

COMMONWEALTH OF PENNSYLVANIA  
HOUSE OF REPRESENTATIVES

FINANCE COMMITTEE HEARING

STATE CAPITOL  
HARRISBURG, PA

IRVIS OFFICE BUILDING  
ROOM G50

TUESDAY, APRIL 23, 2013  
8:32 A.M.

PRESENTATION ON  
HB 898 INNOVATE PA PROGRAM  
FINANCE COMMITTEE

BEFORE:

HONORABLE KERRY BENNINGHOFF, MAJORITY CHAIRMAN  
HONORABLE GEORGE DUNBAR  
HONORABLE ELI EVANKOVICH  
HONORABLE MATTHEW GABLER  
HONORABLE KEITH GREINER  
HONORABLE SETH GROVE  
HONORABLE LEE JAMES  
HONORABLE FRED KELLER  
HONORABLE JOHN LAWRENCE  
HONORABLE DUANE MILNE  
HONORABLE MIKE PEIFER  
HONORABLE KATHY RAPP  
HONORABLE BRAD ROAE  
HONORABLE PHYLLIS MUNDY, MINORITY CHAIRMAN  
HONORABLE TIM BRIGGS  
HONORABLE MARY JO DALEY  
HONORABLE MADELEINE DEAN  
HONORABLE JORDAN HARRIS  
HONORABLE SID MICHAELS KAVULICH  
HONORABLE BILL KORTZ  
HONORABLE RICHARD MIRABITO  
HONORABLE ADAM RAVENSTAHL

\* \* \* \* \*

Pennsylvania House of Representatives  
Commonwealth of Pennsylvania

## COMMITTEE STAFF PRESENT:

TAMARA FOX

COUNSEL, EXECUTIVE DIRECTOR REPUBLICAN RESEARCH

MICHAEL ROSE

RESEARCH ANALYST, REPUBLICAN CAUCUS

JERI DAVIS,

LEGISLATIVE ADMINISTRATIVE ASSISTANT REPUBLICAN CAUCUS

CHARLES QUINNAN

EXECUTIVE DIRECTOR DEMOCRATIC CAUCUS

GRETCHEN DLUGOLECKI

RESEARCH ANALYST DEMOCRAT CAUCUS

KRISTEN BERNARD

LEGISLATIVE ASSISTANT DEMOCRAT CAUCUS

I N D E X

TESTIFIERS

\* \* \*

<u>NAME</u>	<u>PAGE</u>
REPRESENTATIVE WARREN KAMPF PRIME SPONSOR OF HB 898.....	5
REPRESENTATIVE JOSEPH HACKETT PRIME SPONSOR OF HB 898.....	8
DAN SCHMISSEUR FOUNDING MEMBER, CROMWELL SCHMISSEUR, LLC.....	21
STEVE BRAWLEY PRESIDENT/CEO, BEN FRANKLIN PARTNERS OF CENTRAL & NORTHERN, PA.....	36
TODD ERDLEY PRESIDENT/CEO, VIDEON CENTRAL, INC.....	43
JIM PIETROPAOLO, COO, MACULOGIX, INC.....	47
DEAN MILLER MANAGING DIRECTOR, NOVITAS CAPITAL; PRESIDENT/CEO, GREATER PHILADELPHIA ALLIANCE FOR CAPITAL & TECHNOLOGIES	58
MICHAEL STUBLER MANAGING DIRECTOR & CO-FOUNDER, DRAPER TRIANGLE VENTURES; DIRECTOR, PITTSBURGH VENTURE CAPITAL ASSOCIATION....	66
ADAM DAKIN CEO & FOUNDING PARTNER, BIOCONNENT SYSTEMS, INC.....	71
MEL BILLINGSLEY, PhD PRESIDENT/CEO, LIFE SCIENCES GREENHOUSE OF CENTRAL PA.....	91
MAUREEN MULVIHILL PRESIDENT/CEO ACTUATED MEDICAL, INC.....	92
KEVIN ABRAMS EXECUTIVE DIRECTOR, NORTHERN TIER REGIONAL PLANNING & DEVELOPMENT.....	96
SUBMITTED WRITTEN TESTIMONY	

\* \* \*

(See submitted written testimony and handouts online.)

## P R O C E E D I N G S

\* \* \*

1  
2  
3  
4 MAJORITY CHAIRMAN BENNINGHOFF: If you could find your  
5 seats, I'd like to get things started.

6 As an editorial comment, I'll remind the Members of the  
7 Committee as well as the audience, if you have cell phones,  
8 please turn them off or turn them on vibrate. This is being  
9 recorded.

10 Those who will speak or testify or ask questions, please  
11 hold the microphones and speak right into the microphones, and  
12 some of them work better than others.

13 I do want to welcome everyone here. This meeting is  
14 officially open. And this is a hearing on Representative  
15 Warren Kampf's bill called Innovate Pennsylvania. This is a  
16 program that creates a deferred tax credit, creates the funds  
17 that generate auction insurance premium tax credits.  
18 Representative Kampf, I believe, is here. If you would like to  
19 join us, Representative Mundy, if you have some opening  
20 comments, we'll start with you. And Representative Kampf, when  
21 she's done, if you're comfortable, we will proceed with the  
22 other testifiers.

23 MINORITY CHAIRMAN MUNDY: Just looking forward to the  
24 testimony today. A very complex bill and I'm very interested  
25 in the details.

1 MAJORITY CHAIRMAN BENNINGHOFF: Thank you, Chairwoman Mundy.  
2 No disrespect for you, sometimes members have competing  
3 meetings going on, so if they will be coming and going, this is  
4 no reflection of your presentation and know that that the  
5 information will be disseminated to the members otherwise.  
6 When you're comfortable, feel free. If you would like to  
7 introduce your counterpart.

8 REPRESENTATIVE KAMPF: Thank you, Mr. Chairman. I'd like to  
9 introduce Representative Joe Hackett, my better half. Joe and  
10 I are essentially co-lead sponsors on this legislation. And  
11 thank you, Chairman Benninghoff, Chairman Mundy, and Members of  
12 the Committee for holding this hearing. I guess, I would like  
13 to start out by talking about what this bill does not do as a  
14 way to describe it.

15 If you have your agenda in front of you, if you just pull it  
16 out. This legislation, Innovate PA, is essentially the name.  
17 It's not creating any new programs at all. Let me say that  
18 again, it is not creating any new programs. Looking at your  
19 agenda, we are talking about programs that have a tired and  
20 true record here in the State of Pennsylvania. The first, 8:45  
21 to 9:00 slot is an explanation of how a program like this has  
22 worked in Maryland and in other places; 9 to 9:40, those are  
23 the Ben Franklin partnerships that have been around for more  
24 than 30 years; 9:40 to 10:20, those are the Ben Franklin  
25 Venture Investment Program -- programs that have been around

1 for at least 12 years; 10:20 to 10:45, those are the Life  
2 Science Greenhouses that have been around the same period of  
3 time as the investment program since 2001. And then 10:45 to  
4 11:00, those are the prep partners, essentially the industrial  
5 resource councils, the local economic development councils.  
6 And my point in showing you that is that in all our districts,  
7 at least some, if not all of these entities for going back  
8 almost 30 years, have been providing resources to our  
9 constituents to start-ups, to technology-based start-ups, to  
10 Life Sciences based start-ups, to manufacturers with, I  
11 believe, enormous success. But they're going to come before  
12 you and talk to you about that and convince you of that, I am  
13 sure. All right. So that's the basic background.

14 What are we trying to do here and why? Essentially, we are  
15 trying to get these entities more resources at a critical time.  
16 We fund all of these entities, but there are four basic reasons  
17 why now is a critical time to provide more resources to them.  
18 First of all, as I said, they provide seed-stage funding for  
19 technology companies, for start-up companies in the tech sector  
20 and the Life Sciences sector and other places. Seed-stage  
21 funding around the country is either drying up or dried up, so  
22 this is a critical time for that reason. It's also a critical  
23 time because in our country, actually, start-ups, particularly  
24 in these areas are in decline. I think back in the 1980's  
25 almost 50 percent of firms were in this category of new and

1 sort of seed-stage companies. And we're down in the teens, so  
2 the same phenomenon, I believe, is going on here in  
3 Pennsylvania as we speak. Thirdly, we are in the fight of our  
4 life in these areas with other states around the country and  
5 with other nations. There are a number of other states that  
6 are doing these sorts of things, providing resources from the  
7 taxpayer, from the state, in order to help with these  
8 start-ups, and we're competing against them.

9 At the very time when the competition is stiffest,  
10 Pennsylvania, over the last five or six years has actually  
11 reduced it's funding to these entities by significant amounts.  
12 At the very time when we should be investing and trying to get  
13 these entities, which have a proven track record, we are not  
14 able to do that, so we've got four reasons why we should try to  
15 get more resources to them. And finally, how do we get more  
16 resources to them? The concept here is to target the insurance  
17 companies and to take resources that they give in the next,  
18 say, year in a tax-credit auction for their future tax  
19 liabilities. So they're still going to be on the hook for  
20 their current tax liability for next year's tax liability, but  
21 for future tax liability that they have they can put dollars in  
22 today and we're hoping to raise with this tax-credit auction,  
23 something in the neighborhood of \$140, 160 million dollars,  
24 which will then be deployed out through these proven programs  
25 that I described, but they cannot redeem those tax credits

1       until the future and they can only do it in increments. I  
2       believe the first year that they can redeem them is 2015. They  
3       can only do it in one-fifth increments so that they won't be  
4       able to redeem all of them until 2020. And the concept there  
5       is we get the dollars in now, we deploy them and then those  
6       dollars get out into the economy, start to generate tax revenue  
7       and jobs so that there is no future impact on the General Fund  
8       except positive impact.

9               So that's fundamentally what Innovate PA is. And with that,  
10       I will end my remarks.

11               MAJORITY CHAIRMAN BENNINGHOFF: Thank you, Representative  
12       Kampf. Does your counterpart like to add anything to that?  
13       And that was actually a very interesting preadaptation.

14               REPRESENTATIVE HACKETT: Thank you, Chairman. Good morning,  
15       Chairman Benninghoff and Chairman Mundy and Members of the  
16       Committee and thank you for hosting today's hearing on Innovate  
17       Pennsylvania.

18               We all know that Pennsylvania's economy has long been  
19       associated with the coal and natural gas industries, but  
20       there's another strong industry making a mark on Pennsylvania's  
21       economic landscape; the high tech and innovative industry.  
22       This industry in Pennsylvania is developing new products in  
23       Life Sciences, new processes in Marcellus Shale industry,  
24       cutting-edge electronics and much, much more. Innovation  
25       technology and business creation are flourishing in the 21st



1 Century, particularly in Pennsylvania. We have the  
2 universities, the workforce, the talent to become a leader in  
3 this industry. I believe that the potential growth in all  
4 those businesses and ideas is limitless and represents the  
5 future of our economy.

6 We must face the reality that states throughout the country  
7 are working hard to promote economic development by luring  
8 these companies away from Pennsylvania. The competition is  
9 growing and must act -- attract new employers and create new  
10 jobs. That's why my colleague, Representative Kampf, and I  
11 have developed the Innovate Pennsylvania Program to not only  
12 keep the high-paying jobs in Pennsylvania, but to encourage  
13 growth and competition with other states.

14 Representative Kampf said this program would work in  
15 partnership with the Ben Franklin Partners, whose programs have  
16 a proven track record of success and boasts an incredible three  
17 to one investment to tax return as a result of commitments made  
18 to support new and innovative businesses. By partnering with  
19 the Ben's to offer the Innovate Pennsylvania Program, we hope  
20 to encourage businesses to not only stay here and expand, but  
21 to relocate new businesses in Pennsylvania.

22 This program is a unique and outside-of-the-box proposal.  
23 And exactly the type of thinking that we need to embrace in  
24 order to compete in today's economy and bring Pennsylvania back  
25 to the economic glory it enjoyed not too long ago.

1           Mr. Chairman, as you stated before, we do have other  
2           hearings and I do have a voting committee hearing, but I  
3           appreciate the Committee listening to the programs that we have  
4           here today. And I'm sure I'll be -- well, you'll be in good  
5           hands with Representative Kampf here to answer any future  
6           questions.

7           MAJORITY CHAIRMAN BENNINGHOFF: We are going to ask if both  
8           of you have time to take some questions now, I appreciate both  
9           Representative Hackett and Kampf's innovative ideas. Members  
10          of the Committee, questions? Chairwoman Mundy to start.

11          MINORITY CHAIRMAN MUNDY: Thank you, Mr. Chairman. Good  
12          morning. And thank you for bringing forward what I think, you  
13          know, I've long been a fan of the Ben Franklin Partnerships.  
14          In fact, I've served on their advisory committee. But in  
15          recent years, their budgets have been cut from \$76 million in  
16          2010 to about \$28 million today. In fact, Governor Corbett has  
17          proposed cutting it again this year by another \$9 million. So  
18          I have to assume that this is a way to reverse those  
19          investments. But I'm confused as to why not just use General  
20          Fund money instead of this somewhat convoluted insurance  
21          premium tax credit. Can you sort of explain your rationale,  
22          because in the end, all of this money comes out of the general  
23          fund. So why not just use the General Fund to supply venture  
24          capital to Ben Franklin?

25          REPRESENTATIVE KAMPF: Representative Mundy, you know, there

1 is some success, and I think you'll hear about this from  
2 Maryland in this particular program, so know that there is  
3 that. As well, the problem we face is that if we draw on the  
4 General Fund today, that, like many other things, has an impact  
5 on all the other line items, all the other things that are  
6 important in this state. So, my own personal belief is that  
7 this is a good balance in the sense that we don't draw on  
8 today's General Fund or increase taxes or other forms of fees  
9 or revenues which have an impact on economic growth in the  
10 Commonwealth. And over time, by spreading out the impact on  
11 the General Fund from 2015 to 2020, and, in fact, you can  
12 redeem these tax credits out to 2026 under the current draft of  
13 the program, there is a smoothing effect. And since you  
14 mentioned the Ben Franklin Partnerships and Mr. Representative  
15 Hackett pointed out, I think their track record to three to  
16 one, a dollar down by the state, three dollars in return. So  
17 we're pretty confident that over that period of time, not only  
18 will whatever resources come out with the tax credits be  
19 replaced, but there will be many more dollars.

20 MINORITY CHAIRMAN MUNDY: Well, that's always a theory, but  
21 I'm beginning to wonder, you know, yesterday we voted on a bill  
22 that will cut the CNI and other taxes by some \$815 million in  
23 future years, long after this Governor is not in office  
24 anymore. And here we're talking about 2020, 2026. Is it  
25 really good public policy to defer instead of pay as you go, is

1       it good public policy to continue to defer these hits to the  
2       General Fund in hopes that tax cuts, tax credits, tax  
3       incentives will generate the jobs that we -- and that's the  
4       theory that it will generate jobs, but it's an unproven theory.  
5       And in the two years that this Governor has been in office,  
6       we've done a lot of that, and we still have the highest  
7       unemployment rate, one of the highest unemployment rates in the  
8       nation. So I do have a problem with the notion that we're  
9       going to defer the hits to the General Fund to future governors  
10      and future legislatures who might have to make up that revenue  
11      loss to fund public education and other human services by a tax  
12      increase. So I do really have some concerns about that.

13             Can I ask a specific question? You referenced the 2020 and  
14      the 2026, but your House Bill 898 states that for tax years  
15      beginning after June 30, 2015, and ending before July 1, 2020,  
16      a taxpayer may claim a premium tax credit against its insurance  
17      premium tax liability. But then the bill goes on to state  
18      further that premium tax credits expire no later than June 30,  
19      2026. So I'm wondering, is this a drafting error or how do you  
20      reconcile those two statements?

21             REPRESENTATIVE KAMPF: Chairman, the way I read the language  
22      in the bill, you can redeem, as I said in the opening,  
23      one-fifth per year, so we're not talking about the entire  
24      amount being redeemed in, say, 2015. It's one-fifth per year  
25      between 2015 and 2020; however, there is a concept of

1 carryovers. I believe that the concept is if a particular  
2 holder of the tax credit is not redeeming all of the tax credit  
3 of a particular year, that can be carried over. And I believe  
4 the carryover ends in 2026. Whether there will be any  
5 carryover, we will not know until 2020.

