

MINUTES OF THE SENATE COMMITTEE ON COMMERCE.

The meeting was called to order by Chairperson Senator Karin Brownlee at 8:30 a.m. on February 19, 2002 in Room 123-S of the Capitol.

All members were present except:

Committee staff present:

April Holman, Legislative Research
Debra Hollon, Legislative Research
Norman Furse, Revisor of Statues
Sherman Parks, Revisor of Statues
Lea Gerard, Committee Secretary

Conferees appearing before the committee:

Jim Dahmen, Chairman KTEC
Beth Brough, Vice President of Academic
and Govt. Programs, KTEC
Matt McClorey, Vice President of Business
Development, KTEC
David Moore, Business Development,
Department of Commerce & Housing
Larry Robbins, Plant Manager, Goodyear
Jim Edward, KCCI

Others attending:

See attached list

Jim Dahmen, Chairman of the KTEC Board, appeared before the committee to give an overview of KTEC (Attachment 1). KTEC has increased their resources for competitive leadership to stimulate economic development in Kansas. By pooling EDIF resources, the state is able to provide funds and services in order to invest in small emerging technology startups and help them to achieve their growth potential.

Jim Dahmen introduced Beth Brough, Vice President of Academic and Government Programs at KTEC (Attachment 2). Beth Brough presented information on the the economic performance measurement for the State of Kansas.

Matt McClorey, Vice President of Business Development at KTEC. KTEC provides critical services to business through research and development resources, investment dollars and business assistance. When a company is at the concept stage, KTEC provides research and development resources through its centers of excellence.

Hearings on SB 565—Expanding the IMPACT act:

In accordance with KSA 75-3715a, the fiscal note for SB 565 was submitted to committee members.

David Moore, Business Development with the Department of Commerce & Housing, testified in support of SB 565 (Attachment 3). The bill would increase the statutory cap on the investments and major projects and comprehensive training program from 1% to 2% of the annual Kansas Individual Withholding tax revenues. IMPACT provides employers that relocate or expand their business operations within the State of Kansas financial assistance to train employees hired to fill the new jobs created by the relocation or the expansion. IMPACT is financed through Public Purpose Tax Exempt Bonds that are issued by the Finance Authority. The bonds are indirectly retired through the revenue received from the Kansas Withholding Taxes paid by the jobs that are created or retained in the project. The bonds are issued as needed to finance the program.

Larry Robbins, Plant Manager for the Topeka Goodyear Plant, testified in support of SB 565 with a proposed amendment (Attachment 4). The amendment would incorporate further changes to the IMPACT act which are reflected in HB 2962, Page 1, Line 43 and Page 2, Line 1 that would lower the thresholds for qualifying projects.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON COMMERCE at on February 19, 2002 in Room 123-S of the Capitol.

Jim Edwards, Kansas Chamber of Commerce and Industry, testified in support of **SB 565** (Attachment 5). The IMPACT program in the Kansas Department of Commerce and Housing has been the state's primary tool to encourage business operations with potential to bring a large number of high paying jobs to locate or expand in Kansas. Through the IMPACT program, 61 projects have led to the creation of more than 33,000 new jobs in Kansas.

Senator Steineger asked David Moore if he could elaborate on the word "other" found in the statement "the bond proceeds allow for expenses related to training of new workforce or other expenses related to the expansion or relocation costs" for the fiscal note on **SB 565**. David Moore explained in 1996, the IMPACT act was amended to allow for 10% of the total award amount given to a company to be used for infrastructure related costs.

There being no further conferees wishing to testify, the hearing on **SB 565** was closed.

Chairperson Brownlee announced she would chair the **SB 501** subcommittee and the members would be Senator Steineger, Senator Jenkins and Senator Jordan.

The meeting was adjourned at 9:30 a.m.

The next meeting is scheduled for February 20, 2002 at 8:30 a.m.

Testimony to the Senate Commerce & House New Economy Committees

*Jim Dahmen, Chairman of the KTEC Board
February 19, 2002*

KTEC was founded by the Kansas Legislature who collectively recognized by pooling EDIF resources, the state is better able to provide collateral, funds and services in order to invest in small, emerging technology startups and help them achieve their growth potential. KTEC is managed **independent of political cycles** by its own board of directors, President and business managers. We are fortunate to have strengthened KTEC in numerous ways. The directors are highly respected professionals in their fields including: University Professionals, PhDs, Legislators, Bankers, Real Estate Professionals, and Business Leaders.

The directors of KTEC believe the greatest return on public dollars spent, can be found in human potential. We have an unwavering confidence in the ability of entrepreneurs, with KTEC network support and assistance, to define their problems and implement appropriate solutions. These traits along with sufficient pre-seed, seed, and mezzanine capital, will play a critical role in carrying Kansas into the knowledge-based economy of the future.

KTEC continues to be an innovative, professional organization fostering a high quality business environment for individuals and communities throughout Kansas. Whether the past 15 years have brought fantastic growth or recession to Kansas, KTEC has continued to produce results. We have learned to be resourceful in meeting challenges and opportunities. We have increased our capacity to be a resource for competitive leadership among Kansas business, educational institutions, governmental units, non-profits and others.

A cornerstone of our KTEC philosophy is the pro marketing attitude shared by the KTEC team. This attitude enters into every facet of the operations, maintaining a team effort for achievement. We believe in control systems to monitor the pulse of our investments in research or growing companies. We have endeavored to be consistently responsive to the needs of clients in the KTEC network. We define, then improve the uniqueness of each project and then seek to elevate it from competitors, never forgetting to foster the entrepreneurial spirit in the business communities statewide and our university system.

KTEC and its network partners, continually conduct comprehensive reviews of its investment objective, asset protection and portfolio management. KTEC leverages education, technology and community resources for the benefit of Kansas citizens. As we can not emphasize enough that as the life-blood of the day-to-day business operations for startup technology companies is capital, we continually endeavor to maximize our investments in a diverse portfolio mix to incubate Kansas growth companies to produce increasing revenues, jobs and profits. With enhanced venture capital funds, a further diversification of portfolio investments would increase the probability of attaining the states investment objectives going forward.

Senate Commerce Committee
Feb. 19, 2002
Attachment 1-1

Because KTEC believes partnerships with education through technology development are critical for breaking the cycle of low income and strict dependence on the agricultural sector, we need to dedicate a larger percentage of resources toward projects addressing the educational/technology partnerships in place. One of the legislature's reasons for creating KTEC was to elevate the state's continuing concern for excellence in education by giving special focus to commercializing some of the research in those institutions. The move was also intended to more effectively propel Kansas into global competition through technology. KTEC partnership objectives are to seed mission-directed research in order to stimulate a favorable environment for technology training & education, business creation and jobs for graduates.

The Board of Directors considers the preservation and enhancement of KTEC's assets through prudent investment management to be of paramount importance. Fundamental to KTEC's approach is the belief that innovation is key to achieving lasting economic results in our communities. We realized early that in a rapidly changing world, we must be able to remain flexible enough to respond to unique challenges, ideas and projects that lie beyond its identified programs areas, yet would fulfill the broad vision of the Legislature. KTEC remains true to its legislative mandate and its responsibility to address the changing needs and concerns of the world in which we live.

.....

The current economic development structure has worked well. KTEC has been a valuable resource with consistent results. The agency's continued effectiveness hinges on its network and its independence as an entity. It is incumbent upon KTEC to provide:

- o A consistent competitive strategy statewide
- o Sustained capacity with all its investments
- o The level of business expertise, flexibility and responsiveness required by the very nature of emerging technologies

Such a level of support for an entrepreneurial culture in Kansas can only happen when KTEC is not subject to changes in the political environment that future cabinet members may bring. Moreover, the diversified expertise of the KTEC Board and the KTEC committees offer an integrated perspective that is also attuned to regional and local community interests. We recommend that the present structure remain, and we look to the lifting of the EDIF cap providing additional resources to sustain our future effectiveness.

KTEC AT A GLANCE KTEC

WHAT IS KTEC?

KTEC is a state-owned corporation established in 1987 to stimulate economic development in Kansas by supporting technology research, facilitating the development of new technology products, and assisting small technology companies.

