

PROPOSED TRANSFER OF SANFORD-BURNHAM PREBYS TO UNIVERSITY OF FLORIDA

Responses to Questions from Cynthia Kelly's Letter on May 19, 2016

Introductory Comments and Background Information:

A decade ago, the non-profit Burnham Institute for Medical Research received funding from state and local governments and private organizations to establish a world-class medical research and drug discovery enterprise in Lake Nona. The goal was to pursue new approaches to some of the most devastating diseases impacting Florida's citizens and create higher wage, knowledge-based STEM positions. The expectation was that the Institute's presence would help catalyze development of Central Florida's life science community, generating substantial economic development and job creation for the surrounding area. Ten years later, this vision has led to a success story for Central Florida and the entire State of Florida.

The Institute, now known as Sanford Burnham Prebys Medical Discovery Institute at Lake Nona (SBP at Lake Nona), built a state-of-the-art research facility, and recruited a distinguished faculty that has generated 430 high impact peer-reviewed papers related to diabetes, obesity and metabolic disease. SBP at Lake Nona scientists have helped draw down tens of millions of dollars in grant and collaboration funding, most of that from National Institutes of Health (NIH) research grants and private sector collaborations. The 173,700 square foot facility houses cutting edge basic research together with world-class drug discovery capabilities. SBP at Lake Nona's presence and collaborative spirit helped neighboring institutions recruit top talent, and catalyzed an expansion of Lake Nona that has led to more than 5,000 jobs and \$3 billion in economic activity. SBP at Lake Nona has created 237 jobs, with an average annual salary of \$70,000, which is 160% of the average annual Orange County private sector wage. In addition, SBP's partnership with Florida Hospital helped create the Translational Research Institute for Metabolism and Diabetes which employs approximately 100 people. Furthermore, numerous collaborations have been formed with universities and private sector companies across Florida and the world, thereby raising the State's profile within the international biomedical industry.

Nevertheless, original projections for NIH grants did not anticipate the federal budget sequestration or recession, which began in 2008. From 2006 to 2015, annual NIH budgets, the principal driver of research funding at SBP at Lake Nona, stagnated due to federal budget constraints, advancing only 5% over those 10 years, well underperforming the rate of inflation. Consequently, grant funding became much more competitive, and contributed to recruitment challenges throughout the medical research community. To ensure its long-term sustainability, the SBP at Lake Nona campus needed to consider new business models.

In late 2014, years before the financial outlook for SBP at Lake Nona would require any action, SBP undertook a proactive strategic evaluation to advance SBP at Lake Nona's primary research mission. Together with its advisors, SBP management and Board of Trustees developed and reviewed six different strategies to address the sustainability of SBP at Lake Nona operations. These options ranged from appealing for increased tax payer support, to trying to spin out a new, for-profit company or independent non-profit institute, to integrating with a research university or other research organization. After significant review, it was determined that the integration strategy offered the best opportunity for ensuring the long-term sustainability of SBP at Lake Nona and continued expansion of biomedical research in Central Florida.

Several Florida institutions presented possible options for integration; however, the University of Florida

(UF) was considered the ideal choice due to the strength of its medical research capabilities and the convergence of its vision for growth with SBP at Lake Nona's expertise and technology resources. Together, the UF Academic and Research Center and the SBP at Lake Nona research facility are well positioned to maintain a robust research enterprise and continue the momentum of Central Florida's emerging life science industry.

INITIAL QUESTIONS

Process:

1. What role did Sanford-Burnham board members have in steering the proposed transfer to the University of Florida (UF)?

SBP Response:

The SBP Board of Trustees or the Board's Executive Committee reviewed business model options for the SBP at Lake Nona campus in June, September, and December, 2015, and in March, 2016. Four Oaks, the independent consulting firm retained by SBP, reported to the Board its analysis of the alternatives including its first choice recommendation to transfer SBP at Lake Nona assets to UF. There was consensus approval for the recommendations of the consultant at each of the Board and Executive Committee meetings.

2. What is the timeline and what approval steps do you envision must be undertaken for this transfer to be concluded?

[UF to provide response]

3. How will you effect UF approval as well as Board of Governor's approval?

[UF to provide response]

4. Is legislative approval of the proposed transfer envisioned?

[UF to provide response]

The Deal:

1. If the proposed transfer is not completed, will Sanford-Burnham continue operations and, if so, for how long?

SBP Response:

SBP will continue operations at Lake Nona until a viable alternative arrangement is approved, or until the available funding resources are exhausted.