6 MINORITY CHAIRMAN MUNDY: So it is not a drafting error.  
7 Your intent is that the credits would carry over out until  
8 2026?

9 REPRESENTATIVE KAMPF: You have --

10 MINORITY CHAIRMAN MUNDY: It could carry over till 2026?

11 REPRESENTATIVE KAMPF: Some carry over could go beyond 2020,  
12 yes.

13 MINORITY CHAIRMAN MUNDY: Okay. Can you tell me how your  
14 bill differs from Senator Blake's bill that was before this  
15 Committee, although we never took it up, what, last session?

16 REPRESENTATIVE KAMPF: Senator Blake's bill last session  
17 was, I believe, simply for -- because I just looked at it --  
18 it's simply for the Ben Franklin Partnerships and the Ben  
19 Franklin Venture Investments Program last session. Okay. This  
20 session the bill has the Venture Investment Program and also  
21 has the Ben Franklin Partners. In addition to that, it has  
22 resources for DCD to administer the program. I use that term  
23 generally. It also has some resources for the Life Sciences  
24 Advisory Council, which this administration created in order to  
25 sort of create a roadmap going forward for Life Sciences in

1 Pennsylvania. And then it also has resources for the PREP  
2 Partners, the local economic development councils, the sort of  
3 incubators and small business advisors, the manufacturing aids  
4 that have, you know, fairly well been long existed -- long in  
5 existence in Pennsylvania. So those -- and then our bill, as  
6 it currently stands, has the Ben Franklin Partners, the Ben  
7 Franklin Investment Program, the Life Science Greenhouses,  
8 which receive tobacco settlement money and it's just those  
9 three. So could there be some amendments and changes in working  
10 together? Absolutely. I met with Senator Blake last week on  
11 that subject.

12 MINORITY CHAIRMAN MUNDY: And the funding source?

13 REPRESENTATIVE KAMPF: Same thing. His tax credit bill, I  
14 think, has a cap of \$225 million --

15 MINORITY CHAIRMAN MUNDY: But he uses the premium tax,  
16 insurance premium tax?

17 REPRESENTATIVE KAMPF: Same mechanism, yes. And then, I  
18 think, ours is a cap of \$175 million.

19 MINORITY CHAIRMAN MUNDY: So the cap is just different?

20 REPRESENTATIVE KAMPF: Yes.

21 MINORITY CHAIRMAN MUNDY: You know, I'm glad that you're at  
22 -- you acknowledged in your opening statement that hits to the  
23 General Fund create difficulties for public education and other  
24 line items. Any thoughts as to what cuts might be necessary  
25 when you're taking -- I mean, yesterday, \$815 million, today

1 another \$35 million? Where is all this money going to come  
2 from unless, as you hope, as you believe, it's going to  
3 generate just loads of jobs?

4 REPRESENTATIVE KAMPF: So I mean, I cannot emphasize enough  
5 that a 30-year history in good times and in bad of three to one  
6 return on investment is pretty hard to ignore. I think we all  
7 recognize that we are still in a difficult economic time, so  
8 using proven tools in order to try to improve things in our  
9 economy in the state and nationally, I don't think any of us  
10 can ignore. But at the same time, we also have to recognize  
11 that going to the General Fund, whether it's by cuts to others  
12 or other line items or by increasing revenue in some way, also  
13 has significant impact. I think this is a creative way,  
14 something that has been tried, I know of at least in one other  
15 state successfully, in Maryland, this tax-credit auction, a  
16 creative way to do both; to be fiscally responsible, to worry  
17 about the impact on our job creators now, but to also to give  
18 them the tools that going forward are going to be helpful to us  
19 to get out of this and to generate revenue for the General  
20 Fund, but also good paying jobs for Pennsylvanians.

21 MINORITY CHAIRMAN MUNDY: Well, I certainly hope you're  
22 right. I just -- I do worry that these cuts to public  
23 education that we've seen year after year and the resulting  
24 shift to the local property taxes that we're going to have the  
25 workforce we need. You know, the jobs may be there, but who's

1 going to fill them unless we have an educated and highly  
2 skilled workforce, which my employers are already complaining  
3 about. The dropout rate in my communities is increasing.  
4 There are tons of problems that we have to deal with and, you  
5 know, again, take money out of the General Fund and we continue  
6 to cut things that are important in terms of workforce  
7 development. Thank you, Mr. Chairman.

8 MAJORITY CHAIRMAN BENNINGHOFF: Thank you, Chairwoman Mundy.  
9 Representative Kortz.

10 REPRESENTATIVE KORTZ: Thank you, Mr. Chairman, and thank  
11 you, gentlemen for bringing this to the Committee. Two quick  
12 questions: You mentioned that the goal was \$140 to \$160  
13 million, now is that a one-time shot or is that every year  
14 going forward?

15 REPRESENTATIVE KAMPF: Representative, it's a one-time shot.  
16 Essentially the dollars from the insurers come in right away  
17 and are deployed, but then the tax credits are redeemed over  
18 time.

19 REPRESENTATIVE KORTZ: Thank you. And the last question:  
20 Is there any restrictions on the insurance companies that have  
21 applied for this? For example, if some of them are into  
22 problems, tax issues, or there's fines or fees or something is  
23 going on and they're having some financial issues, is there any  
24 restrictions to those companies that can get involved in the  
25 program? Any restrictions at all?



1           REPRESENTATIVE KAMPF: Not in the legislation, no.

2           REPRESENTATIVE KORTZ: Okay. Thank you. Thank you, Mr.  
3 Chairman.

4           MAJORITY CHAIRMAN BENNINGHOFF: Thank you. Representative  
5 Kampf and Representative Hackett, I just had a quick two  
6 questions: Number 1, earlier in your comments you talk about  
7 these resources are drying up all across the United States.  
8 This is not limited to Pennsylvania. Obviously, the recession  
9 that we've been through, are in, or continued experience has  
10 not been in the last two years. This has been going on for  
11 quite some time. I'm curious if the funding drying up in some  
12 of the other states is economy related, bad-decision making.  
13 When Governor Corbett came into office, obviously, he inherited  
14 \$4 and a half billion dollars worth of debt and some other very  
15 tough challenges that no one likes to have to cut a budget and  
16 our budget is 85 percent education and human services, it  
17 doesn't give us a lot of options. I'm just curious if you've  
18 seen different things across other states in the country and  
19 why are they're seeing the same challenges that we are in these  
20 funds drying up.

21           REPRESENTATIVE KAMPF: Thank you, Chairman Benninghoff. I  
22 believe the decline in funding for the programs in Pennsylvania  
23 were goes back beyond 2010. This is, I think a long term -- a  
24 longer term trend. And it's certainly other states around the  
25 country may be doing some of the same things, but I, in looking

1 at this, a particular proposal, have noticed places like  
2 California, Texas, Massachusetts, Indiana and a couple of  
3 others recognize that this particular area, let's just call it  
4 high tech and Life Sciences for the sake of argument, is one  
5 where they are in this time going to invest and invest more.  
6 And the problem with that is that, you know, just taking Life  
7 Sciences in Pennsylvania, we have a very good Life Sciences  
8 industry here. It contributes \$8 billion in payroll to the  
9 State of Pennsylvania. But it's going through some  
10 difficulties and some turmoil. Those other states,  
11 Massachusetts, California, Texas, they are actively trying to  
12 get these businesses to go there or the refugees from those  
13 businesses to go there.

14 MAJORITY CHAIRMAN BENNINGHOFF: Thank you very much. I  
15 appreciate that. And follow-up, I was just curious, what's the  
16 overall loop, interest-level buys from the insurance companies  
17 and are they limited to only Pennsylvania insurance companies?

18 REPRESENTATIVE KAMPF: They are -- it's not limited to only  
19 Pennsylvania insurance companies. It's anybody who writes  
20 premiums in Pennsylvania. And there are particular rules on  
21 that are not within the -- in this bill there actually, you  
22 know in other statutes. And then I believe that the insurers  
23 have indicated that this is a program that interests them. And  
24 if I -- it's a program that interests them, I can say that.

25 MAJORITY CHAIRMAN BENNINGHOFF: And I am reminded that the

1 Insurance Federation actually did send a letter of support of  
2 that. It's my miss on that. Thank you, Michael.

3 Representative Dean has a question. Thank you for your  
4 response, Representative Kampf.

5 REPRESENTATIVE DEAN: Thank you, Mr. Chairman. Thank you,  
6 Representatives for bringing this Innovate PA Program to us.  
7 Two quick questions: Can you explain how the mechanism works  
8 of the tax credits of the auction process?

9 REPRESENTATIVE KAMPF: Representative Dean, I know that in a  
10 very short period of time after the effective date of the  
11 legislation essentially bids are submitted by the insurers for  
12 a particular credit. I think the minimum credit is \$500  
13 thousand. And once the, essentially, the credits are awarded,  
14 they have to be paid, the dollars have to be paid in within 90  
15 days, so that then those dollars can be deployed through these  
16 programs that we've been talking about. And then, as I said,  
17 starting in 2015, they can be redeemed in one-fifth increments.  
18 There is -- something we haven't talked about. There is a  
19 minimum threshold, I believe, the minimum is 80 percent of the,  
20 essentially, the tax liability. So if the program is \$175  
21 million, the idea is to give the dollars today, the insurers  
22 would get some sort of a discount, right, but we don't want  
23 that discount to be so low. In an ordinary auction, it could  
24 be as low as it was, right, it's just a bid. But there is a  
25 floor. And I think that floor for us is 80 percent of the tax

1 liability, so there's a pretty good chance we're going to get,  
2 if there is sufficient interest, we're going to get \$140, \$150  
3 million.

4 REPRESENTATIVE DEAN: And my follow-up question, because I  
5 do see the tremendous benefit and the engine that the Ben's can  
6 be for innovation and I applaud what you're trying to do, but  
7 in light of what the Administration has done in terms of  
8 cutting the budget to Benjamin Franklin Technology Development  
9 Authority, what position does the Administration have on this  
10 creative program?

11 REPRESENTATIVE KAMPF: I mean, again, Representative Dean, I  
12 believe that the record here is that for some time the  
13 resources available to the Ben Franklins have been in decline,  
14 so I just -- that's my sense of the history here. I don't know  
15 the position of the Administration on this legislation. I know  
16 it has bipartisan support in both chambers and I'm hopeful  
17 that, Representative Hackett and I are hopeful that when it's  
18 presented to the Administration it will be signed.

19 REPRESENTATIVE DEAN: Thank you very much.

20 MAJORITY CHAIRMAN BENNINGHOFF: Thank you, Representative  
21 Dean. Seeing no further questions, I want to thank you. I  
22 think you guys are very reflective of what the Ben Franklins  
23 and a lot of these innovative organizations do and we look  
24 forward to the future testimony.

25 REPRESENTATIVE KAMPF: Thank you, Mr. Chairman.

1 MAJORITY CHAIRMAN BENNINGHOFF: Have a good day. Next, we  
2 have Dan Schmisser, Founding Member of Cromwell Schmisser,  
3 LLC. If you have others with you, if you'll introduce them  
4 when you get to the microphone, that would be helpful.

5 MR. SCHMISSEUR: Good morning. My name is Dan Schmisser.  
6 And --

7 MAJORITY CHAIRMAN BENNINGHOFF: Apologies for messing up  
8 your name. Go ahead.

9 MR. SCHMISSEUR: Accept all pronunciations, it's a  
10 challenging one today. Thank you, Chairman Benninghoff,  
11 Chairman Mundy, the Members of the Committee for the  
12 opportunity to testify for you today in favor of House Bill  
13 898. My firm was retained to help advise the proponents on the  
14 financing mechanism that was designed to match the physical  
15 impact with the expected maturation of the investments in  
16 early-stage high potential small businesses. Insurance premium  
17 tax credits have been used in many states for more than 15  
18 years to fund venture capital investment programs. Criticisms  
19 of other old models were that the states were not allowed to  
20 participate in the financial upside of successful investments.  
21 Another criticism from long-ago programs was that the process  
22 of selling the tax credits to the insurance companies was a  
23 very inefficient process. Tennessee, where my firm was based,  
24 was the first state in 2009 to significantly improve the old  
25 model. TNInvestco created 146 million of investment capital

1 for a funded funds program from \$200 million of insurance  
2 premium tax credits. It allowed for the state to have a  
3 realistic opportunity to recover the costs of those tax credits  
4 by participating in the financial returns from the invested  
5 capital.

6 In 2010, the Maryland venture fund contacted us to help them  
7 design a program like TNInvestco. We advised them on how to  
8 remove several of the inefficiencies of the Tennessee model and  
9 the result is the new best practice for state venture programs  
10 that \$84 million invest Maryland program, which began making  
11 investments in funds just this last year. Compared to  
12 Tennessee, just on the financing mechanism, Maryland saved an  
13 estimated \$11 million in financing costs by the method that  
14 they've now done and which is comparable to what we're  
15 proposing here. Compared to the old model, Maryland saved more  
16 than \$30 million of financing costs.

17 So House Bill 898, further improves on the Maryland model  
18 and the process is very simple. First of all, the Department  
19 of Revenue would retain a financial services firm to help them  
20 advise in the process of auctioning these tax credits to  
21 insurance companies. In fact, Maryland actually hired a  
22 Pennsylvania-based fund -- or firm to help them in that process  
23 and they were very pleased with the results. So it was what's  
24 called a dutch auction. The insurance companies are told about  
25 the bill with the perspectives over a period of time and then

1       they go online and they submit their bids and the lowest bid  
2       above the amount that's being auctioned is the price that  
3       everyone gets. And so Maryland began with a floor of 70 cents  
4       on the dollar and the actual price ended up being 84 cents on  
5       the dollar.

6               So in this Bill, 7 percent of the proceeds from the tax  
7       credit auctions will be distributed to the regional  
8       biotechnology centers in Pennsylvania, 93 percent to the Ben  
9       Franklin Technology Development Authority. And of that 93  
10      percent, 40 percent goes to the Ben's Technology Partners for  
11      their venture development operations, 60 percent to a venture  
12      capital funded funds programs.

13              So just a couple of summary points, this is simply a smart  
14      way for government to use tax credits to achieve the policy  
15      objective to finance these types of investments programs that  
16      have investments that take a while to mature. It's simply a  
17      matter of matching the timing of the tax credit -- the fiscal  
18      impact of the tax credits with the expected maturation of the  
19      investments.

20              Also, House Bill 898 should generate positive financial  
21      returns to the Commonwealth, so with any investment programs,  
22      returns cannot be guaranteed. The results are ultimately  
23      depend on the quality of the investments made by the venture  
24      capital funds that would be selected through a competitive  
25      process to compete and to participate in the funded funds

1 program. But it's reasonable to expect the funds on average to  
2 generate two times proceeds from their investments from what  
3 they invested. And if that holds true, as combined with the  
4 returns from the Ben Partners and their returns that they've  
5 provided to you, the programs should return a positive  
6 financial results to the state over the 10-year period. So  
7 with that, I'll thank you for this opportunity to testify and  
8 I'll take your questions.

9 MAJORITY CHAIRMAN BENNINGHOFF: Thank you very much. If  
10 you're as efficient in your investments as you are in your  
11 testimony, I'm with you. Questions from the Members?  
12 Representative Jordan Harris?

13 REPRESENTATIVE HARRIS: Thank you, Mr. Chairman. Could you  
14 give us over that 10-year time the return or the perspective  
15 return that we could anticipate?

16 MR. SCHMISSEUR: Okay. So of the 100 -- say \$140 million,  
17 which would be the 80 percent of the \$175 tax credits, so  
18 that's from the financing process and then that capital is  
19 divided 7 percent to the work of the regional biotechnology  
20 firms and then the Ben's and what they do, which their studies  
21 show a three and a half return in tax revenues from the  
22 comprehensive economic development activity of their firms.  
23 But on the venture side, which would receive, you know, roughly  
24 55 percent of the \$140 million. Venture funds typically  
25 project a two to two and a half times the amount that you



1 invest with them, that's what they expect to return. If you  
2 return two times invested capital, let's say, 7 percent rate of  
3 return, which is very low for what the venture funds expect.  
4 Venture returns can vary widely; a successful fund might return  
5 five or six times the amount of invested capital. There have  
6 been several funds that have not returned the invested capital.  
7 And in a factor of the returns that you can expect, nationally  
8 depends on the supply of capital. The more the supply is, when  
9 you think back about 15 years ago to the dot com boom era,  
10 there was an over supply of venture capital and capital raised  
11 in that era was competing, you know, too much money chasing too  
12 -- not enough deals and the returns from funds in that era were  
13 not very good. But historically in eras where the capital  
14 supply is low as it is today, the funds that began today have  
15 historically done well.

