

## MINUTES OF THE SENATE COMMERCE COMMITTEE

The meeting was called to order by Chairman Susan Wagle at 8:30 a.m. on March 16, 2011, in Room 548-S of the Capitol.

All members were present.

### Committee staff present:

Ms. Margaret Cianciarulo, Committee Assistant  
Mr. Ken Wilke, Office of the Revisor of Statutes  
Mr. Reed Holwegner, Kansas Legislative Research Department  
Ms. Dorothy Noblitt, Kansas Legislative Research Department

### Conferees appearing before the Committee:

Ms. Patrice Peterson-Klein  
Mr. Pat George, Secretary, Department of Commerce  
Mr. Kevin Carr, President & CEO of KTEC  
Ms. Jan Stack, President and CEO, Matrix Electronic Measuring, Inc.  
Mr. Jeremy Jones, President and CEO, Nitride Solutions, Inc.  
Mr. David Nichol, Principal, Nichol & Associates  
Mr. Gary Mason, CEO of ISU, Vice Chair, KTEC Board of Directors

### Others attending:

Please see attached list.

### Approval of Minutes

The Minutes of January 13, 19, 27 and February 8 and 9 of the Senate Commerce Committee stand as approved as of March 15, 2011.

### Confirmation hearing

The Chair opened the meeting stating they would be having a confirmation hearing for Ms. Patrice Peterson-Klein, as a member of the Board of Directors for the Kansas Development Finance Authority, and asked her to take the stand. The Chair said typically on a first confirmation we ask the individual to come in for questions and if it is a reappointment they are not required to come back in. She then asked if there were any questions from the Committee which came from Senator Holland who asked what excites you about this opportunity? She said she is excited to wear a second hat with the Kansas Housing Resource Corporation because she is also a board member of the Kansas Corporation Commission and knows that access to financing is a critical thing to a state's economic growth. The Chair said she would like to take action. Senator Holland made a motion to confirm the appointment of Ms. Patrice Peterson-Klein. It was seconded by Senator Longbine and the motion carried.

### Hearing on HB2054 – an act abolishing the Kansas Technology Enterprise Corporation (KTEC)

Chairperson Wagle stated the next order of business was a hearing on HB2054 – an act abolishing the Kansas Technology Enterprise Corporation (KTEC) and called on Mr. Ken Wilke, Office of the Revisor of Statutes, to explain the bill which included:

Regarding SB42 which has been discussed earlier, the House committee basically made one primary amendment which spawned some others. The primary amendment is found on page 3, lines 28 through 30. By striking this language it transfers the Centers of Excellence to the Department of Commerce rather than to the Board of Regents. Apparently this was the original intention, but it was not conveyed to the Revisor's Office when the original bill was written.

The Chair asked why it's not in dark type as a House amendment? (They struck that language. The change that you see below on line 34, was a technical correction. There was no paragraph 2 when the bill was printed originally so (3) should have been (2). That was the technical change and nothing has been taken out and the only thing left going to the Board of Regents is basically the EPSCORE situation. He went on to say these changes spawned some other cleanups that are all similar in that they were missed in the original bill and should have been the Department of Commerce, including:

## CONTINUATION SHEET

The minutes of the Senate Commerce Committee at 8:30 a.m. on March 16, 2011, in Room 548-S of the Capitol.

1.) Page 22, line 24 is a clean up that got missed in the original bill that should have been the DOC.

2.) Page 28, line 17 and line 29 was a reference to the Board of Regents and changed that to the DOC. Similarly, on page 30 lines 2, 5, 16, 29, 30, 32, and 35 and the same thing on page 31 lines 8, 9, 16, 22, with several changes made to show the DOC.

As there were no questions for Mr. Wilke, the Chair called on the only proponent to testify, Mr. Pat George, Secretary, Department of Commerce, who stated KTEC has impacted the Kansas economy in many positive ways since its creation in the late 1980s. But today, Kansas must explore ways to increase efficiencies and common areas of expertise and this proposed consolidation would do just that. He stated the DOC embraces the opportunity to serve the technology firms and centers for research that KTEC has nurtured diligently for many years.

He went on to say, with this bill abolishing KTEC, all powers, duties and functions will transfer to DOC including:

- 1.) All powers, duties, and functions of KTEC under New Section 2.
- 2.) All balances for all funds and liabilities of KTEC.
- 3.) Within the new division at the DOC, it is anticipated that current KTEC employees will be first considered for open positions.
- 4.) All property, property rights and records pertaining to the powers, duties, and functions of KTEC pursuant to New Section 2.

Secretary George stated it is anticipated that some from existing FTE's can be made available to assist in administering KTEC functions.

Lastly, he offered some additional notes on savings, including: the Governor has indicated that the State will recognize savings of \$1,723,828 comprised of Operations (salaries and overhead), PIPELINE, and the Investment Program. He added that the Senate Ways & Means subcommittee reviewing the Commerce budget, recommended reviewing PIPELINE funding options. A copy of his testimony is (Attachment 1) attached and incorporated into the Minutes as referenced.

As Secretary George had to leave for another meeting, the Chair asked for questions for him which came from Senator Holland who asked why are we trying to fix something that is not broke? (He agrees, it is not that it is broken. It seems that the consolidation makes sense and he could make your case on this just as well. There also seems to be an overlap with KTEC in that everything we do now in Commerce has a technology approach. There is no argument about what KTEC is doing is the right thing, what we hope to create by merging them into Commerce is maybe a common voice, and to do it a more efficient manner.) As there were no further questions, the Chair thanked Secretary George.

Written proponent testimony was also offered from Mr. Mark Turnbull, Director of Economic Development, City of Pittsburg. A copy of his testimony is (Attachment 2) attached and incorporated into the Minutes as referenced.

The Chair wanted to Committee to know that this bill has also been double referred. It went to Ways & Means and they have approved of the bill and it is now sent to our Committee. She then called on the first of five opponents, Mr. Kevin Carr, President & CEO of KTEC who stated he is here speaking on behalf of their Board of Directors, our network service providers around the state, and the technology entrepreneurs of small businesses which we touch, several of them are here today. He wanted to offer a few basic points including:

- 1.) Innovation/Entrepreneurism is critical to economic growth and to the state's economy - the state's role is to level the playing field by creating an environment which innovative people can respond to and thrive. And KTEC is meeting its mandate and performing well.

## CONTINUATION SHEET

The minutes of the Senate Commerce Committee at 8:30 a.m. on March 16, 2011, in Room 548-S of the Capitol.

