

Approved: January 28, 1997
Date

MINUTES OF THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT.

The meeting was called to order by Chairman Bill Mason at 3:30 p.m. on January 22, 1997 in Room 423-S of the Capitol.

All members were present except: Barbara Allen (Excused)
Bob Tomlinson (Excused)

Committee staff present: Lynne Holt, Legislative Research Department
Renaë Jefferies, Revisor of Statutes
Beverly Renner, Committee Secretary

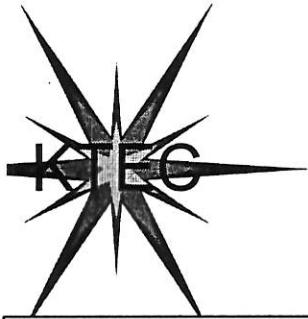
Conferees appearing before the committee: Rich Bendis, President, Kansas Technology Enterprise Corporation (KTEC)

Others attending: See attached list

Rich Bendis, President KTEC, briefed the committee on the mission, history and organization of KTEC (Attachment 1). Mr. Bendis discussed the successes of the organization from 1984 to the present and the disbursement of Economic Development Initiatives Funds (EDIF) through this quasi-public corporation established by the Kansas Legislature to assist individuals and companies in developing technology-based products and processes (Attachment 2). Mr. Bendis cited two legislative initiatives for the 1997 session; to protect the integrity of the EDIF and the programs it was created to fund and to maintain the "quasi-public status of KTEC.

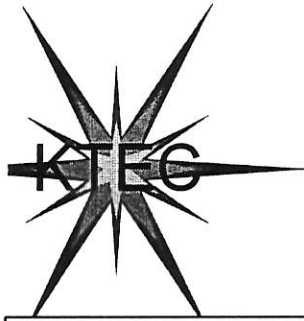
Chairman Mason adjourned the meeting at 4:33 p.m.

The next meeting is scheduled for January 23, 1997.



**Presentation to
the
House Economic Development Committee
Jan. 22, 1997**

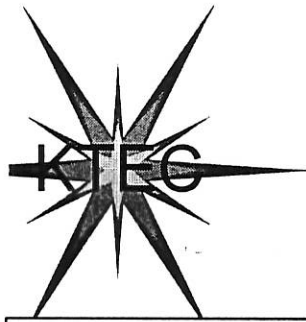
**Richard A. Bendis, President
Kansas Technology
Enterprise Corporation**



KTEC Mission:

“To create, grow and expand
Kansas enterprises through
technological innovation.”

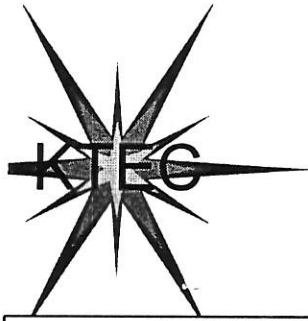
“Maximizing return on invested assets”



KTEC History

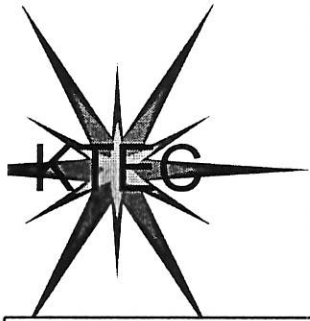


-
-
- 1983 Kansas Advanced Technology Commission (KATC)
Established within the Department of Economic Development
- 1986 Kansas Technology Enterprise Corporation (KTEC)
*Created by the Kansas Legislature; established as a
state-owned corporation*
- 1987 KTEC became operational



KTEC Funding

- KTEC's funding is 100% from the Economic Development Initiatives Fund (EDIF) = proceeds from the Kansas Lottery and parimutuel racing revenues.
- KTEC receives no money from the State General Fund.