16 And so, again, the -- my firm would not be involved in the  
17 process for selecting the funds or things like that; that the  
18 authority actually has experience doing that. And there is,  
19 you know, funds here that will testify later today about their  
20 returns expectations on the future, but the belief is that  
21 across your portfolio of funds, which would be matched by other  
22 capital coming in and investing only in Pennsylvania companies  
23 for the capital from this program that you can get at least a  
24 two times the amount return. So if there was \$90 million in  
25 the venture capital funded funds program, the expectation would

1 be that the authority would receive \$180 million at the end of  
2 that 10-year period.

3 REPRESENTATIVE HARRIS: So are you saying -- are you talking  
4 about \$280 million, well, at a minimum?

5 MR. SCHMISSEUR: I'm saying that of the \$175 million in tax  
6 credits that the portion that goes to the technology centers  
7 and to the Ben's, their studies will show that historically  
8 they received three, three and a half times of their invested  
9 capital because of their role in the ecosystem of helping to  
10 nurture high potential small businesses, help them create jobs,  
11 retain capital and so on that their activity will return three  
12 to three and a half times to the state, to the Commonwealth  
13 what they are -- what is invested. On the venture side, there  
14 are indirect economic returns also from venture investing. But  
15 the venture side is looking specifically at direct financial  
16 returns; cash-invested cash returns. And they're expectation  
17 would be two and a half, you know, times. They would -- their  
18 proposals will suggest two and a half to three times invested  
19 capital, on average that will probably be around two.

20 REPRESENTATIVE HARRIS: Okay. Thank you, Mr. Chairman.

21 MAJORITY CHAIRMAN BENNINGHOFF: Thank you. Other questions?  
22 I have to ask, as a novice to this, I'm just kind of curious of  
23 the process. You said that the state would hire someone to run  
24 the auction. Would that be a firm like yourselves? And if  
25 not, then what would your role be later on, a company like

1       yours -- pardon me.

2           MR. SCHMISSEUR: My firm would be is a small consultancy  
3       that we have experience managing and also advising  
4       technology-based programs like the Ben's, but we have clients  
5       that include the US Treasury and their state small business  
6       credit initiative, the Reserve Bank of Atlanta. We're really  
7       more on the policy side and we can do some advice on the  
8       implementation, but actually there's financial services firms.  
9       The group that helps sell the tax credits in Maryland is Grant  
10      Street Group out of Pittsburgh. And they have software that  
11      manages sales of municipal tax credits and other types of  
12      things to municipal bonds, so it's a very specialty-niche type  
13      of firm that you would -- the Department of Revenue would  
14      competitively bid that process out, but there are firms that  
15      are capable of doing that and doing it efficiently.

16           MAJORITY CHAIRMAN BENNINGHOFF: So that would kind of be the  
17      first step in some job creations using somebody in the private  
18      sector to help run these auctions and facilitate, you make  
19      maybe a smaller Ben participant may consult with you on how to  
20      become a participant or a recipient of those dollars?

21           MR. SCHMISSEUR: You know, really there's not really a role  
22      for my firm in the future. This is kind of what we do, really,  
23      on the advising states on the policies and what other states  
24      have done and how to do them. That's really kind of our role,  
25      but this is not a pass this bill and my firm will be bidding

1 on future work. That's not the --

2 MAJORITY CHAIRMAN BENNINGHOFF: We appreciate your candor.  
3 One last question from me, I was just curious, you talked about  
4 from the Tennessee experience to the Maryland experience, there  
5 was a change in maybe some how or what they invested in, but  
6 they actually sold pretty quick \$11 million savings. I'm kind  
7 of curious about what was done differently and --

8 MR. SCHMISSEUR: Sure.

9 MAJORITY CHAIRMAN BENNINGHOFF: And is that something we  
10 need to keep our eye on as a Commonwealth?

11 MR. SCHMISSEUR: Sure. The old programs would -- the state  
12 would provide the tax credits to private funds that would bid  
13 on the tax credits based on their ability to sell the tax  
14 credits to the private investors. So it was the states would  
15 rely on the private sector to do their own deals with the  
16 insurance companies. The challenge is that those bills would  
17 include call-back provisions and other things that insurance  
18 companies -- because the insurance companies are not really  
19 investing in the venture funds, they're really just buying the  
20 tax credit at a discount as an investment. So they would  
21 require a lot of inefficient things, a lot of legal work,  
22 guarantees from default insurance and other types of things  
23 that would drive up the financing costs. And so that was a big  
24 problem with the old model, the proponents of the old model  
25 prefer that method because it gives them control over the

1 process and also it's such a challenge logistically to do it  
2 that there's a few number of firms that really specialize in it  
3 and they kind of have a competitive advantage in that space.  
4 So we are in Tennessee, we were the first ones to say really,  
5 the states should be doing this, the state of Tennessee decided  
6 not to go all the way, they assisted, but still left it up to  
7 the private sector. So there was still some inefficiencies.  
8 Tennessee sold their tax credits on average for 73 cents on the  
9 dollar, which was a high improvement. But when Maryland  
10 contacted our firm about doing something like Tennessee, we  
11 said, Well, look, if the state, this is really just a smart way  
12 for the state to finances these programs. And, sir, if I could  
13 interject because one of your earlier discussions points about  
14 why doing deferred tax credits instead of a general  
15 appropriation of funds, the reason is because the nature of  
16 these things, especially, the funded funds, you're pooling 10  
17 years of investment capital upfront and committing it to the  
18 funds so that they can go out and make investments in companies  
19 and nurture the companies over a 10-year process, so it's very  
20 difficult to make a current year fiscal appropriation that  
21 covers 10 years of activity.

22 And so the idea that these old models would come to states  
23 and say no fiscal impact today or next year or the year after  
24 that, but you will pay for it later. That's what a dozen  
25 states gravitated to and Maryland looked to us and said that

1 looks like a good deal, too. But we said, Look, you can do it  
2 better if the state were sell the tax credits directly. It  
3 cuts out the middleman, and reduces the call-back risk. It's  
4 simply a financing mechanism, and that's why we were able to  
5 help Maryland do so much better.

6 MAJORITY CHAIRMAN BENNINGHOFF: And get some efficiencies.

7 MR. SCHMISSEUR: Yes.

8 MAJORITY CHAIRMAN BENNINGHOFF: Chairman Mundy asked about  
9 what the Maryland bill passed.

10 MR. SCHMISSEUR: The Maryland bill passed, I believe, in  
11 2011. And they took until March of 2012 to finish the sale of  
12 their tax credits. And the reason was they did not have the  
13 oversight mechanism in place that they needed. They had to  
14 create the Maryland Venture Capital Authority as an oversight  
15 mechanism. Pennsylvania has the Ben Franklin Technology  
16 Development Authority in place. And so the belief is that this  
17 is an immediate solution that the capital process could be  
18 completed in three to four months post legislation.

19 And one more thing on the -- another question Chairman Mundy  
20 asked about the expiration date and why that's in there.  
21 Insurance companies have specific accounting rules related to  
22 whether they can treat these types of tax credits as an  
23 investment on their returns that they submit to the  
24 Commonwealth's Department of Insurance.

25 One of those rules for tax credits, if the tax credit alone

1 is allowed to be created as an investment, the tax credit has  
2 to have -- it has be saleable, transferrable to other insurance  
3 companies and it has to have an expiration date. That's just  
4 kind of in their accounting principles. That's why that was  
5 put in there. There's no expectation that any insurance  
6 company would hang on and carry forward these tax credits  
7 because every year they don't use it when they could use it,  
8 they're losing money, especially if they can sell it somebody  
9 else. So those were some minor tweaks that we hoped, put in  
10 the legislation and it's designed to make the product something  
11 an insurance company can buy as an investment efficiently. And  
12 therefore, the more efficiently the insurance companies can do  
13 it, the more bidders on the auction. The more bidders in the  
14 auction, the higher the price they're willing to pay, the more  
15 capital that's available for these programs.

16 So we're very much focused on trying to make the insurance  
17 companies that pay the most for these tax credits because  
18 that's more capital for the program purposes.

19 MAJORITY CHAIRMAN BENNINGHOFF: Thank you. I think  
20 Representative Mundy had another question and Representative  
21 Mirabito.

22 MINORITY CHAIRMAN MUNDY: Yes. I'd just like follow-up  
23 now, the Maryland tax credits were just sold recently.

24 MR. SCHMISSEUR: Yes.

25 MINORITY CHAIRMAN MUNDY: How about Tennessee? When did

1       they sell theirs?

2           MR. SCHMISSEUR: Tennessee did it in two launches. The  
3 first was in -- the first \$120 million, the Bill was passed in  
4 2009 and they were sold in January of 2010. And there was an  
5 immediate follow-up where another \$80 million was committed the  
6 following year and those were sold soon after the legislation  
7 passed, I believe in August or September of 2010.

8           MINORITY CHAIRMAN MUNDY: So very recently this, these two  
9 states sold their tax credits, I'm sure it's much too soon to  
10 tell what the results have been?

11          MR. SCHMISSEUR: Right. Well, the process of selling the  
12 tax credits to the insurance companies is complete with that  
13 sale because the insurance companies are not involved in the  
14 investments --

15          MINORITY CHAIRMAN MUNDY: I understand.

16          MR. SCHMISSEUR: Right. So once they basically the  
17 insurance company is making an investment, it's a bond without  
18 the -- they're buying a tax credit and they're paying cash for  
19 it today.

20          MINORITY CHAIRMAN MUNDY: I totally understand the notion  
21 of tax credits. We do tax credits every time we meet.

22          MR. SCHMISSEUR: Yes, ma'am.

23          MINORITY CHAIRMAN MUNDY: But I'm interested in the  
24 results, you know, we are buying into a pig in a poke here  
25 unless you can demonstrate to me that -- and it's too soon to



1 tell what happened in Tennessee and Maryland. Have any other  
2 states invested in this way? Hey, I get it that the insurance  
3 companies get a tax credit.

4 MR. SCHMISSEUR: Right.

5 MINORITY CHAIRMAN MUNDY: And that they're making out. My  
6 question is where are the jobs and how do we know that we'll  
7 get them?

8 MR. SCHMISSEUR: Well, the results from this program would  
9 come from a combination of the Ben Franklin Technology Partners  
10 and so they've presented testimony on their historic returns  
11 from their activities. And then the other major component is  
12 for future venture capital investments. So the funds that were  
13 started in Tennessee received their investments, made their  
14 initial investments, so a lot of the capital has been invested  
15 in Tennessee. It's way too early to determine if those returns  
16 will come in. Maryland is just now selecting the funds, so  
17 unfortunately, you have historical financial returns for the  
18 venture capital industry in general to go off of and that can  
19 very, very much depending on really the area that you're  
20 investing in. I believe that because venture capital is at  
21 such a low point nationally right now that this is a great time  
22 to a start venture fund and compare it to other times.

23 MINORITY CHAIRMAN MUNDY: Thank you.

24 MAJORITY CHAIRMAN BENNINGHOFF: Thank you. Representative  
25 Mirabito?

1           REPRESENTATIVE MIRABITO: Thank you. Thank you for coming  
2 today. I understand that you advise from a policy perspective.  
3 Can you tell us in terms of access to capital what's happened  
4 in the last, say, 40 years -- 4 years with the changes in the  
5 economy and the banking regulations that have made access to  
6 capital for some of these companies harder to obtain?

7           MR. SCHMISSEUR: Sure. These companies have always been  
8 outside of the banking realm. These companies tend to be  
9 venture capital are your small businesses that are projecting  
10 very high growth. They're not borrowing on capital that can be  
11 collateralized. And so the banking industry is not into this  
12 high-risk business. This is the venture capital industry. And  
13 in venture capital over the last five years, at least since  
14 2008, year over year, that the amount of capital that funds  
15 have been able to raise has been less than the amount of  
16 capital these funds have been investing. So imagine a lake  
17 that has five consecutive years of rainfall below the average.  
18 The lake levels very low. And that's what's happening  
19 nationally, the supply of capital available. There's also been  
20 an extreme concentration of venture capital where historically  
21 California and Massachusetts combined have been around 50  
22 percent of the venture capital under management. It's now over  
23 60 percent in the last five years. And so the way that venture  
24 capital is invested with these ten-year investments and most of  
25 the institutional capital that goes in is from pension funds,

1       endowments from universities, wealthy families and so on, you  
2       know, in the last five years, liquidity in those areas has been  
3       very challenging. So they've had a call-back on the amount of  
4       their investments. When the equity markets dove down in 2008,  
5       a lot of pension funds found themselves over allocated in  
6       venture capital, so they cut back on their allocation. So it's  
7       been a kind of a perfect storm for the venture industry that  
8       the supply is really at a low point that we haven't seen since  
9       the mid-'90s.

10       REPRESENTATIVE MIRABITO: As a quick follow-up to that,  
11       compare what's happened with China and with the Asian  
12       countries.

13       MR. SCHMISSEUR: Really my expertise is not in that area,  
14       but I really couldn't answer that intelligently. Thank you.

15       MAJORITY CHAIRMAN BENNINGHOFF: And I think our last  
16       question comes from Eli Evankovich.

17       REPRESENTATIVE EVANKOVICH: Thank you, Mr. Chairman. I'll  
18       wave off until the next testifiers.

19       MAJORITY CHAIRMAN BENNINGHOFF: Thank you very much. Your  
20       presentation is very important to us and we appreciate you  
21       sharing your policy experience.

22       MR. SCHMISSEUR: Thank you, Chairman and Members of the  
23       Committee.

24       MAJORITY CHAIRMAN BENNINGHOFF: Our next presenters are  
25       Steve Brawley, President/CEO Ben Franklin Partners of Central

1 Pennsylvania and Northern PA, Todd Erdley, President and CEO of  
2 Videon Central, Incorporated and Jim Pietropaolo, hopefully.  
3 You're welcome to correct me on any those. I apologize. When  
4 you're comfortable, feel free to start. You can go in whatever  
5 order is best for you. Thank you, again, for joining us today.

6 MR. BRAWLEY: Great. Good morning. Thank you, Chairman  
7 Benninghoff and Chairwoman Mundy and Members of the Committee.  
8 My name is Steve Brawley. I'm the President and CEO of Ben  
9 Franklin Technology Partners of Central and Northern  
10 Pennsylvania.

11 Our footprint, as you know, we're one of four independent  
12 Ben Franklin Technology Partners across the state. The  
13 customers that I serve, the footprint that I serve, is a  
14 32-county region, going from the Harrisburg, Lancaster, York  
15 market through State College, Altoona, Johnstown, Dubois, and  
16 up to Erie and Northwest Pennsylvania. There's a similar  
17 operation in Pittsburgh, serving Pittsburgh and the contiguous  
18 counties, Ben Franklin in the southeast serving the  
19 Philadelphia Metropolitan area and Ben Franklin of Northeastern  
20 Pennsylvania, serving the Lehigh Valley up through the  
21 Scranton/Wilkes Barre area.

22 We're here today in support of the Innovate PA Program and  
23 to tell you a little bit about our experience in Central  
24 Pennsylvania with the great support that we've received from  
25 the Commonwealth and how we're currently facing a problem that

1 we believe the Innovate PA Program can help us to solve and  
2 insure that we're optimizing and maximizing the types of  
3 companies and the types of job opportunities Pennsylvania  
4 citizens are going to have, five years and ten years down the  
5 road.

6 As many folks have said already in their testimony, we're  
7 celebrating our 30th year in business at Ben Franklin  
8 Technology Partners. Due to the wisdom and the foresight of  
9 the first the Thornburgh Administration and the legislature and  
10 each subsequent Administration and legislature, we have been  
11 receiving ongoing support from the Commonwealth through the Ben  
12 Franklin Technology Development line item in the General Fund  
13 budget.

