

MINUTES OF THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT.

The meeting was called to order by Chairperson Representative Kenny Wilk at 3:30 p.m. on January 30, 2003 in Room 522-S of the Capitol.

All members were present except: Representative Winn, Excused

Committee staff present: April Holman, Legislative Research
Debra Hollon, Legislative Research
Fulva Seufert, Committee Secretary

Conferees appearing before the committee: Tracy Taylor, President & CEO, Kansas Technology Enterprise Corporation (KTEC)

Others attending: See attached list

The meeting was called to order at 3:30 p.m. by Chairman Kenny Wilk. The Chairman called the committee members' attention to the distributed minutes of the January 28, 2003 meeting. Representative Burroughs made a motion to approve the minutes of January 28, 2003. Representative Kuether seconded. Motion carried.

The Chair recognized Mike Hutfles who in behalf of the Wichita Development Corporation requested a bill concerning tax increment financing and sales tax revenue bonds which relate to major commercial, entertainment and tourism areas and redevelopment of property located in Sedgwick County. Representative Krehbiel moved that this bill be introduced. Representative Burroughs seconded. Motion carried.

The Chair introduced Mr. Tracy Taylor, President and CEO of KTEC, and asked him to tell the committee members about his work-related background. Mr. Taylor has spent 15 years in the corporate world, served as treasurer of U.S. Sprint 6 years and as vice-president of Administration leading the site selection for Sprint headquarters in Overland Park, Kansas. Mr. Taylor also gave a brief background of KTEC. Its purpose is to strengthen the Kansas economy by focusing on entrepreneurship and technology-based economic development. It is governed by a board of 20-member, industry-led board of directors comprised of stakeholders representing the legislature, government, universities and the private sector. KTEC is funded by the Economic Development Initiatives Fund, which consists of revenues from the Kansas Lottery and Gaming Commission. Mr. Taylor spoke to the role of technology-based economic development in Kansas. (Attachment 1). At the conclusion, Mr. Taylor introduced the following KTEC employees: Alan Weis, Mary Breakstone, and Kern Shafer. He also introduced Keith Molzer of Entrepreneurial Consulting Corporation.

The following are some of the questions that members of the Committee asked Mr. Tracy:

- In reference to HB 2026, how is the money swept out of KTEC account?
- What other types of public policy initiatives could the legislature initiate that would not cost money?
- What can legislators do to support economic development in Kansas?

Legislative Research distributed a handout entitled "Enterprise Facilitation" compiled in January, 2003. (Attachment 2).

The Chairman informed the members about how and why the Life Science Initiative was developed and he encouraged members to visit some of these institutions and sites where they will find some fabulous things going on in our Kansas communities. This does not cost any money and it can make a difference.

The Chairman announced that the next meeting would be Tuesday, February 4, 2003. The agenda will include a tax briefing by April Holman and a Department of Revenue briefing on confidentiality restrictions by Richard Cram and a briefing on business taxes and costs by David Burress of the Policy Research Institute at Kansas University. He said it was his intent to hold hearings on the STAR Bond Bill on Thursday, February 6, 2003.

The meeting adjourned at 4:35 p.m.

HOUSE ECONOMIC DEVELOPMENT COMMITTEE

THURSDAY, JANUARY 30, 2003

NAME	REPRESENTING
John Robinson	Lt. Governor's Ofc.
Rae Anne Davis	KDOCH
Mike Pepon	Sedgewick County
Erik Sartorius	City of Overland Park
Steve Johnson	Kansas Gas Service
Ashley Shevard	Lenexa Chamber of Commerce
Stephanie Buchanan	DOB
John Peterson	Ks Gurentel Consulting
Bob Krehbiel	Ks Ind Oil & Gas Assn
Mike Nuckles	Wichita Downtown Development
Maulha Dowd	City of Wichita
Mike Taylor	City of Wichita
Megan Deines	City of Wichita
KEITH Molzer	Entrepreneurial Consulting Corporation
Alan Weis	KTEC
RANDY STOUT	KANSAS
Mary Breakstone	KTEC
Kern Grafer	KTEC

The Role of Technology-Based Economic Development in Kansas

K T E C

Kansas Technology Enterprise Corporation

Presented by Tracy B. Taylor, President & CEO

KTEC is ...

