



September 2006

Report No. 06-61

Scripps Funding Corporation Meets State's Statutory and Contractual Requirements

at a glance

The Office of Tourism, Trade, and Economic Development and the Scripps Florida Funding Corporation have complied with statutory and contractual requirements and the corporation has implemented reasonable contract management and monitoring activities.

The corporation's annual reports to the Legislature and the Governor provide relevant information on Scripps Florida's performance during a specific year. Future reports could be strengthened by including information on trends in Scripps Florida's performance, which would assist the Legislature in assessing Scripps Florida's progress toward achieving the state's goals.

State funds expended by the corporation in Fiscal Year 2004-05 had an estimated economic impact of \$136 million. These expenditures also support the creation of a projected 615 full- and part-time equivalent jobs.

To obtain more comprehensive information for assessing the results of the Innovation Incentive Program, the Legislature may want to consider

- requiring the Office of Tourism, Trade, and Economic Development to provide an annual report on program activities and performance; or
- requiring Enterprise Florida, Inc., to include Innovation Incentive Program activities and performance in its annual incentives report.

Scope

As required by Ch. [2003-420](#), *Laws of Florida*, OPPAGA reviewed the Governor's Office of Tourism, Trade, and Economic Development's (OTTED) and the Scripps Florida Funding Corporation's performance in carrying out their responsibilities relating to the establishment of the Scripps Florida research facility. As directed by the law, this report examines

- OTTED's performance in disbursing funds appropriated for establishing the corporation;
- the corporation's compliance with the provisions of the law and its contract with The Scripps Research Institute;
- the corporation's performance in managing and enforcing this contract; and
- the economic activity generated through funds disbursed under the contract.

We wish to express our appreciation to the staff of the Legislature's Office of Economic and Demographic Research who assisted us by estimating the economic impact of state funding disbursed by the Scripps Florida Funding Corporation.

Background

The Scripps Research Institute is a large, private, non-profit, biomedical research organization headquartered in La Jolla, California. Scripps scientists conduct basic research in the areas of immunology, molecular and cellular biology, chemistry, neurosciences, autoimmune diseases, cardiovascular diseases, virology, and synthetic vaccine development.

Scripps Florida. In October 2003, the institute announced plans to open a research facility in Palm Beach County, Florida. The facility, to be known as Scripps Florida, was to focus on conducting biomedical research to discover treatments for diseases such as AIDS, Alzheimer's disease, cancer, diabetes, hepatitis C, and schizophrenia.

In October 2003, the Legislature appropriated \$310 million in general revenue to be used to pay for scientific equipment and staff salaries for Scripps Florida during its first seven years of operation. In addition, Palm Beach County committed approximately \$269 million to pay for land and buildings to be used by Scripps Florida.

Scripps Florida is currently operating in temporary facilities at Florida Atlantic University's campus in Jupiter, Florida. In May 2006, the county, the state, and Scripps Research Institute approved a proposal to build a permanent facility at a site in Jupiter.¹

Scripps Florida Funding Corporation. The Scripps Florida Funding Corporation is a not-for-profit entity created by the Legislature for the purpose of receiving, holding, investing, administering, and disbursing legislatively appropriated funds for the establishment and operation of Scripps Florida.² The Legislature intended that state financial support contribute to achieving the following goals:

- expand the amount and prominence of biomedical research conducted in this state;

- provide an inducement for high-technology businesses to locate in the state;
- create educational opportunities through access to and partnerships with Scripps Florida; and
- promote improved health care through the institution's scientific outcomes.

The corporation is governed by a board consisting of nine voting members. The Governor, the President of the Senate, and the Speaker of the House of Representatives each appoint three members to the board. The director of OTTED is an ex-officio, non-voting member.

As shown in Exhibit 1, the corporation planned to disburse all state funds to Scripps Florida over a seven-year period ending December 31, 2010. However, the corporation recently approved a revised disbursement schedule ending on March 14, 2014, at Scripps' request due to the delay in selecting the site for a permanent facility. As of June 15, 2006, the corporation had disbursed \$115,682,890 to Scripps Florida.³

Exhibit 1
The Disbursement of All State Funds to Scripps Florida Was Extended from 2010 to 2014

Year	Original	Revised
2004	\$ 20,801,000	\$ 20,801,000
2005	55,309,000	55,309,000
2006	70,360,000	38,090,000
2007	54,825,000	35,759,000
2008	44,107,000	52,445,000
2009	44,344,000	32,679,000
2010	20,254,000	22,365,000
2011		32,786,000
2012		14,766,000
2013 ¹		5,000,000
Total	\$310,000,000	\$310,000,000

¹ Grant year ends on March 14, 2014.

Sources: Funding Agreement, Scripps Florida Funding Corporation, January 30, 2004; Business Plan for Scripps Florida, Revised June 7, 2006.

