

Testimony by Dr. Steve Warren Vice Provost for Research and Graduate Studies The University of Kansas

**Kansas House Taxation Committee
Wednesday, February 6, 2008. 9 a.m.
Room 519-South, State Capitol**

Chairman Wilk, members of the Committee; my name is Steve Warren, and I serve as vice provost for research and graduate studies at the University of Kansas.

I am here to speak in favor of a bill that would extend a public university's property tax exemption to include a private company's R&D efforts performed in a university laboratory.

Currently, companies in Kansas have limited access to university research facilities to perform R&D that results in new tech-based products.

For example, under the state tax code, for-profit companies may not lease or occupy state university research labs -- even on a temporary basis as part of company-university collaborative research projects -- without endangering the property tax exemption of the building in which the research occurs.

This concern applies to established companies as well as early-stage, university spin-offs -- small businesses whose very existence is tied to the work of university researchers.

Public universities have no choice but to adhere to current state statutes on property tax exemptions. The proposed bill language -- which you have before you -- resolves this issue in a fair and productive way.

The change would immediately benefit companies that wish to do research on a university campus.

It would also benefit the university, whose students and faculty would have new opportunities to work on real-world problems.

And it would benefit the state as a whole in ways I'll outline in a moment.

As I said, the bill extends the current university property tax exemption to include a company's R&D efforts performed in a university lab.

To accomplish that goal, it authorizes a company to enter into a lease agreement to use the labs, and the term of the lease would be brief -- no more than five years.

Such a change benefits all three partners in an economic development initiative based on university research.

Existing companies and start-up companies could:

- Access university research labs on a temporary basis;
- Develop new technologies for commercialization that benefit the public; and
- Expedite their transition from the university to a business incubator or industrial site.

This is especially important for small start-up companies. For them, close proximity to faculty and students doing related research greatly improves the likelihood they will survive and thrive on their own.

By the same token, an established company conducting a single research project in cooperation with university faculty is more likely to want to conduct additional research on that campus in the future.

Building a research track record over time -- with a Fortune 500 company or a small regional firm -- is the building of a relationship. It can be a factor in whether that company chooses to locate or expand a future research or manufacturing facility in Kansas.

Further, the state's three research universities have a mission in economic development. That mission compels us to reach out to the private sector and support their efforts through research, workforce development, and public service.

The research resulting from adoption of this bill would do just that. Without this language, however, the universities will continue to be hamstrung.

In particular, our efforts to start, nurture and grow small, high-tech companies will be limited by the need to maintain a firewall between university labs and these small entrepreneurial businesses.

We are forced to distance ourselves from them, in a sense, at the very moment they need our support and expertise the most.

Finally, this exemption is not expected to result in a loss of local property tax revenue.

In fact, it should lead to new property tax revenue being generated. For example:

- Existing Kansas companies that perform R&D are not likely to move their operations to a temporary location on campus. Therefore, no current property tax revenue will be lost.
- Existing Kansas companies could start new R&D projects with Kansas universities. This could lead to new technologies being commercialized and then located within Kansas communities, generating new property tax revenue.
- Successful, new, university-based start-up companies will move quickly from the lab into private building space, thus generating new property tax revenue.
- Finally, out-of-state companies using the labs could create technologies here and be recruited to commercialize that technology in Kansas, thus generating new property tax revenue.

The state could benefit from this change in other ways, including increased royalty revenue from technology licensing agreements and possible equity positions in successful companies.

Last year, KU faculty generated research expenditures in excess of \$193 million from external grants and contracts. That's a huge economic impact by itself, but it's not the only one.

Currently, 14 companies operating in Kansas began as KU start-ups. We also have 21 active technology licenses with Kansas companies.

Our goal is to significantly increase both numbers, along with the jobs and investment that result.

Let me briefly describe two KU start-up companies, the kind of operations that would benefit the most from the bill you're considering.

XenoTech, LLC

- XenoTech is located in Lenexa. It started in the mid-1990s as a spin-off from research performed at the KU Medical Center. The company is a contract research organization, specializing in drug metabolism-related research. The company currently has more than 100 employees.
- With a grant from the Kansas Bioscience Authority, XenoTech plans to expand its operations and locate a new facility in the Kansas Bioscience Park in Olathe.

CyDex Pharmaceuticals, Inc.

- CyDex is also located in Lenexa. It started in the mid- 1990s as a spin-off from research performed at the nationally recognized KU School of Pharmacy in Lawrence. The company develops pharmaceutical products based upon advanced drug delivery technologies. CAPTISOL is its lead technology. The company employees approximately 30 people.

Technologies developed in KU labs were the foundation for the success of both companies. Each company licensed its respective technologies. Combined, these two companies have now paid more than \$6.4 million in royalties and other revenue to KU.

Not included in this summary is the financial impact on Kansas of the income, sales, and property taxes generated as a result of these companies and their employees.

For all these reasons, I encourage you to support this legislation. When adopted, it will free the state's public universities to do an even better job of economic development based on productive and innovative research.