

HOUSE BILL REPORT

HB 1623

As Reported by House Committee On:
Technology, Energy & Communications
Appropriations

Title: An act relating to the strategic financing of life sciences research.

Brief Description: Establishing the life sciences discovery fund.

Sponsors: Representatives Sommers, Anderson, Morris, Armstrong, Hinkle, Kenney, Priest, Linville, Kessler, Hunt, Williams, Chase, Kilmer, Hunter and Hudgins; by request of Governor Gregoire.

Brief History:

Committee Activity:

Technology, Energy & Communications: 2/10/05, 2/17/05 [DPS];
Appropriations: 3/1/05, 3/5/05 [DP2S(w/o sub TEC)].

Brief Summary of Second Substitute Bill

- Creates a Life Sciences Discovery Authority (Authority) as an agency of the state.
- Creates the Life Sciences Discovery Account, to be funded with amounts transferred by the Legislature from strategic contribution payments deposited in the tobacco settlement account; received from other public and private sources in accordance with contribution agreements; and from gifts, grants, and bequests.
- Allows the Authority to make grants, after appropriation, to entities for the promotion of life science research to be conducted in the state.

HOUSE COMMITTEE ON TECHNOLOGY, ENERGY & COMMUNICATIONS

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 11 members: Representatives Morris, Chair; Kilmer, Vice Chair; Crouse, Ranking Minority Member; Haler, Assistant Ranking Minority Member; Ericks, Hudgins, Nixon, P. Sullivan, Sump, Takko and Wallace.

Staff: Kara Durbin (786-7133).

Background:

In 2001, at the request of Governor Locke, leaders from Washington's research institutions, industry, government, and the community developed the framework of a strategic initiative (known as "Bio 21") that would capitalize on existing assets at the convergence of the life sciences and information technology. Bio 21 calls for the state to direct a combination of public and private funds to the research sector through fiscal year 2018 to support research and commercialization of life science and information technology. In 2003, the Legislature provided funds from the master tobacco settlement agreement to support further development of this initiative.

The Tobacco Master Settlement Agreement is an agreement between 46 states, the District of Columbia, six territories, and five major tobacco product manufacturers. Under the agreement, participating manufacturers agree to make specified payments to the state and agree to abide by extensive public health restrictions on the advertisement, promotion, and marketing of cigarettes. In exchange, the state agreed to release the participating manufacturers from claims by the states. Of that settlement, Washington is expected to receive approximately \$4 billion over a period of 25 years. Money was received under the settlement beginning in the 1999-2001 biennium and has been used to support tobacco prevention and control programs and as support for the Basic Health Plan and other health programs. In the 2002 legislative session, 29.2 percent of the revenue stream from the Master Settlement Agreement was securitized, which made available to the state \$450 million.

Summary of Substitute Bill:

Authority Created:

The Life Sciences Discovery Fund Authority (Authority) is created as a public instrumentality and agency of the state. The powers of the Authority are vested in a board of trustees. The seven member board of trustees is to be appointed by the Governor and confirmed by the Senate. The board meetings are subject to the Open Public Meetings Act.

The Authority can enter into an agreement with the state to receive the state's strategic contribution payments from 2008 to 2017 under the master settlement agreement. In return for the right to receive the strategic contribution payments, the Authority pledges to leverage the revenues with amounts received from other public and private sources and to collectively hold those funds in trust to promote life sciences and related research. The strategic contribution payments do not have to be transferred to the Authority if it does not have a commitment for \$20 million in nonstate contributions with \$10 million in contributions already received.

Agreements:

The Authority also has the power to enter into agreements with private and public entities other than the state to receive funds. In return, the Authority pledges to leverage those funds with money received in accordance with the state agreement as well as money received from

other public and private sources, and to collectively hold those funds in trust to promote life sciences and related research.

Grants:

In addition, the Authority has the power to make grants to entities pursuant to a contract for the promotion of life sciences research to be conducted in the state. The authority shall solicit requests for funding and evaluate the requests by considering the following factors:

- the quality of the proposed research;
- the potential for leveraging additional funding;
- the potential to provide health care benefits;
- the potential to stimulate health care delivery, biomedical manufacturing, and life sciences related employment in the state;
- the geographic diversity of the grantees within Washington; and
- evidence of public and private collaboration.

In addition to considering these factors, the Authority has the power to adopt policies and procedures to facilitate the process of reviewing and awarding grants. The Authority can also create one or more advisory boards consisting of scientists, industrialists, and others familiar with life science research.

"Life science research" defined:

"Life science research" is defined as advanced and applied research and development related to health care outcomes, particularly in areas such as diagnosis and treatment of disease, medical devices and imaging, and software for use in clinical settings. This can include laboratory and clinical research and proof of concept development.

Miscellaneous:

The income of the Life Sciences Discovery Fund is not subject to business and occupation taxes. Certain information in grant applications is exempt from public disclosure which, if revealed, would reasonably be expected to result in private loss to the providers of the information.

Substitute Bill Compared to Original Bill:

Clarifies in the intent section that life science research is intended to foster a preventive and predictive vision of the next generation of health-related innovations. Expands the definition of "life science research."

Appropriation: None.

Fiscal Note: Requested on February 7, 2005.

Effective Date of Substitute Bill: The bill has an emergency clause and takes effect immediately, except section 13, relating to disclosure of public records, which takes effect June 30, 2005.