¹ Scripps Florida and Palm Beach County initially selected Mecca Farms in northern Palm Beach County as the site for Scripps Florida's permanent facility. However, litigation delays prompted the parties to select an alternative site.

² Section [288.955](#), F.S.

³ This includes \$111,290,000 in principal and \$4,392,890 in interest earned on the investment of funds.

Findings

OTTED has performed its responsibilities for disbursing funds to the Scripps Florida Funding Corporation

Chapter [2003-420](#), *Laws of Florida*, which created the Scripps Florida Funding Corporation, directed OTTED to disburse appropriated funds to the corporation and to provide it with administrative support. As directed by law, OTTED disbursed \$300,000 to the corporation for staff and administrative expenses in December 2003, and disbursed the remaining \$309.7 million to the corporation on February 3, 2004. Disbursement of the \$309.7 million was subject to the execution of written contracts between OTTED and the corporation, and between the corporation and Scripps Florida.

The Scripps Florida Funding Corporation has complied with statutory and contractual requirements

As shown in Exhibit 2, the Scripps Florida Funding Corporation complied with its various statutory and contractual requirements.

The corporation negotiated and executed a 20-year contract with The Scripps Research Institute. This contract contains statutorily-required provisions, including

- procedures and schedules that govern disbursement of funds to Scripps Florida;
- a requirement that Scripps Florida submit an appropriate business plan to the corporation;
- a prohibition against Scripps Florida establishing biomedical facilities in states other than Florida or California for 12 years;
- a requirement that Scripps Florida be an equal opportunity employer;
- requirements that Scripps Florida establish internship and accredited science degree programs;
- a requirement that Scripps create a minimum number of jobs each year for seven years;
- performance measures, such as the number and dollar value of research grants and numbers of patents and licensing agreements obtained by Scripps Florida; and
- disbursement conditions that Scripps Florida must satisfy before receiving funds from the corporation.

Exhibit 2

The Corporation Complied with Statutory Requirements

Statutory Requirement	Corporation Action
Negotiate and execute a contract with Scripps Florida for a period of 20 years	Executed a 20-year contract with Scripps Florida on January 30, 2004
Disburse funds to Scripps pursuant to provisions in the law and the contract	Disbursed \$115.7 million from February 3, 2004, to June 15, 2006
Receive and review reports and financial documentation from Scripps Florida to ensure compliance with the law and the contract	Obtained and reviewed Scripps Florida reports and financial documents. Contracted with a third-party auditor to review Scripps compliance with contract terms and conditions
Prepare an annual report for submission to the Governor and the Legislature	Submitted annual reports to the Governor and Legislature for Fiscal Years 2003-04 and 2004-05
Enter into an agreement with the State Board of Administration that is to invest funds not disbursed to Scripps	Entered into an agreement with the State Board of Administration on January 30, 2004, to invest funds not yet disbursed to Scripps Florida. These funds are invested in fixed income instruments such as mortgage-based Federal National Mortgage Association (Fannie Mae) securities and a short-term investment fund. As of March 15, 2006, the corporation had paid Scripps Florida \$4,392,890 from returns generated by these investments

Sources: Scripps Florida Funding Corporation, State Board of Administration.

The Scripps Florida Funding Corporation has implemented reasonable contract management and monitoring activities

The law requires the Scripps Florida Funding Corporation to safeguard the state's commitment of financial support by ensuring that Scripps Florida meets its contractual obligations as a condition for receiving state funds. The law also directs the corporation to monitor compliance with the law and the contract by reviewing Scripps Florida reports and financial documentation.

The Scripps Florida Funding Corporation has implemented reasonable contract management and monitoring activities. These activities include

- reviewing Scripps Florida's unaudited quarterly and audited annual financial statements, annual reports, and other documents;
- contracting with a third-party auditor to conduct annual compliance audits of Scripps Florida; and
- monitoring the implementation of Scripps Florida's business plan. The business plan, which is required by law and by contract, describes how Scripps Florida intends to accomplish various goals, such as developing its infrastructure; developing outreach programs to educational institutions and regional and local communities; collaborating in research with institutions within and outside of Florida; and in achieving financial self-sufficiency. The corporation assesses Scripps Florida's progress in becoming financially self-sufficient by reviewing the amount of grant funding reported in Scripps Florida's quarterly financial statements and the amount of private funding reported in its annual report.

Scripps Florida generally is meeting its statutory and contractual requirements

A February 2006 report by the corporation's third-party auditor concluded that Scripps Florida generally complied with its requirements as of January 29, 2006. As shown in Appendix A,

the third-party auditor reported that Scripps Florida met 22 of the 24 standards while one standard was not fully met and one was not applicable as its permanent facility was not yet constructed.