2.) Fiscal implications/operational savings - current Ways & Means budget includes \$4.85M of former KTEC programs and operations and current year fiscal impact of shutdown is \$120K for legal and IT work.

3.) KTEC: some good news for Kansas - demonstrated results including creating high-growth companies and KTEC assisting firms to create jobs. For example, in FY-07 – FY10, KTEC companies created 2,043 jobs and saved 1,620 existing jobs; how they level the playing field including access to risk capital; return on investment in KTEC – FY2010 included helping young companies raise \$66.7M in private equity investment.

A copy of his testimony is (Attachment 3) attached and incorporated into the Minutes as referenced.

Next to testify is Ms. Jan Stack, President and CEO, Matrix Electronic Measuring, Inc., Salina, Kansas who offered KTEC's direct and indirect impact on Matrix including:

1.) KTEC provided \$500K in Angel Tax Credits which was critical to our success in raising over \$1.5M in equity capital in a down economy. They also invested \$100K in Matrix to help build the Wand's first production models.

2.) Indirectly, the membership program provides guidance and direct consulting in all areas of small business development. A copy of her testimony is (Attachment 4) attached and incorporated into the Minutes as referenced.

The third opponent is Mr. Jeremy Jones, President and CEO, Nitride Solutions, Inc. who stated their business was started in Wichita in 2009, to develop a revolutionary material for the manufacture of high-value electronic products like LEDs, lasers, and power electronics. He stated KTEC has provided them with four critical elements to success including:

1.) Business guidance and support through their network, in particular, Wichita Technology Corporation which has provided access to capital through their local angel network, business plan refinement, consultation on critical strategic issues, and has been a major plus for out-of-state investors.

2.) Proof of Concept funding – KTEC's investment in our company kept us alive during our initial stages and provided credibility to outside investors. It also allowed us to hire a noted researcher in our technology from a competitor in North Carolina.

3.) Access to angel networks such as MidAmerica Angels who has done extensive diligence on our Company and has made an investment, again providing credibility to out-of-state capital sources.

4.) Kansas Angel Tax Credits – these have been a major draw to individual investors, both in and outside of Kansas.

He offered his reasons for his strong support for the PIPELINE program including, refining his message and business focus and gave him valuable feedback from other Fellows in the program as well as the top-notch instructors and advisors that PIPELINE provided during the year.

Lastly, he stated, while Commerce provides the critical focus and capabilities to attract and retain existing companies in the State, these are very different skills that provide the infrastructure and support to early-stage companies. A copy of his testimony is (Attachment 5) attached and incorporated into the Minutes as referenced.

Fourth to testify is Mr. David Nichol, Principal, Nichol & Associates who stated early-stage companies face an entirely different set of issues, with a very different sense of urgency and need for timeliness. At all levels, fast on your feet is a requirement, whether employees, founders, investors, bankers or members of the Board. That is why even in the private sector, large organizations have a very difficult time replicating the success of independent start-ups. Another significant consideration of such a move to Commerce, is the impact it will have on our State's eco-system for supporting early stage enterprises. A copy of his testimony is (Attachment 6) attached and incorporated into the Minutes as referenced.

## CONTINUATION SHEET

The minutes of the Senate Commerce Committee at 8:30 a.m. on March 16, 2011, in Room 548-S of the Capitol.

The last opponent called on to testify is Mr. Gary Mason, CEO of iSi Environmental Services who stated he was a member of the PIPELINE class of 2009 and currently serve as the Vice Chair of KTEC, and serves on the KTEC Board of Directors and believes the Board, in its current form, allows for both transparency and Legislative oversight for KTEC's operations. Regarding the importance of KTEC, he stated it has a unique focus on innovation and entrepreneurship, dramatically different from the traditional economic development approach of the DOC with different goals and metrics. It is producing tangible results; establishing tremendous credibility with entrepreneurs, small innovative companies, and most importantly with investors. And KTEC's balanced structure enables the agency to move at the pace of business and provide services which directly impact business' bottom line. Many states around the nation are working hard to create what we have. A copy of his testimony is (Attachment 7) attached and incorporated into the Minutes as referenced.

The Chair thanked the conferees and asked for questions or comments from the Committee which came from Senator Steineger who stated, mergers happen all of the time and what we often find is that the guys in the company that gets taken over or bought out are usually the ones that get the boot. He feels the bill will pass, and hopes that he and all the other folks here can help in a positive way to make it happen in a good way, rather to resist and fight. Senator Lynn concurs with him and hopes in the future we could insure some way, when a bid goes out, that Kansas manufacturing gets a first look.

### **Adjournment**

As there was no further business, the Chair announced the meeting was adjourned. The time was 9:31 a.m.

The next meeting is scheduled for March 17, 2011.



# SENATE COMMERCE COMMITTEE GUEST LIST

DATE: March 16, 2011

NAME	REPRESENTING
Derek Klein	HEIN LAW FIRM
T.J. Cahill	Sen. Pyle
Ron Siebert	
Michelle Diller	Cap. Strategics
<del>John Pozner</del>	KCHS
Jonathan Krueger	KBOR
Ryan Vincent	KHRC
Brad Kramer	AMI-K-State
Scott Johnson	Audio Anywhere
Kyle Johnson	Audio Anywhere
David Clark	Intern - Vrsd!
David Nicol	
Dan Mason	iSi Environmental
Jeremy Jones	Nitrox Solutions
Chubby White	Kansas Inc.
Eric Ferkell	Alliance for Technology Commercialization
Andy Myers	KPRC - Pittsburg State Univ.
Lyn Radwan	Quest Center

## SENATE COMMERCE COMMITTEE GUEST LIST

DATE: \_\_\_\_\_

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**Testimony on House Bill 2054  
to  
The Senate Commerce Committee  
By Secretary Pat George  
Kansas Department of Commerce  
March 16, 2011**

Thank you for the opportunity to appear before you today to discuss House Bill 2054, which relates to Kansas Technology Enterprise Corporation (KTEC).

KTEC has impacted the Kansas economy in many positive ways since its creation in the late 1980s. Today, Kansas must explore ways to increase efficiencies and common areas of expertise. The proposed consolidation is an effort to do just that. Many of the core functions of KTEC, such as the Centers of Excellence and The Entrepreneurial Centers will be continued in the department.

The mission of the Department of Commerce is to develop business and industry in Kansas, including those related to technology. That mission will be further enhanced by the transfer of KTEC to Commerce, and will continue to bring out the best in innovation, collaboration and the entrepreneurial spirit that can be found in state government. My expectation is that Commerce will be viewed as a model for creating and expanding technology-based economic development in Kansas.

