

Good morning, and thank you to Chairs Johnson and Warren and members of the House Oversight and Reform Committee for the opportunity to appear today.

NCInnovation's mission is based on two premises. One, it is good and proper for public universities to receive public funding for applied research. By applied research, I don't mean work that would result in white papers or publications in a journal. I mean research that has real-world application and solves real-world problems.

And the second premise is this: university and industry collaboration is good, and the more of it the better. A quick walk around NC State's Centennial Campus shows just how much of a powerhouse the university-to-industry pipeline can be when fully mature.

Our vision is to make North Carolina the Innovation State by developing regional innovation ecosystems and drive statewide economic development centered on our public university system.

We of course do not aim to replicate the Triangle in terms of scale, but the same concept – university research generating growth for its surrounding areas – can apply everywhere.

We want companies to buy licenses or to buy our licensed research that's born on university campuses, and especially a UNC System campus.

We want university faculty to go build something amazing and enduring after they advance through the university research and development sequence.

And we want that to happen in the regions that create the innovation in the first place so that our best and brightest ideas don't have to flee to our population centers or, worse, leave the state altogether.

This is why NCInnovation supports merit-based research grants to public university researchers. The idea that American universities are key drivers of innovation and technology is not new. It has underpinned American policy for decades. American universities incubate discoveries and then the private sector commercializes them. The university-to-industry pipeline is central to American innovation.

Here in North Carolina, we have the best public university system in the entire country. More than seven years ago, some of our state's most accomplished and senior leaders began examining why North Carolina is among the best in the nation at attracting industry and academic research dollars but only average in commercializing our successes.

Led by the late Bob Ingram, Kelly King, Dale Jenkins, Tom Darden, Jack Bailey, Kirk Bradley, Ven Poole, Kelly Fuller, Chuck Fuller, and many other esteemed leaders, this group commissioned two initial studies to understand the gap between incoming research dollars and the commercialization of proofs of concept, especially at UNC System institutions outside of the Triangle. The results form the basis for what became NCInnovation, and it is my privilege to serve as its president and chief executive officer.

NCInnovation is a nonprofit public-private partnership that unlocks the innovative potential of North Carolina's worldclass public universities by providing grant funding and support services to public university applied researchers working on discoveries that have commercial promise,

accelerating those discoveries towards commercialization. NCIInnovation provides fiscally responsible commercialization support by funding nondilutive grants from an endowment that is capitalized with state reserves that earn interest and low-risk investment income to fund the organization's program, thus eliminating the need for annual appropriations.

Over the last seven years, NCIInnovation has matured from concept to operating reality, and I'm pleased this morning to report on several notable accomplishments.

Foremost, we have assembled an incredible team of visionary leaders who each bring specific areas of expertise to the organization. Michelle Bolas, NCIInnovation's chief innovation officer, has more than two decades of experience in university research commercialization, having previously served as chief innovation officer at UNC-Chapel Hill. Linda Hall, our chief financial officer, recently joined NCI after 17 years at the Research Triangle Foundation, where she served as both CFO and chief operating officer. General Counsel Josh Howard oversees our legal compliance, risk management, and regulatory affairs activities, having been an assistant U.S. attorney, a chief compliance officer, a highly successful private litigator who represented clients ranging from the indigent to a president of the United States, members of Congress, and senior corporate executives. Erica Shrader, who served as a senior staffer on Capitol Hill and in the General Assembly, now leads our corporate affairs, ensuring that we remain aligned with General Assembly responsibilities.

Following the 2023 legislative session, NCIInnovation took immediate steps to comply with the governance, conflict of interest, and gift policy requirements outlined in the Current Operations Appropriations Act of 2023. We welcomed seven new legislative appointees to the board of directors in November of 2023, and by December, had certified to the Department of Commerce the requirements to receive the first tranche of state funding.

Equally important, we simultaneously began executing NCI's statutory responsibilities to establish programs as authorized in the biennium budget. In fact, within 24 hours of the budget becoming law, NCIInnovation formalized employment offers for its four regional innovation network directors, who are co-located at our hubs at East Carolina University, North Carolina A&T, the University of North Carolina at Charlotte, and Western Carolina University.

These hubs and the regional networks they anchor are the epicenters of industry-academic partnerships designed to align research capabilities with commercial needs across the state. Leveraging our regional directors and the relationships they are building, NCIInnovation expanded research technology and innovation studies of the four regional innovation hubs to maximize local educational research efforts and the commercialization of those efforts to meet regional needs.

These findings inform the basis of a statewide strategic technology development plan, which we completed ahead of schedule and provided to the Joint Legislative Commission in late June. This plan, which we continue to mature, provides a wealth of objective data to inform statewide efforts to accelerate innovation commercialization across multiple sectors.

