

MINUTES

SPECIAL COMMITTEE ON KANSAS TECHNOLOGY ENTERPRISE CORPORATION

October 7-8, 2009
Room 545-N—Statehouse

Members Present

Senator David Wysong, Chairperson
Representative Lana Gordon, Vice-chairperson
Senator Pete Brungardt
Senator Tom Holland
Senator Carolyn McGinn
Representative Lisa Benlon
Representative Richard Carlson
Representative Pete DeGraaf
Representative Doug Gatewood
Representative John Grange (excused on 10-7-09)
Representative Dan Kerschen (excused on 10-7-09)
Representative Marvin Kleeb
Representative Jerry Williams

Staff Present

Reed Holwegner, Kansas Legislative Research Department
Dennis Hodgins, Kansas Legislative Research Department
Michael Steiner, Kansas Legislative Research Department
Renaee Jefferies, Office of the Revisor of Statutes
Jason Long, Office of the Revisor of Statutes
Margaret Cianciarulo, Committee Assistant

Conferees

Kyle Elliott, Chairman, Kansas Technology Enterprise Corporation
Kevin Carr, Interim CEO, Kansas Technology Enterprise Corporation
Jan Srack, CEO, Matrix Electronic Measuring, Salina
Miriam Ubben, President, Science and Information Technology Association of Kansas
David Kerr, Secretary, Department of Commerce
Sandy Johnson, Mid-American Manufacturing Technology Center
Stan Ahlerich, President, Kansas, Inc.
Lee Lewellen, Thomas P. Miller & Associates, Greenfield, Indiana
Ken Frahm, former KTEC Investment Committee member, Colby
Joel Wiggins, President, Enterprise Center of Johnson County

Dr. Art Hall, Executive Director, Center for Applied Economics, University of Kansas
School of Business

Wednesday, October 7

Senator Wysong called the meeting of the Special Committee on the Kansas Technology Enterprise Corporation (KTEC) to order at 9:00 a.m. on October 7, 2009. After introductions of the Committee's members and staff, the chairperson explained that the Special Committee's purpose, as charged by the Legislative Coordinating Council (LCC), was to review the most efficient structure to create and grow Kansas enterprises through technological innovation, study the current operations and findings of KTEC, review the recent Kansas, Inc., evaluation of KTEC, and present the Special Committee's findings to the LCC and the Legislature.

The chairperson explained that on the first meeting day the Special Committee would hear an overview of KTEC's operations, impacts, and metrics. Then the Special Committee would hear comments from Commerce Secretary David Kerr, followed by an evaluation from Kansas, Inc. After questions from the Committee concerning the report, KTEC would present testimony regarding progress made on issues identified in the evaluation report. KTEC also would brief the Committee on the status of the agency's budgets for FYs 2010 and 2011. On the second meeting day there would be a presentation on Technology Based Economic Development (TBED). After the Committee's discussion and questions, the chairperson would offer conclusions and recommendations for the Committee's consideration.

The chairperson then recognized Mr. Reed Holwegner, Research Analyst, Legislative Research Department, to present the history, purpose, and governance of KTEC ([Attachment 1](#)). Mr. Holwegner stated that KTEC was created in 1986 and assumed the role of the Kansas Advance Technology Commission that was organized within the Department of Commerce. KTEC's purpose is to provide assistance to businesses in the development of new technologies that, in turn, will create new marketable products and services. The four types of programming that KTEC administers include:

- Research which includes six centers of excellence, state administration of the federal Experimental Program to Stimulate Competitive Research (EPSCoR), and the STAR Fund;
- Business assistance which includes eight regional business incubators and two statewide assistance programs, Network Kansas and the Mid-America Manufacturing Technology Center (MAMTC);
- Investment programs which includes Direct Investments, Angel Networks, and Angels Tax Credit; and
- Entrepreneur development which includes the PIPELINE Program.

KTEC is governed by a board of 20 directors that includes the Governor or (at the Governor's discretion) the Secretary of the Department of Commerce, the Secretary of the Department of Agriculture, four leaders of the Legislature (or their designees), four members of the private sector appointed by the legislative leaders, and the remaining ten members are appointed by the Governor with six from the private sector and four representing higher education institutions.

