated that the committee will be reviewing HJR 46 as part of the deliberations for SB 832-A.
- 406 John Kitzhaber, Governor Testified in favor of the bill. Has two concerns regarding the issue. The first concern has to do with overall impact of the cost of this program on the general fund. Agreed there is a very bright side to medical research. But because \$200 million of public funds will be spent on this project, and not available to be spent on other things, this project must be viewed in a different light than if it was financed totally by private sector. The dark side of biomedical research has to do with the cost of new diagnostic and therapeutic procedures. This is not simply about miracles of modern medicine or of benefits for mankind. It is also about making money. Reports about the genome project do not appear in Science or Medicine sections of The New York Times. They appear in the Business section. Materials put out by OHSU regarding the Oregon Opportunity speak about creating a new industry in Oregon. That is well and good, but the cost of healthcare today is the major barrier to access to basic healthcare services for many Oregonians. Three hundred seventy thousand Oregonians, or 11% of the population, lack financial means to access healthcare services.
- 476 Governor Kitzhaber Continued that it is important how both public and private payers respond to increased costs in the system. Healthcare costs are growing in double-digits, putting a huge burden on both private and public sectors. When costs go up, public and private payers manage that cost by reducing access. The debate about the healthcare system has three main questions: Who is covered? What is covered? How is it paid for? Or eligibility, benefits, and cost. When costs go up, states generally change income eligibility levels for Medicaid, the private sector reduces dependent coverage or drops coverage altogether, or amounts paid to

providers are reduced. In either event, the number of people who do not have access to healthcare is increased.

TAPE 091, SIDE B

044 Governor
Kitzhaber

Is concerned about the implications of increased costs in healthcare system that will result from new diagnostic and therapeutic procedures. Knows there is rhetoric about how they will save costs in the future, but that is not the history of medical technology.

OHSU, like most academic institutions, has a historic mission to care for the poor and to teach the next generation of healthcare professionals. Care for patients with serious complex chronic diseases is financially adverse in the current healthcare financing system. In other words, hospitals cannot make any money on them. In many academic institutions across the country there is increased pressure on primary care physicians, nurses, and other professionals to generate revenue from patient care, often at the expense of time available for teaching. There is increasing pressure to reduce the number of very sick patients from the patient mix, because they adversely affect the financial health of the institution. This fact applies to almost all hospital systems around the country.

066 Governor
Kitzhaber

The first question should be what is the potential impact of overall system-wide costs resulting from introduction and technology transfer of new diagnostic and therapeutic procedures on the historic mission of OHSU to teach the next generation of healthcare providers and on the historic mission of OHSU to provide care for the poor. The second area of concern has to do with the overall impact of the costs on the ability of people to get basic healthcare here in Oregon. That raises a fundamental public policy question in this debate. Should the coverage floor be broadened before raising the research ceiling? Believes it is policy and higher social priority to ensure

that everyone in the state has access to basic healthcare services available today before investing in new and expensive technologies.

085 Governor
Kitzhaber

Believes this project should go forward, but does not believe the research ceiling should be raised indiscriminately and not be concerned with the implications that may have to access for citizens of Oregon. Requested that a work group be established with representatives from OHSU, including individuals with a background in medical ethics, representatives from the Governor's office, interested legislators, and others to examine the issues thoughtfully and to see if a way can be developed to address them in amendments to SB 832-A when it is heard on the House side. This is not just about biomedical research but about investments, stockholders, and making a return on the investment. This is an opportunity for OHSU to be a world leader not only in biotechnology but also in acknowledging implications of this type of high technology on access to basic care. Should be direct return on this investment to the state in terms of ensuring access for the medically indigent. From an academic and public policy standpoint, there is an opportunity to educate the public on the pluses and minuses of the application of these technologies.

Extensive questions and answers interspersed.

247 Chair Ferrioli

Summarized points of Governor's testimony. Consensus among members is in favor of this bill, but not all testimony will be heard today.

Questions and answers interspersed.

356 Governor
Kitzhaber

Believes SB 832-A should be moved out of this committee with whatever amendments are developed and sent to the House for further consideration. Feels strongly before it reaches his desk that a work group should be consulted about questions discussed today.

Further comments, with questions and answers.

- 397 Sen. Minnis Believes it would be appropriate to have a preamble to the bill setting out objectives addressing the mission to be achieved.
- 420 Governor Kitzhaber Agreed that a preamble acknowledging both sides of the biomedical research issue would be a positive addition to the bill. Stated there were probably two more months remaining in this legislative session, so there would be time to add wording to the bill.
- 435 Chair Ferrioli Pointed out that the President of the Senate has announced committees would start to be shut down between May 1 and May 15. Believes Senate Revenue Committee members prioritize this bill highly.
- 470 Ray Coulten Testified in support of the bill. Stated that contrary to popular belief, there are biotech companies in small communities like Bend.

TAPE 092, SIDE B

026

- 192 Cindy Littrell Testified in support of SB 832-A. Read Exhibit 8.
- 270 Doug Goe Began testimony in support of SB 832-A, but because of time constraints in today's committee time, will complete testimony when bill is next heard.
- 289 Scott Gibson Testified in support of SB 832-A. No question that the linkage between research and development, intellectual properties, and company formation (jobs and taxes) in communities where that happens is very positive. The collaboration of computer science and electrical engineering with medical and biosciences that can produce breakthrough cures is exciting. Believes the Oregon Opportunity can make a real difference in Oregon.

339 Chair Ferrioli Stated that instead of moving the bill today to Ways & Means as was anticipated, a work group will be established for further study of all aspects of what the bill would do. SB 832-A will be re-scheduled for Wednesday, April 11, 2001 and move the bill at that time.

Questions and answers followed.

428 Chair Ferrioli Adjourned the meeting at 10:28 a.m.

Submitted by, Reviewed by,

Carol Phillips Kim Taylor James

Committee Assistant Revenue Office Manager

Exhibit Summary:

1. SB 832-A, Yates, Staff Measure Summary, 1 pp.
2. SB 832-A, Yates, Staff Measure Summary 1 pp.
3. SB 832-A, Yates, Fiscal Revenue Statement, 1 pp.
4. SB 832-A, Yates, Revenue Impact Statement, 1 pp.
5. SB 832-A, Kohler, Written testimony dated April 2, 2001, 13 pp.
6. SB 832-A, Edwards, Written testimony dated April 2, 2001, 2 pp.
7. SB 832-A, Edwards, Summary of Oregon Opportunity Financing Alternatives, 1 pp.
8. SB 832-A, Littrell, Written testimony undated, 1 pp.
9. SB 832-A, Figurski, Written testimony dated April 2, 2001, 1 pp.