14 For us, in Central Pennsylvania as with each of the other  
15 four Ben Partners, that has -- the funding has historically  
16 amounted to approximately \$7 million a year of support that we  
17 were able to turn around and invest in both cash and in  
18 services to early-stage technology companies in our region.  
19 Unfortunately, due to the pressures on the General Fund for the  
20 last several years, that number has gone down dramatically, as  
21 Chairwoman Mundy noted earlier, to the point that for the  
22 32-county region that I represent and those customers, we're  
23 currently receiving about \$3.5 million a year in operating  
24 support from the General Fund, which sadly allows us to support  
25 about half the number of start-up entrepreneurs and companies

1 that we have historically been supporting in the region.

2 So I'm viewing this problem as really eating our seed corn.  
3 We're not going to have the next generation of companies, such  
4 as those that you will hear from today, employing citizens in  
5 Pennsylvania unless we really make a concerted effort to get  
6 some additional resources back into the pipeline of  
7 entrepreneurship.

8 Ben Franklin has an international reputation which is great.  
9 We have visitors that come to look at the Ben Franklin Program  
10 from other states, from other counties and see what  
11 Pennsylvania did in setting up this structure, setting up a  
12 group of independently managed operations with private sector  
13 boards of directors to make early-stage investments. It is not  
14 our job to provide all the capital that a start-up company in  
15 Pennsylvania needs. It's not our job to be a cheaper deal, to  
16 replace private capital, to replace investment or banks. But  
17 what we are really tasked with doing is making those very high  
18 risk early-stage investments when founders and entrepreneurs  
19 are maxxing out their credit cards and cashing in their  
20 pensions and mortgaging their houses. We are making a very  
21 high risk front-end investment on behalf of you and on behalf  
22 of the Commonwealth to move those companies, those  
23 entrepreneurs, those with their opportunities along far enough  
24 that initial risks are played -- paid down, that initial  
25 questions and barriers have been resolved so that our

1 entrepreneurs and companies can go to subsequent sources of  
2 capitals and make good informed pitches for funding.

3 It is our hope to turn companies over to the Angel Capital  
4 community, the venture capital community and even banks and  
5 more conventional types of lending in some markets and have  
6 our companies be able to leverage the following capital they  
7 need to truly grow and accelerate. So there really is a market  
8 failure that occurs at the point in time where the Ben Franklin  
9 funds are engaged.

10 To give you a little bit of data behind what I'm talking  
11 about, I'd like to cite a couple of things that have been  
12 talked about previously, but just to reinforce them. Every  
13 five years at Ben Franklin, we find it very important to do an  
14 outside assessment of the effectiveness and the efficiency of  
15 the Ben Franklin programs. So the most recent of those was in  
16 2009, Pennsylvania Economy Leaks study of the performance of  
17 companies in the Ben Franklin portfolio against companies of  
18 similar size, of a similar age, in similar sectors that had not  
19 received Ben Franklin investment. The study did not use any of  
20 our data on employment, on revenues; but actually went to the  
21 Department of Labor and Industry and other third-party sources  
22 of information on the growth and performance of those  
23 companies. That study came up with some really great  
24 performance numbers that we've been talking about as part of  
25 this process and this hearing, including the fact that the Ben

1 Franklin companies have boosted the economy in Pennsylvania by  
2 over \$9 billion in their collective revenues that three and a  
3 half dollars of tax revenue came back to the Commonwealth from  
4 the employees and the companies that we've invested in for each  
5 dollar that the Commonwealth put into these types of  
6 early-stage investments.

7 The Ben Franklin companies employ on average five more new  
8 hires, five more jobs every year than their peers that had not  
9 received Ben Franklin funding and assistance and the jobs that  
10 are within the Ben Franklin companies pay on average 33 percent  
11 more than the wages in the control group in the folks that  
12 hadn't received the investment. So we believe that continuing  
13 to have that type of third-party validation gives us some  
14 confidence in not predicting the future, I won't tell you that  
15 I have a crystal ball, but in at least saying that for every  
16 dollar that you've invested to date, there -- someone else  
17 besides me has said that there's been a good return on those  
18 investments and our expectation would be that that would  
19 continue in the future, both with the General Fund revenues  
20 that we ever received from you as well as any additional funds  
21 that may come to make up our 50 percent reduction from the  
22 Innovate PA Program.

23 When we talk about venture capital and talk about  
24 entrepreneurship and innovation, a lot of folks think about  
25 Philadelphia and think about Pittsburgh and some of the larger



1 metropolitan areas, but I want to let you know that innovation  
2 and entrepreneurship is also a very important part of rural  
3 Pennsylvania. While the types of investments may look a bit  
4 different from market to market, part of the wisdom in setting  
5 up the Ben Franklin Program and structure through regional  
6 boards and regional delivery systems, was the ability to  
7 customize the types of services and the types of funding that  
8 are needed in each of the markets regardless of what is  
9 happening in the other areas.

10 So for example for us, just to give you an example from a  
11 company that couldn't be here today, a company called Drucker  
12 and QBC Diagnostics that we provided with management assistance  
13 and funding through Ben Franklin to help them solve some very  
14 specific technical issues now employs over 100 people in rural  
15 Phillipsburg, Pennsylvania. We find that in manufacturing  
16 positions, technology-oriented products to be a great win for  
17 us and there are companies like that all across the  
18 Commonwealth. So this program is not limited to your  
19 conventional thinking of high technology opportunities in more  
20 metropolitan areas, but really has a broader reach and ability  
21 to affect more folks across the Commonwealth of Pennsylvania.

22 Some specific results for us in Central PA that I would like  
23 to share from the last five years were that our companies have  
24 created and retained over 3,000 jobs. They have generated over  
25 \$400 million in revenues, so those are dollars often largely

1 coming in from outside the Commonwealth into those companies.  
2 They have created and commercialized 343 new products and new  
3 processes that are coming out of the creativity and the  
4 innovation of entrepreneurs and technical folks here in  
5 Pennsylvania. And those companies have attracted over \$300  
6 million in follow-on investment from the other sources in  
7 capital that we have been talking about.

8 The irony of being in the lead and really getting into this  
9 game early in Pennsylvania, I mean, I don't know if the wisdom  
10 of creating a program like this came from the fact that the  
11 steel industry was under incredible pressure and our economy  
12 was really taking it on the chin, but we were first. And the  
13 irony now is the states around us are actually passing us, not  
14 in terms of their capabilities and not in terms of the  
15 infrastructure and the tools in their tool kit, but they are  
16 making large significant investments which make the decision as  
17 to whether an entrepreneur hangs their hat out in Mercer County  
18 or bumps across the border into Ohio, a more difficult decision  
19 for that entrepreneur because Ohio has made considerable  
20 significant new investment in entrepreneurship, innovation and  
21 equity investment. So we really see the Innovate PA Program as  
22 way to restore some of the horsepower that we've had  
23 historically in our system here in Pennsylvania and change the  
24 dynamics so that I don't have to say no to good opportunities  
25 or underfund existing opportunities in the hopes that by being

1 frugal we can somehow get to the finish line as fast and as  
2 well as we would have.

3 So I would just like to reiterate any support that you can  
4 give to the Innovate PA Program will be very meaningful to us  
5 at the Ben Franklin Partners and allow us to better serve the  
6 customers, the entrepreneurs, the employers who create job  
7 opportunities and wealth across the Commonwealth. I'd like to  
8 stop at this point and turn over to a couple of guests from our  
9 portfolio that I think their stories of growing their  
10 businesses and creating new products and employment in  
11 Pennsylvania are a lot more compelling than anything I have to  
12 say.

13 MAJORITY CHAIRMAN BENNINGHOFF: We're anxious to hear your  
14 stories if they're hopefully not verbatim by word because I  
15 think we would rather hear it, obviously, gets some investments  
16 have been made of Todd's story about his father's investment  
17 and I think dad got a pretty good return on that investment.  
18 If we could just not read it, that would be helpful, just to  
19 keep us on time.

20 MR. ERDLEY: No, that would actually be much appreciated. I  
21 would rather go extemporaneous any way. So first and foremost,  
22 Chairman Benninghoff, thank you so much for the time.  
23 Representative Mundy, thank you for the time. Members of the  
24 Committee, thank you so much for listening to my story. My  
25 story is one that is very, very simple. You have the written

1 word. You have the background what I am all about. I'm a  
2 company that would not be sitting here today if it were not for  
3 the money from Ben Franklin. It really is that simple. To  
4 borrow \$3500 from my father and go to Silicon Valley and try to  
5 start a company is a challenging opportunity to say the least.  
6 But to do that with the help of Ben Franklin, not only from a  
7 financial perspective, but from a management assisted  
8 perspective, from a marketing perspective, from helping me with  
9 my finances and figure out how to really do a balance sheet.  
10 These are all things that go way beyond what you might think of  
11 when you think of just money going in. It's not just a  
12 management team, it's a partnership team. To have people like  
13 Steve Brawley, John Vidmar, people like that, help me out on a  
14 regular basis has been absolutely critical. We've achieved a  
15 lot of firsts here in this area. We've achieved first with  
16 providing the first DVD products to the industry 15 years ago.  
17 We've achieved first with providing the first Blu-Ray products  
18 to the market. We've achieved first with the first Google TV  
19 products. That's happening in State College, Pennsylvania.  
20 That's happening in Central Pennsylvania. We are a Google TV  
21 kind of company that should be located in Silicon Valley, but  
22 we chose to be here. We chose to be here and pump in \$100  
23 million revenue and nearly \$40 million of wages because we have  
24 a great workforce. That workforce is a dedicated workforce.  
25 It's workforce we don't have to worry about where they go. We

1 are able to grow and we are able to do amazing things. And  
2 because of that, we have great confidence. And most recently,  
3 if you're an optical disk company, and I would ask you mentally  
4 to say, when's the last time that you bought a Blu-Ray player  
5 or a Blu-Ray disk and it might not be as often as what I would  
6 otherwise wish, so business is a little challenging, we had to  
7 make a pivot. We had to make a hard pivot.

8 How do you take 80 people and set them up for further  
9 success? And so we did the logical thing. We went back to Ben  
10 Franklin. And we said we're going to make this pivot and we  
11 need your help and they were there to help us. And so with  
12 their help, we've made the pivot and now we're a streaming  
13 media company. And we are on a path to grow to be a \$30  
14 million company over the next five years and pump another \$100  
15 million of revenue and another \$40 million of taxable income  
16 back into this state.

17 This is a wonderful position to be in. And so with Ben  
18 Franklin's help, with the help of these people, we are able to  
19 even extend our reach and start to meet people from entities  
20 like DCED who took me on a trip to India. India was a great  
21 mission. Great, great, great mission where people were envious  
22 of what we were doing. I am able now because of what Ben  
23 Franklin has shown me to say, you know what, I should take  
24 their lead, I should be representative in the same way, helping  
25 entrepreneurs in the community. So I formed the Center Reach

1 and Entrepreneurial Network. With that network, we're now  
2 lifting up what I call the new breed, the new breed in State  
3 College area. We've lost a lot of jobs. People like Corning,  
4 C-Cor, Raython, these companies are effectively gone in our  
5 area. It's time for myself and other entrepreneurs that have  
6 seen in done and with Ben Franklin, to lift the area back up.

7 So our goal is really, really big here today, ladies and  
8 gentleman. You have a chance to make a difference. People  
9 before you made a difference. I'm asking you to make a  
10 difference. I'm asking you to make a difference for those  
11 people that are going to follow on me. These are exciting  
12 times for exciting people in Pennsylvania. And so I appreciate  
13 the time that you're providing me today. I appreciate the  
14 chance that I could go extemporaneous much, much comfortable  
15 with that. I wish you best luck making your decisions. Thank  
16 you very much.

17 MAJORITY CHAIRMAN BENNINGHOFF: Thank you very much for that  
18 and I enjoyed reading through that. We've seen some of your  
19 blossoming living in the same area and we're very, very  
20 thankful for that. It's easy to get caught up and demonize  
21 some of these programs at times, and well, the government  
22 shouldn't be involved in these of things. And I'm the first to  
23 say I don't think government creates jobs, but I think we can  
24 be facilitators to help encourage and incentivize other  
25 organizations to do that. And we would be lost without small

1 companies like yourselves to do that. I think that's really  
2 what some of these tax credit programs are about. In fact, the  
3 insurance companies won't take a little bit of risk putting  
4 some of their own money out, again, I see our role as being a  
5 catalyst of trying to stimulate that. Do you want add  
6 something to that?

7 MR. PIETROPAOLO: Yes, good morning --

8 MAJORITY CHAIRMAN BENNINGHOFF: We're glad to fire questions  
9 otherwise.

10 MR. PIETROPAOLO: Good morning. My name is Jim Pietropaolo  
11 and I am the COO of a Ben Franklin and a Life Science  
12 Greenhouse Funded Ophthalmic medical device company. We're  
13 based in Hershey, Pennsylvania. In fact, our technical founder  
14 is a researcher in the ophthalmology department at Penn State  
15 Medical Center. And we have developed a new diagnostic  
16 instrument for the detection, the diagnosis of age-related  
17 macular degeneration or AMD. Now, AMD is the leading cause of  
18 adult blindness. It affects some 30 million people around the  
19 world. And it has a particular diagnostic challenge associated  
20 with it, and that is, that this disease in its early stages,  
21 which can last up to eight years is asymptomatic. People do  
22 not know they have it. And there is no good way for the  
23 disease to be diagnosed. That's where Maculogix has come in.  
24 We have invented a new five-minute test that will allow  
25 clinicians to identify early stage AMD, evaluate early-stage

1 AMD.

2 So this product is a product that is going to help a large  
3 number of people and it will be the foundation for us to be  
4 able to build a successful medical device company right here in  
5 Central Pennsylvania. So what I would like to do is explain to  
6 you the way in which Ben Franklin has helped and supported our  
7 development. All right. The Ben Franklin Organization does a  
8 lot of different things for start-up companies, but for us,  
9 they really have done two things that have been critically  
10 important. And our perception is these are the two fundamental  
11 things that they do. The first was associated with funding and  
12 second was associated with providing us with management and  
13 business support as our business grew.

14 So I'll give you some specific examples of both of those  
15 things. From the funding standpoint, initially, we were kind  
16 of a typical Ben Franklin company in that we received about two  
17 years of funding from the program that allowed us to move  
18 forward and hit milestones and develop the product and continue  
19 to move forward. But in addition to that, Ben Franklin did  
20 another thing for us. And Steve referred to this in his  
21 comments, which is some companies that come through the Ben  
22 Franklin Program are not going to be able to exist strictly on  
23 economic development funding. They are going to have to go out  
24 and raise funds from either angel groups or venture capital.  
25 And we are such a company. You can't have a medical device



1        company, requires a lot of capital.

2            So what the Ben Franklin folks did for us during this first  
3        couple of years was help to bring us along to a point where we  
4        were ready to go out and try to raise money from angel  
5        investors and part of that was they helped to educate us about  
6        that process of what it took to put your business plans  
7        together, what it takes to go out and raise angel money. They  
8        connected us with a number of angel groups in the state and  
9        venture fairs that were transpiring. And that then took us to  
10       a point where we actually had a group of Philadelphia-based  
11       angels form a syndication and came to us to make an investment  
12       in the company. We spent months working with them on  
13       due-diligence where right up to the point when there was a term  
14       sheet. And in about two years ago is when this transpired.  
15       That was right before the Christmas/New Year break. We said,  
16       well, we'll come back there, come back after New Years and  
17       we'll finish up the term sheet. When we came back after New  
18       Years, and they gave us a phone call and said, Sorry, we've  
19       decided not to fund you. And the reason for that was we were  
20       still one year away from commercialization and their decision  
21       was that's too much risk for us to take, you're too far away  
22       from sales.

23            So what happened at that point in time, the company was in a  
24        very difficult situation. We were out of money and what  
25        happened then was Ben Franklin and the Greenhouse really rode

1 in kind of on their white horses and said, we cannot let -- you  
2 guys have too much potential. We are not going to let you die.  
3 And they provided us with another round of funding. That  
4 funding lasted us for about 15 months and allowed us to move  
5 forward far enough so that we were actually able to at the end  
6 of that point in time go out and close around of venture  
7 capital funding. We raised \$2.5 million of new venture capital  
8 into the company and now have strong investors that have deeper  
9 pockets that will be prepared to make future investments as we  
10 move forward. So that incremental funding from the Ben's and  
11 the Greenhouse was critically important to keep us alive.