- ... an outcome of the Redwood-Krider report, a study conducted in 1986 that emphasized the need to strengthen the Kansas economy by focusing on entrepreneurship and technology-based economic development.
- ... governed by a board of 20-member, industry-led board of directors comprised of stakeholders representing the legislature, government, universities and the private sector.
- ... funded by the Economic Development Initiatives Fund, which consists of revenues from the Kansas Lottery & Gaming Commission.

KTEC Areas of Focus

Research

Centers of Excellence

- HBC, *Univ. of Kansas*
- ITTC, *Univ. of Kansas*
- NIAR, *Wichita St. Univ.*
- AMI, *Kansas St. Univ.*
- KPRC, *Pittsburg St. Univ.*

Experimental Program to Stimulate Competitive Research (EPSCoR)

Business Assistance

Incubators

- MACC, *Manhattan*
- LRTC, *Lawrence*
- ECJC, *Lenexa*
- KUMCRI, *Kansas City*
- ATC, *Pittsburg*
- WTC, *Wichita*
- WKTC, *Great Bend*
- Quest, *Hutchinson*

Mid-America Manufacturing Technology Center (MAMTC)

Technology Acquisition Development and Commercialization (TADAC)

Investments

KTEC Incubator Seed Funds:

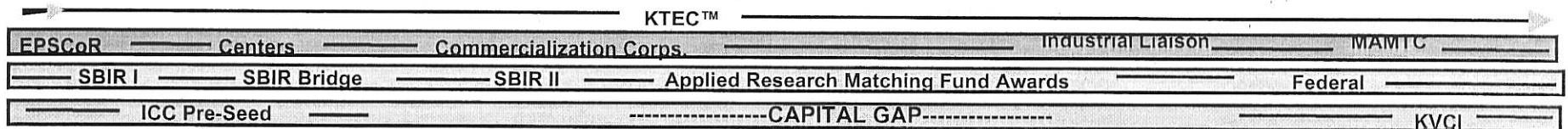
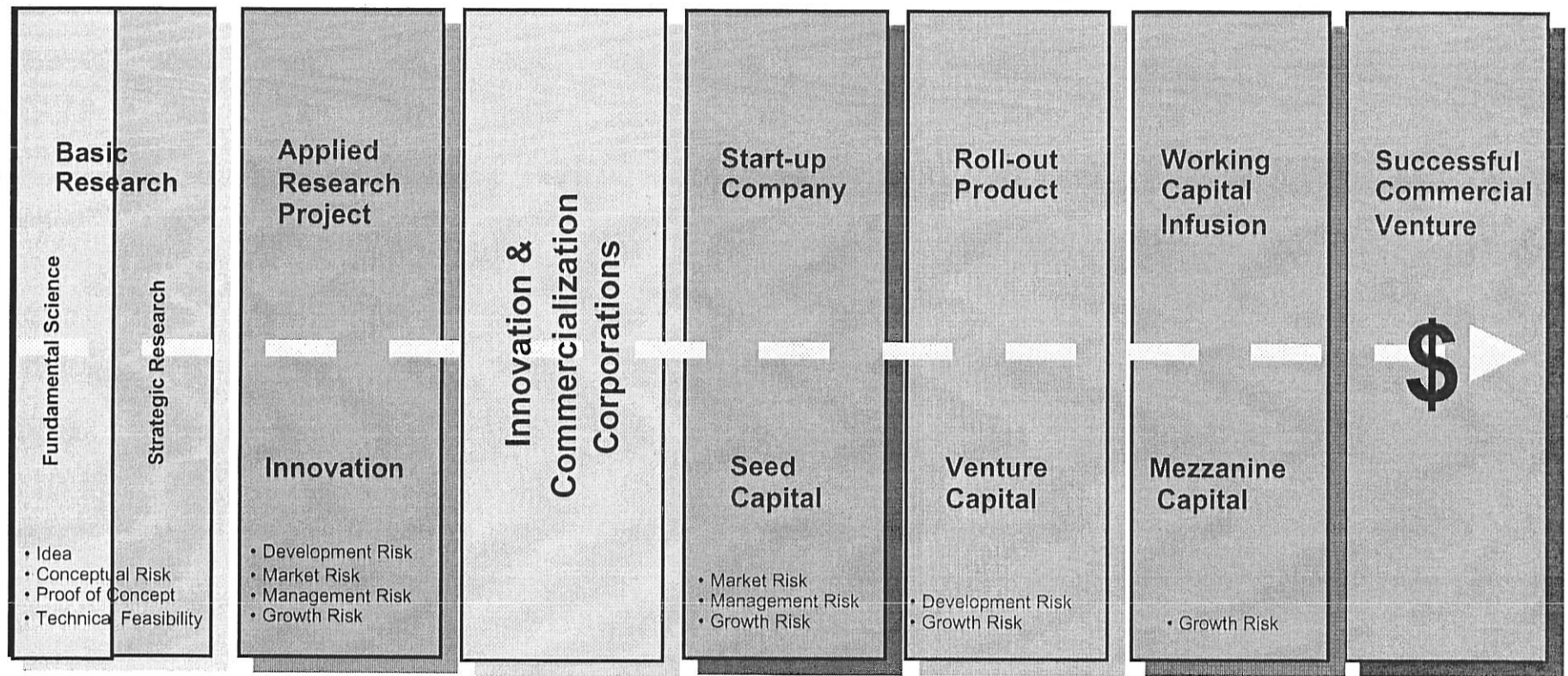
- Manhattan Holdings (MACC)
- Kaw Holdings (LRTC)
- Wichita Ventures (WTC)
- Prairie Investments (ECJC)
- Precede Fund (KUMCRI)
- Quest Ventures (Quest)
- Milestone Ventures (ATC)

