

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

The September 10, 2008 meeting was held at the Kansas, Inc. Office, 632 S.W. Van Buren, Suite 100, Topeka, KS 66603. At 10:12 a.m. Co-Chair Johnson called the meeting to order. A quorum was present.

Members Present: Patti Bossert, Rep. Tom Burroughs, Rep. Lana Gordon, Donna Johnson, Sec. David Kerr, Sen. Laura Kelly, Wil Leiker, Reginald Robinson, Donald Schnacke, Stephen Waite, and Sen. David Wysong.

Members Not Present: Gene Argo, Don Landoll, Lawrence McCants, John Pilla, and Gov. Kathleen Sebelius

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

Consent Agenda

Johnson referred the Board to the Consent Agenda. The following items were on the Consent Agenda:

- Approve the June 11, 2008 minutes
- Approve the FY 2009 Financials
- Approve the President's Report

Johnson noted the intent of the Consent Agenda was to provide further time for strategic discussion and direction between private industry Board members and the Legislative and Administrative Board members.

A motion was made by Kelly to approve the Consent Agenda for the September 10, 2008 Board meeting. Seconded by Schnacke. Motion carried.

President's Report

Ahlerich noted ongoing progress with the Strategic Plan, with several upcoming presentations scheduled and the benchmarking effort materializing.

Ahlerich noted the electronic portion of the Indicators of the Kansas Economy (IKE) project, funded through a grant from the Information Network of Kansas (INK), was proceeding with the Center for Economic Development and Business Research, Wichita State University.

Ahlerich provided the Board with a copy of the recently completed Vitality and Distress Report update.

Ahlerich noted staff was in the process of updating several reports, including the Economic Development Chronological History Report, Grants and Loans Report, and the 2008 Annual Report.

Ahlerich noted the evaluation of the Kansas Bioscience Authority (KBA), contracted through GSP Consulting, was proceeding according to schedule.

Ahlerich noted the evaluation of the Kansas Technology Enterprise Corporation (KTEC) RFP process was complete, with three proposals being received that were in the process of being reviewed.

Ahlerich provided the Board with a copy of the Kansas Legislative Post Audit (LPA) Economic Development Expenditure Report.

Ahlerich noted the History of Manufacturing project, contracted through the Center for Applied Economics, University of Kansas was proceeding and should be complete for the Legislative Session.

Ahlerich noted the State-Level Economic Development Contingency Fund Analysis RFP process would be completed by September 12, 2008, with the decision on the Contractor to be made the following week.

Kelly requested clarification regarding the contingency fund analysis. Ahlerich noted the analysis would provide insight regarding the creation of a contingency fund to be used by the Department of Commerce to provide flexibility and funding above and beyond the current range of incentive programs to compete with other states and countries that provide large incentives for existing and new businesses and projects. Kerr highlighted several aspects of the study relative to Kansas economic development efforts, including methods/sources from other states, measuring total dollars versus percent of revenue, overall allocations and other issues pertinent to the analysis.

FY 2010 Budget Submission

Ahlerich provided an overview of the FY 2010 Budget Submission, highlighting the funding request required to maintain current service levels. Ahlerich deferred to Kerr for budget recommendations from the Executive Committee.

Kerr reported the Executive Committee recommended a 2010 Budget Submission of \$496,409, which included an enhancement of \$101,000 to maintain current service levels. Kerr noted the enhancement was intended to replace funding that had been previously provided by the Kansas, Inc. private account, which would be depleted in the near future. Discussion ensued.

A motion was made by Kerr to adopt the Executive Committee's recommendation for the 2010 Budget Submission of \$496,409, which included a \$101,000 enhancement request. Seconded by Wysong. Discussion ensued.

Kelly requested clarification regarding the Kansas, Inc. private account. Ahlerich noted the private account was derived from the Information Network of Kansas (INK) lease agreement and administrative support, not to be confused with the private research dollars contributed through the Kansas Economic Development Institute (KEDI). KEDI funds are used for research purposes only, not operating expenses. KEDI funds were not used for recent evaluations, which were funded through a combination of Legislative appropriations and agency-specific funding. Recent research projects were funded through a combination of Legislative appropriations and KEDI funds.

Burroughs indicated the Kansas, Inc. Board committed to getting the agency in-line with statutory obligations, directing the use of the private account funds to prove the agency's merit. During the past few years, this objective has been largely accomplished and the agency is in a better position to ask the Legislature for an enhanced level of funding to provide the necessary current level of service.

Kerr indicated without Kansas, Inc. private account funds or the Legislative enhancement request, the Kansas, Inc. budget and service levels would reflect a 20 percent funding cut.

Johnson referred to the original motion by Kerr, seconded by Wysong. Motion carried.

Co-Chair Report

Johnson referred the Board to the letter dated August 12, 2008 regarding the full disclosure of Pinnacle Technology, Inc.'s activities with the Kansas Technology Enterprise Corporation (KTEC) and Kansas Bioscience Authority (KBA).

Waite requested the Board formally recognize the letter as part of the minutes. Discussion ensued.