2. Please detail exactly what is being transferred between Sanford-Burnham and University of Florida in the proposed agreement, considering the parties involved in the original agreement were Orange County, City of Orlando, University of Florida (UF), University of Central Florida (UCF), and Lake Nona Land Company, LLC.

[UF to provide response]

3. Please detail how the proposed transfer is a good deal for the state.

[UF to provide response]

4. What is the Return on Investment (ROI)? How will the ROI be calculated if the required job creation employees are state employees of UF?

[UF to provide response]

5. Please explain how is it a good deal for the state to add new state employees as the end result of the state's \$155 million investment?

[UF to provide response]

6. Will Sanford-Burnham reach its job creation goal of 303 private-sector employees as well as its required equipment investment of \$61 million due by June 30, 2016? What action can be taken against Sanford-Burnham regarding withholding final disbursement from the SBA if UF expects to be the recipient of those funds?

SBP Response:

As has been reported quarterly to DEO over the past several years, the target goal for 303 jobs to be created at Lake Nona by 2016 is somewhat higher than has actually been achieved. There are many factual circumstances and assumptions that have changed over the past 10 years that are the cause for not fully achieving the target goal for job creation. As of 2016, SBP has achieved approximately 78% of the goal that was set 10 years ago.

Regarding the equipment purchases, SBP has purchased world class equipment that has served the Lake Nona campus very well, and that equipment meets the needs for the research being conducted at the Lake Nona campus. SBP has been financially responsible by not purchasing unnecessary equipment, merely to meet some estimates that were set 10 years ago. Thus, there remains approximately \$13M of state funds reserved for future purchases of equipment; which funds will inure to the benefit of UF if the proposed transfer proceeds. Approximately \$1.5M of said equipment funding remains undisbursed, in the hands of the state.

7. If the state agreement with Sanford-Burnham is transferred to UF, how will the state enforce an agreement with another state entity if job creation goals are not met or maintained as required in the agreement? Will the state be in the position to penalize another state entity?

[UF to provide response]

8. If UF assumes ownership of the assets and equipment, (the state agreement specified \$61 million in equipment purchases) how will the state enforce its security interests in the equipment if UF fails to meet the agreement requirements or decides at a later date to wind down the operation? The security interest expires on the 10th anniversary of the current agreement (in 2016), so will a new security agreement be concluded as part of the new arrangement?

[UF to provide response]

9. What happens to the current Sanford-Burnham employees if a transfer is completed?

[Joint Response]

SBP Response:

Prior to the asset transfer closing date, UF intends to make offers of employment to most (but not all) of the existing SBP at Lake Nona employees. As of the date of the asset transfer, UF will take over operations at the Lake Nona campus, and UF will be the new employer of those employees who accept the offers of employment from UF. As of the transfer date, all employees will cease to be employed by SBP at Lake Nona (excepting only a few researchers who may not join UF and who need to continue their research at the Lake Nona campus for a transition period of up to six months; plus perhaps a few administrative employees whose services may be needed to accomplish a smooth and orderly transition).

Most of the SBP at Lake Nona employees are “at will” employees; and any of them who are not offered employment by UF will be entitled to a customary severance pay and outplacement services, to help them transition to alternative employment. There are a few SBP at Lake Nona employees who have term employment agreements; and if any of them are not offered employment by UF, then SBP will honor those agreements in accordance with applicable law.

10. What happens to the intellectual property (IP) that Sanford-Burnham has gained while using taxpayer funded equipment, buildings, and scientists?

SBP Response:

The existing agreement with the state specifies that SBP is to remain as the owner of such IP; however, to the extent that any of that IP is needed for the continuing research to be conducted by the former SBP research employees, they are entitled to continue to use that IP.

11. Will the IP be transferred to UF since under the state agreement the Awardee has exclusive ownership of IP and UF intends to be the Awardee of up to \$1.4 million in incentive funds remaining to be distributed from the SBA?

