2008 Innovations Awards Program
APPLICATION

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ID # (assigned by CSG): 08-E-29PA

Please provide the following information, adding space as necessary:

State: Pennsylvania

Assign Program Category (applicant): Infrastructure and Economic Development
(Use list at end of application)

1. Program Name Keystone Innovation Zone Program
2. Administering Agency PA Department of Community & Economic Development,
Technology Investment Office
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9. Please provide a two-sentence description of the program.
   The Keystone Innovation Zone (KIZ) program was designed to support entrepreneurship, spin-out new companies from Pennsylvania's institutions of higher education and commercialize new technologies thereby forging relationships between academia and industry that prior to the program would not have occurred.

10. How long has this program been operational (month and year)? Note: the program must be between 9 months and 5 years old on March 1, 2008 to be considered. The KIZ program was first implemented in May 2004 and is the flagship program of Pennsylvania Governor Edward G. Rendell’s Economic Stimulus Plan.

11. Why was the program created? What problem[s] or issue[s] was it designed to address? The U.S. Census Bureau reported that Pennsylvania lost more young people than any other state from 1990-2000. Upon further investigation, it became apparent that Pennsylvania was lagging in employment growth, patent awards and university-based spin outs. The Rendell Administration recognized the need to utilize the rich resources of Pennsylvania’s institutions of higher education and the communities in which they resided.

   In an effort to combat Pennsylvania’s loss of college graduates, minuscule technology commercialization occurring on the campuses of Pennsylvania’s
institutions of higher education, and the creation of new companies, the Rendell Administration unveiled the Keystone Innovation Zone program. The program encourages and supports entrepreneurship by providing both financial and technical assistance to students, faculty and local aspiring entrepreneurs. Through the KIZ program, early stage companies are connected to educational partners and research institutions increasing their potential for success while providing access to a $25 million annual KIZ tradable tax credit.

12. Describe the specific activities and operations of the program in chronological order.

December 2002: Governor-elect Rendell, in conjunction with the Department of Community & Economic Development (Department), convened a series of meetings with Pennsylvania’s college and university Presidents, economic development organizations, the state-supported Ben Franklin Technology Development Partners and elected community officials to determine how best to utilize Pennsylvania’s institutions of higher education in an effort to stimulate Pennsylvania’s economy.

January, 2003: The department continued to refine the concept of the Keystone Innovation Zone program by conducting a series of meetings and investigating what other states were doing to stimulate their economies through technology-based economic development initiatives. Governor Rendell and Michigan Governor Jennifer M. Granholm met to discuss Michigan’s SmartZone program. It was determined that the Keystone Innovation Zone program should: be available to institutions of higher education located in both rural and urban regions, contain partnerships that consist of multiple partners including but not limited to economic development providers, local governments, financial institutions, and venture capitalists; address the sustainability of the regional KIZ as the Commonwealth's funding decreases; focus on each region's competitive target industries such as manufacturing, information technology and life sciences.

February, 2004: Governor Rendell unveils his Fiscal Year 2004-2005 Legislative Budget to the Pennsylvania General Assembly. Pennsylvania Senate Bill 778, sponsored by Sen. Don White (R-Indiana), amends part of the Job Enhancement Act into Title 12 of the Pennsylvania Consolidated Statute. The legislation also establishes Keystone Innovation Zone (KIZ) program. The KIZ program will offer grants and tax credits to provide economic assistance to qualified companies for the purpose of improving and encouraging research and development. It is part of the Governor's economic stimulus package and designed to revitalize Pennsylvania.

April 2004: Governor Rendell signs the Economic Stimulus Package that includes the KIZ program.

The Technology Investment Office issues guidelines with funding of the program provided through the Ben Franklin Technology Development Authority (BFTDA). Applicants must be a non-profit organization with a strong partnership including but not limited to one or more institutions of higher education, economic/workforce development organizations, venture capitalists, foundations, angel investors and local government.
May, 2004: The BFTDA funds the first two KIZ’s in the amount of $250,000 each.

October, 2007: The BFTDA completes the KIZ network by funding three Keystone Innovation Zones. Between May 27, 2004 and October 25, 2007, the BFTDA designated and funded a total of 29 Keystone Innovation Zones across the Commonwealth for a total of $11,044,875.