Mr. Holwegner concluded his remarks by noting that each Committee member was provided by Kansas, Inc. with a bound hard copy of the KTEC evaluation, thanking Mr. Stan Ahlerich, President of Kansas, Inc., for his cooperation (Attachment 2). There were no questions for Mr. Holwegner.

The chairperson recognized Mr. Kyle Elliott, Chairman of the KTEC Board of Directors (Attachment 3). Mr. Elliott stated that a majority of the testimony to be heard would revolve around the importance of TBED, specifically what Kansas is doing in this field and how Kansas can maximize its effort. KTEC encourages the development of innovative companies through an integrated set of technical, financial, and business development tools. KTEC programs do not create jobs; that is the responsibility of the companies that are served. Issues raised by the evaluation have been addressed by the KTEC Board with needed changes. According to Mr. Elliott, the KTEC Board is now highly engaged and has a promising strategy underway. There were no questions for Mr. Elliott.

The chairperson recognized Mr. Kevin Carr, Interim CEO of KTEC. Mr. Carr started his testimony by explaining the importance of technology entrepreneurship (Attachment 4). Entrepreneurial growth companies are responsible for 67.0 percent of new jobs. Those new jobs often pay twice the average salary of non-technology jobs. Technology entrepreneurship can reduce the "brain drain" effect when young, educated people leave their home state for greater opportunities elsewhere. Such entrepreneurship also can diversify the state's tax base.

Mr. Carr explained that rapid growth "gazelle" companies account for 80.0 percent of new jobs. A gazelle company is defined as one that has an annual sales revenue of 20.0 percent or more for four consecutive years. The *2008 State New Economy Index* has ranked Kansas as being eighth in the nation for gazelle jobs. The national technology trade association TechAmerica has ranked Kansas as being first in the nation for the growth of high-tech jobs in 2009. PricewaterhouseCoopers and the National Venture Capital Association recently ranked Kansas as being thirteenth in the nation for venture capital investments for the number of investments made.

Mr. Carr explained the various metrics that are used by KTEC to measure the activity and outcomes of those companies that are assisted. Metrics data are recorded for a minimum of five years following assistance.

Mr. Carr then introduced Ms. Jan Srack, CEO, Matrix Electronic Measuring Data, Salina, Kansas, to provide an example of how KTEC support has benefitted an entrepreneur. Ms. Srack explained the creation of her company, its financial projections, and KTEC's involvement (Page 10 of Attachment 4). Ms. Srack patented a wand which measures auto bodies in need of repair.

Senator McGinn asked how the wand worked. Ms. Srack replied that the sensors on the end of the wand, in effect, capture images similar to a pair of eyes. The image is then compared to factory specifications to determine repair estimates.

Senator Brungardt asked how much a wand unit costs. Ms. Srack replied that the cost was approximately \$28,000.

Mr. Carr provided another example of KTEC's involvement by explaining the support given to CritiTech, a bioscience firm that creates various nano-particles. The nano-particles are used for drug delivery into the patient, device coating, and drug development for cancer and diabetes. Along with the support of the Lawrence Entrepreneur Center, CritiTech received angel investments and direct KTEC investments of \$400,000 from 2001 to 2006. To date, CritiTech has been able to raise \$6.3 million in capital. There have been ovarian cancer trials since 2008, and clinical trials for a renal cancer drug are planned for 2010. In 2007 CritiTech had revenue of \$500,000 and employed four

people; in 2009 the company has estimated it will have revenue of \$2.0 million and employ 13 people.

Mr. Carr then explained the research grant programs that are administered by KTEC. EPSCoR is a federal program aimed at improving the competitiveness of academic research in states that have not historically fared well in obtaining federal research funds. Through EPSCoR, small state grants can leverage much larger federal grants for advanced research at doctoral granting universities. Federal research partners include the Departments of Defense and Energy, the Environmental Protection Agency, the National Aeronautic Space Administration (NASA), and the National Science Foundation. The Strategic Technology Research (STAR) Fund is a state extension of EPSCoR. The fund is used to support projects which may not receive EPSCoR funding but have the potential to attract other federal or private industry research grants and to create commercial growth in the state. Mr. Carr provided the Special Committee with data concerning the number of new jobs created and additional research moneys provided by the federal government and industry through EPSCoR and STAR Fund research. Mr. Carr noted that approximately half of the grants awarded by KTEC are through EPSCoR.