Small Business Innovation Research (SBIR) assistance

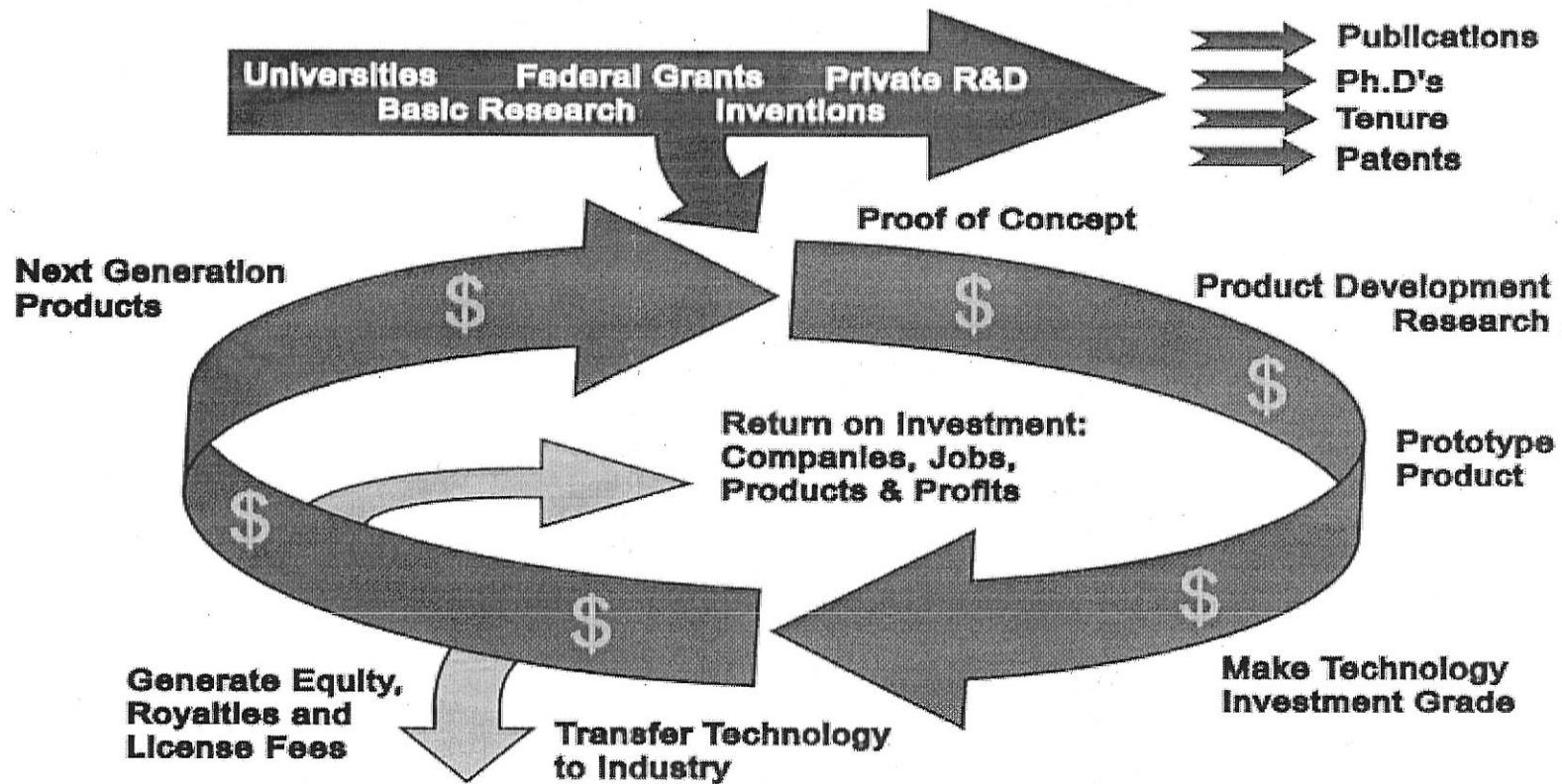
Applied Research Matching Fund (ARMF)