WHAT DOES KTEC DO?

KTEC helps turn innovative ideas into marketable products by supporting university and industry research, providing business assistance to entrepreneurs and small technology companies, and making investments in new technologies. New technologies help to diversify our state economy and improve the health and welfare of Kansans.

HOW IS KTEC GOVERNED?

KTEC is governed by a 20-member board of directors which includes legislators, university leaders, and industry representatives who are appointed by the Governor and legislative leaders. KTEC's budget follows the same approval process as other state agencies.

HOW IS KTEC FUNDED?

KTEC is funded by proceeds from the Economic Development Initiatives Fund (EDIF), which consists of revenues from the Lottery and Racing Commission. KTEC leverages this state funding with federal and private dollars at a ratio of \$5.5:1.

ISN'T THE LOTTERY FOR EDUCATION?

When the lottery was created, the governor and legislature determined that directing lottery revenue to economic development would provide the greatest benefit for the state. Still, universities receive about \$9 million directly from the lottery and about half of KTEC's budget goes to universities through research funding.

If the state invests in education but not in economic development, Kansas graduates seek job opportunities in other states. If we do not provide high-wage jobs for our college graduates, Kansas taxpayers, our investment in education is lost as our best and brightest seek employment in other states.

Kansas Technology Enterprise Corporation

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Web: www.ktec.com

HOW DOES KTEC BENEFIT KANSAS?

KTEC assistance leads to new companies, new technology products, new high-wage jobs, increased sales, a broader tax base, and a more diverse state economy.

While we can measure the economic impact of our efforts, we often forget that the research and technologies we support have immeasurable benefits for the health, safety and welfare of individuals and society.

University researchers and companies receiving KTEC assistance are developing:

- drug delivery systems which help the body utilize new medications,
- technology that can predict and may one day prevent epileptic seizures,
- soy-based products such as inks and polymers,
- aviation systems to make air travel safer and more reliable,
- an AIDS vaccine, and
- technologies to ensure the safety of crops and foods.

HOW DOES KTEC WORK?

In today's rapidly moving technology economy, inventors and companies must work quickly to develop technologies before the commercial window of opportunity closes. KTEC has the expertise and resources to help speed up the development process and turn innovative ideas into marketable products.

KTEC has designed and built a statewide network to support researchers, inventors, entrepreneurs, and businesses through each phase of the technology life cycle - from a basic idea to a successful product. KTEC provides services in three areas: **research, investment, and business assistance.**



RESEARCH SUPPORT

KTEC has created a variety of programs to support basic and applied technology research. State universities receive financial support for basic research that has commercial potential. Companies in Kansas can receive funding for applied research to develop specific products, and technical assistance in solving research problems. All KTEC programs provide for some form of return on investment.

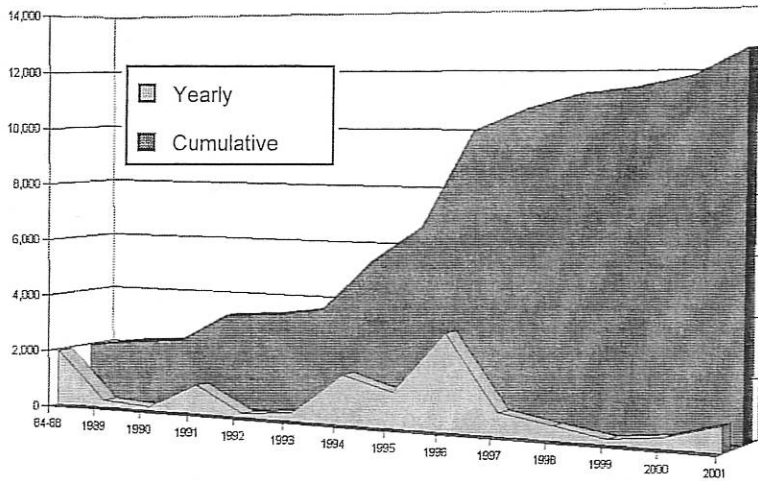
INVESTMENT

KTEC provides Kansas technology-based companies with seed capital, royalty grants, and loans through a series of investment programs and funds. These programs address the research and development financing needs of start-up businesses as well as established companies.

BUSINESS ASSISTANCE

KTEC's statewide network of experienced people and organizations nurtures and mentors small technology companies in Kansas. The goal is to accelerate the success of small companies so that they can make positive contributions to the state economy through increased sales, new jobs, and wealth creation.

Jobs Created or Retained 1984-2001

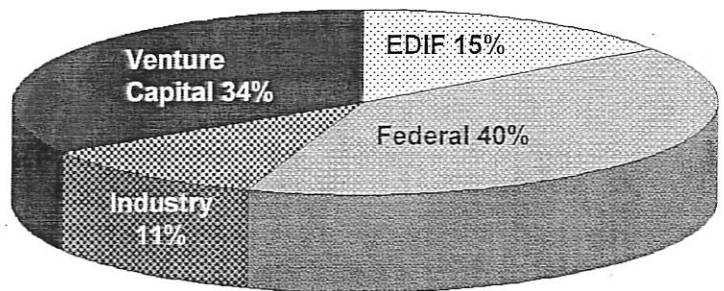


Cumulative Results 1984-2001:

- \$1.1 billion increased sales
- 294 company start-ups
- 12,726 jobs created or retained
- 525 technologies developed
- 217 patents issued
- 3,110 inventors assisted
- \$3.7 million royalties received
- \$4.17 million equity returns

FY 2001 Investment:

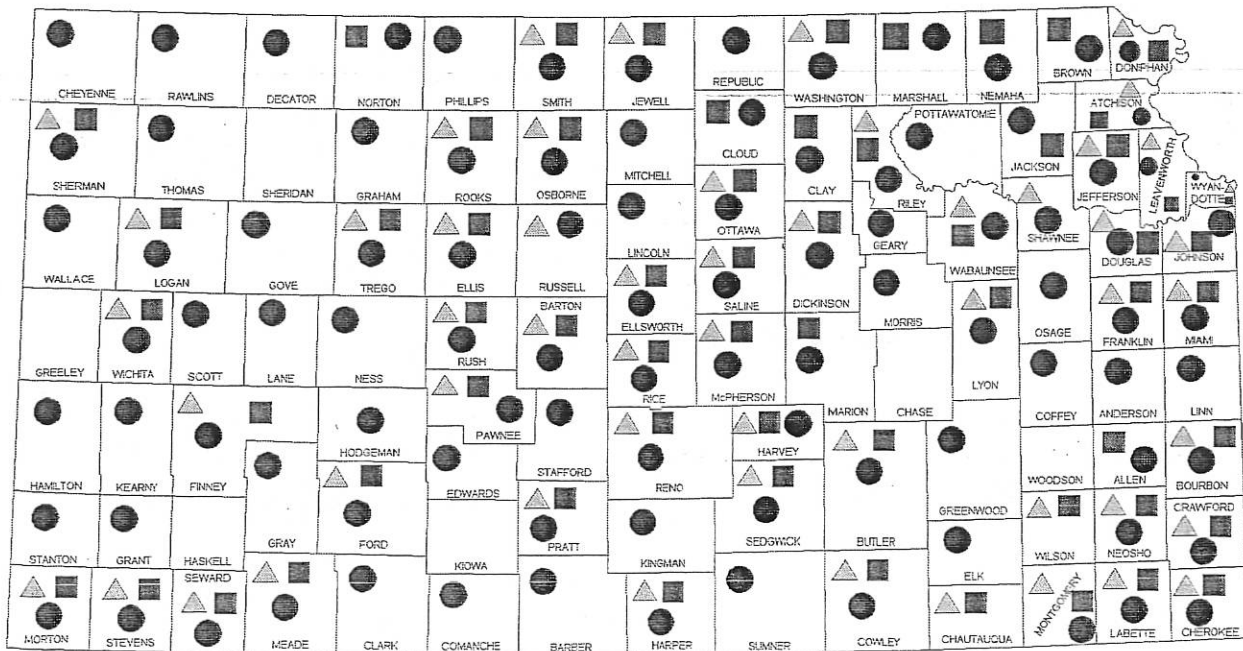
- \$13.1 million state EDIF invested
- \$9.3 million industry invested
- \$34.3 million federal invested
- \$29.0 million venture capital invested
- Total: \$85.7 million Leverage: \$5.5:1**



FY 2001 Percent of Total Investment

Statewide Outreach

Over the past 13 years, KTEC has strategically expanded existing programs and developed new programs to meet the constantly changing needs of Kansas companies, and to keep pace with the evolving innovation economy. KTEC has provided assistance to individuals or organizations in 99 of the 105 Kansas counties.



