Approved: March 16, 2011
Date

MINUTES OF THE SENATE WAYS AND MEANS COMMITTEE

The meeting was called to order by Chairperson Carolyn McGinn at 10:30a.m. on February 7, 2011, in Room 548-S of the Capitol.

All members were present

Committee staff present:
- Jill Wolters, Office of the Revisor of Statutes
- Daniel Yoza, Office of the Revisor of Statutes
- David Wiese, Office of the Revisor of Statutes
- Alan Conroy, Director, Legislative Research Department
- J. G. Scott, Chief Fiscal Analyst, Legislative Research Department
- Aaron Klaassen, Senior Fiscal Analyst, Legislative Research Department
- Dorothy Hughes, Fiscal Analyst, Legislative Research Department
- Brea Short, Intern, Senator McGinn's Office
- Jan Lunn, Committee Assistant
- Josh Lewis, Chief of Staff

Conferees appearing before the Committee:
- Daniel Yoza, Office of the Revisor of Statutes
- Jill Wolters, Senior Assistant Revisor, Office of the Revisor of Statutes
- Michael Steiner, Senior Fiscal Analyst, Legislative Research Department
- Martha Gabehart, Executive Director, Commission on Disability Concerns
- Kevin Carr, President and CEO, Kansas Technology Enterprise Corporation (KTEC)
- Jeremy Jones, President and CEO, Nitride Solutions, Wichita
- Robert Harbison, Vice President, Business Development, Intrust Bank, Wichita
- Ken Frahm, Board of Directors, KTEC, Colby
- Reggie Chandra, President and CEO, Rhythm Engineering, Lenexa
- Robert Vancrum, Government Affairs Consultant, The Greater Kansas City Chamber of Commerce

Bill Introductions

Sherry C. Diel, Executive Director, Kansas Real Estate Commission, requested introduction of a bill to increase fees for realtors (#rs0735). <u>Senator Teichman moved introduction of #rs0735; Senator Emler seconded the motion which passed on a voice vote.</u>

Senator Apple requested introduction of a bill (#rs0606) that would establish a threshold for a community to request incorporation as a city. <u>Senator Emler moved introduction; Senator Teichman seconded the motion, which passed on a voice vote.</u>

Senator Apple requested introduction of a bill (#rs0681) concerning homeowner association notification requirements in several lake communities in his district. <u>Senator Emler moved introduction; Senator Huntington seconded the motion which carried on a voice vote.</u>

<u>Senator Schmidt moved introduction of a bill concerning the Kansas Health Policy Authority's drug utilization program (#rs0064). Senator Emler seconded the motion, which passed on a voice vote</u>.

Follow-Up Information

Senator McGinn referred members' attention to a follow-up response from Mr. Glenn Deck, Executive Director, Kansas Public Employees Retirement System, related to the contribution rate under a bill that was introduced late in the 2010 Session. Mr. Deck's information is attached and considered to be part of this permanent record (<u>Attachment 1</u>).

<u>Executive Reorganization Order 35</u> – <u>Transferring the functions of the Commission on Disability Concerns under K.S.A. 74-6701 *et seq.* from the Department of Commerce to the Office of the Governor.</u>

Senator McGinn opened the hearing on **<u>ERO 35</u>**; Daniel Yoza, Office of the Revisor of Statutes, briefed committee members on the reorganization order. All powers, duties, functions, funds, accounts, and any rules and regulations of the current Commission on Disability Concerns would be transferred to the Governor's Office.

Martha Gabehart, Executive Director, Commission on Disability Concerns (KCDC), was present to speak in favor of **ERO 35** and the proposed transfer of the KCDC into the executive branch (Attachment 2).

Senator McGinn closed the discussion on **ERO 35**.

SB 42 – Abolishing KTEC; transferring duties to the department of commerce and board of regents.

Senator McGinn opened the hearing on **SB 42**.

Jill Wolters, Office of the Revisor of Statutes, briefed those attending on the bill. She indicated the bill transfers all powers, duties, and functions to the Department of Commerce and to the State Board of Regents. The KTEC Board will become an advisory board within the Commerce Department; recommendations will be submitted to the Secretary, who will make determinations on investments or grants. The Board of Regents would have responsibility for the duties and functions of the Strategic Technology and Research (STAR) fund and the Experimental Program to Stimulate Competitive Research (EPSCoR). This bill would essentially eliminate the legal entity of KTEC.

Senator Kultala inquired whether all assets such as business incubators and durable resources would be transferred to the Department of Commerce. Ms. Wolters indicated she would clarify with legal counsel and report back to committee members.

Michael Steiner, Legislative Research Department, provided background, operations, and agency realignment information (Attachment 3). Mr. Steiner discussed with committee members the fiscal impact of the proposal and provided an overview of the Economic Development Initiatives Fund (EDIF). Responding to Senators' questions, Mr. Steiner indicated:

- EPSCoR, under the proposal, will be the responsibility of the Board of Regents.
- KTEC has requested $1.0 million for operations and $600,000 for product development financing in FY 2012. Underthe proposal, the Department of Commerce would be charged with managing KTEC holdings.
- The total amount of EDIF funds transferred from the Kansas Lottery/Kansas Racing Commission was $42.4 million; of that amount in FY 2010, $7.4 million went to KTEC.

Senator Masterson requested clarification relative to the dual referral of **SB 42** to the Senate Ways and Means and Senate Commerce Committees. It was explained that the bill must pass out of both committees before it goes to the Senate Committee of the Whole. If the bill does not pass out of Senate Ways and Means and Senate Commerce, the bill is considered dead.

Kevin Carr, President and CEO of KTEC, was present to speak in opposition to **SB 42**. He indicated that innovation and entrepreneurism are critical to economic growth (Attachment 4); he described the fiscal and economic implications of the proposal; Mr. Carr reported on the growth of firms and jobs resulting from KTEC's assistance.

Responding to questions from Committee members, Mr. Carr indicated:

- Since its creation in the late 80s, KTEC has grown and responded to the accelerated pace of innovation. Its focus is to assist innovators/entrepreneurs in commercializing their products. An active investment portfolio of 45 companies exists, 8 to 10 have exited, and there have been 12 to 14 failures.
- An estimate of approximately $80,000 (a one-time expense) has been made to change the ownership position of 12 legal entities in which KTEC holds shares. That cost could increase due to additional resources required to manage and operate KTEC's programs and investments within the Board of Regents and Department of Commerce.
- Of the 109 out-of state investors, approximately $4.4 million has been brought into the State of Kansas.

Jeremy K. Jones, President and CEO of Nitride Solutions, Inc., spoke in opposition to **SB 42** (Attachment 5). He indicated that current capabilities and programs within KTEC would be crippled should a transfer of duties, powers, and functions be assumed by other agencies.

Robert Harbison, Vice President of Business Development of INTRUST Bank in Wichita, Kansas provided testimony opposing **SB 42**. Mr. Harbison described three key areas in the creation of new businesses (Attachment 6). He opined that the Department of Commerce would focus on business retention and recruitment and not on growing new, high-potential businesses.

Ken Frahm, speaking as a representative of the KTEC Board of Directors, described the role of the Board in providing legislative oversight, in focusing on long-term programs, and in overseeing investments and grants (Attachment 7). Should KTEC programs, functions, and duties move to other agencies, the depth of expertise in assisting new businesses would cease.

Dr. Reggie Chandra of Rhythm Engineering, reported KTEC is the catalyst that facilitates connections between entrepreneurs and available programs (Attachment 8). To suggest changing a successful strategy is to undermine the growth and the established network of innovators in the State of Kansas.

Robert Vancrum, Government Affairs Consultant of The Greater Kansas City Chamber of Commerce, spoke in opposition to **SB 42** (Attachment 9). He indicated KTEC's expertise in developing and commercializing new technologies and companies through each phase of the company's lifecycle would be lost should KTEC be abolished.

Senator Schmidt inquired how Dr. Chandra and Mr. Jones became aware of KTEC. Both gentlemen responded that they had worked in Kansas and wanted to remain in Kansas. KTEC's network is broad and well-known throughout the State.