KTEC Holdings Inc.

Technology Commercialization Life Cycle



Successful Commercialization Model



Kansas is a small business state

- **73,716 businesses in the state**
- **64,888 of those have 19 or fewer employees**
- **Only 161 companies have more than 500 employees**

Technology-Based Economic Development Initiatives

So What?

- Emerging entrepreneurial growth companies are responsible for 67% of new jobs (more in economic downturns) and 95% of all radical innovations since WWII *
- Created 2/3 of all net new jobs in the '90s *
- Jobs created by tech companies pay about \$50,000 – two times the average salary of non-technology jobs (approx. \$26,000)
- Reduces brain drain
- Diversifies tax base

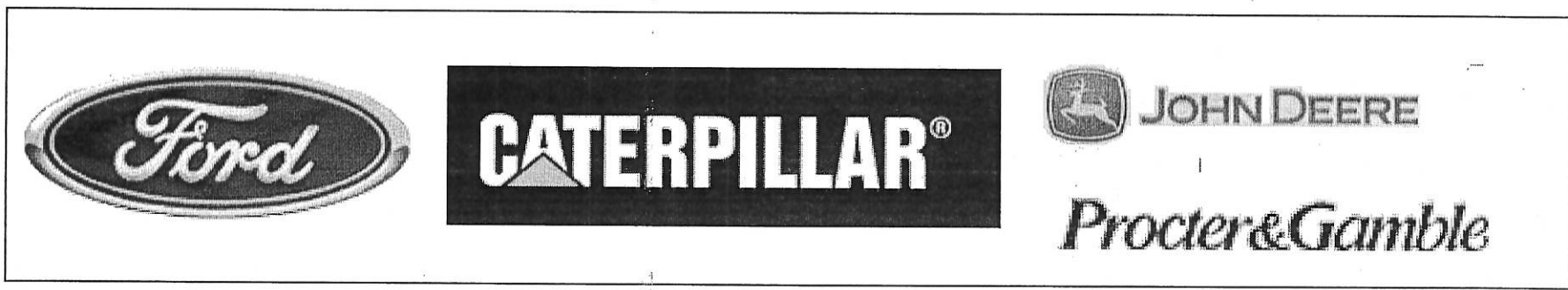
*National Commission on Entrepreneurship, 2001

Life Sciences Initiative

- Kauffman and Stowers Foundations (collectively worth about \$5B)
 - Focused on life science and entrepreneurial habitat
- Gov't research funding focused on IT, life sciences and nanotechnology

TADAC: Technology Acquisition, Development and Commercialization

- Jointly sponsored by KTEC and Mid-America Commercialization Corporation, a KTEC incubator
- Leads the nation in acquisition and management of patent donations
- Portfolio includes nearly 500 patents in 31 fields of technology



KTEC Client Companies

CritiTech
precision by design

LivingNaturally.com

CyDex™

QVIS®

VasoGenix
Pharmaceuticals

AEROCOMM
INSTANT WIRELESS

Nutri-joy
Nutrition to Enjoy

Environmental Compliance Consultants, Inc.
services

KNOWLEDGE COMMUNICATION®

HARPER INDUSTRIES INC.
THE HEALTH SITE AUTHORITY

NMI
NANOSCALE MATERIALS INC.

NanoScale.
Serving Customer Needs Through Advanced Chemistry

VITALSEEK™
Information. When and Where You Need It.

AFIX Tracker

BeyondNow Technologies

HAND SIGNAL

MOTIONWATCH®

FilterLogix

Redemption Plus.

