

Kansas, Inc.
Board of Director's Meeting
December 10, 2008

The December 10, 2008 meeting was held at the Bank of America Building, 1600 Top of the Tower, 534 S.W. Kansas Ave, Topeka, KS 66603. At 10:13 a.m. Co-Chair Johnson called the meeting to order. A quorum was present.

Members Present: Gene Argo, Patti Bossert, Rep. Tom Burroughs, Donna Johnson, Sec. David Kerr, Sen. Laura Kelly, Wil Leiker, John Pilla (via phone) and Donald Schnacke

Members Not Present: Rep. Lana Gordon, Don Landoll, Lawrence McCants, Reginald Robinson, Gov. Kathleen Sebelius, Stephen Waite, and Sen. David Wysong

Staff Present: Stan Ahlerich, Debby Fitzhugh, and Dan Korber

Others Present: Lindsay Holwick, Kansas Bioscience Authority;
Jerry Paytas, GSP Consulting (via phone)

President's Report

Ahlerich referred the Board to the 2009 meeting dates:

- Tuesday, March 10, 2009 (Topeka)
- Tuesday, June 9, 2009 (TBD)
- Wednesday, September 9, 2009 (TBD)
- Tuesday, December 8, 2009 (Topeka)

Ahlerich provided the Board with an update on the strategic planning process, noting benchmarking was proceeding and several presentations regarding various aspects of the plan were scheduled. Ahlerich noted a presentation to several rural development resource partners was scheduled for December 12, 2008.

Ahlerich provided the Board with a copy of a Kansas, Inc. economic presentation given to the Special Committee on Assessment and Taxation on November 13, 2008.

Ahlerich referred the Board to the *December 1, 2008 eReport*, requesting feedback regarding its content and using it as another medium to update stakeholders regarding various aspects of the strategic plan.

Ahlerich provided the Board with an update on the *Indicators of the Kansas Economy (IKE)* project with Wichita State University (WSU), noting the project was progressing, but behind schedule. Ahlerich noted the IKE database has been updated and WSU was currently awaiting online upload from the Data Access and Support Center (DASC) to begin testing.

Ahlerich provided the Board with a copy of the *FY 2008 Annual Report*. Discussion ensued.

Ahlerich requested input regarding a meeting scheduled with the Wichita World Trade Center (WTC) to inquire about the Kansas, Inc. President being on the WTC Board. The Kansas, Inc. Board expressed their support for the inquiry.

Ahlerich provided the Board with an update on in-house research, noting the *Chronological History Report* and the *Grants and Loans Report* would be complete for the 2009 Legislative Session.

Ahlerich provided the Board with an update on the Kansas Technology Enterprise Corporation (KTEC) Evaluation, noting Thomas P. Miller and Associates (TPMA) were proceeding with interviews and the review of KTEC materials. Ahlerich noted KTEC leadership has been involved throughout the process and a report was made to the KTEC Board regarding the evaluation at their last meeting.

Kerr requested clarification regarding evaluation funding. Ahlerich noted similar to previous evaluations, the respective organization assumes responsibility for the majority of the one-time costs associated with the evaluation, and Kansas, Inc. returns any leftover funds to the agency following the completion of the evaluation.

Ahlerich noted throughout the KTEC evaluation Kansas, Inc. would follow up with several individuals to gauge their impressions of the evaluators and evaluation process.

Ahlerich provided the Board with a copy of *A History of Manufacturing in Kansas: Profile of an Economic Strength*.

Kerr requested Board input regarding methods to evaluate where Kansas ranks compared to other states and what would be considered reasonable expectations to gauge Kansas against other states. Discussion ensued.

Johnson noted this could be dependent on what was being measured, as comparing Kansas to states with a larger tax base may not be realistic; however, it could be more relevant on a per capita level.

Ahlerich noted Kansas, Inc. could provide recommendations regarding metrics and other measures intended to realistically measure Kansas' performance against other states.

Leiker noted this issue impacts the Legislature, as groups continue to bring proposals forward with unrealistic expectations based on measures that may not tell the full story.

Burroughs indicated the Legislature continually refers to a return on investment (ROI) measure, which is difficult to determine within economic development efforts.

Ahlerich provided an update on the *Analysis of State-Level Economic Development Contingency Funds*, noting a tremendous amount of data had been acquired and the analysis was proceeding according to schedule.

Ahlerich provided the Board with an overview of a proposal from the Governor's Military Council (GMC) regarding an economic impact analysis of the military on Kansas. Ahlerich noted Kansas, Inc.'s assistance, in concert with the GMC, would be required to prepare and administer the project, and no research funds from Kansas, Inc. would be used for the project. Ahlerich noted this project would be complementary to other Kansas, Inc. projects and relevant to the strategic plan.