Senator Teichman asked Mr. Frahm how KTEC could help the western part of the State. Mr. Frahm responded that businesses supported by KTEC tend to gravitate toward more metropolitan rather than rural areas.

Senator Kelly questioned whether Mr. Carr had conversed with Secretary George, Department of Commerce, regarding how KTEC's services would be integrated into their existing resources. Mr. Carr indicated a preliminary meeting had occurred. However, there had been no discussion concerning such a transition of services or priorities.

Senator McGinn indicated that the hearing on **SB 42** would continue next week. Senator Huntington suggested that the Department of Commerce furnish an organizational chart representing the plan for the transition. Senator Francisco was interested in documentation of the proposed savings, number of FTEs required to absorb KTEC duties and functions, and what can be accomplished without the addition of budgeted dollars.

The meeting was adjourned at 12:02 p.m.

February 4, 2011

Senator Carolyn McGinn, Chairperson
Senate Ways and Means Committee
300 SW 10th Ave, Room 545-S
Topeka KS 66612

Dear Chairperson McGinn:

At the January 18th meeting at the Senate Ways and Means Committee, I made an overview presentation on the KPERS long-term funding problem. As part of my presentation, I briefly discussed the deferred contribution bill introduced late in the 2010 Session (HB 2751).

Senator Kelly asked a question about the fiscal note on the bill and "what the employer contribution rate would be under the bill?" Attached is a copy of the fiscal note information we prepared on that bill last year. On page five is the table which shows our estimate of the employer contribution rate under that bill.

If you have any additional questions, please contact me at 296-1019 or gdeck@kpers.org.

Sincerely,

Glenn Deck

Glenn Deck
Executive Director

Enclosure

Senate Ways and Means
Date: 02/07/11
Attachment: 1

May 11, 2010

Duane A. Goossen
Director of the Budget
900 SW Jackson, Suite 504
Topeka, KS 66612

SUBJECT: 2010 House Bill 2751

Dear Mr. Goossen:

You have requested our assistance with the preparation of a fiscal note on 2010 House Bill 2751 relating to establishment of a defined contribution plan.

Bill Summary

Effective July 1, 2012, HB 2751 would create a new, mandatory defined contribution (DC) plan for all future members of the Kansas Public Employees Retirement System (KPERS). (Section 1(a) and (b)) The KPERS Board of Trustees (the Board) would be required to establish a separate DC plan within KPERS. The DC plan is to be a qualified governmental plan as provided by sections 401(a) and 414(d) of the Internal Revenue Code and related regulations. As such, all assets of the plan must be held in trust for the exclusive benefit of its members. (Section 3)

Membership Eligibility

The new DC plan would become the primary retirement plan for a new Tier 3 consisting of the following KPERS State, School, and Local Group employees:

- Employees who are first employed in an eligible position on or after July 1, 2012.
- Inactive, non-vested KPERS members who return to work in an eligible position on or after July 1, 2012.

An eligible position is a position of a participating employer that would otherwise qualify for membership in Tier 1[1] or Tier 2[2]. (Section 1(b))

[1] Generally, KPERS members first employed before July 1, 2009.
[2] Generally, KPERS members first employed on or after July 1, 2009.

In addition, any member of Tier 1 or Tier 2 may make a one-time, irrevocable election to transfer to the Tier 3 DC plan within a 90-day window established by the Board. Those who do not make an election to transfer are considered to have made an irrevocable election to remain in Tier 1 or 2. The member's account balance as of the date of transfer would be credited to the member's DC plan account. The Tier 1 and 2 transfer option would not be implemented unless it is first approved by the IRS. (Section 7)

HB 2751 also sets out the treatment of service purchases and domestic relations orders for Tier 1 or Tier 2 members who wish to transfer to the new Tier 3 and sets out the election options for employees moving between positions covered by KPERS and the Board of Regents optional retirement plan established by K.S.A. 74-4911. (Sections 7 and 8)

HB 2751 specifically states that it does not apply to members of the Kansas Police and Firefighters Retirement System or the Retirement System for Judges. (Section 1(c))

Employee Contributions

HB 2751 would require active members to contribute 7% of their compensation, which is to be deposited in their mandatory contribution account. These contributions and the income earned on them are vested immediately. (Sections 10 and 11(a)) The contributions would be picked up by the employer via a salary reduction and, therefore, would be pretax for federal income tax purposes. (Sections 11(a))

Members would not be permitted to make additional, voluntary contributions to their DC account. (Section 11(b)). Tier 3 members could continue using any alternative supplemental retirement plans provided by their employer, such as the Kansas Public Employees Deferred Compensation Plan – the State's 457 plan. However, the DC Plan would accept rollover of contributions and income from another eligible retirement plan, within the limits of applicable federal law. Rollover contributions would be deposited in a separate rollover account, and the contributions and income earned on them are vested immediately. (Sections 9 and 10)

Employer Contributions

Participating employers would be responsible for making the following contributions:

- Employer DC account contribution, in an amount equal to 5% of the active members' compensation. This contribution is credited to the employer contribution account of each active member and is vested only when the member has three years of participating service in the DC plan. (Sections 10 and 11(c))
- Plan funding rate, as a percent of active members' compensation determined by the Board. The plan funding rate would be paid to the KPERS defined benefit (DB) plan (Tiers 1 and 2) and would be set at a rate as necessary to actuarially fund (1) the DB plan's unfunded liabilities and (2) the change in the normal cost contribution rate that would result from establishing the new DC plan for future members and closing the existing DB plan. (Section 11(c) and 12)

- Death and long-term disability plan rate, as a percent of active members' compensation determined by the Board to fund coverage of Tier 3 members under the insured death benefit and insured disability benefit provided by K.S.A. 74-4927. (Sections 11(c) and 18)
- Administrative expense rate, as a percent of active members' compensation determined by the Board to pay for costs incurred by the Board in administering the Plan. (Sections 11(c) and 5)

Investments

The Board would be responsible for selecting and reviewing the investment alternatives offered through the DC plan. The investment alternatives may be those offered under the State's 457 plan, and the Board may change the alternatives offered after notifying affected members of the changes. (Section 13)

Individual members are to direct the investment of their employee contribution account, their employer contribution account, if vested, and any rollover account. The Board is required to designate a default investment option for the employer contribution account of nonvested members and for the employee contribution account and rollover account of any member who does not select one or more investment alternatives. The default investment alternative may be a balanced fund. (Section 13)

Distributions

HB 2751 prohibits distribution or refund of any portion of a member's vested account balance before termination of service. (Section 17) Upon termination, the member can choose to terminate membership and receive a distribution of the member's vested account balance or to leave the vested account balance in the DC plan until a later date, subject to minimum distribution requirements under federal and state law. Distributions are to be made through one or more authorized payout options – a direct or regular rollover to an eligible retirement plan, a lump-sum distribution, or any other distribution option provided by the Plan Document adopted by the Board. (Sections 14 and 15)

Death and Disability Benefits

HB 2751 provides for active Tier 3 members to be covered by the same death and long-term disability benefits as Tier 1 and Tier 2 KPERS members. In addition, if a Tier 3 member receiving the insured disability benefit is permanently and totally disabled, the member's employer is to contribute the 5% employer contribution and the 7% employee contribution until the member is no longer entitled to an insured disability benefit, up to a maximum of five years. The contributions are to be based the member's compensation at the time the member became disabled. (Section 18)

Beneficiaries are to be designated as provided in existing regulations for the DB plan and will receive the member's vested account balance after the member's death. (Section 16)

Administration

HB 2751 authorizes the KPERS Board to contract for plan administration, consulting, investment, educational, recordkeeping or other services for the plan. These contracts are to be awarded using a competitive proposal process, except that the Board may negotiate a contract with the current third party administrator for the State 457 plan for a period not to exceed five years. (Section 4)

A separate account for paying plan administrative expenses may be established within the DC plan. Administrative expenses may be funded through a combination of assessments of fees on DC plan member accounts, negotiated vendor reimbursements, the administrative expense rate paid by employers on active member compensation, and forfeited employer contributions from nonvested members and earnings on those contributions. HB 2751 authorizes expenditure of forfeited employer contributions for the Plan's start up expenses. (Sections 5 and 11)

The Board is authorized to establish reasonable and necessary policies to administer the plan without the adoption of regulations. (Section 4)

Fiscal Impact

Employee Contributions to DC Plan

HB 2751 establishes a member contribution rate of 7% to the member's mandatory contribution account. Current rates for Tier 1 and Tier 2 members are 4% and 6% respectively.