- Business Assistance
- Research
- ▲ Investment

1-4



FY 2001 Economic Results

- Annual Report Data shows excellent annual and cumulative results in:
 - Increased sales: \$53.6M
 - Company start-ups: 26
 - Jobs created or retained: 881
 - Technologies developed: 52
 - Patents issued: 19
 - Inventors assisted: 100
 - Royalties received: \$847,504
 - Equity returns: \$141, 200
 - Total cumulative investment: state, industry, federal, venture capital:
**FY 2001 Ratio: \$5.5:1 versus
Cumulative: \$3.4:1 from 1984 to 2001**

Madame Chair and Distinguished Committee Members,

My name is Beth Brough and I am Vice President of Academic and Government Programs at KTEC.

You all have received a copy of our annual report that contains these results.

Every one of these criteria is significant for economic performance measurement, but today I would like to hone in on the investment ratios.

Our cumulative results since 1984 have been \$3.4 dollars to every state dollar. I would like to note that we have been improving on that ratio in recent years with a \$5.5:1 ratio in FY2001.

Senate Commerce Committee
Feb. 19, 2002
Attachment 2.1



KANSAS NEEDS TO DO BETTER

Redwood-Krider Executive Report,

June, 1986, p. 7

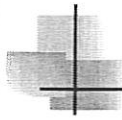
12. To achieve a significant long-term improvement in the economic base, the state will need to make a large and sustained funding investment over the next decade to support a well-designed package of economic development initiatives. This will be necessary not only because the economic problem facing Kansas is a difficult one, but also because most other states are already making large investments in economic development and have been doing so for several years...

While the challenge facing Kansas is not an insurmountable one, it will be difficult, and it will require substantial investment. A strong commitment will be necessary in funding by the Legislature, in planning by the executive branch, and in cooperation by Kansas Organizations.

Yet, Kansas needs to do better.

We are all familiar with the 1986 Redwood-Krider challenges:

- for long-term, sustained investment
- support for a package of initiatives
- the level of competitiveness among other states
- the level of commitment required of all Kansans



KANSAS NEEDS TO DO BETTER

U.S. Department of Commerce, Office of Technology Policy
October, 2001

State business and government leaders can profoundly influence the success of America's high tech base...Decisions made at the local level play a critical role in establishing the environment needed to let innovators innovate and entrepreneurs create jobs, companies and wealth.

Recognizing the development of high tech economies requires certain enabling conditions and infrastructure—such as a strong R&D base, ready access to capital, world-class technical talent, and mature entrepreneurial networks—state leaders around the country are paying careful attention to high-tech clusters that have already emerged, looking to high tech centers of excellence such as Silicon Valley, Seattle, Austin and Pittsburgh for the “winning formula” to bring back to their own areas.

The US Dept. of Commerce reiterates these points today citing:

- that critical decisions are made locally for innovative/entrepreneurial environments
- the same winning formula is an R&D base, capital, world-class talent and a mature entrepreneurial network
- Excellent models are out there. The Rust Belt was the last to invest in the last economic era and today they are the first.
- Pittsburgh is cited as a high tech cluster model.



The Nature of the Competition: Aviation

- Wind Tunnel:
 - University of Washington
 - Texas A&M University
 - University of Maryland
 - NASA-Ames Research Ctr.
 - Microcraft
 - European Facilities
- Crash Sled:
 - Simula Inc.
 - Veridian Engineering
- Composites & Structures
 - Penn State
 - Georgia Tech
 - Delsen Testing Labs, Glendale, CA
 - Intec, Bothell, WA
- Boeing and Cessna partnered with Iowa State for an NSF/FAA Center for Nondestructive Evaluation

Competitiveness is the reason as to why we need to do better.

Let's get a quick glance at the competitive picture in Aviation. This slide shows multiple universities and entities competing with NIAR for the same services.

Even though proximity is a distinct advantage for Wichita, we do have to be mindful that the major aviation firms are national and international companies who will continue to invest elsewhere. This is integral to the diversification of their own research and service strategy.

One example is Boeing's and Cessna's investment in an Iowa State center for Nondestructive Evaluation.

"Defense Spending Flies Away as Plant Science Blooms"

St. Louis Post-Dispatch, October 31, 2001

- "The St. Louis area has successfully diversified away from defense in the last dozen years. Employment is much higher and unemployment lower, than it was in the 1980s when McDonnell Douglas employed 40,000 St. Louisans."
- "That's not to say we should give up on the defense industry, which accounts for about 1 in 14 jobs in metro St. Louis, down from 1 in 7 jobs in 1989."
- "While we still are very bullish on the advanced-manufacturing sector in general and on Boeing in particular, we absolutely see plant and life sciences as our window on the future." *—Richard Fleming, president of the Regional Chamber and Growth Association* ***upon the opening of the Donald Danforth Plant Science Center & the loss of Boeing's bid to build the Joint Strike Fighter.***

An article in the St. Louis Post-Dispatch describes how St. Louis has successfully diversified away from the defense industry over the last 12 years.

This article was printed in the same week that:

- Boeing lost its bid to build the Joint Strike Fighter and
- The Danforth Plant Science Center opened.

Yet, what is the impact on employment? Employment is much higher and unemployment lower than in the 1980s because...

Today 1 in 14 jobs are now defense industry driven versus the 1 in 7 jobs in 1989.

The Nature of Competition: Biotechnology

- 41 states report focusing on biotech (human and plant biosciences)
- 10 of these states have developed a biotech or life sciences strategic plan
- St. Louis, Columbus, Pittsburgh, San Antonio, Cincinnati, Peoria and Indianapolis are engaged in regional efforts.

State	States by Rank			
	Life Sciences R&D Exp.	Degrees	NIH Support	Biological Workforce
Missouri	12	18	12	17
Wisconsin	15	14	15	18
Colorado	20	20	16	22
Kansas	30	28	35	29
Oklahoma	34	32	38	34

The State of Missouri has increased its Life Sciences R&D expenditures by 519% from year 95-99, vs. 19% for the State of Kansas.

The NIH Support for the State of Missouri has increased 44% between 96-99, vs. 35% for Kansas.

Source: State Government Initiatives in Biotechnology 2001, prepared by Technology Partnership Practice, Battelle Memorial Institute & State Science and Technology Institute, September, 2001