Innovation and collaboration live in Commerce today. Our talented and dedicated staff has extensive relationships in the business community throughout Kansas, the nation and throughout the world and we embrace the opportunity to serve the technology firms and centers for research that KTEC has nurtured diligently for many years. I expect the KTEC programs to grow and thrive in Commerce as the engines of economic growth that we need in our state.

*Senate Commerce Committee  
Date: March 16, 2011  
Attachment 1*

This bill would abolish the existing Kansas Technology Enterprise Corporation and transfer all powers, duties and functions to the Kansas Department of Commerce except for certain functions specifically transferred to the Kansas Board of Regents.

- Commerce would be the successor to all powers, duties, and functions of KTEC transferred to it under New Section 2.
- All balances for all funds and liabilities of KTEC would be transferred to Commerce.
- Within the new division at the Department of Commerce, it is anticipated that current KTEC employees will be first considered for open positions.
- Commerce would also succeed to all property, property rights and records pertaining to the powers, duties, and functions of KTEC transferred to Commerce pursuant to New Section 2.

There are many moving parts at Commerce currently, and various functions moving out of the agency. It is anticipated that some time from existing FTE can be made available to assist in administering KTEC functions.

#### Additional Notes on Savings

With moving the KTEC programs to Commerce, the Governor has indicated that the State will recognize savings of \$1,723,828. That amount is general comprised of approximately \$1,079,443 in Operations (salaries, overhead), Pipeline (\$400,000) and Investment Program (\$300,000).

Within our current budget, and current FTE count, we will absorb one FTE from the budgeted 14.7 FTE level (actively 9 FTE) for KTEC functions inside the Department of Commerce.

Please note that the Senate Ways & Means subcommittee reviewing the Commerce budget recommended reviewing PIPELINE funding options.

Thank you for the opportunity to discuss House Bill 2054. I am happy to stand for any questions.



## ECONOMIC DEVELOPMENT

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66762

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www.pittks.org

KTEC Hearing House Bill 2054

The Honorable Senator Susan Wagle

Madam Chair,

My name is Mark Turnbull. I am the Director of Economic Development for the City of Pittsburg. Thank you for the opportunity to provide information on the topic of the elimination and integration of the KTEC into the Kansas Department of Commerce. I present this information as a twenty plus year member of the Kansas Cavalry Board of Directors, thirty year career in Kansas Economic and Community Development, member of the Alliance for Technology Commercialization Board of Directors and a founder/manager of one of the first Business Incubators in Kansas (1987).

I also want to thank you for allowing me to provide information into the discussion of KTEC and the most effective position to assist Kansas entrepreneurs, service businesses and manufacturing companies. KTEC serves a different target group with differing needs than does the traditional economic development organization. My personal desire is to retain the current organizational structure and governance of this vital entity.

Pittsburg has co-funded for over a decade the Alliance for Commercialization and the Milestones Venture Capital Fund, located on the Pittsburg State campus, in partnership with KTEC through one of the longest funded local tax supported funds in the State and region. We depend on ATC and KTEC for business research and development services for Pittsburg, Crawford County and the Southeast Kansas Region. This is the vehicle multiple Pittsburg City Commissions have chosen to efficiently and effectively provide consulting and business development support for aspiring Kansas entrepreneurs. Financial support of this dual initiative is adopted within the communities Strategic Plan 2010-2015. Our community views the current KTEC and ATC approach as the most efficient and financially prudent approach.

KTEC has been a success. The following statistics provided in recent reports are evidence of the success of KTEC as it currently is operated;

In FY 2010, KTEC:

- Helped Kansas companies create and retain **1,035** technology jobs with estimated annual salaries:
  - **\$50,000** in manufacturing
  - **\$70,000** in technology

*Senate Commerce Committee  
Date: March 16, 2011  
Attachment 2*

- Produced **\$432.5 million** in new revenues
- Helped young companies raise **\$66.7 million** in private equity investment
- Helped Centers of Excellence and other university-based programs attract **\$123.5 million** in federal funding
- Generated an estimated **\$3.36** in state tax revenue back to state's general fund for each **\$1.00** appropriated (\$24.9 million total)

#### **KTEC-assisted companies to create wealth and generate high paying jobs for Kansas**

FY 2007 – FY 2010 KTEC companies:

- Generated **\$1.15 billion** in sales revenue
- Generated **2,043 new jobs**

High growth firms (less than 1% of all companies generate **40%** of new jobs in any given year)

- In FY 2009, **42%** of KTEC companies created new jobs as compared to the **8% national average**

Salaries (2X that of average Kansas wage)

- **\$50,000** manufacturing
- **\$70,000** technology

As you debate this question, I feel there are critical discussion and decision points to consider. These points listed below indicate KTEC, the current responsible organization, is in the best position to serve this unique target. For the reasons listed below I support the continued structure;

- KTEC organizationally has a unique focus on innovation and entrepreneurship—dramatically different from the traditional economic development approach of Department of Commerce, with different goals and metrics.
- KTEC is working – producing tangible results.
- KTEC has well-established credibility with entrepreneurs, small innovative companies, and investors.
- KTEC's quasi-public structure provides balance between the Governor, Legislature, local government, academia and business, and is a primary reason for the organization's credibility.
- Cost savings of the proposed consolidation pale in comparison to potential erosion of the state's infrastructure for innovation-based entrepreneurs and the translation of intellectual property into business opportunity.

For our community, Pittsburg State University and the Kansas Technology Center are another key component in the technology research and commercialization equations. Our region is fortunate to have a multi pronged approach to product commercialization and delivery. My 30 years of professional development in Pittsburg has seen a special relationship grow between KTEC and the College of Technology at PSU. Faculty, administration and KTEC staff are focused on a single purpose; rebuilding the Southeast Kansas and Kansas manufacturing base. This partnership is effective and working today for Kansans. The concern of the erosion of external dollars is real if the current partnership is dissolved. We are, hopefully, recovering from a terrible recession. Any interruption in the flow of external dollars will cost Kansas jobs.

As a former incubator manager I am confident the current approach is the best approach.