At 10:45 p.m. Pilla joined the meeting via phone.

A motion was made by Argo to move forward with the economic impact analysis of the military on Kansas. Seconded by Schnacke. Discussion ensued.

Kerr requested clarification regarding the end result of the project, as the impact of military decisions are not necessarily something the state has direct control over. Ahlerich noted aside of the all-inclusive direct and indirect economic impact information, the project would serve as a resource in preparation for the next Base Realignment and Closure (BRAC) process.

At 10:55 a.m. Kelly joined the meeting.

Johnson referred to the original motion by Argo, seconded by Schnacke. Motion carried.

Consent Agenda

Johnson referred the Board to the December 10, 2008 Consent Agenda. The following items were on the agenda:

- Approval of the September 10, 2008 minutes
- Acceptance of the Kansas, Inc. Financials for the period ending October 31, 2009

A motion was made by Kerr to approve the items on the Consent Agenda for the December 10, 2008 meeting. Seconded by Bossert. Motion carried.

New Business – Evaluation of the Kansas Bioscience Authority (KBA)

Johnson recognized Lindsay Holwick, Kansas Bioscience Authority and Jerry Paytas, GSP Consulting prior to the overview of the KBA Evaluation.

Ahlerich provided an overview of the evaluation process specific to the KBA, including:

- A timeline of major milestones and events during the evaluation;
- A general overview of the KBA organization and structure; and,
- An overview of the major findings and recommendations based on the evaluation results.

Ahlerich noted the evaluation was required by statute, subsequent to the enabling legislation. Kansas, Inc. allowed as much time as possible to pass in order to build a substantial basis of information for the evaluation. Ahlerich highlighted several aspects regarding the scope of the evaluation, including questions regarding the funding mechanism, statutory responsibilities, legislative oversight, phases of the KBA and programs specific to the KBA.

Kerr requested general feedback from the KBA regarding the evaluation. Ahlerich noted the KBA had provided in-depth feedback on the original draft report, and those concerns were mostly addressed with the current draft; however, while the KBA recognized the change of tone in the current report, there were still some concerns from their standpoint.

Holwick highlighted some of the KBA's concerns with the original draft and the current draft, noting it may not include some of the recent occurrences, including the National Bio and Agro-Defense Facility (NBAF) and some areas may not be clear in regards to the two distinct phases of the KBA.

Ahlerich noted the KBA could provide a written response to be included with the evaluation, and Kansas, Inc. would provide a letter to set the overall stage for the evaluation, which would include any references to events or issues not included in the evaluation. Ahlerich noted while the NBAF effort was mentioned in the report, the evaluation was intended to analyze the broad mandate of KBA's overall efforts since its inception.

The Board concurred with the recommendation to amend the report with a letter from Kansas, Inc.

Kerr requested clarification regarding Kansas bioscience rankings within the report. Paytas noted progress in regards to rankings was included on page 22 of the evaluation.

Kelly noted the four-year evaluation plan set forth in the report may not completely address the Legislature's oversight concerns regarding the KBA, and more frequent oversight may be recommended by the Legislature.

Kelly requested clarification regarding the Legislature's request for the KBA to fund a project for the Wichita Center for Graduate Medical Education. Paytas noted the "mission drift" issue came forth during the evaluation process; however, GSP was unable to validate some of the concerns regarding this specific project during the follow-up interview process; therefore its reference was not included in the report.

Holwick noted concerns with staffing recommendations provided in the report. Paytas noted the perception of the KBA was one of a large staff; however, in comparison to similar initiatives the KBA has a lean staff and has prudently managed this issue as funding commitments continue to grow. Paytas noted as funding commitments increase, the level of staff required to meet those commitments would increase also.

Paytas noted the evaluation was not intended to be a marketing tool, but rather provide an objective, in-depth evaluation report on the overall effectiveness of the KBA.

A motion was made by Kerr to accept the *Evaluation of the Kansas Bioscience Authority* as amended. Seconded by Bossert. Discussion ensued.

Kelly requested clarification regarding the R&D Voucher recommendation. Paytas noted the recommendation was reflective of observations from other states with similar programs, and increased staff authority over funds in

this program would enhance KBA efforts. This program also utilizes a university partner, which would mitigate some risk in regards to oversight and review.

Johnson referred to the original motion made by Kerr and seconded by Bossert. Motion carried.

At 11:45 Paytas was excused from the meeting.

At 11:50 a.m. Johnson recessed the meeting for lunch.