Employer Contributions

The fiscal impact of HB 2751 on participating employers would consist of several elements, including employer contributions to the DC accounts of Tier 3 members, the plan funding rate, and the death and disability benefits rate. In addition, the Board would have authority to establish an administrative expense rate as a source of funding for start-up or ongoing administrative expenses.

Employer contributions to Tier 3 members are referred to as an "employer DC account contribution" in HB 2751 and are set at 5% of members' compensation. The "plan funding rate" provides a means to take into account the impact of HB 2751 on the existing DB plan. There are two primary respects in which the addition of the DC plan impacts the funded status and contribution levels of the DB plan.

- By closing Tiers 1 and 2 to new members, the membership of the existing DB plan is capped, and the payroll base for those two tiers will begin to decline – with a corresponding decline in both employer and member contributions.
- With a diminishing payroll base, both components of the actuarially required contribution (ARC) rate – the normal cost (NC) rate and the rate required to amortize the unfunded actuarial liability (UAL) rate – will climb, resulting in increasing ARC rates. Because there is a statutory .6% cap on annual employer contribution increases to the DB plan, the difference between the ARC rate and statutory rate would grow, leading to increases in the DB plan's UAL and decreasing funded ratios.

In order to avoid this adverse impact on the funding of the existing DB plan, HB 2751 provides for payment of the additional "plan funding rate" on the payroll of Tier 3 to offset the loss of funding for the NC and UAL components of the DB plan contributions.

Detailed projections of the DC Account Contribution and the Plan Funding rates are not available at this time; more extensive actuarial modeling would be needed. A very preliminary, high-level estimate of the DC employer rates for the State/School Group is set out below, along with the statutory rates for the existing KPERS DB plan.

	Tiers 1 and 2 (DB Plan):	**Tier 3 – Defined Contribution Plan:**		
Fiscal Year	**State/School Statutory Rate**	**DC Account Contribution**	**Plan Funding Rate**	**Total Employer Rate**
2011	8.17%	N.A.	N.A.	N.A.
2012	8.77%	N.A.	N.A.	N.A.
2013	9.37%	5.00%	4.59%	9.59%
2014	9.97%	5.00%	5.32%	10.32%
2015	10.57%	5.00%	6.03%	11.03%
2016	11.17%	5.00%	6.68%	11.68%
2017	11.77%	5.00%	7.31%	12.31%
2018	12.37%	5.00%	7.95%	12.95%
2019	12.97%	5.00%	8.59%	13.59%
2020	13.57%	5.00%	9.24%	14.24%
2033	21.37%	5.00%	17.83%	22.83%

These projected estimates of employer rates are based on a set of "baseline" assumptions about the existing Tier 1 and Tier 2 DB plan, as follows:

- There is no change in current law establishing a .6% cap on employer contribution increases, no change in employee contribution rates, and no change in benefits.
- KPERS' achieves an 8% average annual return.
- Payroll growth averages 4% annually.

In considering the costs of the DC plan in HB 2751 and the existing DB plan, it is important to note that these baseline assumptions reflect the long-term funding shortfall currently facing the existing defined benefit plan. The December 31, 2008, Actuarial Valuation of KPERS' indicated that the Plan is out of actuarial balance and that nearly $7 billion of the unfunded actuarial liability for the School Group would remain unpaid at the end of the amortization period in FY 2033. The baseline assumptions do not include any additional funding or changes in plan design to address this shortfall and begin moving the Plan to a more sound financial footing.

Employers would also be responsible for payment of the death and disability contribution rate established by K.S.A. 74-4927. This rate should be comparable to the rate for Tiers 1 and 2 and, therefore, is not anticipated to have a measurable fiscal impact.

Impact on Administrative Costs

Implementation of HB 2751 would require significant administrative resources and, over time, would result in substantive changes to KPERS' operational functions and processes. Administrative and implementation issues that would require further review and evaluation include the following:

- Drafting and adopting a DC Plan Document, policies, and guidelines relating to Plan features, limitations, and eligibility
- Establishing processes for determining, assessing, transmitting, recording, and maintaining employee contributions and accounts; employer contributions to DC accounts; the plan funding rate; death and disability benefits; and administrative expenses
- Evaluating the impact of the DC plan on KPERS' IT systems and modifying them as needed
- Providing adequate communication and education to employers and new Tier 3 members about the DC Plan and its administration

Costs associated with these administrative issues are expected to include extensive changes to information technology systems, additional contractual costs for legal counsel and consultants, as well as some additional operating expenses. It is not possible to provide estimates of these costs without further analysis. However, it is our understanding that implementation costs in other states with DC plans (optional or mandatory) typically have required some source of start-up funding in addition to their ongoing operational budgets. Moreover, because KPERS' operating expenses are funded through the defined benefit plan's trust, there are limitations on uses of those funds.

HB 2751 provides options for repaying these start-up costs as well as for funding ongoing administration of the Plan, including the administrative expense rate, employer contributions forfeited by members who separate prior to vesting, fees on DC plan member accounts, and negotiated vendor reimbursements.

Please let me know if you or your staff requires any additional information. I am available at your convenience.

Sincerely,

Glenn Deck

Glenn Deck
Executive Director

Martha Gabehart, Executive Director

KANSAS
COMMISSION ON DISABILITY CONCERNS

KCDCinfo.com

Martha K. Gabehart
Executive Director
Testimony in Support of ERO 35
Senate Ways and Means Committee
February 7, 2011

Thank you Mr. Chair and committee members. I am Martha Gabehart, Executive Director of the Kansas Commission on Disability Concerns (KCDC). I am testifying in support of ERO 35 which moves KCDC to the Governor's office. KCDC currently resides in the Kansas Department of Commerce.

KCDC is a catalyst for change in state government for Kansans with disabilities. We advocate for changes to state programs, laws and regulations that help Kansans with disabilities be active citizens. Part of being an active citizen is having a job. KCDC has been working to reduce barriers to and improve opportunities for employment for over 60 years. Being in the Governor's office brings KCDC's work to the highest level of the executive branch. We welcome this opportunity and encourage your support.

Senate Ways and Means
Date: 02/07/11
Attachment: 2

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February 4, 2011

To: Senator McGinn, Chairperson, Senate Ways and Means

From: Michael Steiner, Senior Fiscal Analyst

Re: SB 42

Background

The Kansas Technology Enterprise Corporation (KTEC) was created by the 1986 Legislature in an effort to promote technology based economic development and KTEC began operations in 1987. The creation of KTEC was a result of the Redwood-Krider Executive Report published by the Institute for Public Policy and Business Research at the University of Kansas. In 1985 the Legislature appropriated funding to conduct a report on the changing needs of the Kansas economy and in 1986 the Legislative Commission on Kansas Economic Development adopted the basic strategy recommended by the Redwood-Krider Report, which included the creation of KTEC, and Kansas, Inc. along with additional changes to the Kansas Department of Economic Development.

Agency Operations

KTEC is governed by a 20-member Board of Directors who are required to meet at least quarterly, and the Board is responsible for the selection of a corporate president who shall oversee the daily operations of the agency. For FY 2012, the agency has requested funding for 9.0 FTE positions, and currently the agency does not have any unfunded positions. The agency is funded primarily through the Economic Development Initiatives Fund (EDIF) although the agency does receive matching federal funds for the Mid-America Manufacturing Technology Center (MAMTC). Currently, the major programs in KTEC include the following:

- Operations – Operations include salaries and wages and all administrative functions for the agency.
- University and Strategic Research
    - Centers of Excellence – These are university-based research centers with an economic development component and each Center has its own technology specialization. The Centers conduct research and provide technical assistance to new and existing companies. The Centers are:
        - Advanced Manufacturing Institute (AMI) – Kansas State University;

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- Biotechnology Innovation and Optimization Center (BIOC) – University of Kansas;

- Information and Telecommunication Technology Center (ITTC) – University of Kansas;

- Kansas Polymer Research Center (KPRC) – Pittsburg State University; and

- National Institute for Aviation Research (NIAR) – Wichita State University.