I remain,

Sincerely,

Mark D Turnbull  
1005 Cedar Lane  
Pittsburg, Kansas 66762

KANSAS  
TECHNOLOGY  
ENTERPRISE  
CORPORATION

**Ktec**

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*Senate Commerce Committee  
Date: March 16, 2011  
Attachment 3*

## Senate Commerce Committee

Kevin Carr, CEO  
March 16, 2011



## Innovation/Entrepreneurism Critical to Economic Growth

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- Innovation-based entrepreneurism is critical to the state's economy
- The state's role is to level the playing field
- KTEC is meeting its mandate and performing well
- Structure matters
- Potential cost savings are far outweighed by loss of dedicated focus on innovation, entrepreneurism and diluted economic impacts for the state

## Economic Implications

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### **What Kansas would lose if the bill is passed**

- Dedicated focus on innovation, entrepreneurship
- Balance between private sector, academia, executive and legislative branch
- Cohesive, integrated network
- Expertise, experience, continuity
- National connections
- Level playing field for Kansas entrepreneurs

## Fiscal Implications

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### Operational savings

- Current Ways & Means Budget includes \$4.85MM of former KTEC programs and operations
- Total savings upon elimination \$250K
- Current year fiscal impact of shutdown \$120K for legal and IT work.

## KTEC's Unique Role in Innovation

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### **KTEC exists to support innovation and entrepreneurs**

- **Unique focus** on innovation, entrepreneurship
- Cohesiveness, **integration** of resources and services essential to vibrant innovation ecosystem
- **Demonstrated success** in identifying and cultivating high-potential ventures
- Well established **credibility**, both in Kansas and nationally, with private sector, investors, entrepreneurs, trade associations and federal agencies

## KTEC: Some Good News for Kansas

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### **KTEC is a counterforce in today's downturn economy**

- Demonstrated results
  - High-growth companies
  - National, global sales bring revenue from outside the state
  - Spin-off business for other Kansas companies
  - High paying jobs
  - Expanding tax base
  - Retaining talent

## Leveling the Playing Field for Kansas Entrepreneurs

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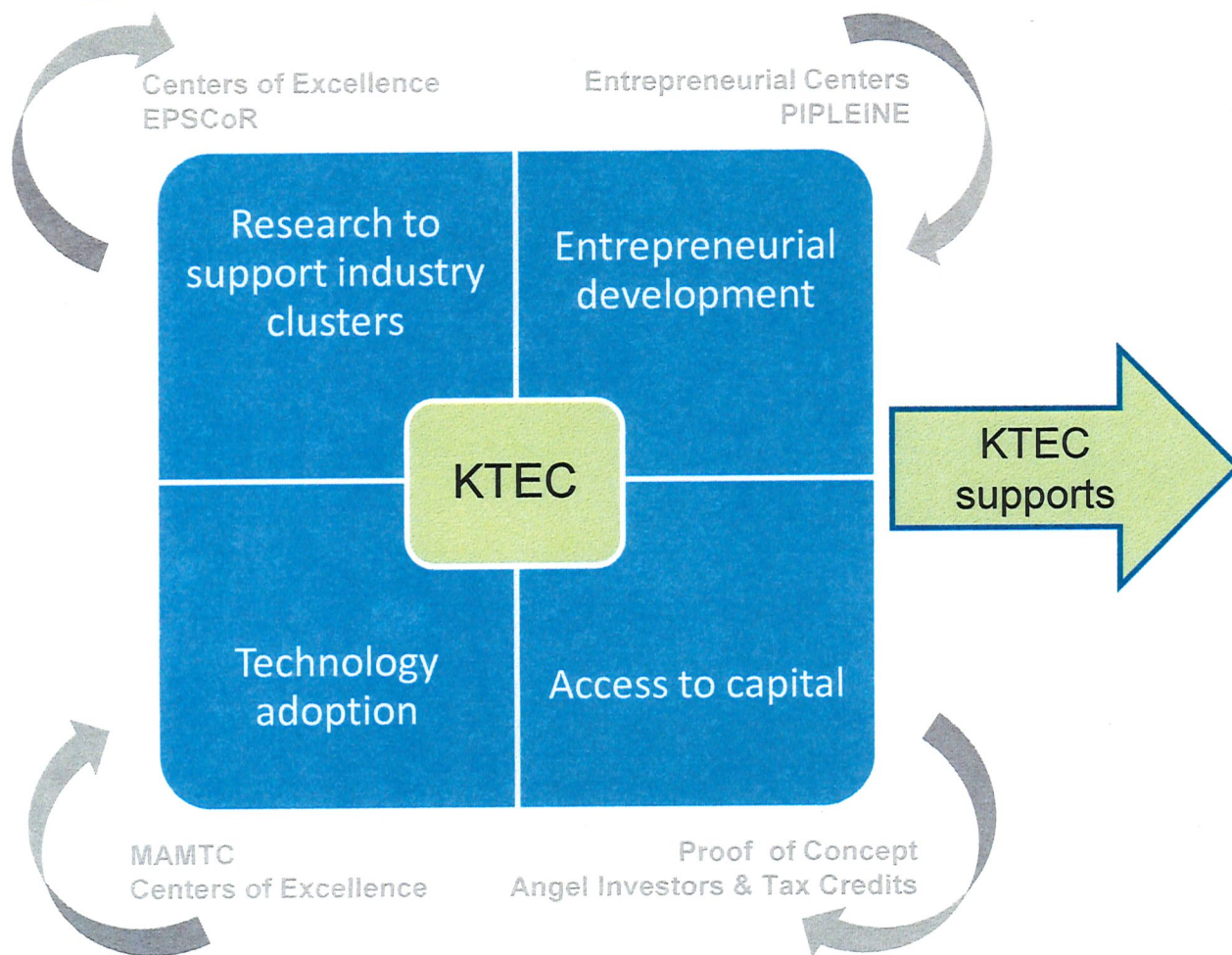
### **KTEC knows how to level the playing field for Kansas entrepreneurs**

- Technical resources to move raw technology toward marketable products
- Access to risk capital
- Help entrepreneurs match their technologies to market needs
- National network of mentors, professionals
- Exposure to national, global markets

*"Think about an ecosystem like the Silicon Valley. It takes time. Kansas entrepreneurs who are successful will reinvest in their communities. It's not going to happen over night, but it WILL happen."* Chris Shipley, Guidewire Group, San Francisco



## KTEC: A Catalyst for Innovation-Based Economic Development



- Information technology
- Aircraft design & safety
- Advanced materials
- Precision manufacturing
- Clean tech – all energy & environmental technologies

## KTEC: Some Good News for Kansas

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- High-growth firms (less than 1% of all companies) generate **40%** of new jobs in any given year