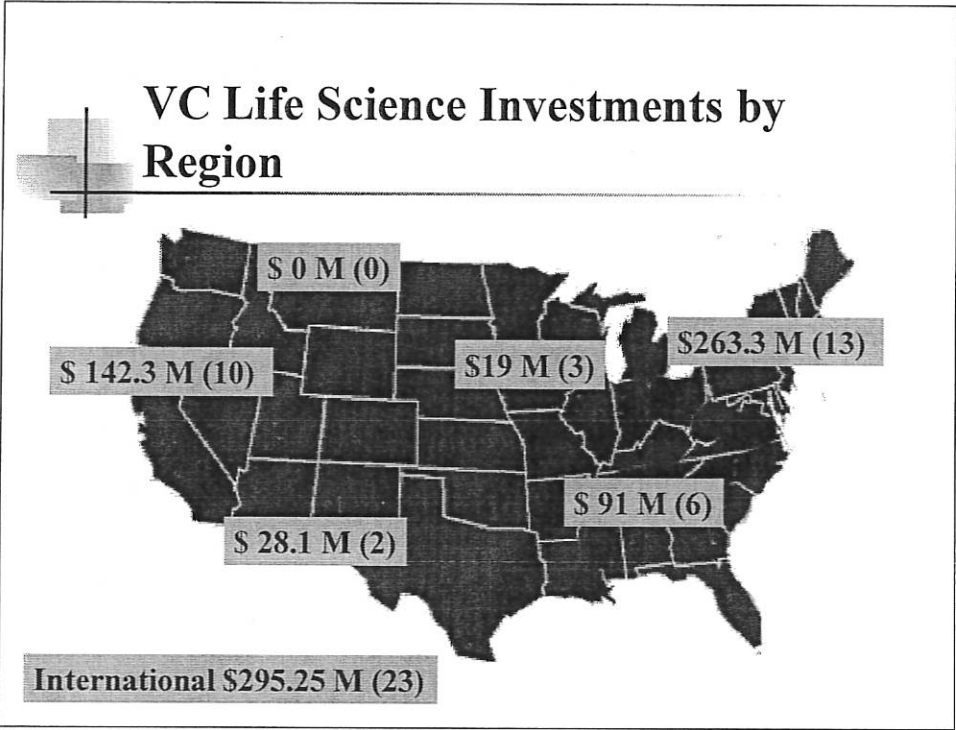
Kansas ranks fourth among Heartland neighbors participating in Biotechnology and below the middle among 41 states.

The recent report, State Government Initiatives in Biotechnology 2001, ranks all 41 states involved on four criteria:

R&D Expenditures and NIH funding are measures of research competitiveness while the workforce ranking refers to scientists in the year 2000.

Note the number of Rust Belt cities participating in regional efforts.

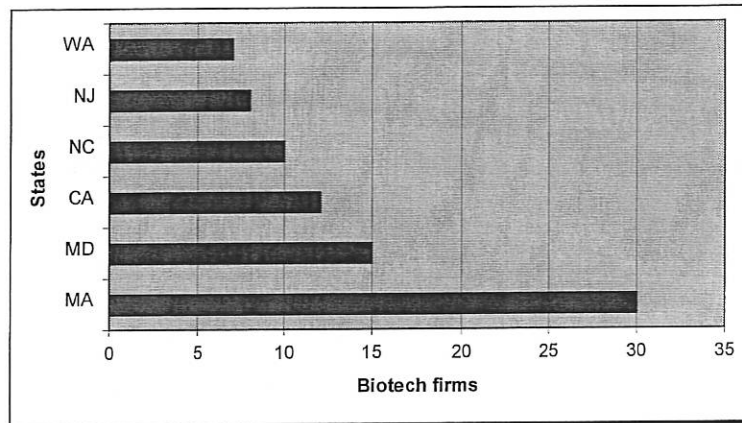
Note also the percentage increases in Missouri versus Kansas in the latter part of the 90s.



The next two graphics describe the regions where biotech venture capital is going.

As we are all aware, there is very little in the Heartland, with capital definitely concentrated on the coasts.

Venture Capital Investment in Biotech



Highest Concentration of Biotech firms per million population, by state

The leading six states in number of biotech firms per million of population are:
MA, MD, CA, NC, NJ, WA

WHAT DOES NSF EPSCoR SUPPORT?

*(National Science Foundation and the **E**xperimental **P**rogram to **S**timulate **C**ompetitive **R**esearch)*

“We do not support research, we support infrastructure.”

- Infrastructure is defined as the strengthening of a state’s ability to sustain the competitive capacity of its academic research and development.
- Value in a proposal submission is sought in the demonstrable commitment to work together, not the document itself.

Source: National Science Foundation (NSF) Representative

Let’s look at Kansas and research competitiveness.

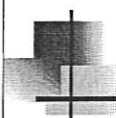
We are an EPSCoR state. EPSCoR is the Experimental Program to Stimulate Competitive Research.

We are one of 19 states that do NOT get their per capita share of the federal research dollar.

In fact, with 1% of the population, we get .5% of the dollars awarded by the National Science Foundation, one of the larger granting federal agencies.

EPSCoR proposals only compete with these 19 lower states. In other words, we are competing in the minor leagues.

What is NSF EPSCoR looking to support? They support infrastructure building for sustainability and competitiveness to create wealth.



*Productivity does not depend on **WHAT** industries a region competes in, but on **HOW** it competes."*

--Council on Competitiveness Study

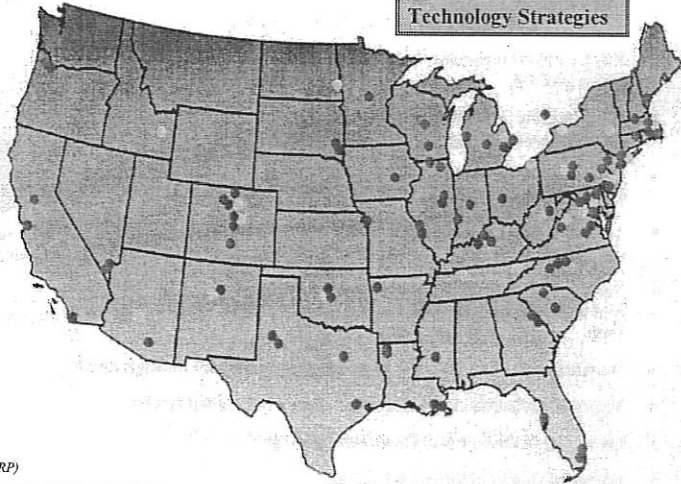
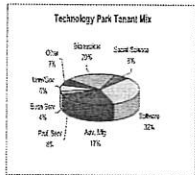
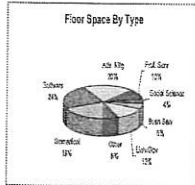
Therefore...

HOW we compete is key!

*Case Example:
The Work of One
Economic Development
Consultant*

As a case example of the national economic competitiveness picture, the map below shows the number and types of important project feasibility development strategies and continuing implementation assignments that have been completed by this one developer. They can provide important lessons for customizing the planning process according to the needs of the locality as well as optimizing research investments for universities and communities focusing on the technology-based economic development.

Legend:
Research Parks
Incubators
Technology Strategies



Source: Association of Research Parks (AURP)

This map depicts the work of one economic development consultant at the recent Association of University Research Park summit. The map legend shows research parks, incubators and technology strategies developed across the country in states with an eye on the competitive picture as well as an integrated strategic approach to infrastructure.



***The Blueprint: Seven Elements for Governors
& Legislatures to Strengthen for Economic
Growth***

Economic Growth is a PACKAGE OF INVESTMENTS

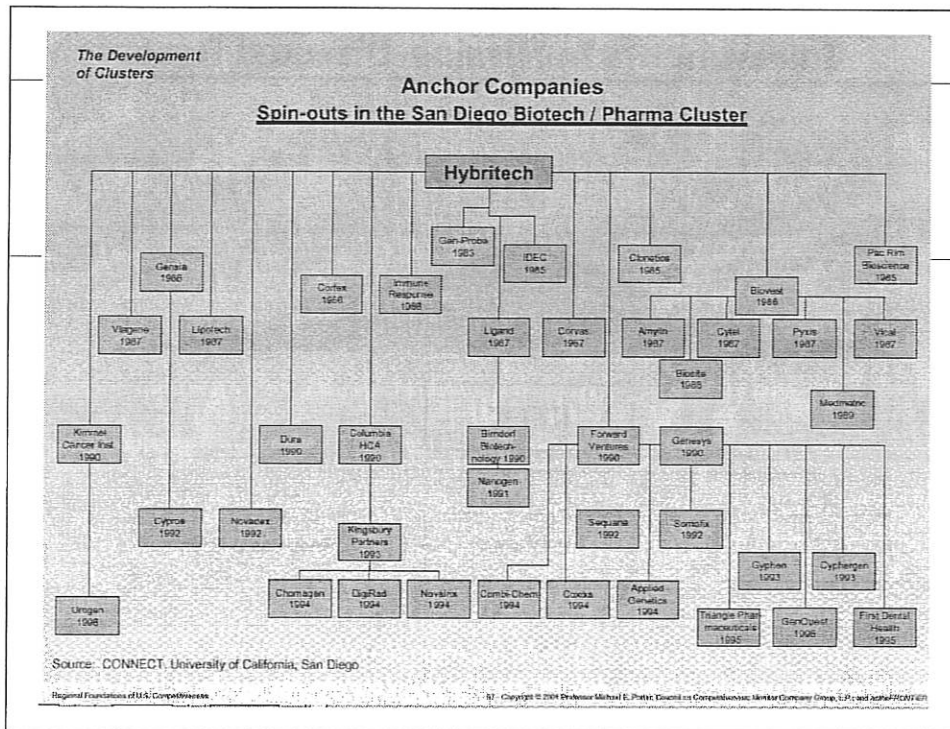
- Intellectual Infrastructure
- Physical Infrastructure
- Knowledge Spillovers to Catalytic Firms (Kent State example)
- Skilled Workforce (Economies based on ideas versus labor)
- Capital
- Entrepreneurial Culture (Experience with starting companies as a matter of routine)
- Quality of Life to Attract Human Capital