A motion was made by Waite to formally recognize the letter dated August 12, 2008 in the Kansas, Inc. Board minutes. Seconded by Kerr. Motion carried.

Johnson highlighted the new format of the Board meeting, emphasizing the importance of the discussion between private industry and members of the Administration and Legislature in an effort to provide strategic input and direction for all stakeholders.

Ahlerich noted the design and mission of Kansas, Inc. provides the structure for the exchange or transfer of pertinent and timely information from the core business sectors and other key stakeholders directly to the Administration and Legislative leadership. This structure also affords the unique opportunity for the Administration and Legislative leadership to share their current priorities and focus directly with business leaders. This transfer of information has in the past proven very beneficial for the State and its citizens, and this "think-tank" component of Kansas, Inc. is one of the most important functions of the Board's tenure and experience.

Oil and Gas Industry Report

Schnacke provided an overview of the oil and gas industry, noting it is nearly a \$4.3 billion dollar industry with activity in 89 of Kansas' 105 counties. Oil production has increased in recent years, while natural gas production has decreased, largely due to the continued depletion of the Hugoton field. The oil and gas pipeline projects currently under construction have provided an economic boom in several areas of the state. Schnacke noted several issues continue to impact the industry, including a shortage of qualified workers, ad valorem taxes on reserves not yet produced, and cuts in federal funding for research in the independent segment of oil and gas production.

Kerr requested clarification regarding increased drilling activity and the overall success rate. Schnacke noted drilling success rates were high, due to better technology. Companies can no longer write off all expenses associated with drilling an unsuccessful well, providing further incentives for success. Many wells drilled are offsets (near an existing well), while new fields have also been discovered, such as several methane gas fields in southeast Kansas.

Education Report

Robinson provided an overview of the public agenda for higher education, highlighting several synergies with the Kansas, Inc. Strategic Plan. Robinson indicated current issues such as the Governor's request to decrease budgets and how institutions would respond would impact higher education. Robinson provided five questions/strategies for higher education: (Discussion ensued throughout the report)

- Educational Systems Alignment – Are we satisfied that high school graduation expectations are aligned with college preparation expectations? Are Kansas high school graduates prepared to meet postsecondary expectations? Robinson noted K-12 and higher education must be aligned, and initiatives such as the Governor's P-20 Education Council would work towards this.
- Participation – Are we satisfied with the level of participation in the Kansas higher education system? Do participation rates adequately reflect the state's demographic composition? Are we satisfied with the participation of adult learners in the higher education system? Robinson noted the focus must include the full range of options in the system and issues such as workforce development and lifelong learning must address these opportunities. Potential legislation for need-based financial aid to complement institutional aid could be an important part of addressing this strategy.
- Persistence/Credential Production – Are we satisfied with our institutional retention and completion rates? Robinson noted the importance of completion rates and creating a situation conducive for completion.

- Outcomes – Do those that complete programs have the cross-cutting competencies and skills necessary for success in work and in life? Robinson noted the importance of outcomes and whether graduates have the skills for specific employment. Regardless of your discipline, general cross-cutting skills are needed, such as soft skills, communication, team workers, etc.
- Alignment with the Kansas Economy – Are the programs, resources and incentives of higher education aligned with the workforce demands of Kansas? Are we satisfied with the level of innovation-spurring research and discovery that is being produced within our universities? Robinson noted workforce shortages throughout the state, highlighting the nursing program model may provide insight into developing similar programs for other disciplines such as teaching or engineering. Robinson noted the Kansas Postsecondary Technical Education Authority was working on these issues through a transformation in how technical education is funded in the state. Shifting resources will create significant opportunities to work together.

Gordon requested clarification regarding the amount of time required to get a degree relative to retention/completion issues. Robinson noted the time was a function of requirements and costs, and shortening, while complicated may be encouraged through the funding, such as in technical areas.

Waite noted advisors must place greater emphasis on outcomes in K-12 education, standards must remain high, and education must be aligned with the needs of employers.

Kerr highlighted the work of the Kansas Postsecondary Technical Education Authority, and its marketing committee. Marketing and information must be present throughout the educational process.

Johnson noted teacher certification requirements for high schools were an issue that could be resolved relatively easy, and better advising and planning during postsecondary education could shorten the amount of time to get a degree.

Service Industry Report

Bossert provided an overview of several service industry individuals who provided information regarding their businesses prior to the meeting.

Bossert noted workforce issues within the hospitality industry were an ongoing issue. Potential smoking ban legislation could impact their businesses also, given the fragmented nature of previous bills. Potential legislation should be all or nothing, to make the impact uniform. Discussion ensued.

Kelly noted smoking bans in local communities may create a patchwork or fragmented impact, but a ban from the state level could provide a uniform impact that may reduce overall healthcare costs.

Bossert noted the standardization of health inspections were an issue, and the results of the move of this function to the Kansas Department of Agriculture were inconclusive at this point. Individuals are concerned with the overall standardization and consistency of tests and inspectors.

Bossert noted workforce issues with call centers, such as soft skills, customer service skills and other pertinent skills were an ongoing issue. The need for bilingual employees is also increasing.