### **KTEC-assisted firms create jobs**

- FY 09 – **42 %** of KTEC companies created new jobs as compared to 8% national average
- FY 07 – FY 10 KTEC companies created **2,043 new jobs** and saved **1,620 existing jobs**

*"It is clear that young companies and the entrepreneurs that create them are the engines of job creation and eventual economic recovery." The Kauffman Foundation, March 2010*

*"In the last 30 years, all net job creation in the U.S. has taken place in firms less than five years old." The Kauffman Foundation, March 2010*

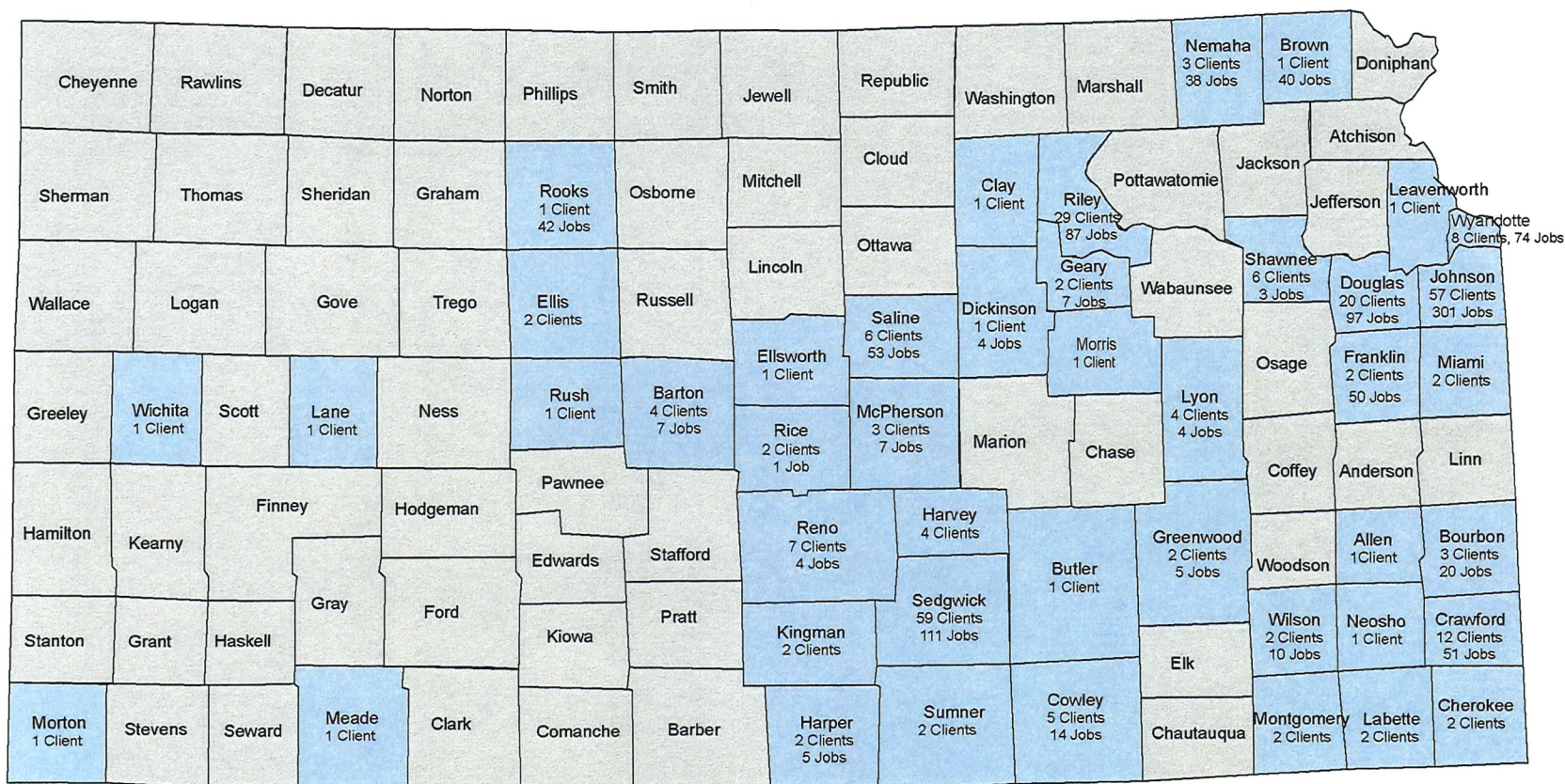


## Kansas' Return on Investment in KTEC – FY 2010

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- Helped Kansas companies create and retain **1,035** technology jobs with estimated annual salaries:
  - **\$50,000** in manufacturing
  - **\$70,000** in technology
- Produced **\$432.5** million in new revenues
- Helped young companies raise **\$66.7** million in private equity investment
- Helped Centers of Excellence and other university-based programs attract **\$123.5** million in federal funding
- Generated an estimated **\$3.36** in state tax revenue back to state's general fund for each **\$1.00** appropriated (\$24.9 million total)

## KTEC Impact by County – FY 2010



271 Clients

44 Counties

1,035 Jobs



## KTEC Impacts – FY 2010

	FY 2007	FY 2008	FY 2009	FY 2010
New Jobs	420	504	501	618
Saved Jobs	366	429	408	417
Startup Companies	17	20	8	7
Sales Revenues (in millions)	\$197.9	\$207.3	\$315.7	\$432.5
Private \$ Leveraged (in millions)	\$43.4	\$46.2	\$56.9	\$33.2
Federal \$ Leveraged (in millions)	\$63.8	\$93.9	\$124.8	\$123.5
<b>Return On Investment (ROI):</b>				
KTEC (\$ to 1) *	0.96	1.00	1.57	3.36
Private \$ Invested in KS vs. KTEC (\$ to 1)	23.11	46.85	126.54	66.78
Federal \$ Invested in KS vs. KTEC (\$ to 1)	8.22	14.19	21.99	35.41
Companies Assisted	258	209	161	271
Counties Impacted	47	39	35	44

*In FY 2010, every \$1.00 of state investment returned \$3.36 in taxes back to the state.*

## KTEC's Unique Role in Innovation

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### Structure matters

- The KTEC model as originally envisioned is **solid**
- KTEC serves a **specific role** in economic development that other state agencies do not
- KTEC is “the glue” that **solidifies the statewide network** of resources and support for entrepreneurs, high-growth companies
- KTEC has the **experience and expertise** required to fundamentally understand and respond to needs of young companies and promising entrepreneurs

*“KTEC is a viable entity to the state of Kansas and needs to remain a stand-alone state agency.”*  
Special 13-member Bipartisan Legislative Committee on Kansas Technology  
Enterprise Corporation, December 2009