*State Science & Technology Institute Conference
Pittsburgh, PA, December, 2001*

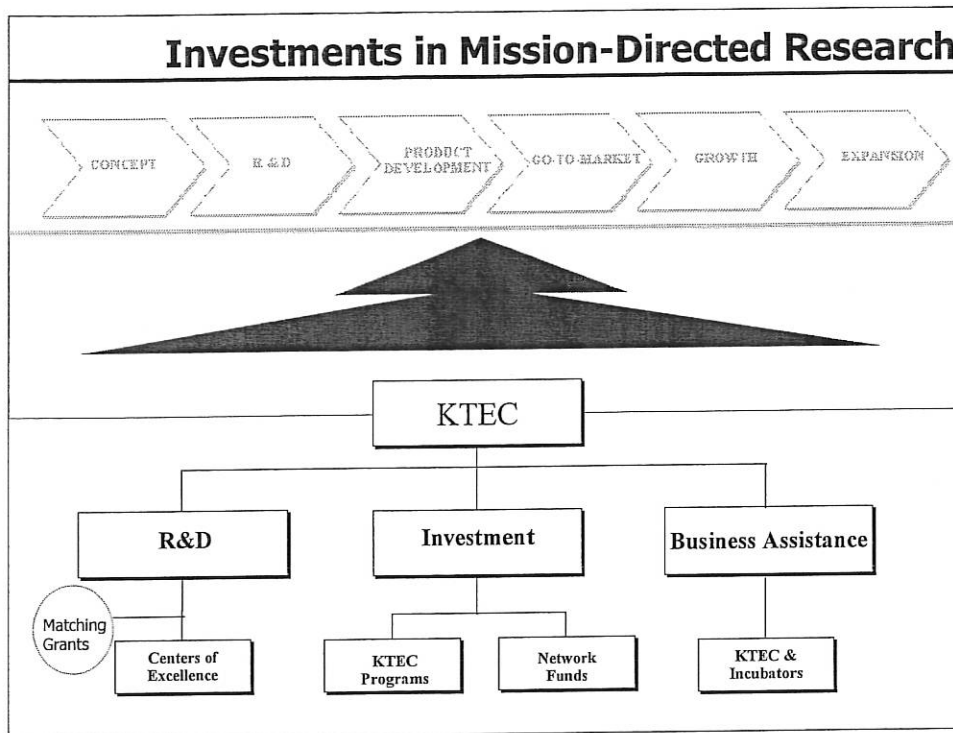
“The Blueprint,” therefore, is a package of investments.

In light of the Board of Regents sponsored HB 2690, it is important to emphasize the significance of catalytic firms to the commercialization of research.

Kent State is a university, top in LED crystals, that exports their technology outside the state due to the lack of catalytic firms nearby.



The San Diego Pharmaceutical Cluster is a good model. This is a diagram of the spin-off companies since 1983.



KTEC provides services in three areas:

- Research
- Investment
- Business Assistance

All support the technology life cycle that Matt will talk about later in greater detail.

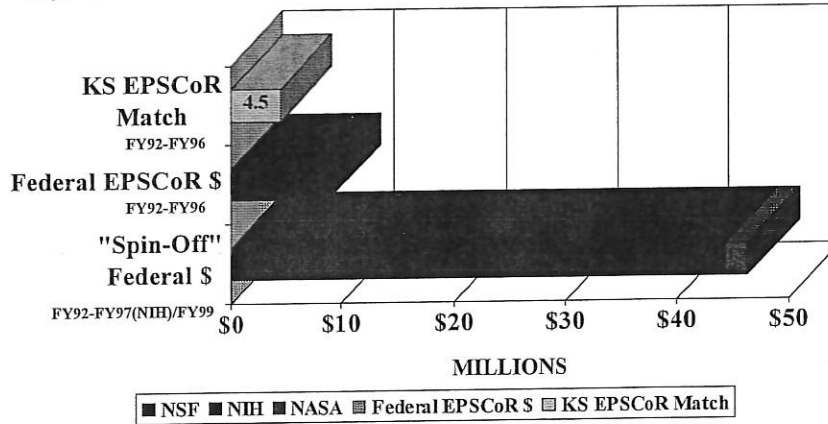


How KTEC Works: Research Case Studies in Collaboration and Leverage

I would like to give you some quick Kansas research case examples that exemplify the power of collaboration and leverage.

NSF EPSCoR "Spin-Off" Returns to Kansas

\$46.3 Million of Federal Monies for KS Statewide "Spin-Off" Research
Generated by the Original \$4.5M (State Match) and \$8.8M (Federal) Investment in NSF EPSCoR
Projects



Sources of Data: NSF EPSCoR, NSF, NIH & NASA
Note: Researchers are cluster PIs, Co-PIs and faculty supported in NSF EPSCoR FY1992-96

With the EPSCoR program, awards usually garner one federal dollar for every state matching dollar. Kansas scientists have generated \$46.3 million in "spin-off" projects for the initial state investment of \$4.5 million, 1992-1996.

STAR FUND AWARDS								
Fed. Award	Federal Award Amount	KTEC Investment	Ratio	University / Center	Lead Principal Investigator	Project Name / Description	Partnerships	Location
DOE/TADAC (Pending until Jan. 2002)	\$688,496	\$31,000	22:1	KSU - NGML	Dr. Kirby Chapran	Development of a Novel Gas-Fueled Engine Ignition System Coupling Pre-Chambers with Hypersonic Igniters	KSU, MACC, TADAC Patent	Manhattan
NIH/BRIN	\$5,998,986	\$50,000	120:1	KUMCRI	Dr. Joan Hunt	Kansas Biomedical Research Infrastructure Network (KBRIN)	KU, KSU, WSU, ESU, FHSU, Haskell Indian Univ, PSU	Washburn Univ. Kansas City
NIH/COBRE	\$10,539,541	\$50,000	211:1	KUMCRI	Dr. Bill Narayan Dr. Joe Lutkenhaus	Novel Approaches to Controlling Microbial Pathogens	KUMCRI, KU, KSU	Kansas City
NSF/ITR	\$7,490,000	\$300,000	25:1	KU	Dr. S. Prasad Gogineni	Mobile Sensor Web for Polar Ice Sheet Measurements	EG&G, USA-CRREL, Jet Propulsion Lab., Univ. of Chicago, Univ. of Alaska, Ohio State Univ.	Lawrence
NSF/PFI	\$597,810	\$35,000	17:1	WSU	Dr. Dennis Signer	Innovation in Aircraft Manufacturing through System-Wide Virtual Reality Models and Curriculum Integration	Boeing Delmia Corp., SME, Britain, Cessna, Raytheon	Wichita
Potential Totals	\$25,314,833	\$466,000	54:1					
*Actual Award Totals	\$24,626,337	\$416,000	59:1					

An example of the greater leverage possible with increased competitiveness is the 59:1 federal to state leverage in the state's last four awards. These are the initial awards within the last six months. There is still "spin-off" potential.

What does it take to win greater federal leverage?