NEON POWER PRO™

Control Vision

Results Via the 3 C's

•Collaboration

- KDOCH / Legislature / Administration
- Stowers and Kauffman Foundations
- Kansas State, University of Kansas, Pittsburg State and Wichita State
- Federal government – EDA, Department of Commerce

•Commercialization

- Innovation Centers/Incubators (KU, KSU, PSU and WSU)
- Centers of Excellence

•Capital

- Venture Capital Tax Credit Bill
- InvestMidwest
- Local incubator seed funds and KTEC Holdings Inc.

How does KTEC work?

- Private sector leadership
- Functions as a business
- Successfully manages a technology investment portfolio for return on investment
- Integrated science & technology management for Kansas
- Accountability with measurable outcomes

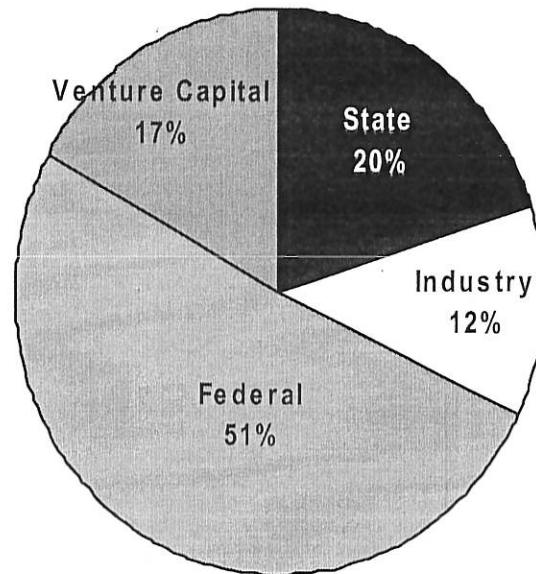
Keys to attracting outside capital to Kansas

- Leaders in a developing technological niche
- Strong management team/work force
- Good understanding of the market
- Continuum of product development and enhancement
- Companies that do not rely on a single product

KTEC Cumulative Results

- \$1.14 billion in increased sales
- \$723.5 million in investments leveraged
- 337 company start-ups
- 13,230 jobs created or retained
- 579 technologies developed
- 220 patents issued
- 3,160 inventors assisted
- \$9.64 million in royalty/equity returns