Senator McGinn asked how states qualified for EPSCoR funding. Mr. Carr replied that each of the above mentioned agencies set aside a small percentage of their budget for those states that have been determined by formulas as not having received their fair share of research funding.

Mr. Carr then explained the five centers of excellence that are operational in the state. Each center is affiliated with a university in the state and has its own technology specialization. The centers conduct innovative research and provide technical assistance for client companies. Mr. Carr explained the amount of funding awarded to the centers, the number of jobs created or saved, revenues, and capital investments for each center from 2007 to 2009. He added that the KTEC Board has recently decided to award such funding in the future on a project basis, rather than on a fixed cost method.

Representative Kleeb asked if Kansas was getting more research funding because of KTEC. Mr. Carr estimated that between 30 percent to 50 percent of federal funding could be attributable to KTEC involvement.

Mr. Carr continued with his testimony by describing the entrepreneurial centers. There are seven entrepreneurial centers in the state that are focused on supporting high-tech start-up companies. These companies may arise from either the entrepreneurial community or technology patents created by state universities. For each entrepreneurial center Mr. Carr listed the funding, the jobs created or saved, revenues, and investment capital.

Representative Kleeb then asked about jobs being saved. Mr. Carr replied that most saved jobs could be found in manufacturing; he added that there is some judgment involved when analyzing the number of jobs saved.

Representative DeGraaf asked if the state had, in effect, a return on investment and if it included tax credits in its calculation. Mr. Carr said there was no return on investment calculation.

The Special Committee requested Mr. Carr provide a breakdown of KTEC's contribution to the entrepreneurial centers and the centers of excellence that compares total funding with contributions from industry and other sources.

Mr. Carr then explained KTEC's PIPELINE program. The program is designed to identify technology entrepreneurs who have a high potential for success. Those individuals are then given

a year-long fellowship that matches them with training, mentors, and other resources. There were no questions regarding the PIPELINE program.

Mr. Carr explained the investment programs at KTEC. The direct investments that KTEC makes in new and existing small businesses are at the pre-venture capital stage because private equity is usually not available at this point. The purpose of such financing is to buffer the risk that small companies incur when developing innovative products. This should give the Kansas economy a broader spectrum of potential high growth companies. KTEC is also the administrative agency for the state's Angel Tax Credit. The tax credit promotes investing into early-stage companies and reducing the risk to the investor.

Mr. Carr then explained the MAMTC. The nonprofit corporation is a subsidiary of KTEC, established to assist Kansas' small and mid-sized manufacturers. It is funded by KTEC, the federal government, and client fees. MAMTC operates the Kansas Innovation Marketplace which is only one of four state sites in the National Innovation Marketplace. MAMTC trains academics, inventors, and entrepreneurs to be able to relate their technology to the business sector. MAMTC also can connect suppliers with new manufacturers in different industries, thus allowing suppliers to diversify and grow. Ms. Sandy Johnson, MAMTC, answered general questions from Committee members.

Mr. Carr then introduced Miriam Ubben, President of the Science and Information Technology Association of Kansas (SITAKS) (Attachment 5). Ms. Ubben explained that SITAKS is the trade organization for software and IT companies in Kansas; it was created with initial support of KTEC since there was no such entity in the state. Ms. Ubben explained there are 3,200 software and IT companies in Kansas which employ over 58,000 workers. It has been estimated that these companies contribute more than \$4.2 million to local economies. Currently software and IT companies pay 91.0 percent more than the state average wage. SITAKS members are reporting growth in 2009 and continue to hire workers. Ms. Ubben concluded her testimony by explaining SITAKS' legislative platform for the 2010 Session. The Committee had no questions for Ms. Ubben.