- Good source of ready match, investments in research as well as venture capital
- Infrastructure (pool of P.I.s, labs space, equipment, education outreach, proximity) to promote commercialization and create wealth.
- Strategic focus (strategic technologies), strategies to improve competitiveness
- Collaboration statewide, regionally and nationally; cross-disciplinary; multi-university (both research and non-research institutions), multi-sector, for success.
- Better planning to establish collaborations and for hiring that build the **critical mass** necessary to compete.
- More current faculty **becoming competitive** for research funding and graduating to larger grants.
- Priority setting for research & resource allocation (shared risk, leverage)
- Performance measurement and accountability for return on investment
- Goals in education for graduate students and junior faculty

What does it take to win greater federal leverage?

- A good source of ready match
- Infrastructure in place
- A strategic focus
- Collaboration
- Planning for critical mass
- Faculty becoming nationally competitive
- Priority setting
- Performance measurement and accountability
- Goals in education for students and faculty

Case Study:

**National Heart, Blood and Lung Institute
Proteomics Center Proposal, 2/8/02**

- \$14,700,000 over 7 years with a \$180k of state support
- The partners are: KU Med, HBC, ITTC, MRI, University of Health Sciences and St. Luke's Hospital
- HBC's mass spectrometer, biochem labs
- A Role for ITTC: Major Bioinformatics database involved
- KC Life Sciences Institute is a catalyst
- MRI will bid for the quality assurance management piece, has had large experience with Enrail

Commercialization Potential: licenses, spin-offs from the

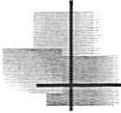
I have a proposal on my desk right now that encompasses all the elements for cluster building.

First it involves the creation of a Proteomics Center, the mapping of the human proteome, a project of greater magnitude than the mapping of the human genome. It is my understanding there will be only 10 of these centers in the country.

It is nearly \$15 million of leverage from the National Heart, Blood and Lung Institute for \$180 thousand of state support.

The partners are:

- University of Kansas Medical Center
- Higuchi Biosciences Center
- Information Technology and Telecommunication Center
- Midwest Research Institute
- University of Health Sciences
- St. Luke's Hospital



“A research university provides a valuable resource for technology firms, but does so only if the university is open to and actively facilitates linkages with the private sector.”

*--Developing High-Technology Communities: San Diego,
March 2000*

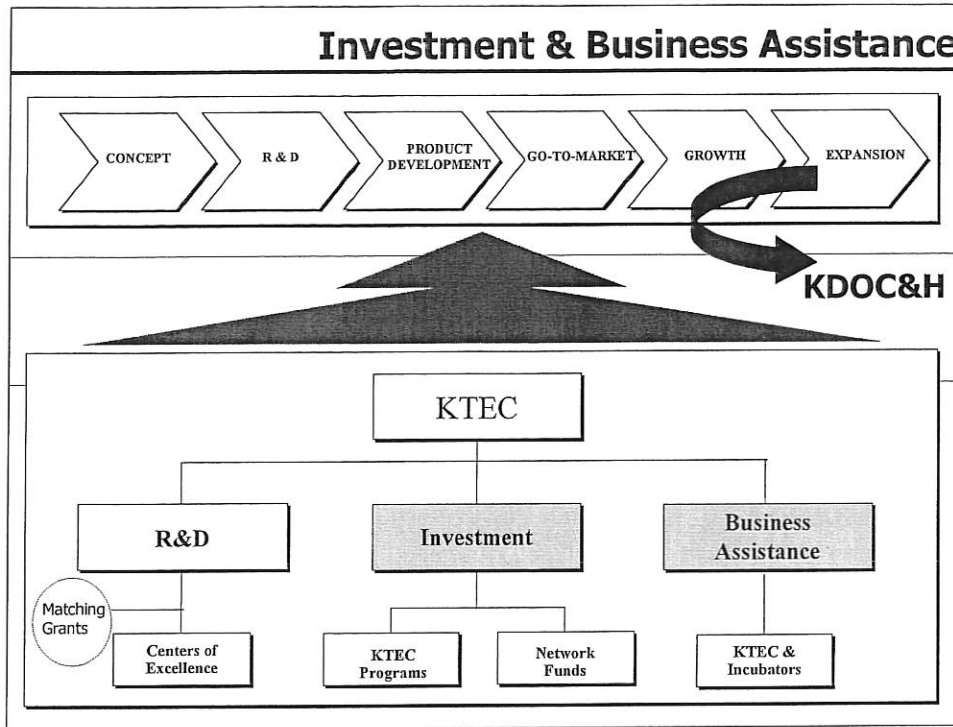
Now I will turn the presentation over to Matt. He will go on to discuss the technology cycle as I indicated earlier.

This quotation is particularly pertinent to his discussion.

Lessons learned from the San Diego cluster model...

“A research university provides a valuable resource for technology firms, but does so only if the university is open to and actively facilitates linkages with the private sector.”

Investment & Business Assistance



Investment and Business Assistance

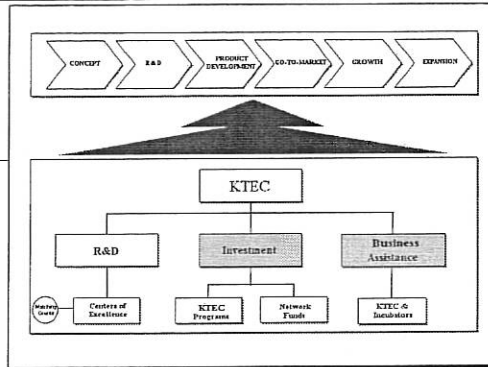
Our Investment and Business Assistance at Work

<p>VASOGENIX, INC.</p> <ul style="list-style-type: none"> • Higuchi Bio-sciences Center • KU Med Center • Applied Research Matching Fund (ARMF) and Network Seed Funds <ul style="list-style-type: none"> • \$350,000 	<pre> graph LR A[R & D] --> B[PRODUCT DEVELOPMENT] B --> C[GO-TO-MARKET] </pre>
<p>NANOSCALE MATERIALS</p> <ul style="list-style-type: none"> • Kansas State University "Spin-off" • MACC Client <ul style="list-style-type: none"> - Lab space, offices, et. al. • ARMF and Network Seed Funds 	<pre> graph LR A[CONCEPT] --> B[R & D] B --> C[PRODUCT DEVELOPMENT] C --> D[GO-TO-MARKET] </pre>
<p>HANDSIGNAL</p> <ul style="list-style-type: none"> • Applied Research Matching Fund Client <ul style="list-style-type: none"> - Venture Capital Leverage: 12.7 to 1 • Assistance Raising Additional Venture Capital 	<pre> graph LR A[R & D] --> B[PRODUCT DEVELOPMENT] B --> C[GO-TO-MARKET] </pre>
<p>VEOTROS</p> <ul style="list-style-type: none"> • Information Technology and Telecommunications Center Client • Negotiated License with Turner Broadcasting 	<pre> graph LR A[R & D] --> B[PRODUCT DEVELOPMENT] B --> C[GO-TO-MARKET] </pre>

Investment and Business Assistance

Our Partners

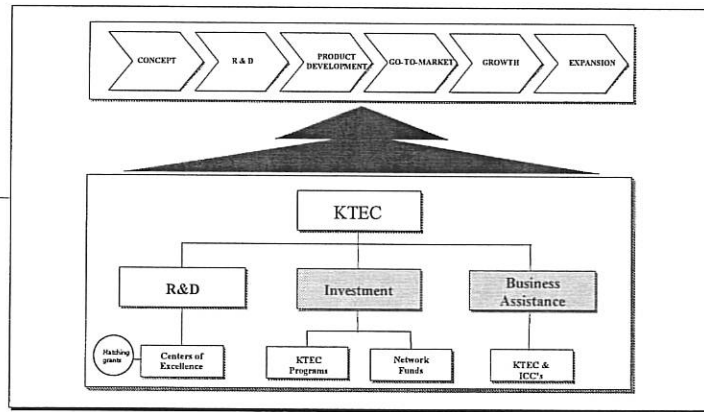
- Alliance for Technology Commercialization
Pittsburg
- Enterprise Center of Johnson County
Lenexa
- Kansas Innovation Corporation
Lawrence
- Mid-America Commercialization Corporation
Manhattan
- Wichita Technology Corporation
Wichita
- KU Medical Center Research Institute
Kansas City, KS