The third-party auditor reported Scripps Florida did not fully meet the standard for the total number of jobs created (164 jobs created compared to a standard of 168 jobs). However, the law and the contract authorize the corporation's board of directors to allow Scripps Florida to deviate downward from expected employment levels by 25% in any year as long as it has no fewer than 545 positions by the end of the seventh year of the contract.⁴ Scripps Florida's performance thus was within this level.

Scripps Florida has also been making progress in implementing its business plan. For example, the business plan states that Scripps Florida will apply for research grants from the National Institutes of Health and other federal agencies. As of January 2006, Scripps had been awarded 16 federal research grants totaling \$4,299,663. In addition, the plan also states that Scripps Florida will develop collaborative efforts with Florida research entities. As of January 2006, Scripps Florida had entered into collaborative agreements with four of Florida's public universities and the University of Miami.

The corporation's annual report contains relevant performance information, but should be enhanced in the future

As required by law, the Scripps Florida Funding Corporation has submitted annual reports to the Legislature and the Governor that provide relevant information on Scripps Florida's performance in various areas. For example, the corporation's 2005 annual report addressed Scripps Florida's performance during that year in creating jobs, obtaining research grants from the federal government or other sources, obtaining patents, and executing licensing agreements.

⁴ The third-party auditor did not include four Scripps Florida employees whose salaries were paid from sources other than state funds distributed by the corporation.

The 2005 annual report's focus on Scripps Florida's performance during that year is appropriate given the short period of time Scripps Florida has been in existence. However, future annual reports would be strengthened by providing information on multi-year performance trends and discussing expectations for the future. This additional information would assist the Legislature in assessing Scripps Florida's progress over time in achieving the state's long-term goals and objectives.

State funds expended by Scripps Florida in Fiscal Year 2004-05 had an estimated impact of \$136 million and supported the creation of 615 positions

During Fiscal Year 2004-05, Scripps Florida expended \$34.7 million of the funds disbursed to it by the corporation.⁵ The economic activity generated through these expenditures include both the positions and direct salaries of Scripps Florida employees as well as the impact of the funds on the jobs and income of persons in various industry sectors, general business activity, and state and local tax revenues.

To assess the economic impacts of these expenditures, we were assisted by the Legislature's Office of Economic and Demographic Research, which used the IMPLAN econometric program to make three estimates of economic impact.⁶

- *Direct impacts* of the establishment and operations of Scripps Florida include the salaries of Scripps Florida employees and the salaries of employees of companies involved in designing and constructing Scripps Florida facilities. Direct impacts would include tax revenues generated from expenditures directly related to Scripps Florida.

- *Indirect impacts* represent the goods and services provided by local businesses and the companies responsible for designing and constructing Scripps Florida facilities. Indirect impacts also include employment, income, and tax revenues resulting from the increase in local business economic activity.
- *Induced effects* represent increases in state and local economic activity resulting from expenditures made by Scripps Florida employees and by employees of businesses directly or indirectly affected by Scripps Florida's purchase of local goods and services.

Exhibit 3 shows that \$34.7 million expended by Scripps Florida in Fiscal Year 2004-05 had an estimated total state impact of \$136.4 million, including direct impacts of \$70.8 million, indirect impacts of \$34.5 million, and induced impacts of \$29.1 million. The total impact also produced an estimated \$2 million in state and local tax revenues. The IMPLAN model projects that the corporation's disbursements supported 615 full- and part-time equivalent jobs.

Exhibit 3 also shows the economic impact of Palm Beach County's expenditure of approximately \$61 million on Scripps Florida-related construction activities during this period. This expenditure had an estimated total impact of \$242.1 million, including direct impacts of \$123.2 million, indirect impacts of \$46.7 million, and induced impacts of \$68.6 million. The county expenditures also resulted in an estimated \$3.6 million in state and local tax revenues. The model projects that the county expenditures supported the creation of 1,270 full- and part-time equivalent jobs.

It should be noted that some of these estimated economic impacts are projected to occur over time. Future expenditures of state funds disbursed by the corporation to Scripps Florida would be expected to have additional positive economic impacts.

⁵ Scripps Florida expended \$34.7 million of the \$48.1 million disbursed to the corporation during Fiscal Year 2004-05 (October 1-September 30).

⁶ IMPLAN is a microcomputer-based, economic input-output modeling system that predicts the impact of expenditures on the state and local economies. Additional information on this modeling system can be found at www.implan.com.