  - Experimental Program to Stimulate Competitive Research (EPSCoR) – EPSCoR is a federal program aimed at improving research at universities in states that have not historically fared well in receiving federal research funds. The agency offers small grants which leverage federal funds for advanced research at Ph.D granting Regents universities. Kansas had to qualify as an EPSCoR state and the State is eligible to compete in the following competitions:

    - Department of Defense;
    - Department of Energy;
    - Environmental Protection Agency;
    - National Aeronautics Space Administration; and
    - National Science Foundation.

- Business Assistance or Commercialization – The agency provides assistance to entrepreneurial centers throughout the State. These incubators provide assistance to emerging technology businesses in the State. The centers include:

  - Quest Business Center for Entrepreneurs in Hutchinson;
  - Enterprise Center of Johnson County;
  - University of Kansas Medical Center Research Institute in Kansas City;
  - University of Kansas Center of Technology Commercialization in Lawrence;
  - Lawrence Regional Technology Center;
  - National Institute for Strategic Technology Acquisition and Commercialization in Manhattan;
  - Alliance for Technology Commercialization in Pittsburg;
  - Wichita Technology Corporation; and
  - Mid-America Manufacturing Technology Center throughout the State.

3-2

- NetWork Kansas – NetWork Kansas was established by the 2004 Kansas Economic Growth Act as the Kansas Center of Entrepreneurship and in 2006 it became NetWork Kansas. NetWork Kansas connects small businesses throughout the State and it is located in Wichita.

- Product Development Financing (Investment Programs) – The agency provides funds to new and existing small Kansas companies for the purpose of completing technology development. In order to access investment funds, the agency has established an application process which involves the screening and evaluation of companies which allows the agency to perform due diligence.

- Mid-America Manufacturing Technology Center (MAMTC) – The MAMTC is a not-for-profit corporation established to assist small and mid-sized manufacturers in Kansas.

- PIPELINE – The agency operates PIPELINE which focuses on entrepreneur development and is designed as a mentoring program for promising entrepreneurs. Under PIPELINE, the agency teams entrepreneurs with training, networks, resources, and mentors in order to assist them with their entrepreneurial career.

Agency Realignment

The Governor has recommended realigning KTEC and transferring programs to both the Kansas Department of Commerce and the Kansas Board of Regents. Under the Governor's recommendation for FY 2012 the Centers of Excellence, the Business Assistance Centers, and MAMTC would be transferred to the Kansas Department of Commerce along with 1.0 FTE and EPSCoR would be transferred to the Kansas Board of Regents. The agency's Product Development Financing Program and the PIPELINE Program would be eliminated under the Governor's recommendation for FY 2012. The Governor's recommendation would produce savings of approximately $3.5 million all from the Economic Development Initiatives Fund based on the agency's requested FY 2012 budget. The largest savings would be achieved through eliminating expenditures associated with agency operations. Additionally, the Board of Directors would be replaced with the Kansas Technology Enterprise Advisory Board which would consist of 20 members.

It should be noted that in 2009 Governor Sebelius recommended transferring the programs of KTEC to the Department of Commerce in FY 2010 in order to generate cost savings by consolidating the state's economic development efforts into a single agency.

MAS/kal

3-3

3-4

Fiscal Impact - Economic Development Initiatives Fund

Transfer of Programs from the Kansas Technology Enterprise Corporation to the Kansas Department of Commerce and Kansas Board of Regents

Agency Programs	KTEC FY 2012 Agency Request	Commerce FY 2012 Gov. Rec.	Board of Regents FY 2012 Gov. Rec.	Change From Agency Request Dollar
Operations	$ (1,059,473)	$ -	$ -	(1,059,473)
University and Strategic Research				-
Centers of Excellence	(1,798,328)	1,358,581	-	(439,747)
EPSCoR	(1,500,000)	-	1,000,000	(500,000)
Product Development Financing	(600,000)	-		(600,000)
Commercialization	(1,872,471)	968,023	-	(904,448)
Mid-America Manufacturing Technology Center	(1,025,000)	1,025,000	-	-
TOTAL	**$ (7,855,272)**	**$ 3,351,604**	**$ 1,000,000**	**$ (3,503,668)**
FTE*	**(14.68)**	**1.00**	**-**	**(13.68)**

* The 1.0 FTE will be added to the Administration Program in the Department of Commerce for University and Strategic Research

ECONOMIC DEVELOPMENT INITIATIVES FUND
FY 2010 - 2012

Agency/Program	Actual FY 2010	Legislature Final Approved FY 2011	Gov. Rec. FY 2011	Gov. Rec. FY 2012
Department of Commerce				
Operating Grant	$ 13,477,415	$ 13,060,619	$ 13,080,487	$ 9,803,058
Older Kansans Employment Program	297,138	294,682	294,682	294,652
Rural Opportunity Program	1,909,786	1,756,681	1,765,017	-
Senior Community Services Employment Program	3,941	9,141	9,141	141,061
Kansas Commission on Disability Concerns	186,832	192,026	201,250	-
Strong Military Bases Program	323,210	307,050	245,640	100,000
Rural Opportunity Zones Program	-	-	-	2,213,887
Small Technology Pilot Program	-	-	-	100,000
Community College Competitive Grants	-	-	-	500,000
Engineering Expansion Grants	-	-	-	1,000,000
Centers of Excellence	-	-	-	1,358,581
Entrepreneurial Centers	-	-	-	968,023
Mid-America Manufacturing Center (MAMTC)	-	-	-	1,025,000
Subtotal - Commerce	$ 16,198,322	$ 15,620,199	$ 15,596,217	$ 17,504,262
Department of Administration				
Governor's Economic Council	$ -	$ -	$ -	$ 200,000
Kansas Technology Enterprise Corporation				
Operations	$ 1,242,875	$ 1,189,886	$ 1,079,443	$ -
University & Strategic Research	3,404,980	2,416,000	2,050,328	-
Product Development Financing	497,504	-	300,000	-
Commercialization	1,803,253	1,382,500	1,421,880	-
Mid-America Manuf. Tech. Center (MAMTC)	545,000	1,000,000	1,025,000	-
Subtotal - KTEC	$ 7,493,612	$ 5,988,386	$ 5,876,651	$ -
Kansas, Inc.				
Operations	$ 354,858	$ 346,317	$ 257,561	$ -
Board of Regents & Universities				
Vocational Education Capital Outlay	$ 2,565,000	$ 2,565,000	$ 2,565,000	$ 2,565,000
Technology Innovation & Internship	86,469	180,500	274,531	180,500
EPSCoR	-	-	-	1,000,000
KSU - ESARP	298,668	300,815	300,815	301,332
FHSU - KAMS	-	200,000	200,000	-
WSU - Aviation Classroom & Training Equipment	2,500,000	5,000,000	5,000,000	5,000,000
WSU - Aviation Research	4,994,049	4,998,060	4,998,348	-
Subtotal - Regents & Universities	$ 10,444,186	$ 13,244,375	$ 13,338,694	$ 9,046,832
Department of Agriculture				
Grain Warehouse Inspection Program	$ -	$ 75,000	$ 75,000	$ -
Agriculture Marketing Program	-	-	-	396,331
Subtotal - Agriculture	$ -	$ 75,000	$ 75,000	$ 396,331
Department of Wildlife and Parks				
Travel and Tourism Development	$ -	$ -	$ -	$ 1,856,487
Total Expenditures	**$ 34,490,978**	**$ 35,274,277**	**$ 35,144,123**	**$ 29,003,912**
Transfers to Other Funds				
Kansas Economic Opportunity Initiatives Fund	$ 2,050,000	$ 1,250,000	$ 625,000	$ 1,250,000
KS Qualified Biodiesel Fuel Producer Incentive Fund	200,000	200,000	200,000	200,000
State Water Plan Fund	1,802,141	2,000,000	2,000,000	2,000,000
Public Use General Aviation Airport Development Fund	1,000,000	1,000,000	1,000,000	-
KPERS Death and Disability Moratorium	36,129	16,236	16,236	-
Health Insurance Moratorium	214,058	-	-	-
State Housing Trust Fund	2,000,000	-	-	-
State Fair	-	-	-	159,207
Affordable Airfare Transfer	-	-	-	5,000,000
State General Fund	5,800,000	3,743,605	3,743,605	5,785,830
Subtotal - Transfers	$ 13,102,328	$ 8,209,841	$ 7,584,841	$ 14,395,037
TOTAL TRANSFERS AND EXPENDITURES	**$ 47,593,306**	**$ 43,484,118**	**$ 42,728,964**	**$ 43,398,949**