12 On the management support side of things, I'll quickly  
13 mention three different things that they did for us, so you  
14 have an example of the types of things that the Ben's will do.  
15 First is our managers in the company are all technical people.  
16 So what the Ben Franklin team did is they helped us develop our  
17 sales marketing commercialization go-to-market plan. And it  
18 was critically important, A, for the business to understand how  
19 we're going to the market and then, B, to be able to get the --  
20 to be able to talk to investors and give them a sense of you  
21 know how you're going to take this product to market and earn  
22 sales. So that was one thing.

23 Secondly, early on what we developed as a company was a very  
24 crude, really sheet metal prototype device. Not a device that  
25 you could take as a finished medical product and go out to

1       sell. So we had to figure out how we were going to redesign  
2       this prototype into a finished commercial product. So what the  
3       Ben Franklin Program did was they did a search for medical  
4       device engineering firms in the State of Pennsylvania that had  
5       the qualifications to help redesign our product. They found a  
6       firm for us. They helped us cut a deal, and then we spent the  
7       next year with the firm. It's called -- the name escapes me at  
8       the moment -- Edge. So in any event, this firm went and  
9       completed the design of the product. At that point in time, we  
10      are now at a point where we had to make a decision how are we  
11      going to manufacture this product. Now, we had a finished  
12      design. And at that point, we could have taken that design  
13      anywhere in the country or frankly anywhere in the world. But  
14      we worked again together with the Ben Franklin team and what  
15      they did for us similarly was they located a number of medical  
16      device contract manufacturers based in Pennsylvania and we  
17      actually found a couple of them of the quality that could build  
18      this device for us. And because of Ben Franklin's finding this  
19      Pennsylvania-based manufacturer, and frankly a sense a loyalty  
20      out of the company because of the support that had been  
21      provided from the state, we made a decision that we would  
22      manufacture it in the State of Pennsylvania. And we now are  
23      working with a company called Interprod based in Eaglesville,  
24      PA, who is the manufacturer.

25           So now we have a scenario that as Maculogix grows in the

1 future years, it just won't be the entity of Maculogix growing,  
2 it will also be the contract manufacturer here in the state.  
3 So both the financial support and the management support that  
4 we've received from the Ben's and from the Greenhouse have been  
5 critically important in the survival of the company. My  
6 personal opinion is without that support, Maculogix might not  
7 exist today and if it existed, it would be in some other state  
8 because somebody bought the intellectual property from us. So  
9 we are extremely grateful to the program. We're real believers  
10 and advocates for it.

11 MAJORITY CHAIRMAN BENNINGHOFF: That's quick evident and we  
12 appreciate your testimony on it. You're doing a great job and  
13 we're glad you invested and reinvested in Pennsylvania. I  
14 think our first question comes from Representative Evankovich.

15 REPRESENTATIVE EVANKOVITCH: Thank you, Mr. Chairman. I  
16 have a relatively simple question. I'm obviously, very  
17 supportive of what Representative Kampf is trying to do. I'm a  
18 co-sponsor of the Bill. I think it's a great idea. In hearing  
19 a little bit in my experience learning about what the Ben  
20 Franklin Institute does, what is the -- is there an advantage  
21 or a drawback to rather than creating the tax credit auction to  
22 just allowing the insurance companies to invest directly with  
23 the Ben Franklin Institute and then having you return their  
24 money through your success, which is kind how a typical venture  
25 capital company works, you have investment and you get a return

1 on your investment because of the growth and the risk that you  
2 took. Is there a reason why that's a worse or a better model?  
3 As I was listening to your testimonies, it was just a thought  
4 that just popped into my head.

5 MR. BRAWLEY: And I can answer an element of your question.  
6 I'm not an expert on the insurance/finance side, so I really  
7 can't go too far down that path. But what I can tell you is  
8 that at the state that the Ben Franklin's invest, typical  
9 traditional investors are not going to participate. There's  
10 too many risks at this age of company, at this level of  
11 technology innovation. So there really is a private investment  
12 market failure at the stage in which we operate. Down the  
13 road, once the companies have been proven out, once they have  
14 revenues under their belt, often considerable revenues under  
15 their belt be truly become investable. But at the earliest  
16 stages, there really isn't an option for that type of direct  
17 insurance investment.

18 REPRESENTATIVE EVANKOVICH: Another thought, Mr. Chairman,  
19 does the Ben Franklin Institute hold shares of the companies  
20 that do have monumental successes where you invest early and  
21 take major risk? Do you hold shares and substantial ownership  
22 of those companies?

23 MR. BRAWLEY: Not substantial ownership. We do own an  
24 equity position in some of the companies we invest. We really  
25 look at each individual business or each individual opportunity

1 and then make a decision as to whether it's better to hold  
2 equity in that position or whether it's better to have the  
3 money in there as a note, which is really determined by what  
4 type of exit you think that the company is going to be facing,  
5 but generally, yes, we do have the option to participate in an  
6 equity event.

7 REPRESENTATIVE EVANKOVICH: Thank you, Mr. Chairman.

8 MAJORITY CHAIRMAN BENNINGHOFF: Next, Representative Mundy  
9 -- Chairwoman Mundy, pardon me, and then Representative Daley.

10 MINORITY CHAIRMAN MUNDY: Thank you. I just want to  
11 congratulate Ben Franklin for its successes. I am a fan of Ben  
12 Franklin Partnerships and, in fact, the company I worked for  
13 the ten years before I was elected was a beneficiary of a Ben  
14 Franklin grant.

15 MR. BRAWLEY: That's awesome.

16 MINORITY CHAIRMAN MUNDY: It didn't work out, but it was a  
17 worthy undertaking. At any rate, I think what you gentlemen  
18 have highlighted through your experiences with Ben Franklin is  
19 what -- is this strong point of Ben Franklin because they don't  
20 only invest, they nurture. And they guide and they help success  
21 in these small companies. And of all these tax credits that  
22 we've done and the tax breaks that we've done in this  
23 committee, which seem to have benefited the biggest,  
24 multi-state, multi-national corporations, this is the one that  
25 I think benefits small business. So again, I congratulate you,

1 Mr. Brawley, for Ben Franklin's successes and you, gentlemen,  
2 for your success as entrepreneurs. I have the highest regard  
3 for entrepreneurship. And I thank you and look forward to  
4 hearing more good things about your companies. Thank you.

5 MAJORITY CHAIRMAN BENNINGHOFF: Representative Daley.

6 REPRESENTATIVE DALEY: Thank you, Chairman. And thank you  
7 very much, it was -- I have to say that I'm very impressed by  
8 your testimony. I'm delighted to hear about streaming media  
9 because I'm a big fan of that and --

10 MR. ERDLEY: Thank you. Buy more, please.

11 REPRESENTATIVE DALEY: And so, let's see, Mr. Brawley, in  
12 the testimony, the written testimony that you provided, you  
13 have a graph of the funding levels since fiscal 2007/2008  
14 through to 2012/2013 and there's a severe drops of it. In  
15 looking at this, it looks like it's less than \$15 million a  
16 year from the state.

17 MR. BRAWLEY: \$14.5, currently.

18 REPRESENTATIVE DALEY: \$14.5, so and in listening to the  
19 potential for receiving, I think it was \$84 million through  
20 this program? I believe -- those are obviously estimates of  
21 what could be anticipated if the program to go the way that it  
22 was described earlier. I do realize that. I'm not trying to  
23 pin you down on numbers. But I'm just curious if Ben Franklin  
24 would then be willing to give up what it gets from the General  
25 Fund if this program were approved?

1 MR. BRAWLEY: Thank you for question. Right now as I  
2 mentioned and as you pointed out from the graph, we're  
3 operating at about 50 percent of our conventional historic  
4 funding at the regional level. The Bill that you're  
5 considering and the program, as I understand it, would just  
6 restore us back to what we had traditionally been getting. So  
7 for us, we went from \$7 million to \$3.5. The program as  
8 currently, the Innovate PA Program is currently proposed would  
9 restore just the \$3.5 that had been withdrawn, so it would not  
10 really be a windfall for us, nor could it replace a  
11 conventional general funds appropriation that we get. It would  
12 just take us from \$3.5 back to \$7 again for the next three  
13 years, I believe. So it actually wouldn't be a windfall nor  
14 would it be enough to really take away the General Fund  
15 Appropriation, we would then just have a different \$3.5,  
16 instead of the money that we currently have.

17 So unfortunately, no, we couldn't exchange them.

18 REPRESENTATIVE DALEY: Thank you. The concern, obviously,  
19 with the General Fund is there are so many pressures on it and  
20 competing really good programs for a very limited resources, so  
21 that's why I was curious about that. Thank you.

22 MR. BRAWLEY: Absolutely.

23 MAJORITY CHAIRMAN BENNINGHOFF: You guys have been very  
24 thorough. I'm going to take ten seconds to ask a question.  
25 I'm curious as to Ben Franklin organization and it's length of



1 its existence, do you have any kind of an alumni association  
2 where there's encouragement for those successful members to  
3 kind of give back economically that that money can also be used  
4 for reinvestments within the organization? If not, is that  
5 something that you might consider?

6 MR. BRAWLEY: We absolutely have very vigorous alumni that  
7 give back in lots of ways. Principally, what our folks have  
8 done an amazing job and, actually, I think, Todd is a  
9 spokesperson for this in the State College market. What our  
10 alumni have done is been incredibly giving of their time,  
11 effort, expertise, serve as mentors, put thousands of thousands  
12 into the next generation of entrepreneurs and supporting  
13 entrepreneurship in their respective regions. So while  
14 currently, I haven't gone with a tin cup out to necessarily get  
15 additional financial support from those alumni, what we are  
16 getting is a lot of their efforts in running entrepreneurship  
17 events, doing clubs, judging competitions and providing  
18 mentorship. So they have been taking pressure off of our  
19 budget by providing those services for our companies as opposed  
20 to giving us direct investment capital.

21 MAJORITY CHAIRMAN BENNINGHOFF: I think I was a witness to  
22 one of those programs.

23 MR. BRAWLEY: I think you were.

24 MAJORITY CHAIRMAN BENNINGHOFF: I left there so confused, I  
25 thought, geez, I'm not really very smart compared to these

1 people, but it's really great to have that kind of innovation  
2 across the country and here in the State of Pennsylvania. And  
3 we appreciate that. We will be tapping on you later. We  
4 appreciate your testimony today and for taking the time, not  
5 only to share your insight, but your innovation and success.  
6 Keep those employees growing. I can't thank you enough.

7 MR. BRAWLEY: Thank you, Mr. Chairman. Thank you all very  
8 much. Have a wonderful day.

9 MAJORITY CHAIRMAN BENNINGHOFF: You, too. Our next panel to  
10 share with us is Dean Miller, the managing director for Novitas  
11 Capital, also Michael Stubler, Managing Director and Co-founder  
12 of Draper Triangle, and Adam Dakin, CEO and Founder/Partner of  
13 Bioconnect Systems, Incorporated. Gentlemen, we appreciate you  
14 being here. Feel free to proceed in the order that you wish.  
15 If you have written testimony, we will be reviewing that.  
16 Today's video will also be provided to the Members. And if you  
17 can kind of paraphrase your comments, we'll keep things  
18 rolling. Thank you.

19 MR. MILLER: Good morning. My name is Dean Miller. And I  
20 am, as you said, Managing Director with Novitas Capital, an  
21 early-stage venture capital firm, headquartered in Southeastern  
22 PA. I'm also the President and CEO of the Greater  
23 Philadelphia Alliance for Capital and Technologies, which is  
24 the largest business association in Southeaster PA representing  
25 the venture capital industry as well as emerging growth

1 entrepreneurs.

2 I want to thank you, Chairman Benninghoff and Chairwoman  
3 Mundy, thank you, Representative Kampf and Hackett for their  
4 support of this legislation. We're honored here to be in front  
5 of you today to testify for and in favor of this legislation.  
6 I'm joined by Mike Stubler, partner with Draper Triangle  
7 Ventures out in Pittsburgh, who is also the head of the Venture  
8 Capital Association in Pittsburgh; and Adam Dakin, a  
9 Southeastern PA based entrepreneur, who has been growing a  
10 medical device firm. And you'll hear from him shortly.

11 We collectively represent over 90 percent of the venture  
12 capital dollars that are currently and historically invested in  
13 the Commonwealth of PA. I can tell you personally I have  
14 invested, led investments, successful investments across the  
15 Commonwealth in places like Danville, PA, Cranberry Township;  
16 Southeastern PA, Philadelphia over the past 15 years. You  
17 heard -- and I actually wanted to point and you asked the  
18 gentleman, the consultant, what his interest was. My interest  
19 is not here for more capital. I am not here in a self-serving  
20 position to say that I want a big piece of this capital that  
21 we're asking you to approve. I'm not. I'm here in support of  
22 this because I've seen what the venture capital industry has  
23 done for Pennsylvania over the past 15 years and I lead, again,  
24 a business association that represents that industry at large  
25 and I've seen the good that it's done and created from a job

1 perspective from a wealth perspective in our great  
2 Commonwealth.

3 Our previous speaker mentioned that maybe an analogy that we  
4 don't fund something it's similar to the lake that doesn't get  
5 water or sufficient water, it's below the average. Well, you  
6 certainly heard from Ben Franklin that their budgets have been  
7 cut. They're still getting some money, but they've been cut.  
8 I can tell you the venture capital industry is dry. It's  
9 received no capital from the Commonwealth, very little capital,  
10 if anything, over the past 5, 6 years. I'm not going to read  
11 my testimony, but I will look down to give you some specific  
12 facts and figures that help to support that. Pennsylvania has  
13 been a catalyst for the venture capital industry for many, many  
14 years, certainly, Ben Franklin over the past 30 years, but even  
15 prior to that, Pennsylvania and its pension funds, for example,  
16 were very early investors in venture capital. But a lot has  
17 changed.

18 At one point in time, Pennsylvania was in the top 5  
19 nationally in venture capital investments. In 2012,  
20 Pennsylvania hit a low, a low in venture capital investment  
21 since 1996. The lowest number of investments made, the least  
22 amount of capital since 1996. That was in 2012.

23 MAJORITY CHAIRMAN BENNINGHOFF: Not to interrupt, you're  
24 speaking of the Commonwealth itself, not private investors?

25 MR. MILLER: Commonwealth venture capital investments, the

1 whole Pennsylvania-wide.

2 MAJORITY CHAIRMAN BENNINGHOFF: By the Commonwealth as --

3 MR. MILLER: No, no, not by the state, by venture capital  
4 investment firms in Pennsylvania. It's the lowest point since  
5 1996.

6 MAJORITY CHAIRMAN BENNINGHOFF: Yeah, I want to clarify  
7 that.

8 MR. MILLER: No, thank you. I appreciate that. Feel free  
9 if you to interrupt me along the way if you have any questions.

10 MAJORITY CHAIRMAN BENNINGHOFF: I don't like to do that, but  
11 just for not only the audience, but ourselves, we just want to  
12 make sure we're getting those details. Thank you.

13 MR. MILLER: The venture capital industry has been hampered  
14 and what we're talking about here truly is the early stage  
15 side. You heard about Ben Franklin, talking about seed  
16 capital. We're representing early stage venture capital.  
17 Those first dollars that follow the Ben Franklin's that help  
18 those companies to grow further. So it's been certainly  
19 hampered. A couple of other statistics, Pennsylvania as a  
20 group at one point represented over 3 percent of the venture  
21 capital nationwide. It may not sound like a big number, but  
22 when you take out, obviously, California, Massachusetts, it's  
23 still a considerable amount of investment. It's down to less  
24 than 2 percent. Pennsylvania, I mentioned, was in the top 5,6  
25 nationally for a good period of time. It's now out of the top

1       10. So Pennsylvania, as a state, despite, again, it's size is  
2 out of the top 10 in terms of venture capital investment.