KTEC Board of Directors

Chairman Tracy Taylor, Kansas City

Vice-chairman Kurt Saylor, Sabetha

Susan Bittel, Ellis

James Dahmen, Columbus

Sec. of Agriculture Allie Devine, Topeka

Dr. John Darling, Pittsburg

Rep. George Dean, Wichita

Sen. Paul Feleciano Jr., Wichita

Sen. Leroy Hayden, Satanta

Stephan Hanvey, Wichita

Sen. Dave Kerr, Hutchinson

Rep. William Mason, El Dorado

Dr. Howard Mossberg, Lawrence

Bruce Peterman, Goddard

Doyle Rahjes, Agra

Lt. Governor Gary Sherrer, Topeka

Lloyd Silver, Jr., Mission

Vern R. Silvers, Salina

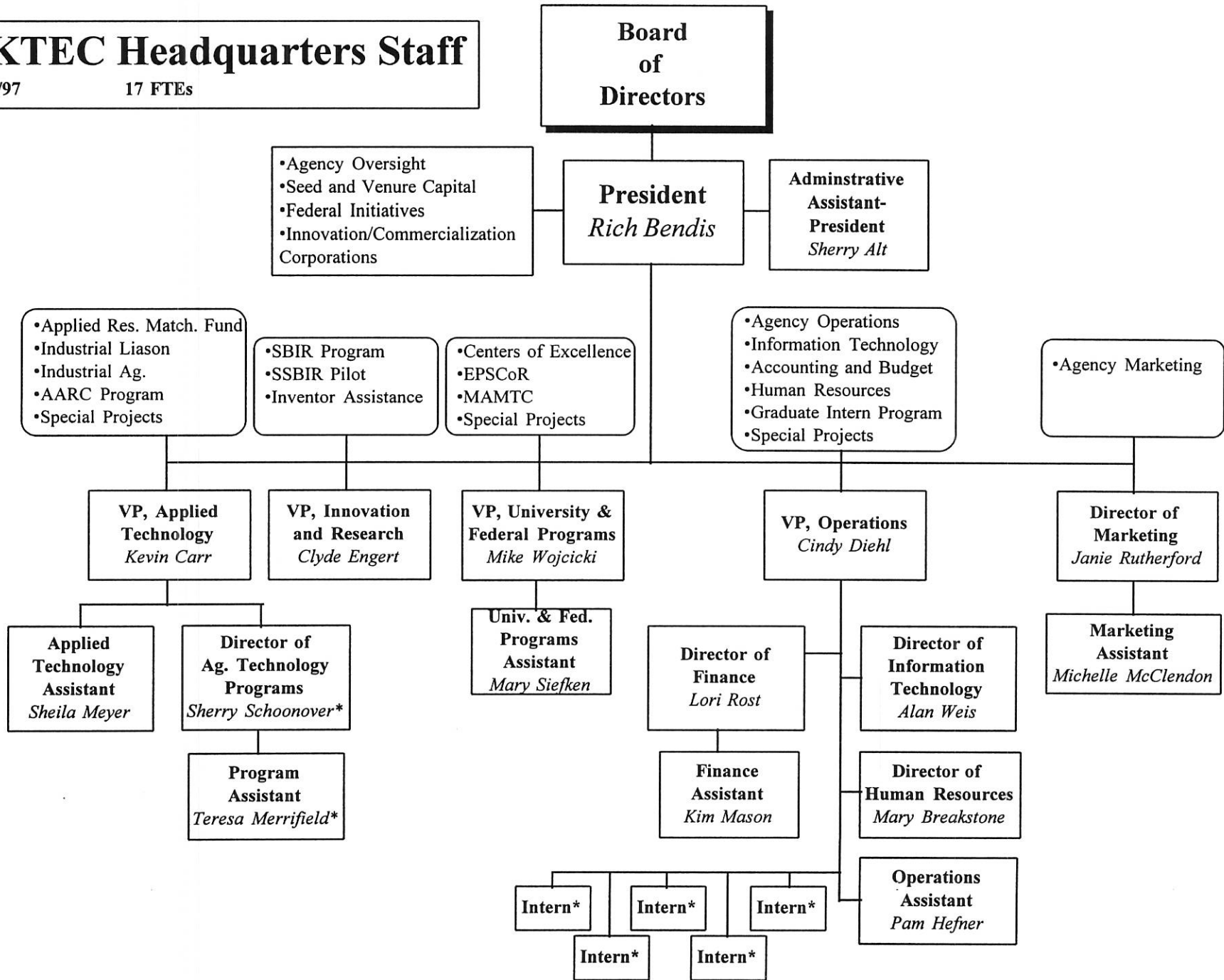
Dr. Gale Simons, Manhattan

Dr. William J. Wilhelm, Wichita

KTEC Headquarters Staff

1/97

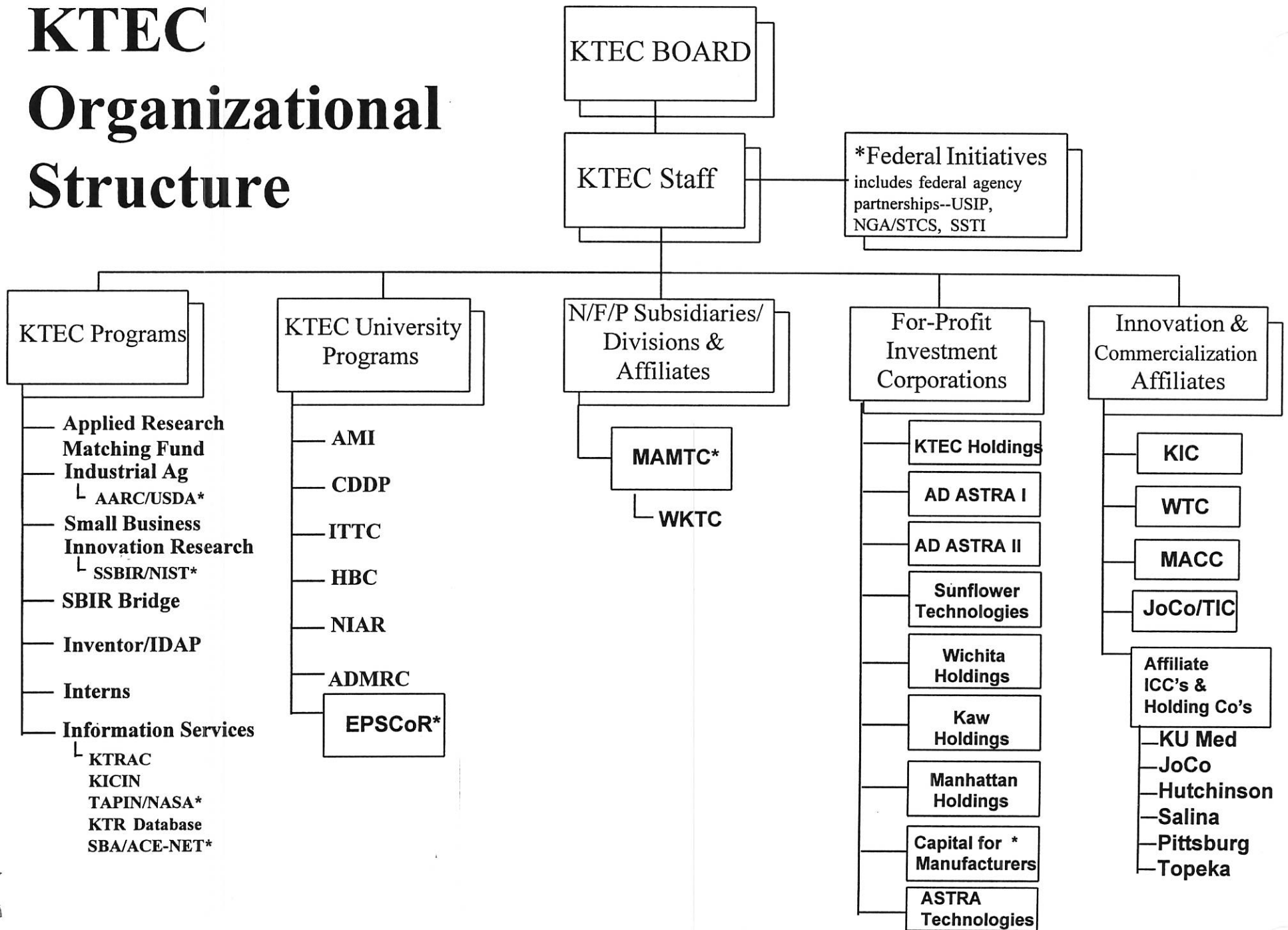
17 FTEs



9-1

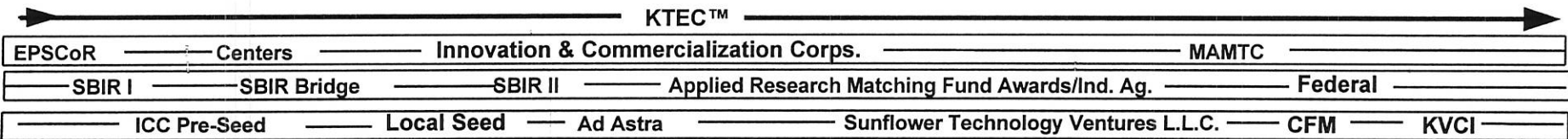
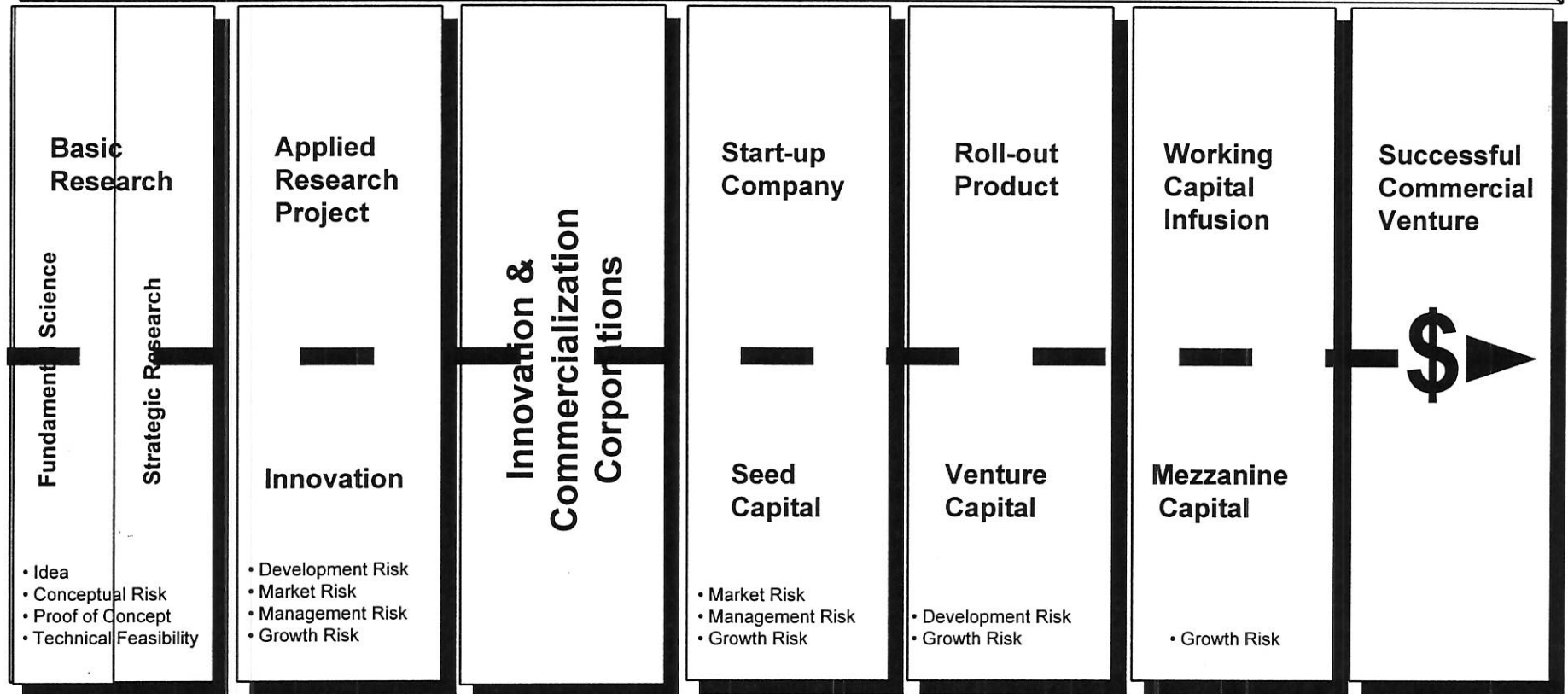
*Externally funded positions