EDIF Resource Estimate	Actual FY 2010	Legislature Final Approved FY 2011	Gov. Rec. FY 2011	Gov. Rec. FY 2012
Beginning Balance	$ 6,696,286	$ 15,081	$ 439,648	$ 666,949
Gaming Revenues	40,782,869	42,432,000	42,432,000	42,432,000
Other Income*	553,799	800,000	524,265	300,000
Total Available	$ 48,032,954	$ 43,247,081	$ 43,395,913	$ 43,398,949
Less: Expenditures and Transfers	47,593,306	43,484,118	42,728,964	43,398,949
ENDING BALANCE	**$ 439,648**	**$ (237,037)**	**$ 666,949**	**$ -**

* Other income includes interest, transfers, reimbursements and released encumbrances

3-5

Economic Development Initiatives Fund (EDIF) Overview

The statutes governing the EDIF provide that it shall be used to finance programs "... supporting and enhancing the existing economic foundation of the state and fostering growth ... to the state's economic foundation." With the exception of a statutory $2.0 million transfer from the EDIF to the State Water Plan Fund, the Legislature annually appropriates the EDIF for individual projects and programs deemed to support and enhance the state's economic foundation.

The EDIF is funded through the State Gaming Revenues Fund (SGRF). A portion of state revenue from both the Lottery and parimutuel wagering is transferred to the SGRF. That fund is used essentially as a holding fund from which further transfers are made on a monthly basis. No more than $50.0 million may be credited to the SGRF in any fiscal year. Amounts in excess of $50.0 million are credited to the State General Fund.

The initial transfers from the State Gaming Revenue Fund, which began in 1986, were as follows:

1. County Reappraisal Fund (until June 30, 1989) - 30.0%
2. Split between Juvenile Detention Facilities Fund and Correctional Institutions Building Fund (Actual amount to be determined by appropriations act) - 10.0%
3. Economic Development Initiatives Fund (to be increased to 90.0% as of July 1, 1989) - 60.0%

During the 1988 Session, the Legislature delayed the increase in the transfer to the EDIF until July 1, 1990.

During the 1994 Session, the Legislature changed the transfers as of July 1, 1995 to the following:

1. Correctional Institutions Building Fund - 10.0%
2. Juvenile Detention Facilities Fund - 5.0%
3. Economic Development Initiatives Fund - 85.0%

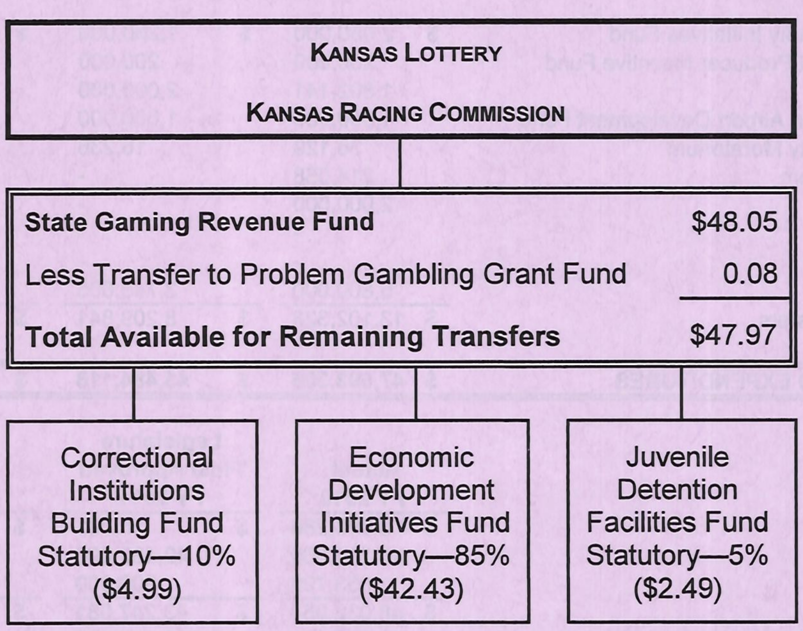
During the 2000 Session, the Legislature changed the transfers to the following:

1. Economic Development Initiatives Fund—$42,432,000;
2. Correctional Institutions Building Fund—$4,992,000;
3. Juvenile Detention Facilities Fund—$2,496,000; and
4. Problem Gambling Grant Fund—$80,000.

During the 2009 Session, the Legislature changed the transfers to the following for FY 2009 and FY 2010

1. Economic Development Initiatives Fund - $40,782,869
2. Correction Institutions Building Fund - $4,797,985
3. Juvenile Detention Facilities Fund - $2,398,992
4. Problem Gambling Grant Fund - $80,000

ECONOMIC DEVELOPMENT INITIATIVES FUND
Revenue Flow
(In Millions)



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KANSAS TECHNOLOGY ENTERPRISE CORPORATION K·tec

Senate Ways & Means Committee

Kevin Carr, CEO
February 7, 2011

4-2

KANSAS TECHNOLOGY ENTERPRISE CORPORATION K·tec

Innovation/Entrepreneurism Critical to Economic Growth

- 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

4-3

KANSAS TECHNOLOGY ENTERPRISE CORPORATION K·tec

Fiscal Implications

Operational savings

- Actual savings to the state of Kansas only **$500,000** as compared to projected savings of $1.7 million
- $1.2 million from elimination of Proof of Concept funding, PIPELINE and client services

4-4

KANSAS TECHNOLOGY ENTERPRISE CORPORATION K·tec

Economic Implications

What Kansas loses

- Programs that drive innovation, job creation, wealth for state
- Dedicated focus on innovation, entrepreneurism
- Cohesive, integrated network
- Expertise, experience, continuity
- National connections
- Level playing field for Kansas entrepreneurs

4-5

KANSAS TECHNOLOGY ENTERPRISE CORPORATION K·tec

KTEC: Some Good News for Kansas

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

4-6

KANSAS TECHNOLOGY ENTERPRISE CORPORATION Ktec

KTEC: Some Good News for Kansas

- 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

A-7

KANSAS TECHNOLOGY ENTERPRISE CORPORATION ktec

KTEC: Some Good News for Kansas

High-tech companies generate wealth, retain talent

KTEC-assisted companies create wealth for Kansas

- FY 07 – FY 10 KTEC companies generated **$1.15 billion in sales revenue**
- Rhythm Engineering – **$224,000 to $7.5** million in less than 5 years
- Innovadex – **$5 million to $10 million** in 1 year
- Xenometrics – **$3.9 million to $13.2 million** in 3 years
- Rush Tracking – **$2.5 million to $5.6 million** in 1 year

"We know for a fact that scalable companies are the ones that make a disproportionate contribution to economic growth and wealth creation." Bo Fishback, Vice President, The Kauffman Foundation, 2010

"Small businesses and entrepreneurs are the engines of growth. It's very important to realize that's where ALL new growth comes from." Cliff Reeves, Microsoft, Silicon Valley

4-8

KANSAS TECHNOLOGY ENTERPRISE CORPORATION Ktec

KTEC: Some Good News for Kansas

KTEC companies compete nationally and globally

Nitride Solutions, Wichita

- Created in 2009
- On track to grow:
  - $150 million in 5 years
  - 100 highly skilled, high paying jobs
- "Nitride Solutions would not be here today without KTEC's support," Jeremy Jones, CEO