FY 2002 Percent of Total Investment



**Total FY 2002 investment:
\$64.1 million**

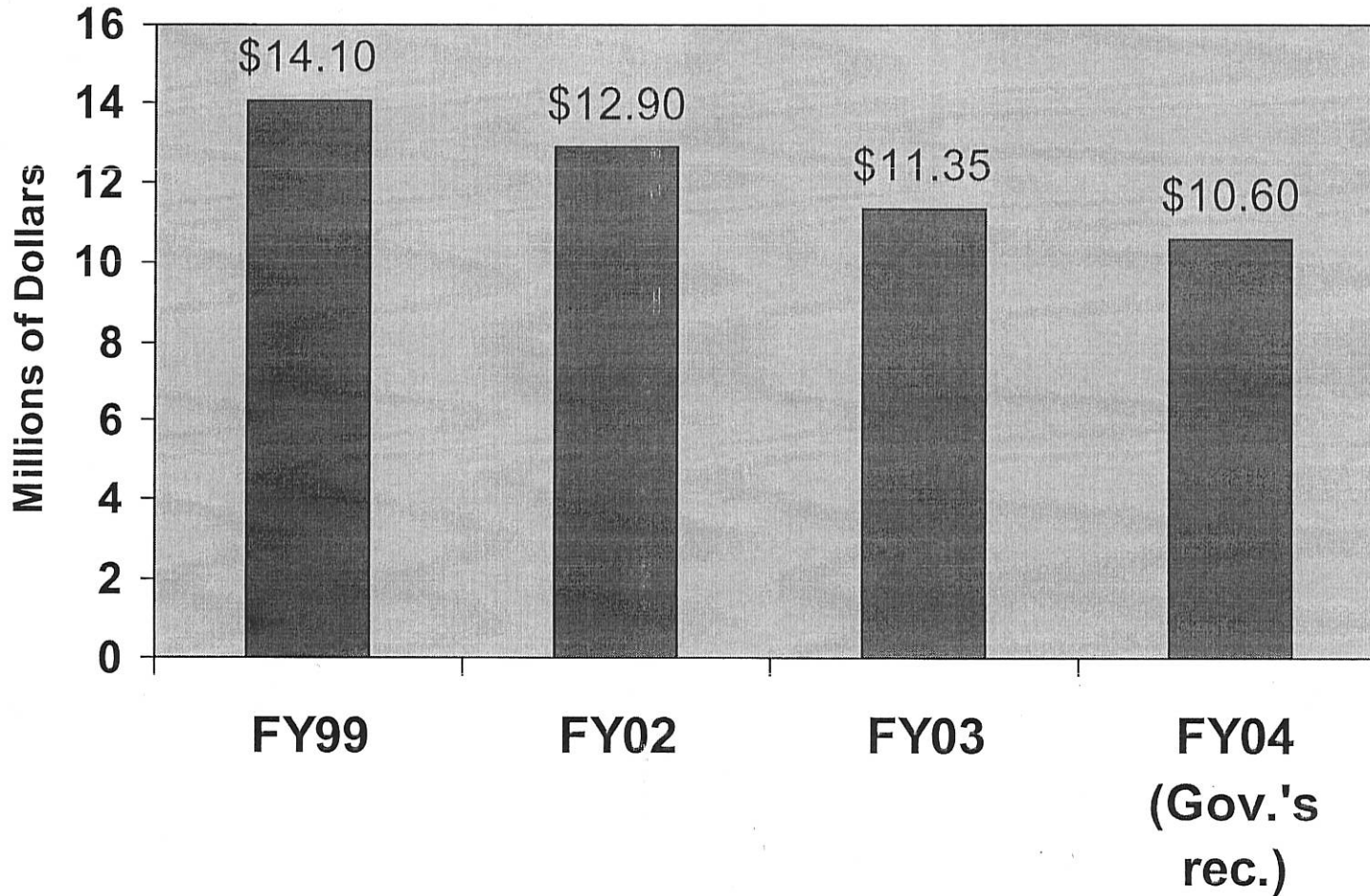
Leverage: \$4:1

What can the Legislature do to support economic development in Kansas?

- Carefully analyze the potential effects of changes to gaming laws on the Economic Development Initiatives Fund.
- Support SB 65 (revisions to the venture capital bill). There are no incremental costs associated with passage of this bill.

State Appropriations

KTEC Funding FY99 - FY04



25% reduction from FY99 to FY04

KTEC Voluntary FTE Reductions

Early FY03 – 19

Current FY03 – 15 (3 vacant)

KTEC Salary & Wage Cuts

FY03 - \$132,530

Equal to:

13.5% of total salaries & wages

7.8% of operations

FY04 - \$195,215

Equal to:

19.2% of total salaries & wages

11.6% of operations

FY03 Cut

Base (new appropriations only)	\$11,596,888	
Allocated Reduction	\$ 231,938	2.0%
Additional Salary & Wage Cut	\$ 132,530	1.1%
	<hr/>	
	\$11,232,420	3.1%

FY04 Recommended Cut

Base	\$11,382,000	
Allocated Reduction	\$ 582,597	5.1%
Additional Salary & Wage Cut	\$ 195,215	1.7%
	<hr/>	
	\$10,604,188	6.8%

KTEC Holdings Inc.

- Source of funds is returns on KTEC investments.
- The policy of the KTEC Board and the intent of the fund is to provide follow-on seed capital to companies KTEC has previously assisted.
- KTEC's ability to provide this capital improves the success rate of its early-stage programs.
- The fund generates its own revenues for reinvestment.
- FY04 budget recommendations call for KTEC Holdings to be used to support cuts in the EDIF.

QUESTIONS

K T E C

Kansas Technology Enterprise Corporation

Tracy B. Taylor, President & CEO

Enterprise Facilitation
January 2003

The Kansas Enterprise Facilitation Demonstration projects are all on schedule and are meeting their targets. The five Kansas demonstration projects cover 24 counties representing all areas of the state. The original three projects are now in the twelfth month of the 30-month project. The most recent two demonstration projects are in their fourth month of capacity development.

Western Kansas Facilitation Group: Sherman, Greeley, Wichita, Scott, Lane, and Kearny Counties. Samuel Lane, Facilitator.

Western Kansas completed their one-week training of the facilitator and 11 board members during the week of July 29, 2002. Sam Lane has been introduced by board members of the 50-person local facilitation board to over 400 people. He has visited all the communities in this region and he has met with individuals who have expressed an interest in beginning a business and/or expanding an existing business.

As of December 31, 2002:

Introductions (by local board)	400+
Clients	38
Retained Business	2
Other Assistance	3

Sunflower Region Facilitation Group: Harper, Barber, Pratt, and Kiowa Counties. Mike Mayberry, Facilitator.