3           And I can tell you, it's not from a lack of innovation or  
4 great quality entrepreneurs like Adam Dakin, sitting to my  
5 right. We have terrific universities. We have terrific  
6 entrepreneurs and what the issue is early-stage venture  
7 capital. We are competing with proximate states. There was  
8 some discussion about California, Massachusetts, but there are  
9 options for our entrepreneurs very proximate and you've heard  
10 that from other folks; Ohio, Maryland, where a lot of this  
11 legislation was carried over from. New York, New Jersey, there  
12 are options for entrepreneurs. And I can tell you that just in  
13 the past four years with a handful of companies in  
14 Philadelphia, there were six technology companies that were  
15 lost to neighboring states that now are valued over a billion  
16 dollars. Those companies left because the early-stage capital  
17 is not here for them. Over a billion dollars just with six  
18 companies. Those are examples and I can certainly go into  
19 greater detail of far more than just those.

20           Representative Mundy, you asked about what are the results,  
21 how do we know this is going to work? What is Tennessee, what  
22 is Maryland? And I would say to you that the corollary that  
23 you should be looking at is what you're hearing from today,  
24 which is the experience in the Ben Franklin Program over 30  
25 years and what I'm about to share with you, in part, from the

1 venture capital program because we're not talking about doing  
2 things differently. We're talking about putting money into the  
3 hands of professionals that have many, many years of experience  
4 in investing in early-stage technology and life sciences  
5 companies. It's no different. It's just a different supply of  
6 capital. And in PA, as I mentioned, we've been at the  
7 forefront for many, many years. We've different catalysts.  
8 Whether it's through the Ben Franklin Program, through TSIB,  
9 through CFA, through the BFTDA and through SERS, through our  
10 pension funds. Again, that has dried up, but we have a lot of  
11 experience in and can demonstrate the kind of returns. Ben  
12 Franklin mentioned \$3.50 in tax revenue for every dollar spent.  
13 That's obviously a very important number to consider when  
14 you're talking about bridging that General Fund divide.

15 But let me talk to you about jobs for a minute. You heard,  
16 again, from Ben Franklin that they demonstrate that the jobs  
17 that they create are the salaries of those jobs are 33 percent  
18 greater than the average job or median job that is created in  
19 PA. We show that it is even larger than that in terms of the  
20 high-paying jobs that venture capital creates. When you look  
21 historically, and I've got data that's 40 years old, so for 40  
22 years in PA, \$13.5 billion have been invested in about 1200  
23 companies. That's 40 years of data. That is created  
24 currently. These are current jobs that have been created by  
25 companies that are still sustained, that are still here. Eight

1 hundred thousand jobs, 800 thousand jobs with companies that  
2 are generating upwards of \$240 billion of revenue. That's  
3 pretty long data in terms of the types of returns that we're  
4 talking about.

5 One US job was created for every \$17,000 of venture capital  
6 invested. Again, this is sustainable jobs, so you invest  
7 \$17,000 in venture capital that job, again, that I talked about  
8 is very sustainable. The multiple that we see there from the  
9 venture capital invested just to the revenue that's created is  
10 a 16X multiple. And, again, this comes -- those returns come  
11 in multiple ways, and I think that's important for the  
12 Committee to consider. There is certainly the investment. And  
13 some folks have talked about, well, what's the investment for  
14 those venture capital dollars? There's also the tax revenue  
15 from the companies created, the payroll taxes, the taxes and  
16 other state-based fees that those companies pay to be in  
17 existence in the Commonwealth. But there's also the multiplier  
18 effect, because these companies don't just create jobs within  
19 their own company, and you'll hear about this from Adam, they  
20 create jobs outside their company, other support jobs that help  
21 them do what they need to do. So the multiplier is very wide  
22 and very deep.

23 Again, some more facts and figures, as I mentioned again  
24 that \$13.5 billion of investment over 40 years led to \$238  
25 billion in revenue. Well, those companies that are represented



1 that were created back then are companies like Smith Kline,  
2 Glaxxon Smith Kline, they are companies like Comcast, like  
3 Airgas, West Boronics. These are household names in many parts  
4 of Pennsylvania, that without venture capital, may not have  
5 been created and you certainly heard from others, might not be  
6 here. And there are example after example of companies today  
7 that might be those in the future that are getting attracted,  
8 they are getting pulled away to places like Ohio and Maryland  
9 and New Jersey and New York. We're here to testify to you that  
10 we need to bridge that gap. We need to bridge that dearth for  
11 venture capital and this is a program that we believe  
12 accomplishes that, helps to accomplish that and puts dollars  
13 into the hands of the professional investors that know how to  
14 get a return.

15 Just in the past 13 years, since 2000, there have been over  
16 800 venture capital investments in PA. And I know one of the  
17 questions is Well, how do we know these aren't all going to go  
18 out of business? Again, we need to look at the data. Over the  
19 past 13 years, out of those over 800 companies, upwards of 80  
20 percent of them still exist here in PA and collectively have  
21 raised over \$11 billion in venture capital in that 13-year  
22 period. Some of that money comes from the Commonwealth, from  
23 the venture capital firms, like my firm and like Mike's firm,  
24 but upwards of over 80 percent of it comes from outside the  
25 Commonwealth, which a real positive when you think about it.

1       So these are firms in California and Massachusetts that are  
2       taking dollars that they raised and putting it into the  
3       Commonwealth. In other words, we need to be attractors of  
4       outside capital as well as fund the early-stage capital that's  
5       here. Again, it brings more money, which fuels more job growth  
6       and more revenue growth here in the Commonwealth. Those  
7       companies just in those past 13 years have created hundreds of  
8       thousands of jobs. Again, not created and gone away, but  
9       sustained because as I mentioned out of those over 800  
10      companies, over 80 percent are still in existence, still here  
11      today. Several of those have gone on to be public companies,  
12      approximately 28 of them and another handful have gone to be  
13      acquisitions. I shared investment with Mike in a company out  
14      in Cranberry Township that was acquired and still is building  
15      and growing in Cranberry Township. Again, many great examples  
16      of what venture capital has done for the Commonwealth over the  
17      years.

18           In short, again, we have a need. We have a need for  
19      early-stage venture capital. And I'll now turn over the mike  
20      to my counterpart from Pittsburgh, Mike Stubler.

21           MR. STUBLER: Good morning. Thank you for the opportunity  
22      to speak with you today about this important initiative. I'm  
23      Mike Stubler. I'm a founder and managing director of Draper  
24      Triangle Ventures. We're a Pittsburgh-based early-stage  
25      venture capital firm. I've been working around the start-up

1 technology community in Pittsburgh for almost 30 years. I'm a  
2 director of the Pittsburgh Venture Capital Association and the  
3 past president of that organization as well. I'm also on the  
4 Board of Directors of Innovation Works, which is the Ben  
5 Franklin partner/organization in Southwestern Pennsylvania, so  
6 I have very good view of the ecosystem in Southwestern  
7 Pennsylvania around technology start-ups.

8 As Dean mentioned, our firms invest after someone like one  
9 of the Ben Programs, in my case, Innovation Works, my firm has  
10 been the most active early-stage investor in Southwestern  
11 Pennsylvania over the past 12 years. We've invested over \$80  
12 million in 26 start-up companies in Southwestern Pennsylvania  
13 area. We've leveraged that for additional investment from  
14 other firms outside of the region in an excess of \$300 million.  
15 And you start looking at how the leverage works, you know, in  
16 our funds. We were fortunate in our second fund to have  
17 support of both the Commonwealth Financing Authority and the  
18 BFTDA venture program. And the leverage that we had investment  
19 from those programs, we were able to raise six or seven times  
20 that from other sources to put that money to work. And I've  
21 already mentioned the leverage from out of state in terms of  
22 the investments that we've made.

23 I guess one of the things that Dean talked about that the  
24 critical shortage of venture capital and I wanted to speak  
25 specifically to Western Pennsylvania because we're really in a

1 state of crisis and in my testimony, I had a few graphs that I  
2 put in that were some information gathered from Innovation  
3 Works. If you go back and look at 2011, there's a chart there  
4 that shows the amount of early-stage venture capital that is  
5 based in Southwestern Pennsylvania. You saw it in 2011, it was  
6 at a historic low going back to 1983 for a lot of different  
7 macro conditions. It did bump up a little bit in 2012, and see  
8 why does that matter? Certainly, good companies will always  
9 get -- will find investment in dollars and that's correct. But  
10 the issue is at the stage where we invest is the companies are  
11 highly mobile. And if there isn't venture capital that's  
12 local, nearby, the companies can easily move. In Pittsburgh we  
13 see it more often. You have students who come to Carnegie  
14 Mellon or Pitt. They're not from -- certainly in the case of  
15 Carnegie Mellon, they're not from Pittsburgh. They graduate.  
16 They launch an enterprise. They'd love to stay there, but they  
17 need to get funding, but they're highly mobile if they can't.  
18 In fact, that was part of the genesis of the formation of our  
19 initial fund back in 1999 where we had seen a number of  
20 start-up companies come out of Carnegie Mellon, Lykos is  
21 probably the most -- the biggest example. They got funding  
22 from a venture capital firm in Boston and moved to Boston and  
23 the company went public. Carnegie Mellon had a great economic  
24 windfall, but the region never benefitted from it other than  
25 the money. So that was part of the reason of my fund was

1       formed.

2           Unfortunately, what we started to see is in some cases,  
3       we're starting to see companies to leave the area again because  
4       they can't get venture capital. They come through some of the  
5       program like the Ben's and Alpha Lab and others. And they're  
6       at the point where they're looking for capital. They're highly  
7       mobile and without local venture capital, they're easily,  
8       easily able to relocate. So that's matched at a time, I have  
9       another chart in my presentation where the opportunity to  
10      invest venture capital is at an all-time high. You can see the  
11      deal flow that's coming out of Alpha Lab and Innovation Works.  
12      It's at all-time highs based on the innovation that's happening  
13      at the institutions, Pitt, and Carnegie Mellon. And so from an  
14      investment standpoint, there's no better time to have money to  
15      invest and I'm glad my funds were fortunate to just close on  
16      our third fund and we're back in the market investing in  
17      Pittsburgh, but it's a great time to be investing because the  
18      deal flow has never been better at a time when we're at  
19      historical lows in the amount of venture capital in the region.  
20      And we're just concerned long term for the health of the region  
21      we've come so far in the past 30 years in Pittsburgh,  
22      developing a technology community. What we've seen -- I've  
23      also invested in the Midwest and we've seen our neighboring  
24      states to the west who also now have copied Pennsylvania and  
25      the things that we've done here. There was some mention of

1 Ohio, but some of the venture funds, funded funds that have  
2 been formed in these states to attract venture capital. Ohio  
3 has multiple programs, a program managed by a \$100 million  
4 fund. Venture Michigan, too, has a \$150 million program to  
5 attract more as following, \$200 million of other programs in  
6 their state. In Indiana, just in March, announced \$150 million  
7 funded funds to attract venture capital firms to their state.

8 So my concern is as a region, speaking for Western  
9 Pennsylvania that we're losing to our neighbors to the west in  
10 terms of being able to attract local venture capital that's  
11 going to retain these start-up companies in our community. So  
12 thank you for your consideration.

13 MAJORITY CHAIRMAN BENNINGHOFF: We appreciate your testimony.  
14 I'm curious as to why you chose to work in Pittsburgh?

15 MR. STUBLER: Well, I grew up in Oil City, Pennsylvania and  
16 I graduated from Notre Dame. I wasn't sure where to go, so  
17 coming back to Pittsburgh sounded like the right thing to do.  
18 And I met some entrepreneurs that actually some of my partners  
19 and I have been together for almost 30 years and went to work  
20 in a start-up company back in 1984 and got the bug and we  
21 started multiple companies after that, so we've been -- you  
22 know, started companies and started investing in companies and  
23 then we put a fund together to invest, kind of institutionally  
24 in other funds, so it's kind of home, so it seemed like the  
25 right place to go.

1 MAJORITY CHAIRMAN BENNINGHOFF: Well, we're glad you did and  
2 hope that energy is contagious to others out there. Adam,  
3 would you like to add to that?

4 MR. DAKIN: I would. Thank you to the Members of the  
5 Committee for this opportunity and to discuss what I think is a  
6 very important program.

7 So my name is Adam Dakin. I'm often euphemistically  
8 described as a serial Med-tech entrepreneur. My entire career  
9 has been focused on the venture capital back life sciences  
10 industry. I've co-founded three companies, been in senior  
11 management roles in a number of others, raised about \$30  
12 million in seed stage and early-stage financing.

13 Let me tell you that the mid-tech industry, life science  
14 industry is bound by the universal belief that what we do  
15 matters. Improving the health of others is or the endeavor. I  
16 currently serve as a CEO of Bioconnect Systems, a company that  
17 I co-founded in 2007, located in Amwood, Pennsylvania.

18 We're developing an entirely new method for microvascular  
19 suturing. Our initial product will improve outcomes in the  
20 quality of life in over 2 million end stage renal disease  
21 patients worldwide. As you may know, end stage renal disease  
22 is growing at an alarming rate due to its contributors such as  
23 hypertension, diabetes and obesity. If it wasn't for venture  
24 capital, my company would not exist. I can tell you based on  
25 my almost 30 years in life science venture space, access to

1 capital for -- access to early-stage capital as you've heard  
2 over and over again today, has never been more challenging.  
3 Here's just -- yesterday, I had decided to just take a look at  
4 recent press releases in this space. Here is three articles  
5 just from the last couple weeks. Headlines, Device Company  
6 Venture Capital Funding continues its plunge. Where has all  
7 the Med-tech venture capital gone? Med-tech venture investing  
8 declines in the fourth quarter. It's not getting any  
9 friendlier out there for guys like me looking for funding for  
10 their next venture.

11 In fact, turns out in the fourth quarter of 2012, venture  
12 funding in Med-tech dropped by 30 percent. That was a drop  
13 from a little over \$700 million to \$500 million, so the dollars  
14 are very real and very significant. There are a lot of reasons  
15 for that, some of which have been touched on today. I can tell  
16 you difficulties getting FDA approvals are contributing to that  
17 and an overall contraction in venture capital as an asset class  
18 is contributing to that. There are a number of other forces  
19 that I won't go into that truly have created a perfect storm  
20 for early-stage life science investing.

21 MAJORITY CHAIRMAN BENNINGHOFF: While you're there, I just  
22 want to ask --

23 MR. DAKIN: Yeah, go ahead.

24 MAJORITY CHAIRMAN BENNINGHOFF: If you were sitting in five  
25 of our neighboring states, would you be telling me the same



1 story in those articles that you brought up?

2 MR. DAKIN: Well, I'm not --

3 MAJORITY CHAIRMAN BENNINGHOFF: Well, I'm trying to make  
4 sure that this is not just pinpointed to Pennsylvania and,  
5 obviously, the articles that you raise saying that the venture  
6 capital is drying up, if you were sitting in one of the  
7 neighboring states outside Pennsylvania, would you probably be  
8 testifying somewhere along the same lines?

9 MR. DAKIN: Well, that's hard for me to say because I don't  
10 know what life is like in those other states. I grew up in,  
11 you know, over the bridge in South Jersey, a number of my  
12 Med-tech ventures have been Pennsylvania or Philadelphia based.  
13 I think to some degree the question might be asked a little bit  
14 differently and I'll get to that article further in my  
15 comments. So the funding from the PA Innovate Program really  
16 is very critical. The \$500 thousand that my company received  
17 my Ben Franklin technology partners enabled us to hire  
18 additional employees, these are highly compensated employees,  
19 and to conduct what we achieved a number of mission critical  
20 milestones with that funding including completion of a very  
21 important clinical trial.

22 We've raised a total of about \$12 million dollars. About \$8  
23 million of that has been deployed specifically within the  
24 Commonwealth. So to address your comment, I think I'll close  
25 by saying that Pennsylvania has a global reputation for life

1 science innovation, but as any investor knows, innovation  
2 requires management, technology and capital. Without capital,  
3 this innovation will cease, the high-paying jobs that go with  
4 it will also go away. Neighboring states that are providing  
5 more aggressive and more generous economic support, we'll see  
6 those companies migrate or those start-ups begin in those  
7 places.

8 Therefore, I think it's very important that this important  
9 program get your support. And with that, I will open it up to  
10 questions.

11 MR. MILLER: Chairman Benninghoff, I can supplement that.  
12 From a state perspective, you asked if he was in a neighboring  
13 state, I mentioned a statistic that said Pennsylvania was at  
14 one point was in the top 5 of venture capital investment as a  
15 state as a Commonwealth in comparison to other states around  
16 the country. We're now out of the top 10. Those other states  
17 that have leapfrogged us are in large part our neighboring  
18 states, like New Jersey for example, that we used to  
19 consistently be ahead of that's now pretty more in venture  
20 capital than we are.