Using a data-driven approach to guide its programs and program development, the NCI board of directors approved \$5.2 million in pilot grants at its May meeting. While my written testimony contains details of each recipient, I would note the rigorous and independent process used to

identify, evaluate, technically validate, and negotiate each award. Led by Chief Innovation Officer Michelle Bolas, the pilot process did exactly as it was intended in identifying projects that had achieved proof of concept. We assembled a world-class group of independent experts to evaluate and validate them and ultimately recommended eight projects for funding. Later this year, we anticipate expanding on this pilot and its lessons as we move to a statewide request for proposal that would be open to any and all applied researchers at a UNC System institution.

As part of building out our capabilities, NCInnovation anticipates finalizing a master services agreement with the North Carolina Collaboratory. Thanks to Dr. Jeff Warren's leadership, NCI and the Collaboratory have deepened a partnership that defines the various responsibilities required to provide grants to researchers across the state. In doing so, we are leveraging economies of scale that take advantage of each organization's strengths, capabilities, and resources, ensuring that we support our regional partners without duplicating effort or wasting state resources.

Perhaps most important, we did everything I just mentioned without spending a single state dollar.

Let me repeat that. We have fulfilled all of our statutory responsibilities identified, evaluated, validated, and awarded the first set of pilot grants without spending a single state dollar.

Instead, we secured more than \$25 million in commitments from the private sector to fund NCInnovation's administration and overhead expenses. This support allows us to devote state funding directly to our regional innovation networks and the non-dilutive grants that support applied researchers across the state.

Having received \$250 million in state funds in January, we immediately invested those dollars with an independent third party to generate high interest income. With the receipt of the second tranche of funding, the NCInnovation corpus will stand at just over \$506 million.

In other words, the endowment is working exactly as we committed. NCI is using reserve dollars to create investment income, and we are funding our programs with the amounts of that investment income. Further, by allocating our awards in tranches, we are continuing to compound interest and income until each recipient achieves certain milestones. Simply put, those that do not achieve the milestones will not receive additional funding.

Finally, we have exceeded the reporting requirements established by the General Assembly. Whereas the budget required two semiannual progress updates to the Joint Legislative Commission on Governmental Operations, we have filed three such reports and provided seven additional updates to the respective staff directors. We will be filing additional reports in September as required by law, and we remain committed to fully complying with the requirements of the biennium budget.

On behalf of the NCInnovation board and executive leadership team, I'm proud to appear today and want to offer our collective thanks for the resources, authorities, and opportunities invested in our organization. I'm sure we'll get into various organizational processes and particular details of how we operate. I'm also sensitive to the differences of opinion about the role of our board in the grants process as well as concerns about private sector funding commitments and accounting practices.

I look forward to answering those questions, but what guides all of us is the work that we do and our mission to fund public university researchers, and the work that they are doing in the regional communities they serve.

The UNC System is rightly called our crown jewel. There are amazing faculty working on groundbreaking research projects all across the state, not just in RTP. UNC System institutions already anchor regional economies. Their research portfolios can advance that contribution even further. We are all in on our mandate to support public university researchers to get their work through the university research and development sequence and out into the world.

Some have suggested that public funding of public university applied research is tantamount to corporate welfare, and I'd like to address that claim head-on. NCInnovation's research grants only go to public universities that support research that has actual real-world impact. That is exactly what universities should be focusing on. Some of the most important discoveries in the modern era were born on university campuses and then commercialized by the private sector.

The university-to-industry dynamic is a symbiotic relationship that America pioneered and that other countries, including our competitors, have spent decades trying to emulate. When a university researcher founds a new company, that's a good thing. When an existing company licenses a groundbreaking new technology from a university, that's a good thing.

Contrast public funding for public university research as an economic development tool with, say, tax incentives to lure existing companies to a particular state. We hold no position on that practice, but the two models are starkly different. We fund public university research with promising real-world application that already exist in North Carolina. Homegrown innovation creates rural economic opportunity in a state that needs it. We don't give grants or take financial positions in private companies, nor do we have equity in anything we fund.

National trends, dating back to the Trump administration's investment in regional innovation networks to drive America forward, make it clear that North Carolina has yet another opportunity to lead the nation. By using an endowment taken from reserves, built by years of smart fiscal policy, investing it wisely, using only the interest and investment income to fund programs, and supporting the UNC System's regional applied research through the valley of death, we can and will make North Carolina the innovation state.

Mr. Chairman, thank you again for the opportunity to discuss NCInnovation's important work on behalf of the state of North Carolina. I look forward to answering the committee's questions.