At 12:40 p.m. Kelly was excused from the meeting.

At 12:40 p.m. Holwick was excused from the meeting.

At 12:40 p.m. Johnson called the meeting back to order. A quorum was not present.

Update on FY 2010 Budget Submission

Ahlerich provided the Board with an update on the FY 2010 Budget submission, noting the Board's enhancement proposals had been denied by the Division of the Budget and the Agency had appealed the restoration of the half-time position and the operations enhancement. Ahlerich acknowledged overall budget concerns for the state and cuts recommended by the Governor; however, the appeal process was necessary in this case because the proposed cuts were specific to the part-time administrative position, rather than allowing the Agency's discretion to determine where to make the specific percentage cuts recommended by the Governor. Ahlerich noted this was an unprecedented request by the Division of the Budget and the difficulty posed to the agency by losing the administrative position.

Ahlerich noted the Agency had conducted several interviews regarding the Policy Analyst position, but at this time would not be hiring due to budget concerns.

Ahlerich requested Kerr's input regarding the proposed cuts. Kerr noted Commerce was allowed discretion in determining where its cuts were going to be made, and Commerce anticipated losing all carryover funds in light of current budget concerns.

Argo requested an update regarding the fundraising process. Ahlerich noted the fundraising process was ongoing, but given the current economic conditions it would be difficult to raise funds from the private sector.

Co-Chair Report

Johnson provided the Co-Chair report, highlighting the importance of the strategic plan and making strategic decisions now to position the state for future opportunities.

Business Report – John Pilla – Aviation

Pilla provided a presentation regarding *Kansas Aviation Industry Issues*, noting the aviation industry is a major contributor to the economic vitality of Kansas and has the potential for significant growth as a national center for aerospace innovation. Pilla noted aviation contributed 31,475 direct jobs at 76 companies with a payroll of \$2.0 billion, with each aviation job generating an additional 2.9 jobs.

Pilla noted the global recession will likely result in no growth or negative growth in the Kansas aviation sector for the next several years, although it may be too early to accurately predict the overall magnitude of these events. Aviation is an industry that requires long-term planning and strategies. Pilla stressed the importance of investments in the industry, through efforts such as the National Institute for Aviation Research (NIAR) and the National Center for Aviation Training (NCAT). Pilla also highlighted the Mueller Elementary School project specific to educating youth in regards to opportunities in the aviation industry.

Kerr requested input regarding the military tanker project. Pilla noted the project could be rebid within a few years and may end up being a split bid of some sort.

Ahlerich requested clarification regarding aircraft orders and the backlog illustrated in the presentation. Pilla noted increased cancellations were a risk to the industry, but had not excessively occurred to this point.

Schnacke noted the impact of energy prices on the aviation industry is substantial, suggesting \$75/barrel for 2009 would be a good estimated. Schnacke noted the global financial crisis has had severe implications on the oil and gas industry, through the erosion of demand. The impact of energy prices will be reflected throughout several industry sectors.

Administration Report – Secretary David Kerr – Branding Kansas

Kerr provided an overview of Commerce’s current branding efforts, including electronic media being used to market the state to specific audiences. Kerr highlighted four key areas of focus, including: business recruitment; travel and tourism; workforce; and the overall image of Kansas. Kerr highlighted the difference in branding efforts within each of these areas to specific audiences. Kerr provided videos of several customized ads being strategically positioned to brand Kansas to specific audiences and regions. Kerr noted these materials were gaining interest and available from Commerce.

Kerr noted Commerce has enhanced branding efforts by reallocating resources to provide for a more focused approach to branding Kansas.

Kerr noted Commerce had formed a Marketing/Branding Advisory Board, which had already met, with another meeting scheduled during January. The Board, consisting of approximately 20 individuals, provides a broad base of individuals with a diverse level of input and expertise.

Legislative Report – Representative Tom Burroughs

Burroughs provided the Board with an update on the upcoming Legislative session, noting budget issues and cuts would be of major concern. Burroughs highlighted Legislative Post Audit’s work in regards to identifying inefficiencies within state government.

Burroughs noted several major issues on the forefront including: energy and the creation of a comprehensive energy plan, transportation issues; healthcare and budget issues; and improving the overall efficiency of government.

Kerr requested input regarding the consideration of potential tax increases. Burroughs noted broad tax increases had not been discussed at length yet, but all options are on the table; however, Burroughs noted increases to tobacco taxes were being considered. Burroughs highlighted several potential options the Legislature may have to consider in regards to addressing current budget issues.

Adjourn

With no further business, at 1:50 p.m. Johnson adjourned the meeting.

Respectfully submitted,

Stan Ahlerich
President