21 MAJORITY CHAIRMAN BENNINGHOFF: Is that a tax dollar  
22 investment or private sector and tax dollar?

23 MR. MILLER: It's a combination. And I think that's  
24 important for you to understand and I think another thing I  
25 wanted to share, one of the panel members who is no longer

1 present asked a question, Well, why don't the insurance  
2 companies just invest in Ben Franklin directly? And you might  
3 ask the same question, why aren't the insurance companies or  
4 other companies, private investors, just invest in Mike's or my  
5 fund directly? Some of them do, but very few do. Again,  
6 early-stage venture capital is very different than the  
7 Blackstones of the world that are raising billions of dollars.  
8 And most of the institutional capital goes towards those  
9 massive vehicles that are doing leverage buyouts or investing  
10 in very late-stage companies. We're focused on very innovative  
11 early-stage companies. And that private capital is much, much  
12 less available. So innovative programs that have historically  
13 existed in Pennsylvania, again, BFTDA, CFATSIB, even the  
14 pension fund investments, as well as similar programs that have  
15 been now been copycatted from PA in places like Ohio, Maryland,  
16 Indiana, New Jersey, have become increasingly large funders for  
17 early-stage venture capital because it doesn't come directly  
18 from those other entities.

19 MAJORITY CHAIRMAN BENNINGOFF: And the private sector dollar  
20 investment diminishing is probably because it's a lot higher  
21 risk in some of the start-ups.

22 MR. MILLER: It's not just that. It's the volume of  
23 dollars, so a large insurance company has billions to invest.  
24 They can't efficiently manage a small \$5 million investment of  
25 my firm or Mike Stubler's firm. They need to put \$50 or \$500

1 million into a fund. We're not raising 500 or a billion plus  
2 dollar funds. We're raising \$50 million, \$100 million to  
3 efficiently invest in early-stage companies. So they can't  
4 efficiently invest in it. It's not just a matter of risk.  
5 It's a matter of putting money efficiently into investments.

6 Again, it would be similar to you as an individual saying,  
7 I'm going to go out and put \$10 into every public security in  
8 the country. It's an inefficient way to go, so we put it into  
9 funds.

10 MAJORITY CHAIRMAN BENNINGHOFF: I appreciate that  
11 explanation. I think Chairwoman Mundy had a question.

12 MINORITY CHAIRMAN MUNDY: I do. Thank you. The states of  
13 California and Massachusetts have been referenced repeatedly,  
14 and I'm wondering if you can tell me if you know what their  
15 state governments are doing to encourage venture capital  
16 investment?

17 MR. MILLER: So those two states are Number 1 and Number 2.  
18 California is a complete anomaly. Right, California in 2011  
19 alone was over \$14 billion in venture capital. It's a multiple  
20 over everybody else combined in the country. And we don't have  
21 enough time today for me to go into the historic of how that  
22 has happened over the years. But it's been early  
23 entrepreneurship that has resulted.

24 MINORITY CHAIRMAN MUNDY: Excuse me, but when you talk about  
25 this massive investment, is that public investment from

1 California State government? Is it a combination or is it  
2 mostly private venture capital?

3 MR. MILLER: The California pension funds are some of the  
4 leading venture capital investors historically in the country.  
5 So it's been a combination. So those public dollars have  
6 fueled the creation of a lot of innovated companies that then  
7 have reinvested in California and continually reinvested in new  
8 entrepreneurs and have created this volume of investment.  
9 Similar things have happened in Massachusetts. And again,  
10 they're -- we're not dissimilar in Pennsylvania in terms of  
11 innovation assets. When you look at our universities, when you  
12 look at our entrepreneurs, like the Adam Dalkins of the world,  
13 it's not too much different. There's just more volume than  
14 those based upon the size of the early investments that were  
15 made in those states.

16 MINORITY CHAIRMAN MUNDY: Thank you.

17 MR. DAKIN: I could add maybe just a little bit and say, I  
18 think they may need to frame the question maybe just a little  
19 bit differently. I mean, we have an ecosystem. It's an  
20 overused term, but we have a network of entrepreneurs and  
21 innovators and consultants and supporting organization and  
22 vendors who are experts in these early-stage companies in  
23 supporting these early-stage companies. And I don't think I'm  
24 overstating it when I say, you know, the early-stage capital  
25 markets are in crisis. This capital doesn't just -- I could

1 not have started my company today. I was able to raise capital  
2 very fortunately when I started the company in 2007. I'm  
3 almost certain that capital wouldn't be available today except  
4 for organizations like Ben Franklin. So I understand how the  
5 question's being asked, and we're worried about, Hey, if I was  
6 in another state, how would I be responding to these similar  
7 questions, but I think you have to realize if you want to keep  
8 this ecosystem alive in Pennsylvania, not only grow it, but  
9 just keep it here, because it will go elsewhere and there will  
10 be a much smaller life science industry. The guys that I've  
11 worked with over the years, you know, when a company succeeds  
12 it doesn't succeed, but these folks get the skills and what do  
13 they do? They go on to start their own companies. And it  
14 continues and so on and so on. So I think it's very important  
15 that you feed that ecosystem with the knowledge that you need  
16 to keep it alive, you need to support it and guess what? It's  
17 unfortunate, but, but programs like this step in and fill a  
18 huge gap that exists in the early-stage funding space at the  
19 moment. That may change over time, but right now, it is one of  
20 the only sources to get that capital.

21 MAJORITY CHAIRMAN BENNINGHOFF: We appreciate that  
22 delineation, and I think our concern in some of the questions  
23 we were asking as policymakers, obviously, we generally only  
24 have control over the state budget dollars, which are somebody  
25 else's tax dollars that they've earned. We know that the banks

1 are getting tighter as far as their lending in requiring more  
2 money down, which we saw the results of not doing that, so I;m  
3 not criticizing that, but I think it's important for us to  
4 differentiate what is private sector dollars versus public  
5 dollars. And we appreciate you clarifying that. I think  
6 Representative Roae has a question.

7 REPRESENTATIVE ROAE: Thank you, Mr. Chairman. This is very  
8 busy day at the Capitol, a lot of meetings going on, a lot of  
9 us are coming back and forth from different meetings. But  
10 right when I was coming back in the room, I think -- I want to  
11 make sure I heard the number right. I think somebody had  
12 stated that in the last 13 years, something like 80 percent of  
13 the companies that received this type of funding are still in  
14 business. Is that what was said?

15 MR. MILLER: That is correct.

16 REPRESENTATIVE ROAE: That just seems to be a really high  
17 number, which is good. I mean, I'm glad it's that high because  
18 I think if you look at most businesses that were around 13  
19 years ago, you know all businesses combined, I don't think 80  
20 percent of them are still in business. So I just think it's a  
21 good sign that everybody testifying today might be onto  
22 something about the importance of this.

23 My next question is really more of a comment than a  
24 question, but in the past, I've always been kind of skeptical  
25 about this type of thing, but the more I hear about it, the

1 more I'm starting to realize that I think it probably is  
2 something that we should seriously look at. And as far tax  
3 credits and things like that go, I guess we have to decide as a  
4 Commonwealth, do we want to have more money to give people for  
5 different government programs to help people support themselves  
6 that can't support themselves or do we want to make more money  
7 available to help create jobs so people can support themselves  
8 and not need the government programs. So I think the proposal  
9 on the table today should be seriously considered. Thank you.

10 MAJORITY CHAIRMAN BENNINGHOFF: Gentlemen, as an editorial  
11 note, you don't realize you've made -- moved mountains to have  
12 Representative Roae move in that direction and position and we  
13 appreciate his willingness to have an open mind. He's one of  
14 our good frugal bean counters. For you to incentivize him to  
15 be open-minded to that is -- you've made monumental milestones  
16 today. We can't thank you enough for your testimony, your life  
17 examples of what you're doing and we are taking this serious.  
18 And the fact that the author of the Bill was still with us, I  
19 think he knows he can draw on you as resources as well as Steve  
20 and his group. So thank you very much for that testimony.

21 MR. MILLER: We appreciate your time.

22 MAJORITY CHAIRMAN BENNINGHOFF: Your's as well. Thank you  
23 for your investment in Pennsylvania.

24 Our next panel is Mel Billingsly, PhD, President and CEO of  
25 Life Sciences Greenhouse of Central Pennsylvania, Maureen



1 Mulvihill, President and CEO of Actuated Medical, Incorporated.

2 You two want to decide who goes first?

3 MR. BILLINGSLY: I will go first and I will not read from  
4 the binder so you will be pleased from that. And thanks to the  
5 Committee and the Chair people for inviting us.

6 I represent the Life Sciences Greenhouse of Central  
7 Pennsylvania, but I am speaking on behalf of the other Life  
8 Sciences Greenhouses in the state, BioVance in Philadelphia and  
9 the Pittsburgh Life Sciences Greenhouse. We are really want to  
10 echo the importance of the role of seed and venture capital in  
11 growing innovation and wealth creation around the life  
12 sciences. So the life sciences are slightly different, and as  
13 Representative Kampf knows as being one of the chairs of the  
14 Life Sciences Caucus, they do not only produce economic  
15 development but they are focused in on producing cures. And  
16 I'd like to echo some of the cures that these companies have  
17 achieved under the Life Sciences Greenhouses Program.

18 There are over 2,000 life sciences establishments in  
19 Pennsylvania that run the gambit from the start-up to the big,  
20 80,000 jobs earning roughly \$8.15 billion in wages, average  
21 wage in this industry is around \$90,000, and there's a  
22 multiplier effect on the funds, somewhere in the neighborhood  
23 of six to one for every dollar that's spent. So, indeed, the  
24 life sciences a key driver. In fact, it's underscored by the  
25 fact that the Governor and most of our colleagues are at the

1 international Bio Convention today, leaving me behind to  
2 testify, which is the International gathering in Chicago, so it  
3 is a very important keystone of our economy.

4 I think the employment and the growth of the wealth creation  
5 only tells a little bit of the story, and if you look at some  
6 of the companies that the greenhouses have supported, you'll  
7 see -- and I've given you a couple one-pagers that outline some  
8 of the companies -- we have companies that are actually  
9 producing novel innovative therapies that change the health  
10 care for the better for not only Pennsylvanians, but for the  
11 world. Let me just give you a couple examples. One is  
12 Pittsburgh-based Alon Technologies, which is using a novel  
13 hollow fiber extraction technology for oxygenating blood and  
14 removing carbon dioxide which may obviate the need of a  
15 ventilator and it's currently in clinical trials in Canada and  
16 has a CE mark in Europe. This could be a game-changer. In  
17 Philadelphia, the Avid Ria Pharmaceuticals, started out in the  
18 University of Pennsylvania fostered by organizations, such as  
19 BioAdvance, the Greenhouse there, and venture capital companies  
20 in the Southeast region. They developed the first imaging  
21 technology, which is now approved by the FDA to image  
22 Alzheimer's plaques and was acquired by Lilly recently and is  
23 still has that arm operating in Philadelphia. It's a major  
24 game-changer. We have a company called Inrange Technologies,  
25 which has developed, a remote medication management device that

1 was adopted by Walter Reed for controlling the medicines that  
2 are taken by Army vets coming back with PTSD, so they don't  
3 overdose accidentally or fail to take their medicines.

4 So these are the types of companies that we're investing in,  
5 so they're not only economically development plays, but these  
6 young companies are the ones that provide the game-changers.  
7 But clearly, the difference is that this requires a large  
8 amount of time and funding and patience, not only our  
9 early-stage capital, but also venture capital. Without this,  
10 capital source, these companies will, first of all, dry up, go  
11 to other places. And it's not just other states, it's the  
12 world. That's our competition. When you go to Bio, you're not  
13 just seeing Maryland, Pennsylvania, Ohio, you see Singapore,  
14 China, India and the rest. All of whom would like to have what  
15 we have, so it really is ours to lose. But as we all know,  
16 you've all heard the echos of reports, recent reports from  
17 Fenwick and West and others have all confirmed what we all know  
18 in the industry and that is that early-stage capital, which is  
19 that first stage of capital, you've heard from the Ben's who  
20 invest early. We invest a little bit later and a little bit  
21 more and then the venture folk that either invest with us or  
22 and then beyond us. This capital is drying up. Why? Because  
23 of the perfect storm that's been described in the venture  
24 community. LP's, like pension funds in an fiduciary role are  
25 asking for greater returns because that's their mandate and

1 they're lowering their allocation to things like venture.

2 At the same time, it's taking longer and longer to get these  
3 companies approved because of the FDA process, clinical trials  
4 that take seven to ten or longer years to get product on the  
5 market. So this is a long-term bet, indeed. And so when you  
6 think of this type funding environment what's its done is put  
7 tremendous pressures on organizations like the greenhouses. In  
8 part because we have to fund these companies longer. And you  
9 heard from Jim Pietropaolo of Maculogix, one of our regional  
10 investments. We actually led their A round, which was lucky  
11 enough to get some other venture capital and they're launching  
12 the company, but this is where we've had to step in and kind of  
13 anchor A rounds and these early stages of formal funding so  
14 these companies have the capital to grow and develop. And  
15 hopefully, they'll be a highly successful company with the test  
16 for the leading cause of blindness, so that's a very important  
17 differentiator.

18 So in sum, we really want to provide, you know, all right,  
19 the difference in the greenhouse and from all the other  
20 perspectives, I think is worth mentioning is first and  
21 foremost, we were started with tobacco funds back in 2001, \$100  
22 million divided roughly equally. We were set up in an  
23 evergreen model where we basically reinvest our equity that  
24 we'd taken primarily what we do is we provide some business  
25 services and other stuff, but we primarily do direct investment

1 in the form of convertible debt or equity to get the company  
2 along. And so the funds that we received back as a non-profit,  
3 we simply churn and do this again and again and again.  
4 However, as we know, the times have been tight. That being  
5 said, of the investments that we've made so far, the  
6 greenhouses collectively have brought on follow-on emanate  
7 funding of greater than \$2.7 billion, which is a leverage of 40  
8 to 1, which would match anywhere. And these are companies that  
9 have real impact, not only in the economics of Pennsylvania,  
10 but also in the health care of Pennsylvania, so these are  
11 things to be proud of.

12 So we want to leave you with this notion that investing in  
13 the life sciences and health care will be important for the  
14 future and important to the future of our economy in the state.  
15 And so we encourage you to consider this and other bills  
16 because after all, there are only a handful of ways to get  
17 money into early-stage investment. You can use vehicles like  
18 tax credits, such as this, special purpose funds or other  
19 sources such as bond-backed initiatives like Ohio, Texas, and  
20 others have done. But we are at risk for losing what we have.  
21 So thank you very much.

22 MS. MULVIHILL: Good morning, Chairman Benninghoff and  
23 distinguished members of the House Policy Committee. My name  
24 is Maureen Mulvihill and I'm President and CEO of Actuated  
25 Medical. Founded in 2006, Actuated Medical is a medical device

1 company that focuses on innovated motion for clearing  
2 obstructive medical tubes inpatient, penetrating tissue and  
3 enabling emerging MRI-guided surgical procedures. We are a  
4 full service FDA compliant, which means we are ISO-13485, which  
5 means we can manufacture under our name. We are company based  
6 in Bellefonte, Pennsylvania, and we do the design, development  
7 and manufacturing of our medical devices.

8 Our innovations improve patient outcomes in ultimately  
9 reduce healthcare costs. Our commercial successes are due to  
10 the entrepreneurial spirit of taking risks and always keeping  
11 focus on the end goal. That's FDA clear device with a real  
12 market in a clinical need. In just five years, Actuated  
13 Medical's Tube clear, our first device was cleared by the FDA  
14 and CE Mart. We even have sales in Europe, so this small  
15 20-person company in Bellefonte, Pennsylvania is international.

16 Tube Clear's first inpatient study was a 27-year old  
17 soldier, so what an emotional day for our company. Not only  
18 did we succeed in approving a patient's life, but it was a  
19 soldier, our first patient. Actuated Medical has been  
20 recognized as an flourishing entrepreneurial company by Ernst  
21 and Young, by Central Pennsylvania Business leaders and most  
22 recently the Governor's Impact Awards. Actuated Medical, we  
23 provide family-sustaining salaries and enhance benefits so that  
24 our talented team of Pennsylvanians are focused on designing  
25 and manufacturing innovative technologies, core to our mission

1 of improving patient outcomes.