## KTEC's Unique Role in Innovation

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### Structure matters

- 20-member board of directors provides:
  - Legislative insight, direction
    - Long-term focus
    - Decision making on investments, grants
  - Private sector involvement
  - University input
  - Transparency
- Why a board of directors as compared to an advisory board:
  - Balance between executive, legislative, academic and private sector
  - Bridge between public sector and private sector resources
  - Credibility with entrepreneurial community, angel investors, private sector providers

## KTEC's Unique Role in Innovation

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### **Structure matters**

- 143 private sector, economic development experts from across the state
- National network of industry experts, mentors with wealth of expertise to strengthen Kansas' efforts
- Environment that attracts venture capital, including 109 out-of-state investors in FY 2010



## Fiscal Implications Tied to HB 2054

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### Costs to wind down KTEC

- \$120,000 = legal fees and tracking software
  - Amend, assign or liquidate KTEC ownership in current portfolio companies – active or inactive
  - Dissect data from current software to accommodate programs being split between Commerce and Board of Regents
- \$550,000 annually going forward
  - Manage programs
  - Manage current portfolio
    - 40 active companies must be closely monitored
    - Board and shareholder meetings
    - Collect and analyze quarterly and annual financial data
    - 2-3 day turnaround on essential follow-on investment documents
    - Delay in turnaround can seriously damage the company and existing investors
  - Manage Angel Tax Credit program
    - Requires 2 FTEs
    - Program continues for 6 more years under statute

## Major Factors to Consider

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- Loss of venture capital funding
  - 40 companies must be closely monitored
  - 2-3 day turnaround of essential documents for review, signatures of all shareholders
  - Delay in turnaround likely will result in loss of funding which, in turn, will cost the company its existence **and** cost Kansas jobs and wealth
- Assets of portfolio companies **are not liquid**
  - There is no immediately realizable cash value to these assets
  - Can only be monetized through an IPO or merger/acquisition
- Extensive, **ongoing** involvement until exit
  - Board meetings (KTEC sits on 14 boards)
  - Annual shareholder meetings
  - Amendments, voting rights, articles of incorporation



## Why KTEC Should Remain a Stand-alone Entity

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KTEC and Commerce play two entirely different roles in the Kansas economy

- KTEC has a *single focus* for economic development – *innovation and entrepreneurship* in the high-tech arena
- Commerce works in the *traditional arena of recruiting and retaining established businesses*, an important component of growing the economy – *very different from growing companies from within, from new innovations*
- Fragmentation of programs
- Loss of direct involvement by legislature
- Eroded credibility with entrepreneurs and risk investment community

***The entrepreneurial community believes that KTEC is getting it right. Moving the organization into the Department of Commerce risks losing connections to the private sector, agility to be responsive to business, and a single focus on this critical aspect of our economy.***



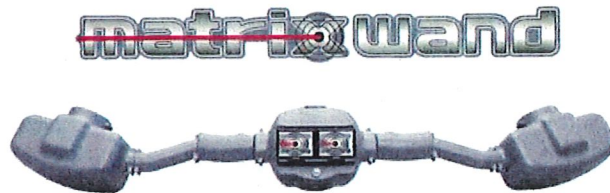
**Matrix Electronic Measuring, Inc.**

March 16, 2011

To the Members of the Senate Commerce Committee,

As President and CEO of Matrix Electronic Measuring Inc., I must respectfully oppose Senate Bill 42.

**"KTEC Brings Innovation and Jobs to Kansas"**



The Matrix Team has developed the Matrix Wand. This Wand is the only photogrammetry, 3-D, hand held, portable electronic measuring device in the World! Today, Matrix is in negotiation with a multi-billion dollar company for a \$30,000,000 million dollar Partnership. This would not have been possible without KTEC and PIPELINE!! We are but one example of a Kansas business that owes its existence to KTEC. Our jobs are exactly the kind of jobs, "Professional and Technical" that all States need and are competing for. New business start up is extraordinarily difficult. Kansas cannot afford to lose the proven track record of KTEC's leadership in new innovative business development support. KTEC passes their wisdom on to Kansas based entrepreneurial start up companies, such as Matrix. This is absolutely critical to the future of small business and the State of Kansas economy.

**"KTEC Invests in Innovative Companies"**

KTEC & KTEC PIPELINE are priceless resources for the future of Kansas! Matrix Electronic Measuring Inc. would not be a company today without KTEC, PIPELINE, Direct Equity Investments, Angel Tax Credits, Mentor Assistance Program and other support that has been provided to Matrix. Matrix has needed and used all of these resources!

**DIRECT IMPACT**

The direct impact of KTEC on Matrix can be summarized as:

1. KTEC provided \$500,000 in Angel Tax Credits which was critical to our success in raising over 1.5 Million dollars in equity capital, in a down economy.
2. KTEC made a \$100,000 in Matrix. This Investment provided needed capital to Matrix to build the Wand's first production models. Their Investment brought tremendous credibility with additional Angel Investors, and business leaders.

**INDIRECT IMPACT**

*Senate Commerce Committee  
Date: March 16, 2011  
Attachment 4*

The indirect impact of KTEC is not measured in dollars, the value is **PRICELESS:**

1. The mentorship program provides guidance and direct consulting in all areas of small business development. Matrix has avoided many destructive "land mines" and gained a wealth of knowledge through KTEC's vast human resources.
2. With the Credibility of the KTEC & KTEC PIPELINE stamps of approval, Matrix has secured a world class Board of Directors and Advisors. Lee Young, owner of Vortex, Salina, KS, is Chairman of the Board, and Mollie Carter, President and CEO of Sunflower Bank, Salina, KS, is one of our Advisors.

Please do not underestimate the priceless roll that KTEC & KTEC PIPELINE has provided to Matrix and continues to provide for many other Kansas Innovators.

Without KTEC, Matrix would not exist.

**With YOU and KTEC, we all have the opportunity to bring innovative products to market and the opportunity to create jobs in Kansas!**

Sincerely,



Jan Srack

President & CEO



March 16, 2011

**HB2054 - Opposed**

Dear Commerce Committee members,

As CEO of Nitride Solutions, a Wichita start-up company and direct beneficiary of both KTEC and PIPELINE's services I am writing because of my concern over the future of these key organizations.