Mr. Carr then provided the Committee with the breakdown of funding for the entrepreneurial centers and the centers of excellence that was previously requested (Attachment 6).

Mr. Carr concluded his prepared testimony by explaining that after the evaluation was released, KTEC's staff began to look outside of the organization to see which entities were providing what sort of economic development services. Mr. Carr provided the Committee with a matrix of various technology-based economic development programs (page 19 of Attachment 4) that are provided by various state agencies and others, including KTEC, the Kansas Bioscience Authority, the Department of Commerce, Network Kansas, and the Kansas Small Business Development Center. He noted that all entities facilitate access to state resources, but each entity is providing access to different types and sizes of businesses. Mr. Carr identified areas of overlap between KTEC and the Bioscience Authority in the areas of capital investment and capital assistance.

Senator Wysong asked how and when the duplication of services with the Bioscience Authority would end. Mr. Carr replied that there would be better coordination with the Bioscience Authority in the future, and KTEC would begin to cease its duplication of effort by the start of the next fiscal year. Previous investment commitments would continue as stipulated in previous agreements, but new ones would be conducted by the Bioscience Authority.

As there were no further questions of Mr. Carr, the chairperson recognized David Kerr, Secretary, Department of Commerce, for comments. Secretary Kerr stated the Commerce Department has a number of tools to use, but there is a shortfall regarding small businesses and rural areas. He went on to say that if businesses can generate new jobs and withholding taxes, then

the Commerce Department can help. KTEC, he said, filled an economic development gap by helping start-up companies.

Senator Wysesong asked who helps small businesses in rural areas of the state. Secretary Kerr replied that the newly created Office of Rural Opportunity within the Department of Commerce indirectly assists businesses.

Representative Gatewood asked where the Rural Opportunity Office was located. Secretary Kerr replied that it is organized within the Rural Development Division of the Commerce Department and has locations at four local community colleges across the state. The Rural Opportunity Office provides planning support to rural communities. It does not provide financial incentives to rural and small businesses.

Representative Gatewood then asked if there was a one-stop shop for businesses. Secretary Kerr said no; rather, each of the entities listed in KTEC's matrix tries to direct the business or entrepreneur to the right program and service provider.

As there were no more questions or further discussion, the Special Committee received testimony on the evaluation report. The chairperson recognized Stan Ahlerich, President of Kansas, Inc., who stated the study attempted to address three questions:

- Is KTEC adhering to its statutory obligations;
- Has KTEC initiated its statutorily defined programs and initiatives; and
- What has been the outcome of the KTEC investments?

Mr. Ahlerich then introduced Lee Lewellen of Thomas P. Miller and Associates, Greenfield, Indiana, who conducted the KTEC evaluation ([Attachment 7](#)). Mr. Lewellen explained the evaluation process; it included 90 interviews with select stakeholders of KTEC. The evaluators analyzed previous reports that were conducted on KTEC, as well as the agency's annual reports. Data compiled by the Association of University Technology Managers, the State Science and Technology Institute, and the Kauffman Foundation were used in the analysis.

According to Mr. Lewellen, KTEC used its influence to expand the role of universities to include economic development activities. KTEC had significant participation in the development of the Kansas Economic Growth Act of 2004 and in the creation of the Kansas Bioscience Authority. The agency has realized a return on investment for several Kansas companies. KTEC successfully recruited several promising technology companies to Kansas. The agency has increased interaction between members and affiliates of the Kansas TBED community. Mr. Lewellen also pointed out that the metrics used to gauge performance have been disappointing, inconsistent, or misleading. He also observed that financial support for organizations seems to be based upon political or geographic balance, rather than merit.

Mr. Lewellen said there were several common themes that could be identified from the interviews. KTEC was viewed as being either a successful hub for TBED or as an enigmatic organization. Past and current board members expressed views that they were often left out of the decision-making process. With regard to technology centers and centers of excellence, respondents could not readily identify specific technology areas in which KTEC was operating. Respondents suggested that agriculture-based technology could be a unique opportunity in Kansas; KTEC could provide a platform for cross-technology collaboration. Program participants generally held KTEC in high regards, especially those who received a PIPELINE fellowship. Entrepreneurs who received angel investments were positive about the process used to validate the business. Venture capitalists perceived KTEC's support for a given business or entrepreneur as a stamp of approval.