Our Partners at Work

PARTNERSHIP STRUCTURE	THE RESULTS
<ul style="list-style-type: none"> • MACC and the KSU Research Foundation have a formal partnership agreement • MACC markets and negotiates licenses for all KSU technologies. 	<ul style="list-style-type: none"> • Cumulative new revenue flows generated by MACC for KSU, the KSU Research Foundation, and university researchers exceeded <u>\$5M, \$2.2M in 2001 alone.</u> • Cumulative corporate donations of about <u>200 patents</u> secured from <u>8 major corporations</u> under MACC's national leading Technology Acquisition Development and Commercialization (TADAC) program. • Manhattan's Research Park Update

The Bottom Line



The KTEC economic development model is structured to effectively deliver the resources needed by high-technology start-up companies in the state of Kansas. *However, the resources must be committed to assist those companies.*

Kansas Department of Commerce & Housing
Senate Commerce Committee Tuesday February 19, 2002
SB 565, IMPACT Program

Investments in Major Projects And Comprehensive Training (IMPACT) Program
IMPACT provides employers that relocate to or expand their business operations within the state of Kansas financial assistance to train employees hired to fill the new jobs created by the relocation or the expansion. Also, beginning in 1999, legislation was passed that allows companies to qualify for IMPACT funds to retrain existing workers if the company was making a minimum capital investment of \$250 million and retaining a minimum of 1,000 jobs. HB 2962, introduced on February 15, would reduce these thresholds to a minimum capital investment of \$50M and a minimum of 250 jobs to be retained. IMPACT is financed through public purpose, tax-exempt bonds issued by the Kansas Development Finance Authority. The bonds are indirectly retired through the revenue received from the Kansas withholding taxes paid by the jobs created or retained in the projects. Bonds are issued as needed to finance the program.

The Department estimates that the statutory cap on the percentage of withholding used to pay debt service on the bonds will be reached in about five years based on obligations to fund existing projects and on the rate that new projects will be created. Therefore, KDOC&H has requested SB 565 that would increase the statutory cap on the debt service and direct funding rate of the program from 1% to 2% of the annual Kansas individual withholding tax revenues.

Program summary (all information is current as of 2/19/02)

- Projects created since 1992: 61
- Total jobs created: 35,542
- Average wage of all jobs: \$33,280/\$16 hr.
- Total program investment: \$96,401,346
- Total funds disbursed: \$56,715,503
- Remaining obligations: \$35,951,141
- Withholding taxes collected: \$82,351,791*
- Remaining withholding to be collected on all active projects: \$44,370,905

*The State does not continue to require companies to report withholding tax information once a project has repaid the state's investment (determined to be the gross funded cost of the project). Thus, the "withholding taxes collected" figure is significantly understated. To date, 30 of 61 projects have returned the state's investment.

Fiscal Impact

SB 565 could potentially increase the program's debt service, and thus, the withholding tax revenues of the state available for other uses in a given year. However by providing the state additional capacity to fund new business expansions, relocations and retraining of existing Kansas jobs, these revenues would be returned to the state through the additional Kansas withholding taxes paid by the new jobs created or retained under the program.

Senate Commerce Committee
Feb. 19, 2002
Attachment 3.1

IMPACT

Revenue history, projections and implications

The following calculations of the future revenue available to the IMPACT Program are based on certain assumptions and on the historical performance of the program.

Historical information:

- The last two issuances (FY1999) and (FY2002) have provided capacity of \$30M with *each* issuance.
- These bonds have provided project funding/payment capacity of approximately 24-26 months for each issuance.
- *Each* of these two last issuances has increased debt service \$3.75-\$4M.
- Current maximum program capacity is \$14.7M (1% of the State's total withholding of \$1.47 billion in FY2001).

Assumptions:

- Debt service is estimated by KDFA as follows on all current/active bond issuances:

2002	\$10.04M
2003	\$10.19M
2004	\$10.84M
2005	\$10.84M (The Department anticipates needing a new issuance in early FY 2005, based on history).
- A new issuance in FY2005, of similar capacity to the 1999 and 2002 issuances, would add approximately \$3.75-\$4M of additional debt service to the existing \$10.84M.
- Assuming static State withholding revenues of \$1.47 billion, the IMPACT program debt service **would be very closet to, or at, the statutory 1% cap** beginning in FY2005 and would remain there for four years, based on the current rate of debt service repayment.
- The ability of the State to issue a new bond after 2005 and before 2009 with any significant capacity is, therefore, unlikely without changes in statute relative to the 1% program cap.

Additional considerations:

- With the statutory change in 1999 allowing retraining under IMPACT, the anticipated 2 year "shelf life" of the 2002 bond could be less, thus requiring issuance of a new bond before 2005 and, hence, accelerating the move towards the 1% cap. HB 2962, introduced in the current session, would reduce the thresholds to a \$50M capital investment and a minimum of 250 jobs to be retained, thus providing more Kansas companies access to IMPACT funds for retraining.
- Obligations on existing projects total \$35.5M over the next five years. This will reduce capacity to fund new projects from the 2002 issuance and, to a lesser degree, from the issuance of a new bond in early FY2005.

COUNTY	RECIPIENT	CITY	DATE
Allen	Russell Stover Candies, Inc.	Iola	1997
Bourbon	Intek Information, Inc.	Fort Scott	1999
Bourbon	Valu Merchandisers	Fort Scott	1995
Butler	Cannon Valley Woodwork	El Dorado	1998
Cherokee	Bagcraft Corporation	Baxter Springs	1994
Cowley	General Electric	Arkansas City	1997
Dickinson	Russell Stover Candies, Inc.	Abeline	1995
Douglas	DST Systems	Lawrence	2001
Douglas	Sauer-Sundstrand Co.	Lawrence	1998
Ellis	Sykes Enterprises, Inc.	Hays	1997
Ford	Hyplain's Beef	Dodge City	1993
Franklin	Retail Distribution West/American Eagle	Ottawa	2002
Geary	Armour Swift-Eckrich	Junction City	1997
Johnson	Intervet	Desoto	2002
Johnson	FedEx Ground	Shawnee	2002
Johnson	freightquote.com	Lenexa	2001
Johnson	Farmers Insurance	Olathe	2001
Johnson	Lockton Companies	Prairie Village	2001
Johnson	GeoAccess, Inc.	Overland Park	2000
Johnson	Bibb & Associates, Inc.	Lenexa	2000
Johnson	Black & Veatch	Overland Park	2000
Johnson	Black & Veatch Solutions Group	Overland Park	2000
Johnson	Sprint	Westwood	1999
Johnson	John Deere NAAMC	Lenexa	1999
Johnson	Allied Signal	Olathe	1999
Johnson	Aerial Operating Company	Lenexa	1999
Johnson	Sprint United Management	Overland Park	1999
Johnson	Sprint Spectrum	Kansas City	1998
Johnson	Alliance Data Systems	Lenexa	1998
Johnson	Airsys ATM, Inc.	Shawnee	1998
Johnson	Diamant Boart, Inc.	Olathe	1998
Johnson	Sprint	Overland Park	1997
Johnson	Black & Veatch	Overland Park	1997
Johnson	Simmons Company	Shawnee	1996
Johnson	A&M Products	Spring Hill	1994
Johnson	TIE Communications	Overland park	1994
Labette	Benecor	Parsons	1995
Leavenworth	The Scribes, Inc.	Leavenworth	1999
Montgomery	Amazon.com.ksdc, Inc.	Coffeyville	2000
Montgomery	Cessna Aircraft Company	Independence	1996
Montgomery	American Insulated Wire	Coffeyville	1995
Reno	ALCOA Aerospace	Hutchinson	1996
Riley	Western Wireless	Manhattan	2000
Riley	Sykes Enterprises, Inc.	Manhattan	1999
Sedgwick	Protection One	Wichita	2001
Sedgwick	York International	Wichita	2001
Sedgwick	Cessna Aircraft Company	Wichita	2000
Sedgwick	Cessna Aircraft Company	Wichita	1996