Exhibit 3

Scripps-Related Economic Impacts by Funding Source in Fiscal Year 2004-05

Funding Source		Direct	Indirect	Induced	Total
State	Total Output (in millions)	\$34.7	\$17.9	\$14.8	\$67.4
	Gross State Product (in millions)	\$18.9	\$10.3	\$9.1	\$38.3
	Labor Income (in millions)	\$17.2	\$6.3	\$5.2	\$28.7
	State Taxes (in millions)				\$1.1
	Local Taxes (in millions)				\$0.9
	Employment	318	151	146	615
	Total State Economic Impact (in millions)	\$70.8	\$34.5	\$29.1	\$136.4
Palm Beach County	Total Output (in millions)	\$61.1	\$23.4	\$34.8	\$119.3
	Gross State Product (in millions)	\$32.8	\$13.8	\$21.5	\$68.1
	Labor Income (in millions)	\$29.3	\$9.5	\$12.3	\$51.1
	State Taxes (in millions)				\$2.0
	Local Taxes (in millions)				\$1.6
	Employment	688	232	350	1,270
	Total County Economic Impact (in millions)	\$123.2	\$46.7	\$68.6	\$242.1
State and County	Total Output (in millions)	\$95.8	\$41.3	\$49.6	\$186.7
	Gross State Product (in millions)	\$51.7	\$24.1	\$30.6	\$106.4
	Labor Income (in millions)	\$46.5	\$15.8	\$17.5	\$79.8
	State Taxes (in millions)				\$3.1
	Local Taxes (in millions)				\$2.5
	Employment	1,006	383	496	1,885
	Total State and County Economic Impact (in millions)	\$194.0	\$81.2	\$97.7	\$378.5

Source: Office of Economic and Demographic Research.

Other Issues

A major issue facing the Legislature in designing economic development programs is establishing an appropriate level of financial control and oversight regarding the award and use of economic development funds. These controls and oversight activities are important in assuring the Legislature that funded programs are effective and that agencies and other entities are held accountable for achieving intended results.

Chapter 2003-420, *Laws of Florida*, which created the Scripps Florida Funding Corporation, provided for little direct legislative control over the funds provided to the corporation. The law appropriated \$310 million from the General Revenue Fund to the Governor's Office of Tourism, Trade, and Economic Development for the purpose of funding the Scripps Florida Funding Corporation. The office was directed to request disbursement of the appropriation from the Chief Financial Officer as a lump sum after a

contract was executed between the corporation and Scripps Florida.⁷

To provide oversight, the law required the Scripps Florida Funding Corporation to provide an annual report to the Legislature that was to describe the corporation's activities in managing and enforcing the contract with Scripps Florida, account for the amount of funds disbursed during the preceding fiscal year to Scripps Florida, and provide information on the number and salary level of jobs created and the amount and nature of economic activity generated through Scripps Florida's activities. The Legislature also mandated that a compliance and financial audit of Scripps Florida's accounts and records be conducted by an independent certified public accountant.

The Legislature required increased financial control and oversight for the Innovation Incentive Program established during the 2006 Session, which it funded with a \$200 million

⁷ The law also directed the Office of Tourism, Trade, and Economic Development to request the Chief Financial Officer to disburse \$300,000 from this appropriation to cover the corporation's staffing and administrative expenses.

appropriation for Fiscal Year 2006-07. Chapter [2006-55](#), *Laws of Florida*, provides that the Office of Tourism, Trade, and Economic Development may request the release of appropriated funds as needed through the Legislative Budget Commission rather than through the Chief Financial Officer as was the case for the funding appropriated for the Scripps Florida Funding Corporation. This is to occur after Enterprise Florida, Inc. (EFI), evaluates proposals submitted for awards, which must include EFI's recommendations for specific performance criteria the applicants are expected to achieve in order to receive funds and penalties for failure to meet performance conditions.

The law also provides that the Governor must consult with the President of the Senate and the Speaker of the House of Representatives before giving approval for an award under this program and that upon the approval of an award, the Executive Office of the Governor is to release the funds pursuant to the legislative consultation and review requirements set forth in s. 216.177, *Florida Statutes*.

However, Ch. 2006-55, *Laws of Florida*, does not require the Office of Tourism, Trade, and Economic Development or Enterprise Florida, Inc., to provide annual or status reports on the performance of award recipients. The law provides that at the conclusion of an agreement, Enterprise Florida, Inc., is to report within 90 days the result of the innovation incentive award to the Governor and the Legislature.

To obtain more comprehensive information for assessing the results of the Innovation Incentive Program, the Legislature should consider

- requiring the Office of Tourism, Trade, and Economic Development to provide it with an annual report on program activities and performance; or

- requiring Enterprise Florida, Inc., to include Innovation Incentive Program activities and performance in its annual incentives report required by s. 288.095(3)(c), *Florida Statutes*.

This would assist the Legislature in determining whether the program is meeting its intended objectives and represents an effective use of state resources.

Recommendations

To assist the Legislature in assessing Scripps Florida's progress toward achieving the state's goals, we recommend that the Scripps Florida Funding Corporation should include performance trend information in future annual reports to the Legislature and the Governor.