Nitride Solutions was started in Wichita in 2009 to develop a revolutionary material for the manufacture of high-value electronic products like LEDs, lasers and power electronics. We believe that this company can be a \$150 million business in five years and employ over 100 highly-skilled people in jobs that would pay significantly above the state average. When we started the company we had a stark choice: stay in Kansas or move to the East or West Coast. Moving to one of the coasts would have been in some ways easier, as we were small, easily movable and there was much greater availability of Angel and Venture Capital that was familiar with our technology and markets. However we wanted to remain in Kansas and grow a vibrant, high-growth business, but needed critical business support in order to survive. This support came from KTEC and PIPELINE. I have lived in a number of high-tech regions in the US while working for both Fortune 500 and start-up technology companies and was very impressed by the resources and capabilities provided by these two entities. In my view they are unique and critical to the State going forward.

Nitride Solutions would not be here today without KTEC's support. KTEC has provided us with four critical elements to success:

- Business guidance and support through their network, in particular Wichita Technology Corporation. - WTC has provided access to capital through their local angel network, business plan refinement and consultation on critical strategic issues, and has been a major plus for out-of-state investors.
- Proof of Concept funding – KTEC's investment in Nitride Solutions kept us alive during our initial stages and provided credibility to outside investors. It also allowed us to hire a noted researcher in our technology from a competitor in North Carolina.
- Access to angel networks such as MidAmerica Angels – MAA has done extensive diligence on our Company and has made an investment, again providing credibility to out-of-state capital sources.
- Kansas Angel Tax Credits – These have been a major draw to individual investors, both in and outside of Kansas.

*Senate Commerce Committee  
Date: March 16, 2011  
Attachment 5*

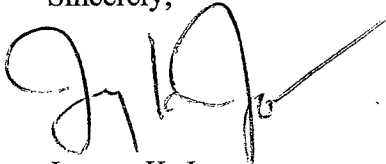


In my experience KTEC 'gets it'. They realize that only a comprehensive network of capabilities that can adapt and move quickly will allow a start-up to succeed. They are rigorous in their evaluation, timely in their responses and recommendations and have provided us contacts with critical resources in the region. It is my strong opinion that folding KTEC into the Department of Commerce will cripple these capabilities, as the focus on the unique process of growing a start-up business will be lost. While Commerce provides the critical focus and capabilities to attract and retain existing companies in the State, these are very different skills than providing the infrastructure and support to early-stage companies. I believe Koch Industries understood this when they started Koch Genesis, their open innovation and venture business of which I was Vice President. Rather than have this be an activity buried in their core M&A business, they chose to keep it separate, understanding that investing in early-stage companies took a far different mind and skill-set than buying large, existing businesses.

I also want to state my strong support for the PIPELINE program. I was selected as a 2010 Fellow and recently won the 2010 Innovator of the Year award. Having had long experience in building new businesses in companies like Polaroid, Motorola and Cabot, as well as managing Venture Capital for Koch Industries I was skeptical that I really needed a program like this. I was wrong. PIPELINE is a rigorous program that refined my message and business focus and gave me valuable feedback from the other Fellows in the program as well as the top-notch instructors and advisors that PIPELINE provided during the year. The Fellows in both this and previous year's classes are building exciting businesses with high growth potential in the state of Kansas. The program is getting great national recognition and in my experience is a unique capability in the US, without which Nitride Solutions odds of success would have been much lower. Finally, the network of national mentors made available to me during the year brought a great resource to Nitride Solutions that would have been difficult to replicate, even with my contacts in the national business and venture communities. This capability really levels the playing field with strong entrepreneurial states like California, North Carolina and Massachusetts.

In summary, KTEC and PIPELINE are resources to be supported whole-heartedly, not re-structured or cut. I understand and fully support the State's drive for fiscal responsibility, but these programs are a low cost, highly leveraged capability that position a company to be competitive in the free market and bring new growth, revenue and jobs to the State of Kansas.

Sincerely,



Jeremy K. Jones

President and CEO, Nitride Solutions Inc.

**DAVID J. NICOL**

9871 West 83<sup>rd</sup> Street, Overland Park, Kansas 66204  
o: (913) 341-8250 | m: (360) 951-9460 | e: dnicol@kc.rr.com

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March 16, 2011

**RE HB2054: Proposed elimination of KTEC, Pipeline and Proof of Concept funding;  
and move to Dept of Commerce of: Entrepreneurial Centers, university  
Centers of Excellence, Angel Tax Credit program and MAMTC**

Thank you for this opportunity to provide you with my perspectives on this important matter.

For many years, I've tried to do my part to help the state of Kansas by leveraging my skills and experience as a long-time technology and IT executive, angel investor, Board member and advisor. I am and have been an active participant, supporter and promoter of KTEC, Pipeline, the Entrepreneurial Centers and the Centers of Excellence programs.

In view of the direct, measurable benefits these programs have provided for the state of Kansas - along with the national recognition we have received - I am therefore both very surprised and extremely dismayed to learn that the House has passed and that the Senate is considering legislation proposing to eliminate KTEC and Pipeline, with the rest of it to be administered going forward by the Department of Commerce.

This proposal makes no sense whatsoever.

It should be absolutely clear to anyone who checks the facts that the loss of KTEC would be to the quantifiable, immediate and obvious detriment of every resident in the entire state. I can assure you that without KTEC there will be a huge vacuum in this state for early stage development companies. KTEC's success has caused Kansas to be widely recognized as a leader in technology business development. It is for these same reasons that both KTEC and Pipeline have acquired an impeccable and well-deserved national reputation, and have served as model programs for other states.

Whatever purported cost savings as might arise from such an ill-conceived move, there's little doubt that it would be more than offset - within the first fiscal year - by a multiple of that through the loss of benefits we would otherwise receive as a direct consequence of KTEC. The cumulative effects of that over the next several years could have a devastating impact on the state's growth and economic prospects, from which we might never recover. In fact, given KTEC's consistent success, there is a compelling case that in our current economic situation we should be considering putting more resources into KTEC, not less.

The logical fallacy here of course is that it is very misleading to look only at cost savings without netting against that the benefits to be lost as a consequence. In this case, any reasonably objective assessment would show that the benefits delivered by KTEC far outweigh the net costs to be eliminated by its closure.

Even KTEC's severest critics agree and acknowledge that KTEC has a long track record of demonstrable and quantifiable success, with an incredibly high payback and return on investment to the state. Indeed, as you have all heard in previous testimony, every dollar invested has provided a multiple of that back to the State of Kansas and its residents, especially in terms of high-value jobs, new taxes, increasing the tax base, and building a critical mass of infrastructure for nurturing and driving new business development.