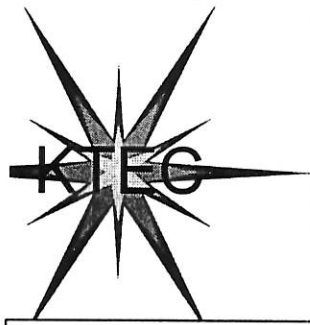
KTEC Organizational Structure



KTEC

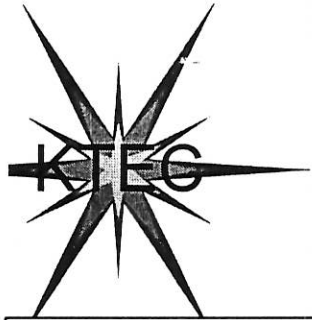
Science & Technology Life Cycle





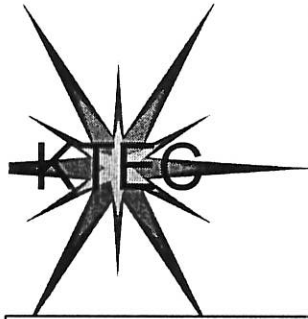
KTEC Accountability

- Contract management and investment procedures
- Continual program review for appropriateness
- Peer reviews
- Follow all state accounting and reporting procedures
- Legislative committee scrutiny
- Legislative representation and participation on KTEC boards
- Audits by Legislative Post Audit
- Conflict of Interest Policy
- Governor's Ethics Policy (Executive Order #96-1)



KTEC Accountability

- Technical review of all projects prior to funding
- KTRAC (internal tracking system)
- Projects receive funding per milestones and as reimbursement per approved expenditures
- Quarterly economic development impact statements
- On-site progress audits
- Annual external audit
- Annual reports to the Governor and Legislature
- Performance Indicators



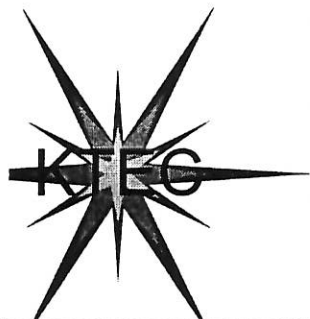
Successful leveraging

1984-96

- \$81.4 million investment by state
- \$72.3 million investment by industry
- \$77.7 million investment by federal agencies
- \$53.5 million investment by venture capitalists

- Total investment \$284.9 million

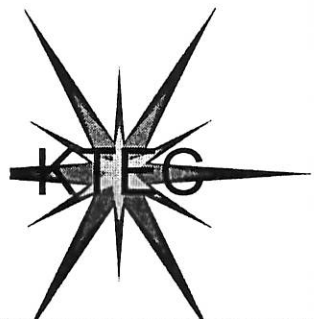
- Significant leveraging of Kansas' investment