To obtain more comprehensive information for assessing the results of the Innovation Incentive Program, the Legislature may want to consider

- requiring the Office of Tourism, Trade, and Economic Development to provide an annual report on program activities and performance; or
- requiring Enterprise Florida, Inc., to include Innovation Incentive Program activities and performance in its annual incentives report required by s. 288.095(3)(c), *Florida Statutes*.

Agency Response

In accordance with the provisions of s. 11.51(5), *Florida Statutes*, a draft of our report was provided to the director of the Office of Tourism, Trade, and Economic Development, and the chairman of the Scripps Florida Funding Corporation. Written responses to the draft report are included in Appendix B.

Appendix A

Scripps Florida Generally Complied with Standards as of January 29, 2006

The table below shows the requirements and deliverables contained in the contract between Scripps Florida Funding Corporation and The Scripps Research Institute dated January 30, 2004, that were reviewed by the corporation's third-party auditor. Overall, 22 of the 24 standards were met, while one was not met and one was not applicable as the institute's permanent facility was not yet constructed.

Requirements and Deliverables	Standard	Actual	Compliance
1. Number of jobs created consistent with approved business plan?	168	164	Not met ¹
2. Number of jobs created verified?	Verified	Verified	Met
3. Average salaries of jobs created consistent with approved business plan?	\$62,819	\$68,789	Met
4. Average salaries verified?	Verified	Verified	Met
5. Person designated to assist in collaborative efforts with OTTED (beginning June 2004)?	Verified	Verified	Met
6. Compliance with OTTED's requests for cooperation verified by OTTED?	Verified	Verified	Met
7. Equipment purchases / contracts consistent with approved budget?	\$25,000,000	\$26,115,612	Met
8. Equipment purchases / contracts verified?	Verified	Verified	Met
9. UCC statement filed / updated for new capital equipment purchased during quarter?	Filed	Filed	Met
10. Required quarterly financial information provided?	Verified	Verified	Met
11. Liability insurance valid, with funding listed as additional insured?	Valid	Valid	Met
12. Receipt of non-state funding sources consistent with budget?	N/A	N/A	N/A ²
13. Evidence of collaborative efforts with Florida universities delivered and verified?	Verified	Verified	Met
14. Report of dollar and value of grants?	N/A	\$4,299,663	Met
15. Evidence of workforce recruitment activities at public and private universities provided and verified?	Verified	Verified	Met
16. Evidence of policy to promote supplier diversity?	Verified	Verified	Met
17. Evidence of policy to use Florida vendors?	Verified	Verified	Met
18. Evidence that the Internet-based job listing system of the Agency for Workforce Innovation is being used?	Verified	Verified	Met
19. Establishment and implementation of policy of equal employment opportunities?	Verified	Verified	Met
20. Establishment and implementation of policy awarding preferences in employment to Florida residents, excluding professional scientific staff positions?	Verified	Verified	Met
21. Records made available in a timely manner as required by funding?	Verified	Verified	Met
22. Compliance with required applicable disbursement conditions verified?	Verified	Verified	Met
23. Verification that Scripps is in good standing, has not declared bankruptcy, has filed any required tax returns?	Verified	Verified	Met
24. Certification by Scripps that grant funds have been spent in accordance with Operating and Funding Agreement and Section 288.955, <i>Florida Statutes</i> ?	Verified	Verified	Met

¹ The corporation concluded that this instance of noncompliance did not constitute a violation of the law or materially breach the contract. The number of jobs created also fell within the 25% downward deviation allowed by the law and the contract. In addition, the auditor did not include four employees who received their salaries from third parties rather than from funds distributed by the corporation.

² Requirement is not effective until after the permanent facility is occupied.

Source: The Scripps Florida Funding Corporation.

Appendix B



JEB BUSH
GOVERNOR

STATE OF FLORIDA
Office of the Governor

THE CAPITOL
TALLAHASSEE, FLORIDA 32399-0001

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August 25, 2006

Gary R. VanLandingham, Director
The Florida Legislature
Office of Program Policy Analysis & Government Accountability
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Room 312, Claude Pepper Building
Tallahassee, Florida 32399-1475

Dear Mr. VanLandingham:

Pursuant to Section 11.51(5), Florida Statutes, the Governor's Office of Tourism, Trade and Economic Development ("OTTED") respectfully responds to the "draft report" dated August 2006 prepared by the Office of Program Policy Analysis & Government Accountability (hereinafter OPPAGA) which reviewed the performance of OTTED and the Scripps Florida Funding Corporation ("SFFC") in carrying out their respective responsibilities relating to the establishment of the Scripps Florida research facility, all pursuant to Ch. 2003 – 420 Laws of Florida. We thank the OPPAGA staff for its professionalism and thoroughness in conducting the review.