Respondents believed that KTEC has provided Kansas with a technology edge by gathering entrepreneurial information and by matching businesses with researchers; however, respondents could not readily articulate successful metrics by which to judge KTEC's operations. Respondents did not view KTEC's procedures as being transparent. Views were expressed that there was a lack of communication with outside groups, such as legislators.

Mr. Lewellen classified KTEC's programs into three phases: idea and product information, business formation, and equity investment. Idea and product information is carried out at universities. Business formation focuses on incubators and entrepreneurs, and equity investments are conducted by KTEC directly and by angel investors.

In the first phase of university programs, KTEC supports the five centers of excellence. Each center of excellence does not perform equally well. High-performing centers show a pattern of increased contributions from private industry as a percentage of the centers' operating budgets, in which case, KTEC's contribution appeared to be only marginally significant. When comparing EPSCoR funding with state STAR funding, it appeared that STAR-funded projects were able to leverage more research moneys than EPSCoR projects. Mr. Lewellen said there needed to be a way to address underperforming centers.

In the second phase intellectual property is transformed into a commercialized product or service. Mr. Lewellen noted that while resources associated with the incubator program are typically located on campuses and have close ties with university personnel, the client population is more heavily comprised of non-academic entrepreneurs. The other part of the second phase is the PIPELINE program, which is entering its third year of operation. It is a unique program in the country that provides generous support for recipients. Mr. Lewellen suggested that the program be expanded to include more entrepreneurs. It would be preferable for PIPELINE to identify outcomes rather than fellowship activities, but Mr. Lewellen also stated that it is difficult to measure the future impact that PIPELINE entrepreneurs would have on the Kansas economy.

In the third phase, Mr. Lewellen noted that KTEC's investment strategy has changed from one of giving loans and grants to royalty and equity positions. Investments are made through two state funds, the Applied Research Matching Fund and the Technology Commercialization Seed Fund. Companies in which KTEC invests are held by KTEC's wholly owned subsidiary, KTEC Holdings, until the company exits the portfolio via trade sale, acquisition, initial public offer, or liquidation of assets and termination. As of March 2009, KTEC's portfolio stood at \$9.147 million with equity in 45 active companies; investments were made between 1997 and December 2008. Beginning in 2002, the number of investments per year has not exceeded 13 companies. Earnings realized through KTEC Holdings are used to augment these investment funds. The other part of the third phase is the Angel Investor Tax Credit program. Since the program's inception in 2004, it has qualified 40 companies for angel investment.

Mr. Lewellen then went through a series of national surveys that compared Kansas TBED with neighboring states.

Mr. Lewellen concluded that Kansas needs a focal point for entrepreneurs and innovators. KTEC could do more to build an entrepreneurial climate in the state, especially by promoting cross-technology innovation and facilitating the commercialization of university research. He further stated that KTEC needs a clear vision of its role in building a successful Kansas economy. Metrics need to be clearly established and regularly measured. The agency, he said, needs more consistent guidance which should be given by the board members.

Mr. Lewellen recommended that KTEC should identify unique technology clusters around which the innovation economy can grow. A clear set of metrics needs to be established for KTEC;

metric data then needs to be maintained. Annual reports should be made available through the KTEC website. He further recommended that the board of directors take a stronger decision-making role in the operations of the agency.

Representative Gordon asked what other states are doing with patents derived from university research. Mr. Lewellen said that colleges have to balance the need of publishing academic research with the desire for patents. Academic research is public in nature, while patents have proprietary rights.

Senator McGinn commented that there should be a clarification of acronyms and abbreviations used when discussing TBED policy. She also observed that it appears there is no set standard by which to measure economic development success. The Senator then asked about the funding received by centers of excellence. Mr. Lewellen said that state funds are used to obtain additional funding, or to "leverage," from federal or private grants.