SBP Response:

The existing agreement with the state specifies that SBP is to remain as the owner of such IP; however, to the extent that any of that IP is needed for the continuing research to be conducted by the former SBP research employees, they are entitled to continue to use that IP. Any new IP created by UF will be owned by UF after the transfer of assets.

12. If UF is not pursuing the IP gained by Sanford-Burnham as part of the transfer, why not? Although the assets and equipment are valuable, isn't the IP the point of all the research activity? Will all the research through UF be new research with new scientists or will any of the efforts and discoveries by Sanford-Burnham be pursued?

[UF to provide response]

13. Will the employees involved in current research be let go because of IP issues?

[UF to provide response]

14. Will UF repurpose the remaining state funds in reserve with Sanford-Burnham (\$18 million) and at the State Board of Administration (SBA) (\$1.4 million)?

[UF to provide response]

15. Will UF be the beneficiary of the \$45 million in total cash reserves now held by Sanford-Burnham if a transfer is completed?

SBP Response:

Yes. A portion of said funds will be used to pay the transition expenses related to the transfer of assets to UF; and all the rest of the cash reserve will be available for UF to continue the biomedical research operations at the Lake Nona campus.

16. How much did UF and UCF contribute to the original agreement to raise the required local match of \$155 million? (Attachment to the state agreement indicates UF-\$10 million and UCF-\$27 million) What were those funds spent on and will UF or UCF or both be the recipient?

[Joint Response]

SBP Response:

The \$10 million contributed by UF was used to support salary, research expenses, equipment and other expenses related to the UF Joint Faculty. These funds were exhausted by June 30, 2013. Of the \$27 million committed by UCF, \$17 million has been received to date with the remaining amount paid in installments through June 30, 2022. The First Amended and Restated

Funding Agreement dated July 1, 2008, gives SBP at Lake Nona complete flexibility in the expenditure of these funds and is considered unrestricted. Any remaining balance is included as unrestricted cash in the transfer to UF.

17. Will other state funds (Department of Health) previously received by Sanford-Burnham be transferred to UF?

SBP Response:

It is anticipated that funds appropriated for the purposes of conducting the Florida Translational Research Program (pursuant to s. 210.20(2)(c), F.S.), will be transferred to UF for the exclusive purposes of executing the FTRP. The FTRP will continue to meet its goal of building a pipeline of novel therapeutics via collaborative drug discovery projects conducted with research labs from universities and institutes across the state. As before, the contract will contain milestones and deliverables, and financial penalties for failure to meet minimal performance standards. Quarterly payments and reporting will be continued as in the past three years of the program.

18. How much investment income was earned from the \$155 million appropriation and what is the status of those funds?

SBP Response:

The amount of investment income earned off the \$155 million appropriation totals approximately \$30 million. A portion of those proceeds have been used over the years for general operating costs and a portion remains in the unrestricted cash reserves. Any remaining balance is included as unrestricted cash in the transfer to UF.

19. Will UF seek additional state appropriations to fund the research, building and equipment maintenance, and employee salary/benefits following the \$155 million state appropriation?

[UF to provide response]

20. If over 10 years Sanford-Burnham was unable to obtain a stable grant funding stream through its business plan to remain in Florida, how will UF be more effective than Sanford-Burnham in obtaining Federal grants to sustain research and pay for employees' salaries and benefits?

[UF to provide response]

21. Why should UF or even the state, for that matter, be the recipient of this transfer? Shouldn't there be a greater discussion about biotech research and the entities that might also be interested in taking over Sanford-Burnham? Are there other interested parties that are private entities?

[UF to provide response]

22. If the transfer is completed, shouldn't royalties/ownership interest gains from spin-off companies or IP gained by UF be shared with the state in some manner since UF is essentially receiving a \$155 million state appropriation that did not go through the university funding process?

[UF to provide response]

23. What responsibilities will UCF undertake through the Memorandum of Agreement (MOU) between UF and UCF which we understand is in place to jointly recruit faculty for research should the transfer be completed?

[UF to provide response]

24. How will the proposed transfer assist UF in becoming a top 10 university and assist with its performance in research and others areas of focus?

[UF to provide response]

25. How will UF avoid this proposed transfer from becoming a distraction based on the level of activity necessary just to reach approval as well as ramp up operations and maintain the required contractual performance goals?

[UF to provide response]