Recommendation: To assist the Legislature in assessing Scripps Florida's progress toward achieving the state's goals, we recommend that Scripps Florida Funding Corporation should include performance trend information in future annual reports to the Legislature and Governor.

Agency Response: OTTED agrees that having SFFC provide performance trend information in its annual reporting could be a useful tool for assessing achievement of the state's goals. However, we caution that such information should be based on information that is already contractually required from Scripps Florida or otherwise available. The Operating and Funding Agreement, including the provisions requiring information from Scripps to SFFC, between Scripps and SFFC is legally binding and cannot be changed unilaterally by SFFC. Moreover, we would note that the state's goals are larger than the microcosm of how many employees or grants Scripps obtains. While the OPPAGA draft report, in general, acknowledges the larger purpose of the Scripps Florida investment, it fails to recognize that the investment in Scripps Florida is different from typical government incentive programs. The typical government way of measuring "progress" is not appropriate for this type of investment. While it is important to understand the trends in Scripps Florida's operations, we should focus on how well the goals of attracting top scientists, diversifying Florida's economy, promoting drug discovery and advancing science education in Florida are progressing.



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Scripps already is delivering results both on its contractual promises, as noted in the draft report, and on the State's larger goals:

- *Non-state funding* --Notwithstanding the delays created by the Palm Beach County Commission in site selection and by the Mecca litigation, to date, over 15 research grants have been awarded to scientists at Scripps Florida, with a total value of over \$12 Million. Scripps Florida has further obtained charitable pledges of over \$8 million and cash gifts as of December, 31, 2005, in excess of \$2.99 million.
- *Recruitment* --Among the 168 new positions created by Scripps Florida (including 4 not funded with state grant funds) are world-renowned scientists from America and the world, as well as founders of biotechnology companies with expertise in translating research and discovery into the development of new drugs and technologies to combat disease.
- *Economic development* -- Already, several companies have invested in the nearby area (e.g., Alexandria Real Estate Equities (a NYSE-traded REIT specializing in construction and operation of buildings containing office/laboratory space), Osmotica Pharmaceutical, Biotools, Inc.) and existing companies, such as Dyadic, Inc., have plans to expand. On August 23, the prestigious Burnham Institute for Medical Research announced its plans to follow Scripps to Florida. At least two other research institutes, whose names cannot be disclosed because of confidentiality laws, also are seriously considering expanding into Florida because of proximity to Scripps Florida. The availability of funds from the newly enacted Innovation Incentive Program, community support and the presence of Scripps Florida all have combined to give Florida an edge in recruiting major research institutes.
- *Drug Discovery*-- In August 2005, NeoRx Corporation (NASDAQ: NERX), a cancer therapeutics development company, and Scripps established the first collaboration at Scripps Florida, focusing on discovering novel, small-molecule, multi-targeted, protein kinase inhibitors as therapeutic agents, including cancer treatments. On January 20, 2006, Scripps Florida announced the launch of its "Access to Technologies" program, which invites scientists from Florida universities and other academic research institutions to use state-of-the-art high throughput screening (HTS) technologies at Scripps Florida's facilities in Jupiter for qualifying projects. Access to Scripps Florida's new HTS operation, similar to that used widely by the pharmaceutical industry, should speed up the process of discovering new drugs to treat a variety of human illnesses. Most recently, IBM and Scripps announced a collaborative initiative based in Palm Beach County to conduct advanced research on pandemic viruses (such as avian flu) leveraging the industry-leading talent and technology from both organizations. The objective of "Project Check-mate" is to develop means to anticipate, manage and contain infectious diseases.

- *Promoting Science Education*-- In addition to establishing collaborative agreements with Florida's research universities, Scripps also is ahead of its contractual schedule for starting a summer internship program, which was not required until 18 months after it occupied its permanent facility. The summer internship program began in 2005 with four high school students and three high school teacher interns. Scripps' contract also did not require that Scripps accept graduate students until 18 months after occupying permanent facilities, however, in 2005, Scripps Florida announced it was accepting 10 graduate students. A \$250,000 charitable gift was secured for education outreach programs at Scripps Florida, including a K-12 science education outreach projects throughout Palm Beach County. Additionally, Frontiers in Science, Scripps Florida's public lecture series, has been holding monthly science seminars since the beginning of 2005, well ahead of its obligation to do so 18 months after occupancy of its permanent facility.

Recommendation: To obtain more comprehensive information for assessing the results of the Innovation Incentive Program, the Legislature may want to consider

- requiring [OTTED] to provide an annual report on program activities and performance; or
- requiring Enterprise Florida, Inc., to include Innovation Incentive Program activities and performance in its annual incentives report required by s. 288.095(3) (c), Florida Statutes.