The Sunflower group completed the weeklong facilitation and board training during the week of August 19, 2002. Members of the 35-person board have been making introductions of the facilitator in the communities.

House Economic Development
1-30-03
Attachment 2

As of December 31, 2002:

Introductions (by local board)	250+
Clients	16
New Business	3
Retained Business	1

Quad County Facilitation Group: Chautauqua, Elk, Greenwood, and Woodson Counties. Jack Newcomb, Facilitator.

The Quad County group finished their facilitator training in late June and the 60-person citizen's board has been busy introducing the new facilitator.

As of December 31, 2002:

Introductions (by local board)	666
Clients	45
New Businesses	3
Business Acquisition	1
Jobs	12

The Quad County group has made two formal announcements of success stories resulting from the early months of work by the facilitator and community board. Judy and James Tolbert celebrated the grand opening of their Chautauqua County bed and breakfast on December 12 according to the Sedan and Yates Center newspapers. The Yates Center press at the same time reported the story of Marla Newman, a lifetime Yates Center resident, who acquired a laundromat that she has named "Washboard & More". These are the first two published success stories from the Quad County group.

Northeast Kansas: Counties of Nemaha, Doniphan, Brown, Atchison, and Jackson. Board recruitment was completed in September and over 50 people have completed the one-day board training. The first board meeting has been held and the committees organized. Advertisements were placed for a facilitator and the group is reviewing 74 applications. Interviews were held on January 18, 2003.

Midwest Entrepreneur Association: Counties of Barton, Ellsworth, Russell, Rice, and Edwards have completed their board selection and development process. They will also be advertising for a facilitator and be screening potential applicants on the same schedule as the Northeast group. The Midwest Facilitation Board is composed of over 40 citizens from the five counties. The Midwest group received 63 applications for their facilitator job. Interviews were held on January 14 and 15, 2003. Both groups expect to complete selection of their facilitators in January and complete the one-week facilitator training for the facilitator and 11 board members in February.

The Sirolli Institute Values and Principles

The Sirolli Institute and its founder hold a number of carefully thought out values and principles that form the foundation for our vision and mission. These are the values and principles that we believe in:

Bottom-up Economic Development

The Sirolli Institute is convinced that the future of every community lies in capturing the energy, imagination, intelligence and passion of its people and that development can only be indigenous and based on what is already present in the community.

We believe that Economic development should walk on two legs. The first leg is concerned with the creation of infrastructure for development. Without roads, communication, transportation, energy, land, etc. it is very difficult for the community to survive and for local enterprise to take place. Infrastructure development, however, cannot replace entrepreneurship and no matter how sophisticated the local infrastructure may be, without people using them they are useless.

There has to be a second leg to economic and community development that balances the strategic one. This is the bottom-up responsive leg that captures the motivation and imaginative intelligence of local passionate individuals who wish to engage in bona fide community and economic development projects.

Infrastructure development can only be done strategically by observing the community trends and projecting its future needs. Enterprise Facilitation can only be done responsively by becoming available to self-motivated individuals on an as-needed, just-in-time basis.

The Civic Society

Robert Putnam, Professor of Government at Harvard, has demonstrated that *more than* economic and geographic factors, prosperity can be directly attributed to "civic values" and attitudes and that a precondition for a good economy is the existence of social conditions which allow creativity and intelligence to blossom or to wither and die.

In particular, the environment that is required to capture the passion, entrepreneurship, innovation and creativity of local people is an environment that promotes mutuality and reciprocity. Mutuality and reciprocity suggest that the success, personal and financial, of every citizen is what ultimately makes the entire community successful.

Other tenants of the Civic Society are volunteering and networking. Business people know very well that business is about people. Service clubs, chambers of commerce, main street associations and a myriad of formal and informal networks make referrals possible and provide the social glue out of which business prospers.

The Intrinsic Goodness of Human Nature

The Sirolli Institute believes that human nature is intrinsically good and that the fulfillment of our talents, through work, leads to an improvement not only of our individual lives but of the quality of our communities and society as a whole.

Non Motivation-Non Initiation

We believe that if people do not want to be helped, they should be left alone. Motivation can create dependence and there is nothing more pathetic than the sight of a person who has been manipulated into a career or enterprise that has nothing to do with his/her inclinations and natural talents. Self motivated, passionate people will initiate their own ideas when they feel the time is right.

Passion and Skill

We believe that a truly successful individual is one who is doing beautifully whatever it is that he/she loves doing.