*Senate Commerce Committee  
Date: March 16, 2011  
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Please help us to keep this valuable resource – which the current economic situation has made even more necessary - by overturning the misguided proposal to eliminate KTEC and Pipeline.

I am equally concerned with the notion that we could simply “move over” to Commerce all of KTEC’s responsibilities and its critical role in establishing and nurturing early stage businesses. The fact of the matter is that’s just not going to work – at the highest level, a completely different mindset is needed to deal with established companies as compared with early-stage, entrepreneurial ones.

Early-stage companies face an entirely different set of issues, with a very different sense of urgency and need for timeliness. Survival is paramount, and typically time horizons are very short. Hence, more funding and/or getting that next piece of business tend to be everyday concerns, with “running on fumes” the norm. Abrupt mid-course corrections are not unusual and often even essential to survival. At all levels, fast on your feet is a requirement, whether employees, founders, investors, bankers or members of the Board. That’s why even in the private sector, large organizations have a very difficult time replicating the success of independent startups.

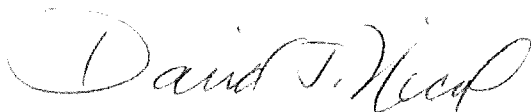
Another significant consideration of such a move to Commerce is the impact it will have on our State’s eco-system for supporting early-stage enterprises. A vibrant, thriving early-stage community needs a critical mass of both entrepreneurs and resources to make it happen. KTEC has been both catalyst and the glue to bring together the needed support resources – expertise, support services and of course funding. With the demise of KTEC (and Pipeline) we will lose the network of relationships that have been carefully built up over these past many years. In particular, we should not underestimate KTEC’s leadership in aiding Kansas startups seeking funding. Their careful vetting of candidates has been instrumental in obtaining financing from other sources, not just locally with individual investors and groups like the Mid-America Angels and the Midwest Venture Alliance, but also – importantly - with the out-of-state VC’s and other early-stage investors. By this mechanism, new companies are able to raise multiples of the initial KTEC investment.

All of this will be lost, and it will take us decades to get back to where we are today.

I hope that you and your colleagues will take these points under advisement in your consideration of proposed HB2054, and will join with those of us who believe that facts and good reason should prevail over rhetoric and posturing.

Thank you for your time and consideration on this matter of vital importance to our state.

Sincerely,

A handwritten signature in cursive script, reading "David J. Nicol". The signature is written in dark ink and is positioned above the printed name.

David J. Nicol

**Gary Mason**  
**CEO ISI Environmental Services**  
**House Bill 2054 – Opposed**  
**March 16, 2011**

Madam Chair and members of the Committee;

Thank you for the opportunity to speak to you today on HB2054. I am CEO of iSi Environmental Services.. We are a full-service environmental firm that provides cost-effective solutions to mainly private businesses. Founded in 1990, iSi has grown to over 130 employees, providing services throughout the United States.

I was a member of the PIPELINE class of 2009 and currently serve as the Vice Chair of KTEC. I have been on the KTEC board since 2010.

**KTEC Board of Directors**

As the representative of the KTEC Board I would like to speak to the role of the Board and why that is of value to the decision before you today. I believe that the Board in its current form allows for both transparency and Legislative oversight for KTEC's operations.

*Senate Commerce Committee*  
*date: March 16, 2011*  
*Attachment- 7*



If the HB2054 is adopted the current 20 member KTEC Board of Directors would be abolished and replaced by an advisory board under the Secretary of Commerce.

The current 20 member board has 10 Governor appointments, 2 cabinet posts and 8 seats controlled by the legislature (4 legislators, 4 private sector). I was actually appointed by Speaker O'Neal. All 4 Universities are also represented. As you can see by this representation, the Governor has the opportunity for a strong voice, along with direct oversight by the legislature.

**Importance of KTEC** – Why moving programs away from KTEC is not a good idea

KTEC has a unique focus on innovation and entrepreneurship—dramatically different from the traditional economic development approach of Department of Commerce, with different goals and metrics.

KTEC is working – producing tangible results.

This focus has established tremendous credibility with entrepreneurs, small innovative companies, and most importantly with investors.

Cost savings of the proposed consolidation pale in comparison to potential erosion of the state's infrastructure for innovation-based entrepreneurs and the translation of intellectual property into business opportunity.

KTEC is the catalyst that facilitates the connections between entrepreneurs and all of the programs available to them.

### **Competitive with other States**

Other states with budget crisis are moving toward quasi public/private partnerships – not away from them.

**Wisconsin's** Governor Scott Walker just announced passage of legislation to create the Wisconsin Economic Development Corporation with bipartisan support. *"This legislation will transform the Department of Commerce into the Wisconsin Economic Development Corporation, an agency focused solely on business growth and job creation," said Governor Scott Walker. "It will help re-align state government from hindering job growth to promoting it. Senator Hopper and Representative Williams and others should be thanked for helping to refocus government on jobs."*

Last week, **Arizona** Governor Jan Brewer signed off on a comprehensive economic competitiveness package. The centerpiece of the legislation is the elimination of the Arizona Department of Commerce, and the creation of a new Arizona Commerce Authority (ACA).

**Ohio** Governor John Kasich signed his own economic development privatization bill last week. JobsOhio, a new

nonprofit corporation would assume the business-incentive and job-creating functions of the Ohio Department of Development. A board of governor-appointed business leaders will direct the new organization, with \$1 million to cover startup costs.

**Oklahoma** Our neighbor to the south. Oklahoma was actually modeled after KTEC shortly after KTEC was initially formed. Last year the State of Oklahoma provided OCAST \$17 million to support entrepreneurs and research.

**Missouri** In Missouri they just introduced 4 new programs in their quasi-public technology corporation.

### **Conclusion**

KTEC's quasi-public structure provides balance between the Governor, Legislature, academia and business, and is a primary reason for the organization's credibility. Entrepreneurs, small technology oriented companies and angel investors are nervous that these programs will lose focus and responsiveness if placed within a cabinet agency.

KTEC's structure allows for active involvement from the private sector to help drive the focus of programs to achieve the maximum

results for the state. This balanced structure enables the agency to move at the pace of business and provide services which directly impact business' bottom line. Our neighbors understand this and many states around the nation are working hard to create what we have.

Lastly, at the current funding levels being considered within the Senate, this is no longer a budget issue. It is strictly a question as to whether it is better separate or within Commerce.

I respectfully ask the Legislature keep KTEC in place and not to eliminate a structure that has provided tangible results over 20+ years.