Senator Wysong asked if KTEC and the Department of Commerce were competing to serve the same clients. Mr. Lewellen stated that the two agencies work in a parallel collaboration, serving two different markets.

The chairperson then called on Mr. Carr to explain KTEC's response to Kansas Inc.'s evaluation report ([Attachment 8](#)). Mr. Carr stated that KTEC appreciates the positive recognition noted in the report and has taken measures to deal with the identified issues. In particular, he responded to the following critiques:

- **KTEC should continue to identify unique technology clusters in Kansas around which the innovations economy can be built.**

KTEC formed a strategic planning task force in June 2009 that is comprised of Board members and staff. The task force identified cluster development as one of four areas for the agency to focus. KTEC has started to evaluate resources within Kansas to identify the technology clusters that should be supported. In September, KTEC started to evaluate the centers of excellence to determine how each center will be aligned with KTEC in the future.

- **KTEC needs to establish a clear and uniform set of metrics, collect and maintain information that supports these metrics, and regularly report progress. Metrics should reflect outcomes rather than activities.**

KTEC recognizes there is room for improvement in reporting metrics to the Board. To that end, metrics are to be reviewed annually in detail at the Board meeting immediately following the survey process. Mr. Carr provided the metrics that are to be used for each program area.

- **In order to better serve stakeholders and foster a more entrepreneurial culture in Kansas, KTEC should post all annual reports, schedules, minutes, and other documents online.**

Since April 2009, KTEC has posted all annual reports, the last three years of minutes, and future schedules on the agency's website. KTEC and the other economic development agencies have collaborated to develop a matrix that should improve the understanding of how all agencies work together to provide economic development.

- **KTEC needs mechanisms in place to assure that the Board of directors is fulfilling its fiduciary role and is operating in accordance to statute.**

KTEC surveyed all Board members prior to the June meeting to ensure their needs were understood and being met. Deficiencies that were raised were addressed prior to the September Board meeting. From now on, the Board will be surveyed biennially to discern its decision-making needs. KTEC developed an intranet website that Board members can access. Board members now sit on each KTEC Committee.

- **Provide thorough and adequate information to the Board well in advance of Board meetings.**

All KTEC materials that require the Board's approval are posted to the intranet site a minimum of two days in advance of each meeting.

- **Maintain the integrity of the Board nomination and selection process.**

KTEC notes that the process is controlled by the Legislature and the Governor, and no specific problems relating to the nomination process were cited in the report.

- **Build the Board's capacity to ensure that the entrepreneurs, technology experts, intellectual property attorneys, and financial experts are represented on the Board.**

The KTEC Board is comprised of members with the expertise specified by statute. The charter of KTEC's Investment Committee was amended in June to include term limits for members. Five new members have been added to the Committee since May 2009. The current Committee includes four Board members.

- **Work with existing companies to identify "orphan" technologies and identify persons that could develop those technologies to the proof-of-concept stage.**

KTEC's Proof of Concept Program has been in existence for two years. KTEC has funded projects at universities in the state totaling over \$100,000.

- **Leverage existing entrepreneurship programs and consider extending the PIPELINE Program to meet the needs of entrepreneurs at different stages of development.**

KTEC will continue to evaluate services that enhance entrepreneur development. PIPELINE has begun to extend its offering to other entrepreneurs and high school students.

The chairperson then called on Kenneth Frahm, a former KTEC Investment Committee member, who served for 12 years ([Attachment 9](#)). Mr. Frahm offered his observations about the KTEC organization and its process. He told the story of how the bio tech firm Edenspace moved to Kansas due to KTEC investment. There were no questions for Mr. Frahm.

The chairperson then called on Joel Wiggins, President of the Enterprise Center of Johnson County. Mr. Wiggins stated that KTEC provides a competitive advantage to Kansas. There were no questions for Mr. Wiggins.

The chairperson noted that written testimony in support of KTEC was provided by Wally Kearns, State Director of the Kansas Small Business Development Center ([Attachment 10](#)), and Steve Radley, Director of the Kansas Center for Entrepreneurship (DBA Network Kansas) ([Attachment 11](#)).