2 In 2008 and 2009, Actuated Medical received initial seed  
3 funding through the Commonwealth. At our start, private  
4 investor for not interested in funding entrepreneurs with the  
5 novel idea of bring motion to medicine. With Commonwealth  
6 funding, we conducted background research, prototype testing  
7 and submitted two small business innovation research grants.  
8 One to the National Institute of Health and one to the National  
9 Science Foundation. From these two grants, Actuated Medical  
10 has been awarded by NSF, NIH and just most recently USDA over  
11 \$10 million in federal grants. What an incredible return on the  
12 investment for the Commonwealth, \$320,000 was invested in us  
13 and we turned it into \$10 million being invested in  
14 Pennsylvania and in Pennsylvanians.

15 Actuated Medical also utilized the Keystone Innovation Zone  
16 Tax Credit Program. For the last four years, we have sold the  
17 credits in an effort to garner the capital needed to support  
18 our indirect cost, such as legal and patent fees. To date,  
19 Actuated Medical has been awarded three US patents and we have  
20 several moving through the US and International patent offices.  
21 Our intellectual property portfolio and valuation continues to  
22 grow.

23 Until July of 2012, Actuated Medical had no private  
24 investment beyond family, friends, the Commonwealth and those  
25 SBIR grants. Everything changed after Tube Clear, our first

1 product, received FDA clearance. I am proud to share that  
2 Actuated Medical currently has more than \$500,000 received and  
3 impending from Strategic Partners with more to come. Due to  
4 our recent growth and momentum, we are exploring purchasing a  
5 building and doubling our footprint in Central Pennsylvania.  
6 We do love living there.

7 Funding from the Commonwealth not only helped to sustain  
8 Actuated Medical during our early years, but also helped  
9 leverage additional public and private follow-on funding. The  
10 financial assistance and inherent valuation of our research,  
11 which accompanied it, helped grow Actuated Medical to where we  
12 are today. I am here today to tell you my story and let you  
13 know that Actuated Medical strongly supports Innovate PA.

14 As a means of providing influx of early-stage capital to  
15 Pennsylvania's young research and development companies like  
16 Actuated Medical, we would not be here if it weren't for that  
17 initial investment from the Commonwealth. As you know the life  
18 science industry in the Commonwealth is a significant economic  
19 driver. In Pennsylvania, there is over 2,000 life sciences  
20 businesses directly employing over 80,000 Pennsylvanians. This  
21 ranks Pennsylvania among the top states in employers in the  
22 four major life science sub-sectors.

23 As President and CEO of a rapidly expanding business in  
24 Pennsylvania, I am happy to share to my experience and answer  
25 your questions on the importance of capital in my industry.



1 Protecting our patents, ensuring compliance in our heavily  
2 regulated industry and purchasing state of the art equipment  
3 requires significant upfront costs. And before a company like  
4 mine could become profitable, not only does the influx of  
5 capital, as outlined in Innovate PA, help attract and grow  
6 businesses like mine, but perhaps, more importantly investments  
7 in Commonwealth serves to validate new technologies and  
8 leverage significant follow-on investment.

9 This early-stage funding is essential for companies like  
10 mine to survive and become profitable. I appreciate this  
11 opportunity you've provided me today to address this Committee.  
12 As a key sector of Pennsylvania's economy, life sciences  
13 industry continues to fuel the innovation pipeline, retain and  
14 expand the number of family-sustaining jobs in the Commonwealth  
15 and deliver novel therapies to fill unmet patient needs. Many  
16 of these innovations produce significant cost savings in the  
17 healthcare system while improving the lives of the patients  
18 around the world. Collectively, we must ensure Pennsylvania  
19 remains an attractive location to open and grow life sciences  
20 business and the future economy depends on it. Thank you.

21 MAJORITY CHAIRMAN BENNINGHOFF: Well, Mel and Maureen, great  
22 testimony. We appreciate your experience. Maureen, obviously,  
23 you're in our area. I'd like to keep you in that area, so that  
24 bigger leap that you're going to take for students in the  
25 Bellefonte area. But I have to tell you I remember when I

1 first met you and went through your business, I walked out of  
2 there, thinking, My gosh, how does this woman going to eat.  
3 And to see your success and the growth that you've done since  
4 then is very impressive and it's exciting. And as policymakers  
5 we are dependent on people like yourselves and Mel and some of  
6 the other testifiers, but I don't want to understate the  
7 importance of your investment and let you know that we do  
8 appreciate them.

9 One comment or, actually a question that I had kind of came  
10 to my mind in some of the other testimonies, but I've not heard  
11 a whole lot regarding regulations. And I'm curious -- I  
12 actually saw you shake your head a little bit earlier and was  
13 curious if that was a yes or a no, but how much of a deterrent  
14 is in either the state or the federal regulatory process in  
15 your growth or ability to expand or taxing on you as far as  
16 time?

17 MS. MULVIHILL: It's very taxing financially and --

18 MAJORITY CHAIRMAN BENNINGHOFF: I read your head nod  
19 correctly then.

20 MS. MULVIHILL: You did, yes. Yes. The FDA process is a  
21 long and arduous one. Our first device is a very simple  
22 device, so we actually got clearance in a year, using a 510K  
23 process, yes, very quick actually.

24 MAJORITY CHAIRMAN BENNINGHOFF: I was going to say that's  
25 faster than we can get permits through the PennDOT, but go

1 ahead.

2 MS. MULVIHILL: Yes, very quick, very quick. But it was a  
3 nonsignificant risk device. Had we had something more complex  
4 so the devices were developing, so the company right now is  
5 developing about six different devices. And the first one is  
6 the device that clears clogs feeding tubes; a simple process.  
7 The next device is an epidural insertion device. Now, we're  
8 going into tissue near the spine, it's going to be a much more  
9 arduous process.

10 MR. BILLINGSLEY: I would echo that at times all the  
11 companies that we deal with virtually all of them have -- used  
12 to be that the risks, there was a technical risk doesn't work,  
13 then the clinical risk doesn't work in the clinic. And then  
14 the third risk was the regulatory barrier, will the FDA approve  
15 it based on the clinics. And now the fourth risk was will  
16 somebody pay for it. So that's really added to it. And if you  
17 ask almost anybody in the venture community, the FDA itself,  
18 not because -- the FDA's job is to make sure that drugs and  
19 devices are safe and effective, it's the uncertainty that has  
20 been introduced into that coupled with the reimbursement  
21 process that makes the regulation one of the biggest barriers.  
22 So most of the venture reports will tell you that the drop, you  
23 know, the significant drop that's occurred in the areas of  
24 regulated medical products in no small way has to do with the  
25 FDA and they're routinely brought forth as an example, how can

1       you speed this up, because significant dollars are spent in the  
2       regulatory, clinical and approval process.

3           MAJORITY CHAIRMAN BENNINGOFF: And your time is money, so  
4       you'd rather be innovating versus filling our paperwork.

5           MS. MULVIHILL: And the process, being a young company, I  
6       never projected to be burning the capital to keep my employees  
7       going for the year that it took to get through the FDA. So as  
8       we're talking about this seed money and companies, you know, at  
9       that point and what I tried to say here is, nobody was  
10      interested in investing in us until we had FDA approval. Now,  
11      they're interested. And now we have FDA approval. But there  
12      was a year that we had to burn because I wasn't losing any of  
13      my key people. And that's one of the big problems that happens  
14      even in the pharmaceutical industry because they're burning for  
15      two, five, ten years, where I was burning for a year.

16          MAJORITY CHAIRMAN BENNINGHOFF: Define the word "burning?"

17          MS. MULVIHILL: You're paying people's salaries, paying  
18      their health insurance, you're paying for them to be there  
19      because you don't want to lose them.

20          MAJORITY CHAIRMAN BENNINGHOFF: While you're not making any  
21      money?

22          MS. MULVIHILL: While you're not making money.

23          MAJORITY CHAIRMAN BENNINGHOFF: I assume that was some kind  
24      of an analogy towards pain, but that would be a painful  
25      process.

1 MS. MULVIHILL: It is.

2 MAJORITY CHAIRMAN BENNINGHOFF: Chairwoman Mundy has a  
3 question.

4 MINORITY CHAIRMAN MUNDY: This may sound a little bit  
5 far-afield of the topic, but I don't think it is because we've  
6 heard from a couple of the different testifiers about the  
7 difficulties in getting the FDA to approve these new  
8 technologies or new equipment and I'm just wondering is that a  
9 result of budget cuts? Is that because the FDA doesn't have  
10 the personnel necessary to expedite reviews of clinical trials  
11 or whatever is required? Or is that simply a function that the  
12 FDA wants to be overly cautious because of some of the failures  
13 on the part of the FDA in the past to prevent problems as a  
14 result of drugs or medical equipment that has not proven to be  
15 safe? So I'm just interested in your take on that.

16 MR. BILLINGSLEY: Well, I think the default parameter of the  
17 FDA is you can always ask for more information and more time so  
18 that you're certain in your ascertainment something is safe. I  
19 don't think anybody at the FDA ever got fired for waiting a  
20 little too long. That being said, there's a cost of innovation  
21 to the patient. And that cost of innovation is an unmet  
22 medical needs are not met, so you have this really convergence  
23 of interest at the FDA where safety is important, but yet,  
24 Europe gets stuff out a little quicker, so I think Maureen is a  
25 good example where a product -- and we have a number of

1 companies, particularly device companies who do their first  
2 trials in Europe because they're quicker to approve initial  
3 human use, but monitor more carefully what happens after that  
4 product is first being used in humans. So it's not just the  
5 money, the personnel and the budget cuts, it's really the  
6 approach towards safety and monitoring. I think we as a  
7 culture insist that we want the most innovated products, we  
8 want them to be the safest and we want somebody else to pay for  
9 them, too. You can't have it all. You got to give on some of  
10 that.

11 MINORITY CHAIRMAN MUNDY: So you --

12 MR. BILLINGSLEY: You have to accept the fact that unmet  
13 medical needs are going to have to come with some risk for the  
14 patient. The patient groups are very active at that. They  
15 want these things. They'll tell you we need a feeding tube  
16 cleaner, we need a new device to get people off ventilators,  
17 but if you look --

18 MINORITY CHAIRMAN MUNDY: Again, your response to my very  
19 specific question would be that it's the process, not the lack  
20 of dollars in the system to have personnel to expedite or  
21 monitor, do what is needed to prove that these drugs and  
22 equipment are safe?

23 MR. BILLINGSLEY: Yes. And, in fact, it's more complex even  
24 if the FDA has fiduciary user fees where the reviewed companies  
25 provider user fees to the FDA for the right to be reviewed.

1 But I think we all agree we want safe and effective drugs. We  
2 just want them a little more quickly, a lot more quickly.

3 MAJORITY CHAIRMAN BENNINGHOFF: Thank you. And I would  
4 encourage you and some of the previous testifiers if there's  
5 additional stuff you want to share with us that you weren't  
6 able to get out today, whether it's in reflection on other  
7 people's testimony, feel free to do that. We're all available  
8 on the web and our email addresses are all very similar. I  
9 think you both -- yes.

10 MS. MULVIHILL: Can I make one more comment?

11 MAJORITY CHAIRMAN BENNINGHOFF: Sure.

12 MS. MULVIHILL: A couple comments that happened today, just  
13 sitting here listening to the testimonies. We have been  
14 approached by Ohio, Michigan and I can't remember the name --  
15 there's another state. So there are other states that are  
16 trying to get even a company of my age out of Pennsylvania, but  
17 as we can agree, we all do love Central Pennsylvania or a lot  
18 of us do. And I always tell my brain trust is there and what  
19 we are doing as an innovated company, we're developed innovated  
20 devices. So in the sense of having very well educated  
21 population, we draw a lot out of the Penn State group because  
22 we're about six miles from Penn State. But you had mentioned  
23 earlier about the educated workforce and that is a concern of  
24 mine, it's a very large concern about what Pennsylvania is  
25 doing. Okay. Thank you very much.

1 MAJORITY CHAIRMAN BENNINGHOFF: Thank you both for your  
2 testimony. Remember, you have a good relationship with your  
3 state rep in that area, too, that being a good incentive to  
4 stay there.

5 Our last, but not least, testifier is Kevin Abrams,  
6 Executive Director of Norther Tier Regional Planning and  
7 Development. Kevin, when you're ready, we're ready. We  
8 appreciate your patience.

9 MR. ABRAMS: Thank you, Mr. Chairman and Members of the  
10 Committee. As the Chairman indicated, I'm Kevin Abrams. I'm  
11 the Executive Director of the Northern Tier Regional Planning  
12 Development Commission, which is the local development district  
13 that serves Bradford, Sullivan, Susquehanna, Tioga and Wyoming  
14 Counties. However, today I'm here to appear from you on behalf  
15 of all the partners involved and the Partners for Regional and  
16 Economic Performance more commonly known as PREP. And with me  
17 today in the audience is one of our PREP partners from the  
18 local economic development groups, Dave Black, from the  
19 Harrisburg Regional Chamber.

20 Let me provide you a little bit of a background on the  
21 evolution of PREP. Prior to the Corbett Administration, the  
22 industrial and economic development corporations and industrial  
23 resource centers, the local development districts and the small  
24 business development centers all had their own respective line  
25 item within DCD's budget and all implemented their own



1        respective work plans. PREP consolidated the four line items  
2        into one and created one work plan per region for all four of  
3        the previous made mentioned service providers. This is a result  
4        of a totally new approach to approach the customer and has  
5        produced several success stories in the region that I represent  
6        as I'm sure as other regions as well. That's the good news.

7        The bad news is that these four service providers have  
8        experienced approximately 62 percent reduction in DCD funding  
9        since 2005, and the level of services that we're able to  
10       provide has declined proportionately. To further compound the  
11       situation in many instances, state funding is used to match or  
12       leverage federal funding, so these losses have been in some  
13       cases even double that 62 percent. The PREP partner's view  
14       Innovate PA as a wonderful opportunity to, one, reactivate the  
15       services that we provide for our clients, develop new and  
16       creative programs and services, and when I say that over the  
17       years, we have successfully on a periodic basis developed new  
18       and innovative ways to approach the customers in conjunction  
19       with DCED and I should add that several DCED's executive staff  
20       are in the audience today. And three, to provide those  
21       resources to prove the federal funding by having adequate  
22       matching funds.

23       In closing, I would like to request the Committee consider  
24       amending the House version of the Bill to include PREP into the  
25       Innovate PA similar to the Senate version. PREP partners would

1 be very appreciative of that. And finally closing, Mr.  
2 Chairman, too, I'm positive that the question of our results  
3 impact fees, etc., impact reports is going to come up. What I  
4 would like to do is as a follow-up submit to you a composite of  
5 all four service providers and the results they've had over the  
6 past, say, three or four years, so you can consider that in  
7 your amendment.

8 MAJORITY CHAIRMAN BENNINGHOFF: That would be very  
9 beneficial and if you get to our office, we would be glad to  
10 disseminate to all the members present and those that serve on  
11 the Committee.

12 MR. ABRAMS: I'd be happy to answer any additional questions  
13 that anyone has.

14 MAJORITY CHAIRMAN BENNINGHOFF: Warren, do you anything?

15 REPRESENTATIVE KAMPF: No questions.

16 MAJORITY CHAIRMAN BENNINGHOFF: And your comments about  
17 adding them to legislation, the author is here. I suspect that  
18 he's heard that and I think we'll continue that dialogue. It  
19 may have just been an oversight on his part. And that's what  
20 the process is about. It's one of the reasons we have these  
21 hearings to gather information, get the intelligence on it. We  
22 appreciate your testimony. And we will adjourn this hearing.  
23 Thank you everyone for their time.

24 (The hearing concluded at 10:54 a.m.)  
25

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

CERTIFICATE

I hereby certify that the proceedings are contained fully and accurately in the notes taken by me from the video of the foregoing cause and that this is a correct transcript of the same.

\_\_\_\_\_  
Denise M. McCartney, Reporter  
Notary Public in and for the  
Commonwealth of Pennsylvania

My commission expires  
April 17, 2016.