In order to achieve this level of success, the individual will not only harbor a passion for their chosen endeavor but they will have developed the needed skills.

The Trinity of Management

We believe that that to be successful in business, no matter how small, there is a Trinity of Management activities that must be effectively controlled: Production, Marketing and Finance. Based on empirical evidence we have found that the personality conducive to successful marketing is substantially different from the personality of the successful financial manager. We have found that it is possible for an entrepreneur to be skilled and passionate in two of the three areas of activity; i.e., Production and Marketing *or* Production and Financial management, but have never found nor heard of an individual who is equally passionate about Marketing *and* Financial management. Therefore, we believe that is impossible for a lone individual to run a business successfully. This is because it would require that individual not only to be skilled in the three areas of competence but also to be *equally passionate* in all of them.

The Sirolli Institute Vision:

The Sirolli Institute International Enterprise Facilitation™ Incorporated is a 501c3 Not for Profit Corporation registered in the U.S.A. Its affiliate Sirolli Institute Canada Ltd. is a NonProfit Corporation registered in Canada. The Sirolli Institute and its affiliate were formed to promote and implement the social technologies developed by Dr. Ernesto Sirolli that spark economic development at the grass roots level.

The Sirolli Institute vision most simply stated is **"Passion @ Work"**.

The Sirolli Institute believes that human nature is intrinsically good and that the fulfillment of our talents, through work, leads to an improvement not only of our individual lives but of the quality of our communities and society as a whole. We believe that a truly successful individual is one who is doing beautifully whatever it is that they love doing.

Passion is the fire in the belly, the mysterious life force that comes from within, inspired by God knows what for causes that are as mysterious as life itself. It makes us sing, dance, build and sometimes destroy with such resolve that often we sacrifice security, family, riches and careers with it. The word "sacrifice" is not out of place when we talk about passion. "Passion" as a word has somber roots - it comes from the Latin - "passio" and it means "to suffer". The passion of romance and roses pales in comparison to that other passion, the one, for example of Christ on the cross.

Passion means total commitment: and total commitment whether to a cause, an idea, or a person makes you suffer. Not only that, it is also the kind of suffering that is inescapable because it was chosen by you; it is your choice, your cross in life; the only thing in life which makes sense, which gets you out of bed in the morning. Passion cannot be given to you. It is like faith and freedom, it has to come from within.

Passion, however, is not enough. Without the ability to paint, to run, to inspire social change or run a successful business, passion is nothing but wishful thinking and the mother of all frustrations. Skill is what makes the dream real and transforms passion into good work.

The vision of the Sirolli Institute is one wherein our society has aligned its systems and resources to help people identify and test their passion, develop the necessary skills and transform their dreams into reality.

The Sirolli Institute Mission

"The Sirolli Institute assists passionate people to transform their dreams and talents into meaningful and rewarding work."

This mission is carried out through educational, consultative and training services as well as through our Community Enterprise Facilitation model that has been adopted by over 200 communities throughout the U.S.A., Canada and Australia over the past 15 years.

During the earlier part of its history the Sirolli Institute focused primarily on helping communities to enhance their economic development efforts by utilizing the passion and skill of their local entrepreneurs. We help them to accomplish this through the unique social technology and training programs that we have labeled "Enterprise Facilitation™".

More recently we are being called upon by to work in consultation with national associations as well as governments. Commercial corporations are also becoming increasingly aware of the advantages they can enjoy through encouraging and capturing the passion and entrepreneurial spirit that resides within its workforce. We are being approached by them to assist help develop internal or external programs that will help them to achieve this.

We have helped individual entrepreneurs by conducting workshops that form part of their regional and national conferences and, again more recently, we have put resources in place to serve those who approach us on an individual and personal basis..

Last, but by no means least, we increase the awareness of our vision and philosophies through published material and Keynote Speeches at a variety of conferences including government sponsored "summit" events. Our published material includes the captivating book "Ripples from the Zambezi" authored by our founder Ernesto Sirolli available through the Institute, the publisher and several major online book vendors.

All of our products and services are unique in that they complement, support and enhance traditional programs and resources. They never seek to replace or supercede them. Our philosophies are founded upon the establishment of environments that create an appropriate and effective "bottom-up" response by entrepreneurs and others to traditional programs.

Ultimately, the benefit of our work is designed to reach passionate individuals in a manner that will assist them to transform their dreams and talents into meaningful and rewarding work thereby realizing our vision.