The chairperson recessed the Special Committee until 9:00 a.m. on October 8.

Thursday, October 8

Upon calling the meeting to order, the chairperson announced that the Special Committee would begin with a presentation on TBED, followed by preliminary discussions and questions regarding the recommendations the Committee will be making.

The chairperson then recognized Mr. Ahlerich, who discussed the process used to develop the latest strategic economic plan for the state. He then proceeded to explain the economic landscape in the state. Kansas has a mature economy with a commodity base. Those who sell commodities are “price takers” rather than “price setters,” which leads to a diminishing margin of profit. Kansas also has a manufacturing sector, Mr. Ahlerich said, with many businesses employing fewer than 50 employees. Over the last several decades, low-paying manufacturing jobs have been relocated off-shore. Mr. Ahlerich stated that Kansas is in competition with those other states in the middle of the country that could be classified as “fly-over” states.

Mr. Ahlerich then introduced Dr. Art Hall, Executive Director of the Center for Applied Economics at the KU School of Business ([Attachments 12 and 13](#)). Dr. Hall stated that TBED is primarily an urban phenomenon where both the volume of entrepreneurial activities and population density matter. Kansas has a disadvantage in both categories except for in the Kansas City and Wichita areas. He offered indexed data comparing high-tech business growth for the United States, the plains states, and Kansas. Since the start of 1990 to the end of the first quarter of 2008, Kansas has had a higher rate of growth than the plains states and the country. He added that most of this growth has occurred around Kansas City, and Wichita accounts for 17.0 percent of the growth.

Dr. Hall continued that at any one time, 10.0 percent to 15.0 percent of businesses in Kansas are new, and about the same percentage of businesses are dying. He observed that nobody really knows when or how TBED initiatives will work, but this economic churning process—over time—will lead to increased productivity that then will build societal prosperity. Dr. Hall stated that the challenge is to be willing to let go of old jobs and industries in order to get there. Universities can simulate the necessary entrepreneurial activities and population densities. He suggested that the state’s goal should be to grow out of the EPSCoR program and be in the top half of research states.

Dr. Hall observed that while KTEC has had some successes, the agency has taken a role of picking winners and losers, similar to how a venture capitalist firm would operate. TBED success should be measured in terms of productivity, capital investment (especially in manufacturing), the gross number of business starts, federal research funding, and private industry research and development funding. He concluded his testimony with the following recommendations:

- Build world-class discovery platforms to simulate across Kansas the “knowledge spillover,” collaboration, and increased opportunity awareness that comes from urban density.
- Link state research and development support more tightly to the acquisition of federal research and development funding and strive to increase the number of Kansas-based researchers competing for all manners of federal funding related to scientific research and engineering.
- The State of Kansas should maximize the resources directed to building the research infrastructure and collaborative business environment related to technology-based economic development and minimize the resources directed to investments in individual business ventures.
- Leverage the network of regional technology centers (business incubators) to help build more volume and more critical mass.

Representative Kleeb asked if tech companies relocate to another state. Dr. Hall replied that such businesses rarely leave the geographic area where they start.

Representative Gatewood asked what impact the Internet has on TBED. Dr. Hall stated that the Internet has become a “driver” for such economic development. Businesses start locally, and interpersonal interactions are valuable for business start-ups.

Representative Grange commented that the state has incentives to bring out-of-state businesses into Kansas, but not as many incentives to develop businesses already in the state. He asked Dr. Hall how the Committee should look at businesses within Kansas. Dr. Hall replied that every business matters and should be viewed in terms of supporting economic growth, not just technology-based start-up companies.

Senator Brungardt asked Dr. Hall how the state could promote an entrepreneurial climate with limited resources. Dr. Hall said there needs to be increased research funding at the universities, especially for the basic research and applied research categories. This can lead to matching funds from the federal government and the private sector.

Representative Kleeb asked how foreign jobs could be enticed to move to Kansas. Dr. Hall replied that if the state focuses upon making a rich economic environment for entrepreneurial growth, such jobs could be attracted to Kansas.