Labor Report

Leiker provided an update on labor in Kansas. Leiker noted employment opportunities in the state were positive; however, training and qualifications remain a key part of accessing these opportunities. The emphasis on a four-year college degree seems to be the primary focus of the education system; however, there is an increasing need for skilled employees in several technical fields. Programs such as the Helmets to Hardhats program have been successful in the state, while exploring opportunities with factoring in employment time with educational credit could be beneficial.

Leiker noted the decision to reopen the tanker bid process would be beneficial for Kansas; however the aerospace industry has seen some recent strikes. Leiker highlighted some of the complex issues with illegal immigration, which create a misclassification and an uneven playing field for businesses. Leiker noted Chinese is quickly becoming a secondary language in demand for employees.

At 11:30 Wysong was excused from the meeting.

Commerce/Administration Report

Kerr provided an update on the Administration's initiatives and several projects Commerce is working on.

Kerr noted several activities directly related to the Kansas, Inc. Strategic Plan, including the recently created Division of Rural Development within Commerce. The Division reflects a reprioritization on rural development efforts through a reallocation of resources. Kerr noted Commerce is in the process of finalizing the Image Advisory Board and the first meeting would be held during October 2008.

Kerr highlighted Commerce's marketing campaign focused on identifying and recruiting individuals to move back to Kansas. Kerr highlighted the national recognition and awards Kansas has received in regards to business climate.

Kerr provided an overview of Commerce's response to the LPA economic development report.

Kerr highlighted several major commitments for the state, including Cessna, Spirit and other opportunities. Kerr noted continued investment in the state is critical to economic development efforts, and several other opportunities were being explored by Commerce. Kerr noted workforce recruitment is a statewide issue, given the low levels of unemployment.

Kerr highlighted his experience with the Aviation High School, located in Long Island, NY, where the focus is on aviation and students graduate with a diploma and Federal Aviation Administration (FAA) certifications. Essentially, students take the basic high school classes and electives are specific to aviation. Kerr noted replicating this type of program and coordination between all levels of education could provide opportunities in Kansas to expedite the workforce.

Ahlerich noted the Olathe 21st Century School Program had similar aspects to this program.

Kerr provided an update on tourism efforts, noting Commerce's increased focus on tourism and marketing the state. Efforts included enhancing the budget by \$400,000 to approximately \$4.5 million during the past fiscal year. Commerce intends to add \$1.0-1.5 million this year through reallocations and the Kansas Department of Transportation (KDOT) Blue Sign project.

At 12:15 p.m. Johnson adjourned the meeting for lunch.

At 12:15 p.m. Kelly was excused from the meeting.

At 12:30 p.m. Schnacke was excused from the meeting.

At 12:30 p.m. Johnson reconvened the meeting.

Financial Report

Waite provided an overview of several financial aspects of the economy, noting the effects of the current crisis may be fairly substantial across all industries. Kansas has been relatively average on mortgages and foreclosures; however as regulators tighten up controls, several banks may have a drop in ratings which will result in a significant impact on their ability to provide loans. Essentially this will have a negative impact on small businesses and overregulation may create a crisis of its own.

Waite noted the overall issue was a significant impact on the financial distribution system. Ahlerich noted while the Federal Government has taken steps to address some of the issues, if they don't work there could be negative consequences.

Technology Report

Johnson provided a handout citing Kansas' strengths in bioscience and technology.

- According to *Business Facilities* magazine, Kansas moved up from 27th to 10th in biotechnology strength from 2007 to 2008.
- According to the *State Bioscience Initiatives 2008 Report* issued by Battelle, SSTI and Bio, Kansas has had several bioscience success stories and innovation state initiatives, such as the Kansas Bioscience Centers of Innovation and the Collaborative Biosecurity Research Initiative.
- According to the Milken Institute's *2008 State Technology and Science Index*, Kansas ranked 24th in the nation overall, up from 26th in 2004, on its inventory of technology and science assets.

Legislative Report

Burroughs provided an update on Legislative issues, noting healthcare and education may be secondary to energy and transportation issues in the upcoming Legislative Session. Burroughs noted the Kansas Health Policy Authority (KHPA) provided several initiatives during the previous session that were unsuccessful, and noted the KHPA would be back with further initiatives for the Legislature to consider.

Burroughs highlighted several potential economic development issues, including affordable housing, eminent domain, rail transportation and racing/gaming facilities which would have an impact on the state.

Burroughs provided an overview of the LPA economic development report, noting return on investment and how it is measured would continue to be an issue with economic development.

Leiker noted the importance of assisting businesses currently in the state, including both small and large businesses in both rural and urban areas. Several current programs have requirements which are difficult for small businesses to meet. Ahlerich noted initiatives such as expensing may warrant further consideration.

Ahlerich provided a brief comparison of the LPA economic development study and the Kansas, Inc. expenditure study, noting the Kansas, Inc. study provided expenditures from the Governor's Budget Report, which the Legislature more directly influence compared to the expenditures included in the LPA study.

Adjourn

With no further business, at 1:30 p.m., Johnson adjourned the meeting.

Respectfully Submitted,

Stan Ahlerich
President