Successful return on investment

1984-96

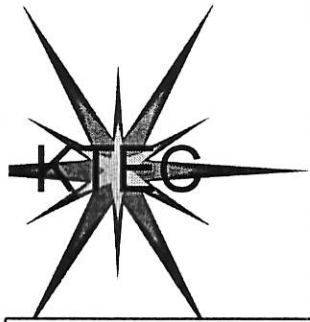
- \$646.5 million in increased sales
- 167 company start-ups
- 9,316 new jobs created
- 8,789 industry employees trained
- 306 new technologies
- 120 patents issued
- 1,467 inventors assisted
- \$229,312 in royalty payments received
- 48 equity investments made
- \$362,824 in equity returns



1996 Successful leveraging

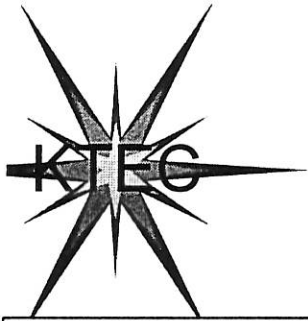
- 1996 Dollars Leveraged
 - \$17.8 million investment by state
 - \$15.9 million investment by industry
 - \$21.5 million investment by federal agency
 - \$7.1 million in investment by venture capitalists

\$62.3 Million Invested in 1996



1996 Successful return on investment

- 1996 Results
 - \$489.4 million in increased sales
 - 36 company start-ups
 - 1,653 jobs created
 - 911 industry employees trained
 - 31 new technologies
 - 21 patents issued
 - 500 inventors assisted
 - \$151,339 in Royalty Payments
 - \$330,800 in Equity Returns



1997 Legislative Initiatives

- ***Protect the integrity of the Economic Development Initiatives Fund and the programs it was created to fund.***
 - The need for the EDIF and programs it invests in is as important now as when the fund was legislated. Growth in Kansas employment and investment has been the result of strategic investment in sustainable programs.
- ***Maintain the “quasi-public” status of KTEC.***
 - The agency’s current structure is an effective working model for flexible investments in technology economic development. Oversight by an experienced, private sector-led board of directors, a professional staff, and accountability and tracking measures provide balance for achieving significant outcomes in a non-bureaucratic environment.

W hat state
agency has ...

..... **Helped create**
9,316 new jobs?

Facilitated
\$646.5 million
in increased sales
for Kansas companies?

.....
Nurtured
167 new
companies?

KTEC --

The Kansas Technology Enterprise Corporation

KTEC has* ...

- ***Helped create 9,316 new jobs;***
- ***Facilitated \$646.5 million in increased sales for Kansas companies;***
- ***Nurtured 167 new companies;***
- ***Developed 306 new technologies;***
- ***Trained 8,789 industry employees; and***
- ***Assisted 1,467 inventors.***

* Cumulative data through FY '96

..... 1997 Legislative Initiatives

- ***Protect the integrity of the Economic Development Initiatives Fund and the programs it was created to fund.***

The need for the EDIF and programs it invests in is as important now as when the fund was legislated. Growth in Kansas employment and investment has been the result of strategic investment in sustainable programs.

- ***Maintain the "quasi-public" status of KTEC.***

The agency's current structure is an effective working model for flexible investments in technology economic development. Oversight by an experienced, private sector-led board of directors, a professional staff, and accountability and tracking measures provide balance for achieving significant outcomes in a non-bureaucratic environment.

.....*Frequently Asked Questions*

What is the Kansas Technology Enterprise Corporation (KTEC)?

KTEC is a quasi-public corporation established by the Kansas Legislature to assist individuals and companies in developing technology-based products and processes. KTEC's programs help with research and development, prototype design, commercialization, and marketing of advanced technology products.

How is KTEC funded?

KTEC is funded through the Economic Development Initiatives Fund (EDIF), which is proceeds from the Kansas Lottery and parimutuel gaming revenues. Each year, KTEC develops a budget and presents it to the state legislature for approval and continued funding. KTEC's funding for FY1997 is \$13.3 million.

Why does KTEC receive funding from EDIF rather than the General Fund?