Senator McGinn expressed concern that the state may be missing the opportunity to expand TBED into other regions of the state.

Representative DeGraff asked Dr. Hall how the state could keep identified clusters of economic growth. Dr. Hall said that it would be possible by following his previously mentioned first recommendation.

Representative Gatewood asked Dr. Hall to compare his first recommendation with the actions proposed by KTEC. Dr. Hall said that he generally concurs with KTEC’s proposals.

Representative Gordon asked how the state could reduce the drain of young people to other areas of the country. Dr. Hall suggested that the academic tenure system for higher education

should not be abolished; rather, a parallel system should be created that encourages economic development. This would be an incentive for some young people to stay in the state.

There were no further questions for Dr. Hall.

The chairperson then asked the three members of the Special Committee, Senators McGinn and Holland and Representative Gatewood, who are also members of the KTEC Board, if they noticed any changes to the agency after the evaluation report was released.

As a KTEC Board member for nine years, Representative Gatewood stated there was a night and day difference in the agency's operations, especially with improvements in communications between Board members and staff. He was glad to receive the evaluation because it made the Board make strategic changes. Representative Gatewood believed that Dr. Hall's first and second recommendations had been addressed by the KTEC Board's task force; he added that he commends the cooperation between the Department of Commerce and KTEC. In his opinion, KTEC should be allowed to set its course.

Senator McGinn was appointed recently to the Board. She noticed improvements since the Board's June meeting. Now Board members receive information ahead of time. In her opinion the KTEC Board is not a rubber stamp board; she stated that KTEC should continue to stand alone because otherwise, its programming may get lost in another agency.

Senator Holland concurred with the sentiments expressed. He also recommended allowing KTEC's process to go through.

CONCLUSIONS AND RECOMMENDATIONS

After a short break, the Special Committee began discussing its conclusions and recommendations. Senator Wylson suggested several items for the members' consideration. After discussion, the following points were approved by general consensus to be included in the Special Committee's interim report.

- The Special Committee concludes that the Kansas Technology Enterprise Corporation (KTEC) is a viable entity to the State of Kansas and serves a specific purpose that the Department of Commerce and other economic development entities do not. KTEC needs to remain a stand-alone state agency.
- Due to the 2009 evaluation report performed by Kansas, Inc., KTEC took major steps in restructuring its own leadership, and its board of directors made significant operational changes. The Special Committee recommends that the KTEC Board remain informed and engaged in all KTEC activities.
- The 2009 evaluation report made several recommendations. KTEC representatives detailed their acceptance of these recommendations and have begun to implement changes (See Attachment 8). The Special Committee commends KTEC's Board and revised leadership for implementing these recommendations.
- The Special Committee looked at duplication of efforts for the state's economic development policies and programs. It found there were two areas that KTEC

was duplicating efforts with the Kansas Bioscience Authority. KTEC has agreed that by the start of the next fiscal year, the agency will begin to vacate direct investments in the bioscience arena and end any duplication where possible.

- The Special Committee recommends that the Legislature reconsider its current policy on the Angel Tax Credit and the 10.0 percent “carry forward” position. This cap discourages investment when it is most needed.
- The Special Committee recommends that the state’s policies should consider and help foster the growth of jobs and economic development.
- After listening to the TBED presentation by Dr. Art Hall and the ensuing discussion, the Special Committee recommends that KTEC take the four recommendations from that presentation and reconsider its investment strategy (See Attachment 12). There are many needs for economic development in the State of Kansas. KTEC needs to address its investment strategy fully. By implementing the recommendations found in the TBED evaluation, KTEC will become much more successful.
- The Special Committee recognizes KTEC’s recent actions are a work in progress. The Committee recommends that KTEC report its progress on an annual basis to the Senate Committees on Commerce and Ways and Means; the House Committees on Economic Development and Appropriations; and the Joint Committee on Economic Development.
- Finally, the Special Committee expresses its gratitude to Kansas, Inc., for its work and presentations.

Prepared by Margaret Cianciarulo
Edited by Reed Holwegner

Approved by Committee on:

January 8, 2010

(Date)