Testimony For: This is a bipartisan opportunity to invest in life science research in our state. The fund has to hit a certain level in order to receive strategic payments. Most life science research industries need public funds to get past the intro/growth stage. Our state needs a comprehensive strategy for life science research; this is just one piece of the strategy. This is the culmination of our work in the Bio21 project. Our state is internationally recognized in the field for our research institutions, and most were developed without state support. We have the potential to create a niche in developing preventive medicine. This legislation builds on the strengths in our state. There is a lack of seed money for this type of industry. We have the reputation and the talent pool to succeed in this industry. We can bring the big pharmaceuticals here to draw upon research and technology in our state. We have the potential to compete and lead on a global basis. This bill will spur further collaboration between research institutions and private sources. Other states have used tobacco settlement funds to finance life sciences research.

This bill creates educational opportunities for our children. Other states have already made significant investments in this area. We need to improve the speed from research to commercialization. We are in the top 10 bioscience regions in the world because of our research institutions. There is a window of opportunity here; other states are looking at this sector as well. We have the research institutions and the infrastructure for life science research to thrive here. We need to create incentives to early stage companies. Few venture capital firms are invested in the biosciences locally. This sector is becoming increasingly competitive.

Testimony Against: (With concerns) Concerned that this bill could funds embryonic stem cell research. Basic access to health care is a major issue for this state, and this bill could divert some money that would otherwise be directed towards health care.

Persons Testifying: (In support) Representative Anderson; Marc Baldwin, Governor's Office; Bill Grinstein, Shan Mullin, and Chuck Hirsch, Washington Life Sciences Fund Coalition; Jack Faris, Washington Biotechnical & Biomedical Association; Larry Ganders, Washington State University; Randy Hodgins, University of Washington; and Tim Martin, Amgen.

(With concerns) Matt Muckler, Washington State Catholic Conference.

Persons Signed In To Testify But Not Testifying: None.

HOUSE COMMITTEE ON APPROPRIATIONS

Majority Report: The second substitute bill be substituted therefor and the second substitute bill do pass and do not pass the substitute bill by Committee on Technology, Energy & Communications. Signed by 19 members: Representatives Sommers, Chair; Fromhold, Vice

Chair; Anderson, Assistant Ranking Minority Member; Armstrong, Cody, Conway, Darneille, Dunshee, Grant, Haigh, Hunter, Kagi, Kenney, Kessler, Linville, McDermott, Priest, Schual-Berke and Walsh.

Minority Report: Do not pass. Signed by 9 members: Representatives Alexander, Ranking Minority Member; McDonald, Assistant Ranking Minority Member; Bailey, Buri, Clements, Hinkle, Miloscia, Pearson and Talcott.

Staff: Amy Hanson (786-7118).

Summary of Recommendation of Committee On Appropriations Compared to Recommendation of Committee On Technology, Energy & Communications:

The second substitute bill changes the name of the Life Sciences Discovery Fund Authority to the Life Sciences Discovery Authority (Authority). The bill specifies that the board must include a health economist and a purchaser of health services for an entity that is not engaged in life science research, the delivery of health services, or the production of health care devices or products. Two additional grant evaluation factors are added: (1) whether the grant has potential to improve health outcomes; and (2) if there is evidence of potential royalty income and contractual means of recapturing such income. The authorization for the Governor to assign to the Authority the right to directly receive the strategic contribution payments is removed. The bill creates the Life Sciences Discovery Account with revenues: transferred by the Legislature from strategic contribution payments deposited in the tobacco settlement account; received from other public and private sources in accordance with contribution agreements; and from gifts, grants, and bequests. Trustees of the Authority and staff of trustees are prohibited from accepting any compensation, contribution, or financial interest, or any obligation of indebtedness to the grantee. Trustees and staff are required to file a statement of financial affairs pursuant to RCW 42.17.241.

Appropriation: None.

Fiscal Note: Not requested.

Effective Date of Second Substitute Bill: The bill takes effect 90 days after adjournment of session in which bill is passed, except section 14, relating to retention of interest earnings, which takes effect July 1, 2006.

Testimony For: (In support) These funds can be used to promote better health care outcomes, to create employment opportunities and to support our premier research institutions. Washington is home to many of the world's most important research institutions and bio-foundations and we believe this provides a great way to capitalize on these advantages. Investments in health research will create a lasting legacy for all of us and this is a great way to jump start that effort. Industry analysis suggests that there are whole new industries and products produced from this type of research. The Bio21 report forms the basis of this legislation and the intent was to take advantage of the world class research done in Washington, improve the efficiency of health outcomes, and create a vibrant life sciences industry. This legislation has a commitment to improving health care delivery. These dollars

can bring new thinking, technology, and ideas about how to bring better health care to the citizens of this state. The Life Sciences Discovery Fund is an important central element in a comprehensive bioscience strategy for Washington's future. Such a comprehensive strategy would enable us to remain competitive in the world's most competitive arena, create education and career opportunities for our children, and would extend the benefits of advancements in life sciences to people across the state and around the world. Other states and other communities around the nation are starting to figure out the benefits of the research economy and are moving fast and aggressively to position themselves in this new and emerging area of biomedical research. The Life Sciences Discovery Fund is critically important to maintain and grow the strong position we have in Washington. This proposal will benefit in every way from cancer research to agriculture.

(With concerns) Basic access to health care services is out of reach to many residents of our state. An investment of the magnitude referenced in HB 1623 could be invested to alleviate the current sufferings of many of our state's residents by giving them access to health care. The bill is in need of ethical parameters, such as a complete ban on human cloning.

Testimony Against: None.

Persons Testifying: (In support) Jack Faris, Washington Biotechnology and Biomedical Association; Marty Brown, Governor's Office; Cheryl Scott, Group Health; Larry Ganders, Washington State University; Randy Hodgins, University of Washington; and Bill Grinstein, Washington Coalition for Life Sciences Discovery Fund.

(With concerns) Matt Muckler, Washington State Catholic Conference.

Persons Signed In To Testify But Not Testifying: None.