When KTEC was established, it was determined that profits from the lottery would be the source of its funding. Since 1994, legislation has split the State Gaming Revenues Fund with 85% for economic development initiatives, and 15% for the Correctional Institutions Building Fund and Juvenile Detention Facilities Fund. KTEC is one of 18 state agencies receiving funding from EDIF.

I thought EDIF monies were to be spent on education. Where does the money go?

Surprising to some Kansans is that the method of distributing EDIF monies was in place prior to the general election that established the lottery. KTEC and the Kansas Department of Commerce & Housing have both received about \$90 million from EDIF. The Department of Education has received \$45 million, and the Board of Regents has received \$10 million from EDIF. Over the years, more than \$27 million of KTEC's monies have been earmarked for educational initiatives such as the Centers of Excellence program, and Training Equipment Grants that go to vo-tech and community colleges. As a point of reference, \$2.26 Billion, or 64% of the State General Fund will go to education in FY97.

Should KTEC continue to be funded through EDIF?

The State's general fund budget is \$3.54 billion; the total amount of the EDIF is \$42.5 million. KTEC's \$13.3 million is .38% of the state's general fund budget. This is a very small but critical investment in Kansas' future. And, an investment that has brought great returns to the Kansas economy.

What returns to the Kansas economy are you referring to?

Since 1987, KTEC has been instrumental in helping create 9,316 new jobs and 167 new companies, training or re-training 8,789 employees, and developing 306 new technologies. Companies have reported more than \$646 million in increased sales due to KTEC assistance. Many grants and investments are in their infancy and just beginning to return royalty payments to the state. These are substantial returns to the Kansas economy.

I'm most concerned about tax relief. Why shouldn't EDIF money be used to reduce taxes?

EDIF money is a popular target for tax relief and a multitude of other pet projects. The truth is that \$13.3 million (KTEC's FY 1997 budget), or the total \$42.5 million in EDIF wouldn't provide much tax relief. Based on Kansas' published population of 2.5 million, KTEC's current budget would provide only \$5.67 per person tax relief. And, the whole of EDIF would only provide \$17.71 per person tax relief. On the other hand, using the money as an investment to develop new products and companies leads to new wealth creation for the state's economy, which is a much more prudent investment of the dollars.

x+=/x+=/x

Check the Math!

The average new job salary reported by companies utilizing the Applied Research Matching Fund program is \$26,277. What is the average income tax paid on that salary? For tax year 1994 (the most recent data available for tax returns processed in 1995) the average income tax was 6.88 percent.

	Average Salary	\$26,277	
*	Total new jobs	<u>9,316</u>	
	Equals	\$244,796,532	<i>in new wealth creation*</i>
	Total Salaries	\$244,796,532	
*	State income tax	<u>6.88</u>	
	Equals	\$16,842,454	<i>in personal state income taxes*</i>

Companies KTEC has assisted reported \$646.5 million in increased sales since 1987. If sales were subject to the average state corporate income tax of 6.93%, then \$44,824,000 would result.

* on an annualized basis

=/x+=x+=x

What Does the Public Think? ●●●●●

A 1995 poll conducted of Kansas residents indicated a great deal of public support of economic development activities. Of those polled:

- ✓ 76.1% believe the Kansas Lottery should be continued.
- ✓ 71.1% approved of the use of Lottery funds for economic development.

This survey also tried to assess the knowledge of state agencies involved in economic development efforts. The state agencies included in the survey were the Kansas Department of Commerce & Housing (KDOC&H), Kansas Technology Enterprise Corporation (KTEC), and Kansas, Inc. Of the surveyed population:

- ✓ 72.3% had heard of at least one of these organizations;
- ✓ 65%, identified KDOC&H;
- ✓ 30% recognized Kansas, Inc.; and
- ✓ 22% recognized KTEC.

Of the respondents, 15.6% knew someone who had benefited from the agencies' programs. The study found that 87% of business professionals (bankers, accountants, business owners) have heard of one of these agencies and about 25% of these professionals indicate they also know someone who was helped by one of these agencies.

The survey was conducted for Kansas Inc. by the Docking Institute of Public Affairs at Fort Hays State University.