Agency Response: Although we note that the statutory authority for this report is limited to reporting on the performance of OTTED and SFFC in carrying out their respective responsibilities relating to the establishment of the Scripps Florida research facility, OTTED does not object to the suggestions in the report with regard to reporting by it and EFI on the Innovation Incentive Program. We would note that any reporting on current program activities would be subject to the confidentiality provisions of Chapter 288, Florida Statutes, and other applicable public records exemptions.

In its discussion of the Innovation Incentive Program, the draft report suggests that somehow the Scripps legislation provided less legislative oversight and fewer financial controls than the Innovation Incentive Fund. First, we note the performance standards in the Scripps Operating and Funding Agreement meet, and even exceed, the statutory requirements contained in the Scripps legislation and SFFC's Funding and Program Agreement with OTTED. Moreover, the performance measures and disbursement conditions in both agreements were drafted with input from the Department of Financial Services after extensive consultation. The Scripps Operating and Funding Agreement was approved by the Governor, Senate President and Speaker of the House in advance of being signed by the parties. Both the Scripps legislation and the Innovation Incentive Program

permit a lump-sum appropriation by the Legislature, subject to oversight: in the former case, by the SFFC, which consists of directors appointed by the Governor, Speaker and Senate President; in the latter case, through a reporting mechanism from OTTED and EFI. Both programs wisely rejected subjecting a specific grant recipient to the annual appropriations process.

General Comments:

In October 2003, Governor Bush announced the once-in-a-lifetime opportunity Florida had to attract The Scripps Research Institute to the state. Governor Bush emphasized the uniqueness of this one-time opportunity:

To realize this vision, the Florida Legislature will have to invest \$310 million of the federal economic stimulus funds. That's the cost of creating a world-class biomedical research center from the ground up on an accelerated schedule. Any less and we limit the facility, its potential, and Scripps' interest in building the project in Florida.

This vision embraced using Scripps Florida as a catalyst for attracting many more life science research institutes and related businesses to Florida and replicating the science communities in places such as: La Jolla, Cambridge, and Research Triangle Park. The size of the investment was to give Scripps Florida a jump-start in its operations and hasten the expansion that previously had taken Scripps almost half a century to achieve in California to less than a decade.

When Governor Bush signed the Scripps legislation after the December 2003 Special Session, he set the standard by which we must measure the State's investment in Scripps Florida:

Today is a defining moment in Florida's future, and I thank the Legislature for daring to dream big, and for sharing a vision for a new Florida. The opportunity Scripps brings to our state is unparalleled, and the Scripps partnership is unprecedented. I appreciate the diligence of the House and Senate in passing a bill that provides the accountability, flexibility, and entrepreneurship necessary for Scripps to innovate and discover in Florida.

With regard to the role of SFFC, Governor Bush stated, "My vision for this board is that it manages the financial portion of our partnership, but lets Scripps do what it does best – conduct biomedical research."

As the Governor has noted, "The Scripps Florida proposal is different than any other economic initiative we have ever attempted. Unlike traditional development incentives tied to guaranteed jobs and other standard criteria, we are in fact investing in the future of the biotech industry itself, and guaranteeing Florida's place at the forefront of this lucrative frontier." The Innovation Incentive Program approved by the Legislature in 2006 builds upon the Scripps initiative with the same goals in mind. It follows that the typical government way of measuring "progress" is not appropriate for these types of

investments. While the OPPAGA draft report, in general, acknowledges the larger purpose of the Scripps Florida investment, it fails to recognize that the investment in Scripps Florida is different from typical government incentive programs.

Scripps Florida has fulfilled what it promised the State and has even delivered on many of its promises much sooner than legally required. SFFC has done an excellent job of monitoring the State's investment to ensure that the funds awarded are spent as intended. Now that Scripps Florida's permanent location has been settled, we fully expect that Scripps Florida continue to meet, and even exceed, expectations. We also expect that more research entities, like Burnham, will be moved to proceed with plans to follow Scripps to Florida. We should continue to build on this success.

Thank you for the opportunity to provide our comments. If you require further information, please contact Sara Misselhorn, Scripps Project Director, Governor's Office of Tourism, Trade and Economic Development at (561) 655- 9669.

Sincerely,

A handwritten signature in blue ink that reads "Scott Pennell, for". The signature is fluid and cursive.