Sedgwick	Multimedia Security	Wichita	1993
Seward	Trailmobile Reefer Corporation	Liberal	1997
Shawnee	Heinz Pet Products	Topeka	2001
Shawnee	TeleTech, Inc.	Topeka	1999
Shawnee	Southwestern Bell	Topeka	1997
Shawnee	Hill's Pet Nutrition	Topeka	1993
Shawnee	Santa Fe	Topeka	1993
Shawnee	Santa Fe	Topeka	1992
Wyandotte	Schroer Manufacturing	Kansas City	2001
Wyandotte	Conway Transportation Services, Inc.	Kansas City	2000
Wyandotte	TeleTech Facilities Management, Inc.	Kansas City	1999
Wyandotte	Knit-Rite, Inc.	Kansas City	1998
Wyandotte	National Service Center	Edwardsville	1993
Wyandotte	Millard Refrigeration	Edwardsville	1993

Testimony in support of Senate Bill 565 before the Senate Commerce Committee
On behalf of Goodyear Tire and Rubber Company
By Larry Robbins, Plant Manager
February 19, 2002

Madam Chair and members of the Senate Commerce Committee:

Thank you for the opportunity to appear here today in support of Senate Bill 565. I am Larry Robbins the Plant Manager of the Goodyear Tire and Rubber Company's Topeka plant. We are the largest manufacturer in the area and the 5th largest employer in Topeka employing more than 1700 associates who live in more than 70 surrounding communities. Additionally, the Topeka plant supports over 1400 retirees. The Topeka plant has an annual payroll of more than \$100 million dollars, generating an average of more than \$4.2 million dollars in individual state income taxes in the past two years. Annual real and personal property taxes for the plant are over \$2 million dollars, with an annual utility bill of more than \$8 million dollars. The Topeka plant also supports Kansas businesses by purchasing goods and services totaling more than \$34 million dollars annually.

Under current law, the total of all amounts credited to the IMPACT program repayment fund, during any fiscal year to finance major project investments, shall not exceed 10% of the amount which results when the rate of 1% is applied to all money withheld from the wages of individuals. Senate Bill 565 would grow that pool of dollars by increasing the rate that is applied from 1% to 2%, to the amount of wages withheld.

Additionally, I would encourage you to consider amending Senate Bill 565 when you consider it for action, by incorporating the further changes to the IMPACT act that are reflected in House Bill 2962. I have attached a copy of House Bill 2962 to this testimony for your review, and I would draw your attention to line 43 on page one, and line 1 on page two. These changes lower the thresholds for qualifying projects to further enhance the participation eligibility in the program. These changes will benefit the Goodyear Tire and Rubber Company's Topeka plant at a time when we are competing internally for a major expansion.

On behalf of Goodyear Tire and Rubber Company, I would encourage you to pass Senate Bill 565 favorably out of this Committee with the amendment I have suggested. I would be happy to answer any questions you may have.

Senate Commerce Committee
Feb 19, 2002
Attachment 4.1

HOUSE BILL No. 2962

By Committee on New Economy

2-15

AN ACT relating to Kansas economic development; concerning Kansas investments in major projects; amending K.S.A. 2001 Supp. 74-50,106 and repealing the existing section.

Be it enacted by the Legislature of the State of Kansas:

Section 1. K.S.A. 2001 Supp. 74-50,106 is hereby amended to read as follows: 74-50,106. (a) The secretary of commerce and housing shall review applications for proposed agreements submitted by employers in accordance with the standards and guidelines prescribed by this act and by rules and regulations adopted under K.S.A. 74-50,104, and amendments thereto. Each application for approval of a proposed agreement shall be accompanied by information about the number and wages of the new or retained jobs created by the employer, documentation of existing training activities of the employer and such other information as may be required by the secretary of commerce and housing.

(b) The secretary of commerce and housing may pool the funding requirements of projects which are the subject of proposed agreements to determine the funding requirements of the SKILL projects under consideration to facilitate the issuance of bonds by the Kansas development finance authority.

(c) The secretary of commerce and housing is hereby authorized to expend funds raised pursuant to this act on major project investments. The secretary shall adopt guidelines consistent with this act concerning firm eligibility for major project investments and shall otherwise administer the major project investment portion of the IMPACT act.

(d) In order for an employer to be eligible for a major project investment, the employer must:

(1) Annually make an investment in training and education of the employer's employees that exceeds 2% of the employer's total annual payroll costs; or

(2) agree that a portion of any funds available under the agreement be spent directly on employee education and training.

(e) An employer not creating new jobs shall not be eligible for participation in an IMPACT program unless the employer meets the following criteria: (1) Maintains a minimum of ~~1,000~~ 250 retained jobs; (2)

4.2

1 makes a capital investment of at least ~~\$250,000,000~~ \$50,000,000; and (3)
2 the secretary of commerce and housing finds that the program or project
3 will be a major factor in the Kansas basic enterprise remaining in Kansas.
4 (f) Prior to obtaining financing from the Kansas development finance
5 authority for any project, group of projects or major project investment
6 for one or more employers, the secretary of commerce and housing shall
7 present each such project to the governor's council on work force training
8 and investment for review and approval. No agreement shall be approved
9 by the secretary of commerce and housing unless each project under the
10 agreement has been reviewed and finally approved by the governor's
11 council on work force training and investment.

12 Sec. 2. K.S.A. 2001 Supp. 74-50,106 is hereby repealed.

13 Sec. 3. This act shall take effect and be in force from and after its
14 publication in the statute book.

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LEGISLATIVE TESTIMONY



The Unified Voice of Business

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SB 565

February 19, 2002

KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony Before the

Senate Committee on Commerce

by

Jim Edwards
Senior Vice President
and
Secretary/Treasurer
Kansas Economic Development Alliance

Madam Chairperson and members of the Committee:

My name is Jim Edwards. I am Senior Vice President of the Kansas Chamber of Commerce and Industry. I thank you for the opportunity to express KCCI's support for passage of SB 565.

The Kansas Chamber of Commerce and Industry (KCCI) is a statewide organization dedicated to the promotion of economic growth and job creation within Kansas, and to the protection and support of the private competitive enterprise system.

KCCI is comprised of more than 2,000 businesses which includes 200 local and regional chambers of commerce and trade organizations which represent over 161,000 business men and women. The organization represents both large and small employers in Kansas, with 48% of KCCI's members having less than 25 employees, and 78% having less than 100 employees. KCCI receives no government funding.

The KCCI Board of Directors establishes policies through the work of hundreds of the organization's members who make up its various committees. These policies are the guiding principles of the organization and translate into views such as those expressed here.

In 1996, the Legislature renamed the State of Kansas Investments in Lifelong Learning Act (SKILL) as the Kansas Investments in Major Projects and Comprehensive Training (IMPACT) Act. The Legislature also modified the program to allow funds to be expended for "major project investment," to an employer to defray

Senate Commerce Committee

Feb 19, 2002

Attachment 5-1

...ss costs including, but not limited to, relocation expenses, building and equipment purchase for recruitment, and other expenses. Expenditures for employee education and training-related purposes authorized under the existing SKILL program continued to be authorized under this bill. No more than 10% of the amount equal to the rate of 1% applied to wages withheld in the state could be used for IMPACT purposes in any given fiscal year.

Since then, the IMPACT program in the Kansas Department of Commerce and Housing has been the state's primary tool to encourage business operations with potential to bring a large number of high paying jobs to locate or expand in Kansas. Since the IMPACT program was initiated, 61 projects in the program have led to the creation of more than 33,000 new jobs in Kansas, according to the Kansas Department of Commerce and Housing.

In the competitive economic development climate Kansas finds itself, IMPACT has clearly shown the state's investment has been more than returned in economic expansion and job creation. SB 565 would increase the opportunity for businesses to pursue IMPACT program support, thus expanding this program's successes. As a result, KCCI would urge this Committee's favorable recommendation of SB 565.

Thank you for considering KCCI's position regarding the legislation before you today. I would be happy to answer any questions.