"Nitride Solutions has the potential to become one of the most significant companies in the world right here from its base in Kansas." Peter Brown, Grassmere Partners, Kansas City

"Jeremy is the kind of entrepreneur that will help the US stay competitive in the semiconductor industry creating jobs to put Americans back to work as part of the clean energy economy." Kristina Johnson, Former Under Secretary of Energy

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4-9

Leveling the Playing Field for Kansas Entrepreneurs

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

4-10

KANSAS TECHNOLOGY ENTERPRISE CORPORATION

KTEC's Unique Role in Innovation

KTEC exists to support innovation and entrepreneurs

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

4-11

KANSAS TECHNOLOGY ENTERPRISE CORPORATION ktec

KTEC's Unique Role in Innovation

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

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4-12

KTEC's Unique Role in Innovation

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

KANSAS TECHNOLOGY ENTERPRISE CORPORATION Ktec

KTEC's Unique Role in Innovation

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

4-14

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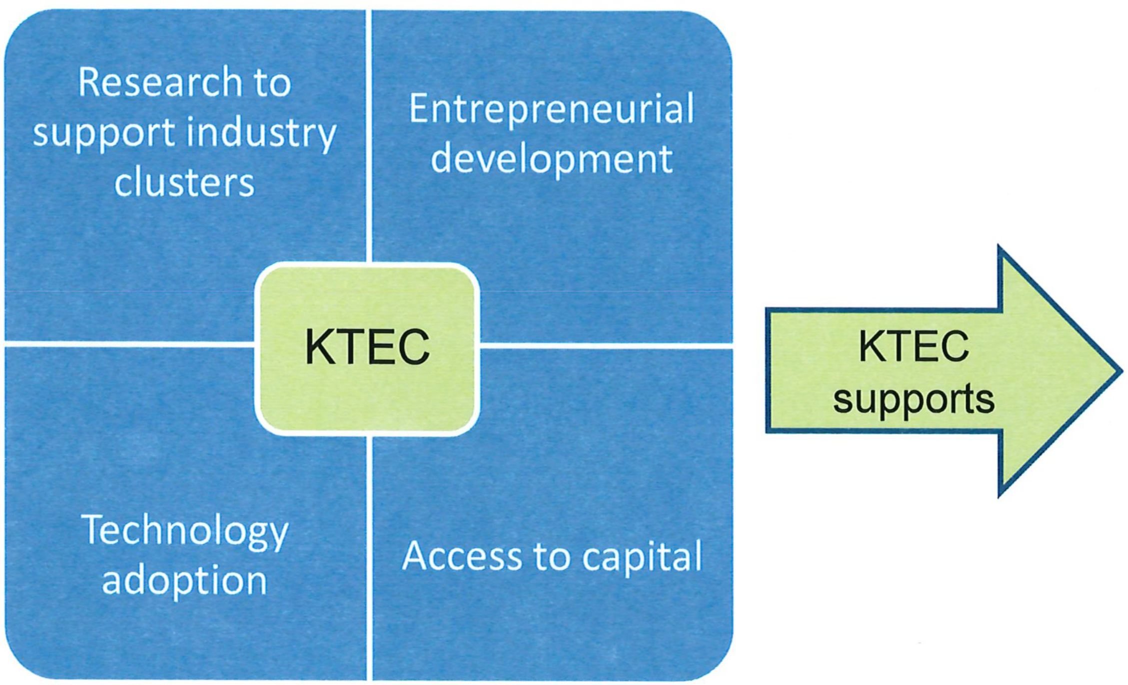
KTEC: A Catalyst for Innovation-Based Economic Development



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

4-15

KANSAS TECHNOLOGY ENTERPRISE CORPORATION ktec

Kansas' Return on Investment in KTEC – FY 2010

- 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)

4-16

KANSAS TECHNOLOGY ENTERPRISE CORPORATION Ktec

KTEC Impacts – FY 2010

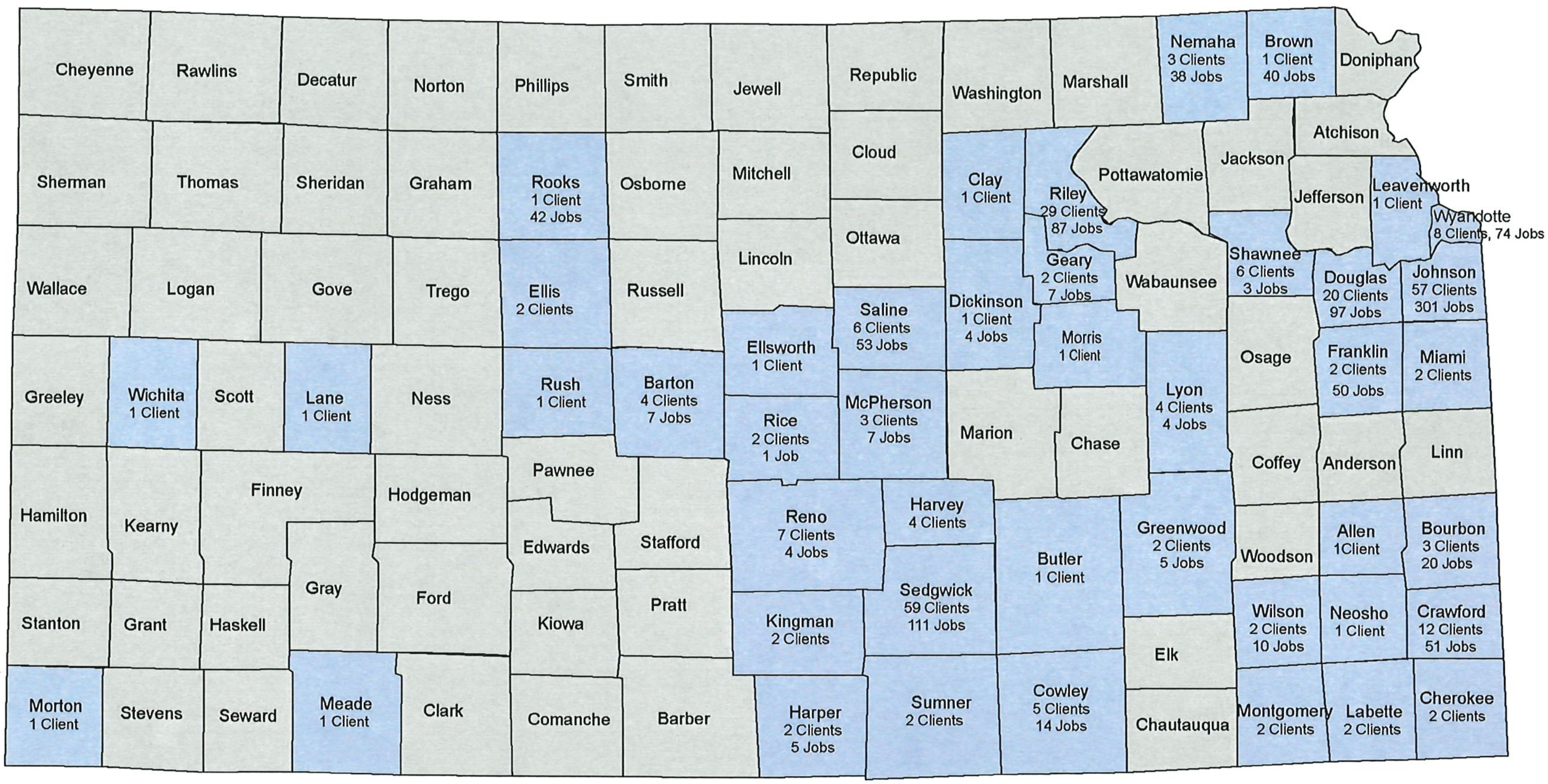
	FY 2007	FY 2008	FY 2009	FY 2010
New Jobs	420	504	501	618
Saved Jobs	366	429	408	417
Startup Companies	17	20	8	7
Sales Revenues (in millions)	$197.9	$207.3	$315.7	$432.5
Private $ Leveraged (in millions)	$43.4	$46.2	$56.9	$33.2
Federal $ Leveraged (in millions)	$63.8	$93.9	$124.8	$123.5
Return On Investment (ROI):				
KTEC ($ to 1) *	0.96	1.00	1.57	3.36
Private $ Invested in KS vs. KTEC ($ to1)	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.