Dr. Pamella Dana, Director

Governor's Office of Tourism, Trade and
Economic Development

cc: Mark Kaplan, Governor's Chief of Staff
Raquel A. Rodriguez, Governor's General Counsel
Kim Mills, Governor's Director of Auditing

SCRIPPS FLORIDA FUNDING CORPORATION
505 SOUTH FLAGLER DRIVE, SUITE 1003 WEST PALM BEACH, FLORIDA 33401 (561) 655-9669

August 24, 2006

Mr. Gary R. VanLandingham
OPPAGA Director
111 West Madison Street, Suite 312
Tallahassee, FL 32399-1475

Re: Response from the Scripps Florida Funding Corporation

Dear Mr. VanLandingham:

In accordance with the provisions of S.11.51(5) Florida Statutes, the Scripps Florida Funding Corporation (hereinafter SFFC) provides this written response to the "draft report" dated July 2006 prepared by the Office of Program Policy Analysis & Government Accountability (hereinafter OPPAGA) which reviewed the Governor's Office of Tourism, Trade and Economic Development (hereinafter OTTED) and the SFFC performance in carrying out their responsibilities relating to the establishment of the Scripps Florida research facility, all pursuant to Ch. 2003 – 420 Laws of Florida.

SFFC notes the professionalism, thoroughness and reassurance evidenced in the draft report prepared by OPPAGA in finding that SFFC has complied with statutory requirements which include to (1) negotiate and execute a contract with Scripps Florida for a period of 20 years (2) disburse funds to Scripps pursuant to provisions in the law and the contract (3) receive and review reports and financial documentation from Scripps Florida to ensure compliance with the law and the contract (4) prepare an annual report for submission to the Governor and the Legislature and (5) enter into an agreement with the State Board of Administration that is to invest funds not disbursed by Scripps.

Additionally, OPPAGA has found that SFFC has implemented reasonable contract management and monitoring activities including: (1) receiving Scripps Florida unaudited quarterly and audited annual financial statement, annual reports and other documents (2) contracting with a third – party auditor to conduct annual compliance audits of Scripps Florida and (3) monitoring the implementation of Scripps Florida Business Plan for the period covered by the "draft report."

It is noted here that at the present time negotiations are on-going between SFFC and the Scripps Research Institute (hereinafter TSRI) for the provisions of a revised Business Plan required because of delays experienced in relocating and constructing the permanent site in Palm Beach County of the Scripps Florida research facility. Until that construction is completed, Scripps Florida operates in constrained temporary facilities.

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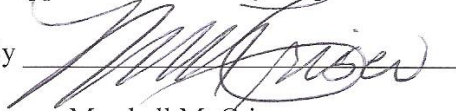
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The OPPAGA "draft report" recommends that SFFC include performance trend information in future annual reports. On a yearly basis, SFFC monitors 24 deliverables, as set forth in the Monitoring Instrument (Exhibit E of the Operating and Funding Agreement with Scripps Florida). The current deliverables include performance measures such as the dollars spent for equipment, the number of job created and the average salaries. The current deliverables also require quarterly financial information to be provided by Scripps Florida and the Audit Committee of the SFFC meets to review these quarterly unaudited financial statements and the annual audited financial statements of both TSRI and Scripps Florida. At these meetings, an extensive presentation of the statements is provided by Ms. Donna Weston, TSRI CFO, which is followed by a question and answer period by SFFC Audit Committee members to ask questions and to clarify any points. The Audit Committee presents this information to the SFFC Board of Directors at subsequent Board meetings. The content of these meetings is public record and is also reported in the SFFC Annual Report to the Governor and the Legislature. Although the SFFC does not have the ability to unilaterally amend the contract to alter the performance standards, the SFFC Board of Directors may consider the inclusion of additional summary data on performance trend information in future annual reports; however, such information may not be meaningful until after Scripps Florida occupies its permanent facility.

SFFC is appreciative of the opportunity to respond to the OPPAGA "draft report".

Scripps Florida Funding Corporation

By



Marshall M. Criser
SFFC Chairman

cc: SFFC Board of Directors
Ms. Kathy Deutsch
Mr. Scott Porter
Ms. Raquel Rodriguez

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The Florida Legislature

Office of Program Policy Analysis and Government Accountability



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[Florida Government Accountability Report \(FGAR\)](#) is an Internet encyclopedia of Florida state government. FGAR offers concise information about state programs, policy issues, and performance.

- [Best Financial Management Practices Reviews of Florida school districts](#). In accordance with the *Sharpening the Pencil Act*, OPPAGA and the Auditor General jointly conduct reviews to determine if a school district is using best financial management practices to help school districts meet the challenge of educating their students in a cost-efficient manner.

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OPPAGA supports the Florida Legislature by providing evaluative research and objective analyses to promote government accountability and the efficient and effective use of public resources. This project was conducted in accordance with applicable evaluation standards. Copies of this report in print or alternate accessible format may be obtained by telephone (850/488-0021 or 800/531-2477), by FAX (850/487-3804), in person, or by mail (OPPAGA Report Production, Claude Pepper Building, Room 312, 111 W. Madison St., Tallahassee, FL 32399-1475). Cover photo by Mark Foley.

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Gary R. VanLandingham, OPPAGA Director