4-17

KANSAS
TECHNOLOGY
ENTERPRISE
CORPORATION
ktec

KTEC Impact by County – FY 2010



271 Clients 44 Counties 1,035 Jobs

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KANSAS
TECHNOLOGY
ENTERPRISE
CORPORATION
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KTEC Proposed Funding for FY 2012

	FY 09 Actual	FY 10 Actual	FY11 Budget	Target 6M FY 12 Budget	Reduction 5.7M FY 12 Budget	Proposed 7.856M FY 12 Budget	
Progam Operations & Mgmt	1,700,368	1,239,104	1,079,443	1,059,473	1,056,523	1,059,473	
Centers of Excellence	2,958,044	2,248,070	1,060,328	1,268,029	1,177,728	1,798,328	
Grants - EPSCoR/Star	1,240,681	1,183,793	990,000	700,000	650,000	1,500,000	
Investment	643,319	497,504	600,000	600,000	550,000	600,000	
Entrepreneurial Centers	1,933,222	1,519,256	1,365,989	1,284,030	1,202,069	1,804,786	
Other Commercialization	663,820	260,885	127,317	67,685	67,686	67,686	
Mid-America Manufacturing Technology Center (MAMTC)	1,362,149	545,000	1,025,000	1,025,000	1,000,000	1,025,000	
Total	**10,501,603**	**7,493,612**	**6,248,077**	**6,004,217**	**5,704,006**	**7,855,273**	
Appropriation			**5,988,386**				
Carryover		**259,691**	**259,691**			1,851,056	Enhancement
Adjusted Budget			**6,248,077**	**6,004,217**	**5,704,006**	1,607,196	From FY11

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KANSAS TECHNOLOGY ENTERPRISE CORPORATION Ktec

Why KTEC Should Remain a Stand-alone Entity

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

- KTEC has a *single focus* for economic development – *innovation and entrepreneurism* 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 expertise

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.

Nitride Solutions™

February 1, 2011 **Senate Bill 42 - 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 critical 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 Venture Capital that was familiar with our technology and markets. We chose to stay, and a critical reason was the existence of KTEC and the PIPELINE program. 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.

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

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in their evaluation, timely in their responses and recommendations and have provided us contacts with critical resources in the region. I think that any attempt to fold 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 am also passionate about 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 makes us competitive with start-ups in California and Boston.

In summary, KTEC and PIPELINE are resources to be supported, 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.

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Robert L. Harbison

INTRUST Bank®

Senate Ways & Means Committee – February 2, 2011

Senate Bill 42 -Opposed

Kansas Technology Enterprise Corporation Hearing:

Robert (Bob) L. Harbison
Vice President Business Development INTRUST Bank, Wichita, KS

Career:	IBM Corporation	Sr. Location Manger, 22 years in computer technology
	DP Tek	President & Founder, 8 years, sold to HP
	Pulse Systems	Vice President, Electronic Medical Records
	Medical Development Sys.	President, Specialty Hospital Dev.
KTEC:	Chairman - Wichita Technology Corporation	
	KTEĆ Funding Committee – 2001-2009	

My testimony will focus on three key areas for entrepreneurism and start up high-tech companies. These key areas are uniquely provided by KTEC and would not be part of the proposed move to the Kansas Department of Commerce.

The key areas are the following:

<u>Company Business Plan</u>

<u>Proof of concept and funding</u>

<u>Investors and capital</u>

1. **<u>Company Business Plan</u>**

   Entrepreneurs start their company with a vision of a product or a service which they believe will be unique and beneficial in their industry. They are very product focused and usually not focused on the larger picture of the business structure of their company. The clichés of "build it and they will buy it" is often their thought on the new venture.

   This is the area in which KTEC plays a big role. They help the entrepreneur develop a written business plan and address the many issues that need to be communicated to investors, bankers and new employees. KTEC has assisted the entrepreneur in positioning the new innovation for commercialization and growth. KTEC understands the short fall that an entrepreneur might have in starting a business and will match them with experts and mentors to help them be successful. The business network that has been developed across the state offers special

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resources and assistance for these entrepreneurs and greatly improves the chance for a new company to survive and grow the employment in the high-tech, high salary arena.

The Kansas Department of Commerce will have to focus on recruiting and retaining established businesses and will not have the resources to grow new and high potential startups.

2. **Proof of concept and funding**

All startup companies must provide a proof of concept and a prototype product before they launch into commercialization, manufacturing and distribution of the new item. One of the turning points in a new company is obtaining funding and /or assistance in the development of the new innovation. KTEC has a network of early stage investors, business development experts and a small investment fund to help facilitate the proof of concept stage of product development. Many entrepreneurs find this point in their new business as the milestone that makes it a success or a failure.

KTEC's Entrepreneurial Centers, Centers of Excellence, Angel Tax Credit program and Proof of Concept funding are critical in providing the resources to insure success in the prototyping or the proof of concept of a product. The elimination of this organization will be very detrimental to innovation and entrepreneurism in high-tech growth in Kansas.

The Kansas Department of Commerce will not have the resources to provide assistance in this critical area of development.

3. **Investors and capital**

After proof of concept, new companies will need private sector funding to grow through the commercialization of their products. KTEC has provided networking and events to make the companies more attractive to angel investors and to private sector funds.

At this point in the process, KTEC will see a return on the investment and Kansas will benefit from new companies growing, prospering and hiring.

KTEC could be nurturing the next Coleman, Cessna, Pizza Hut or Microsoft. It is worth the investment.

Bob Harbison

#1 Stonebridge Circle
Wichita, Kansas 67230

Kenneth Frahm

PO Box 849

Colby, Kansas 67701-0849

kfrahm@st-tel.net

Senate Bill 42 - Opposed

Senators, Ladies and Gentlemen:

I'm Kenneth Frahm from Colby. I've had the pleasure and pride of being associated with KTEC for many years. Over 15 years ago I was first appointed to KTEC's Investment Committee. I believe when I went off the Investment Committee just over a year ago, I was its longest serving member. Last year I was appointed to the KTEC Board of Directors.

My years of association with KTEC were an education for me and have made me a firm believer in the value to the State of Kansas of KTEC.

KTEC Board of Directors

As the representative of the KTEC Board present here today I would like to remind you of the role and the value of the KTEC Board of Directors. It is my contention that the Board in its current form allows for both transparency and Legislative Oversight for KTEC's operations.

If the proposed changes were made the independent 20 member KTEC Board of Directors would be abolished and replaced by an advisory board under the Secretary of Commerce.

KTEC's Board of Directors currently provides a balance of executive, legislative, academic and private sector representation.

The Board of Directors currently provides direct legislative oversight, focus on the long-term, final decision making on programs, investments and grants.

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

I contend that KTEC brings dividends to Kansas in the form of new business and new jobs every year that far outweigh the small savings to the state of the proposed move of programs to Commerce.

KTEC has a single focus on economic development via innovation and entrepreneurism in the high-tech arena. KTEC provides start-up assistance to entrepreneurs that they simply can't find elsewhere.

KTEC is the glue that holds all of its programs together – a well-developed, cohesive system to help entrepreneurs succeed.

KTEC has a depth of expertise in their areas that does not exist in Commerce – it hasn't been their responsibility.

Commerce does a great job in its traditional arena of recruiting and retaining established businesses, an important component of growing the economy – but, different from KTEC's function of growing companies from new innovations.

Elimination of Proof of Concept funding and PIPELINE and moving other programs into traditional, bureaucratic agencies that are not as familiar with the technology-based economic development would fragment the programs, compromise the focus on innovation and loose for Kansas much of the built-up value that KTEC brings to this arena.

Attempting to recreate KTEC's functions would have a steep and expensive learning curve for Commerce.

KTEC has developed a significant reputation for bringing new businesses to Kansas and helping existing businesses develop new technology based products.

KTEC's work pays dividends by bringing new jobs to Kansas. The companies that KTEC has helped develop in just the last few years report by survey having created over 1,000 new jobs in Kansas in 2010. Their reports show an average salary in the Manufacturing sector of $50,000 and in the Technology sector of $70,000 for these newly created jobs.

Ken Frahm's Conclusion

I applaud the legislature for taking on the hugely difficult task of dealing with the budget imbalances that our current economic environment has brought upon us. When the only solution is to cut budgets and eliminate agencies and programs, I would urge you to do it in areas where the net savings would be significant and the money currently being spent does not return the significant dividends in terms of new business and new jobs that the KTEC budget does.

TO: SENATE WAYS & MEANS COMMITTEE

FROM: DR. REGGIE CHANDRA

SUBJECT: KTEC – SENATE BILL 42 - OPPOSED

DATE: 02/03/11

When I joined the KTEC PIPELINE program, I was an engineer, not an entrepreneur. I had invented a product and my philosophy was, "if we build it, they will come." I had the innovation and technology, but not the knowledge, experience, or resources to create a thriving business based off of my invention. PIPELINE supported me in every aspect of running a startup company. What I learned from PIPELINE literally changed the direction of our company and the destiny of my life. It put us on a growth phase that has defied the national recession and resulted in us consistently quadrupling our revenue over the years.

People say that in this economy it is a miracle if you can grow your business. When you are an entrepreneur in the PIPELINE program, it is a miracle if you are not growing your business in this economy, because the resources are available to PIPELINE innovators through KTEC. KTEC is the catalyst that facilitates the connections between entrepreneurs and all of the programs available to them. The PIPELINE program leaders are both knowledgeable and caring. They are the ones to stand beside you when you are struggling through the initial growing pains of starting and sustaining a business. In the early stages, funding is vital to success. When my company needed capital, KTEC invested $100,000 as well as provided tax credits for other investors, without which I could not have raised my Series A funding to get us through the challenges of the initial phase. Last year, Rhythm Engineering created 33 jobs in the state of Kansas and received the Governor's Award for Energy Efficiency. Our adaptive traffic control system is saving lives and reducing air pollution, all thanks to the initial support of KTEC and the PIPELINE program.

The truly valuable aspect of PIPELINE is the network of people who combine experience and leadership into a support system for other entrepreneurs. I moved to the Kansas City area 8 years ago not knowing anyone. My company started in the Enterprise Center of Johnson County where we laid the foundation for the success that has followed. Through the PIPELINE network, I have developed a network of contacts that have been instrumental in the growth of my business over the past five years. I attribute 99% of the valuable resources that I have used to build my company to the support I have received through KTEC and the PIPELINE program.

Sincerely,

Dr. Reggie Chandra
President/CEO

Senate Ways and Means
Date: 02/07/11
Attachment: 8

THE CHAMBER

Greater Kansas City Chamber of Commerce

Testimony to Senate Ways and Means Committee on
In Opposition to SB42
Robert Vancrum, Government Affairs Consultant

The Greater Kansas City Chamber of Commerce
February 2, 2011

Chairman McGinn and Other Honorable Senators:

On behalf of the Greater Kansas City Chamber of Commerce, we are testifying today in opposition to this bill, which would abolish the Kansas Technology Enterprise Corporation (KTEC) and transfer the major part of its duties and responsibilities to the Kansas Department of Commerce. We were surprised that Governor Brownback recommended this transfer despite the fact that it has been considered in both the last two sessions at the recommendation of Governor Sebelius and has been rejected by the Legislature. We had thought that many of the objections and criticism of this agency were behind us following the departure of previous leadership.

In any event, we must rise in opposition once again. The plain fact is that the role it plays on behalf of Kansas citizens is considerably different than that performed by the Department of Commerce. Interestingly, as shown in Saturday's *Wall Street Journal* article attached, many states, especially those with Republican governors are moving economic development out of their departments of commerce and into a non-profit private entity.

KTEC is a private public partnership. Its focus is on fostering entrepreneurial innovation and cutting edge technology transfer. KTEC has also played a key role in the very successful statewide bioscience initiative and supports both the development and commercialization of new technologies by supporting researchers, entrepreneurs and technology companies throughout each phase of the lifecycle of these companies. The expertise it has developed in helping to raise capital and administering key tax credit programs is in danger of being lost if transferred to the Department of Commerce. Why do I say that? It is simply because the Department of Commerce is primarily charged with attracting and developing all kinds of business to, and expanding business within Kansas, as well as the mission of workforce development for employees and potential employees within the state. Its mission is much broader, and in some ways, the task is much more daunting.

Given the importance we have attached to developing agriscience and bioscience in this state over the last decade, it seems unwise to approve such a consolidation. The long term savings cannot be very significant when compared to what this organization has been able to achieve.

Senate Ways and Means
Date: 02/07/11
Attachment: 9

THE WALL STREET JOURNAL.
WSJ.com
JANUARY 29, 2011

States Let Private Sector Seal Deals

Some cash-strapped states have identified another job they want to shift to the private sector: economic development.

A number of governors are working to turn their development offices into some form of nonprofit private entity, a move that would transfer the task of giving out state grants, tax breaks and other economic incentives from the hands of government.

The idea, which has as much to do with economic philosophies as with saving money, is mainly gaining ground in states with Republican governors, including Ohio, Wisconsin, Iowa and Arizona.

"It's a matter of greater flexibility and the ability to act more like a chamber [of commerce] rather than a state agency," said Wisconsin's new Republican governor Scott Walker, adding that private groups are better equipped to create jobs and attract companies.

As tax revenue has shriveled in recent years, cities and states have moved to privatize various operations, such as state-run liquor stores, local libraries and parking meters.

Seven states, including Michigan and Florida, already have some form of private group filling the economic-development role. Critics say handing this power to a private entity can create conflicts of interest, because the nonprofits usually have boards made up of public officials and private business leaders. This can create conflicts as these boards help steer tax breaks and incentives.

Also, in many cases private economic-development agencies aren't subject to the same standards for public disclosure as government a gencies, even though they receive government money. In Ohio, where newly elected Gov. John Kasich has proposed dissolving the state's Department of Development and creating an entity called JobsOhio, lawmakers have pushed to increase disclosures and allow the state's inspector general to investigate the proposed entity.

Advocates say it makes sense to separate the task of creating jobs from large government agencies that often have a broader mission. In Wisconsin, the current Department of Commerce has responsibility for regulation as well as economic development. Among the 400 employees in Ohio's Department of Development, 60 are focused on economic development; the balance handle areas including homeless programs, community development and home energy assistance.

The structure of private economic-development groups varies, but in general they are set up as nonprofit corporations that receive seed money and regular funding infusions from the state budget but are also free to solicit donations from corporations much like a chamber of commerce.

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THE WALL STREET JOURNAL.
WSJ.com

Also, instead of reporting to the governor directly, they are usually run by a board of directors. By operating outside government, private authorities can make faster decisions, says Debi Durham, who was recently hired as director of the Iowa Department of Economic Development. Under a plan expected to be proposed by Gov. Terry Branstad on Monday, that department would be dissolved into a new entity called the Iowa Partnership for Economic Progress.

Jeffrey Finkle, president of the International Economic Development Council, a trade group for economic development agencies, including some nonprofit private groups, says there has been little to show that a private structure is better than an agency under the government's purview. "There is this naive assumption that a private-run state economic-development agency is better than a public one and I don't see evidence that that's true," he says.

The move to privatize economic-development agencies started two decades ago, according to Good Jobs First, a Washington nonprofit research group that monitors how states and localities use economic incentives. Several states have seen parts of their economic development agencies go from public to private and back to public again. "One of those was Wisconsin, where the concept is now being presented as something new," said a recent Good Jobs First report on the recent privatization trend.

Write to Conor Dougherty at conor.dougherty@wsj.com

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