December, 2007: Of the 105 KIZ Tax Credit applications received, one hundred and one (101) KIZ Companies received KIZ Tax Credits totaling $7,145,131.79. To date through the KIZ program, 2,360 jobs have been created and 3,253 have been retained, 514 Pennsylvania graduates have been hired by KIZ Companies while another 382 have been placed as interns at KIZ Companies. Additionally, the program has leveraged $416,591,879 in private and public funding, and been responsible for the creation of 73 entrepreneurial start-up companies, 54 industry spin-out companies and 60 spin-outs from Pennsylvania’s greatest resource, its institutions of higher education.

13. Why is the program a new and creative approach or method?
Recognizing the need to stimulate Pennsylvania’s economy the Rendell Administration developed the Economic Stimulus Plan. The bold programming encompassing the Economic Stimulus Package is aimed at revitalizing jobs, bolstering business growth, and sustaining Pennsylvania’s communities. Through a variety of programs, the Economic Stimulus Package promises to provide powerful tools to Pennsylvania’s companies, communities and its institutions of higher education to increase new capital through public/private investments, create and retain more jobs, and improve infrastructure and housing. The KIZ program is just one of the 19 programs available through the Economic Stimulus Package.

14. What were the program’s start-up costs? (Provide details about specific purchases for this program, staffing needs and other financial expenditures, as well as existing materials, technology and staff already in place.)
The KIZ program is administered through the Technology Investment Office with one full-time employee devoted to its operation. Funding for the KIZ program comes from the Ben Franklin Technology Development Authority (BFTDA).

15. What are the program’s annual operational costs?
The enabling legislation sets forth the funding for the KIZ program. Funding is made available through the BFTDA and decreases by 25% each funding cycle, per KIZ. Funding has ranged from $500,000 per Fiscal Year (FY 03-04) to $3.6 million in FY 06-07. The increase in funding in FY 06-07 was due to the increase in the number of KIZs that were being funded versus the number that were funded in previous Fiscal Years.

16. How is the program funded?
The KIZ program is one of five programs funded through the BFTDA which is DCED’s largest legislatively-funded line item.
17. Did this program require the passage of legislation, executive order or regulations? If YES, please indicate the citation number.
   Act 12 of 2004, 12 PA CSA, Section 3701

18. What equipment, technology and software are used to operate and administer this program?
   There is no special equipment, technology or software being used to operate or administer this program beyond standard office equipment and/or software.

19. To the best of your knowledge, did this program originate in your state? If YES, please indicate the innovator’s name, present address, telephone number and e-mail address.
   To the best of our knowledge, the Keystone Innovation Zone program did originate in Pennsylvania. Governor Rendell and his administration developed this program to help address the issue of the loss of highly educated, college graduates from the Commonwealth.
   Innovator's Name: Governor Edward G. Rendell

20. Are you aware of similar programs in other states? If YES, which ones and how does this program differ? While other states have designed programs to stimulate their economies by using their institutions of higher education, none appear to be as comprehensive and inclusive as Pennsylvania's program. For example, Michigan's SmartZone program is linked to the technology transfer efforts at state-supported universities such as Michigan Technological University (MTU) while New Jersey's program is centered around and includes the campuses of the New Jersey Institute of Technology, Rutgers University and the University of Medicine and Dentistry of New Jersey.

21. Has the program been fully implemented? If NO, what actions remain to be taken?
   While all applications were due by July 1, 2007, DCED continues to work with institutions of higher education and their economic development partners to seek out opportunities with existing KIZs. Additionally, based on the legislation, each KIZ is eligible to receive up to four rounds of funding based on its deliverables and future programmatic objectives. All in all, the BFTDA could fund this program for another six or more year's.

22. Briefly evaluate (pro and con) the program’s effectiveness in addressing the defined problem[s] or issue[s]. Provide tangible examples.
   Pros
   - Provides internship and job placement opportunities for students to encourage them to remain in Pennsylvania.
   - Potential to increase Pennsylvania’s Federal funding allocation for technology-based economic development initiatives.
   - KIZ Tax Credit program provides up to $100,000 in tradable tax credits for qualified companies.
   - Provides a continuum of financial and/or technical services to entrepreneurs through a network of DCED-supported organizations.
   - Benefits both top-tier research institutions and institutions not focused primarily on research and development but entrepreneurship in general.
   - Maximizes the opportunity for cross-agency collaboration.
Cons

- Operational grants decrease by 25% per funding cycle.
- The definition of a KIZ company is too narrowly defined; definition should not be based on age of company but on its revenues.
- A KIZ Company must be located in “zone” for a period of two years before being able to take advantage of the tax credit program.

23. How has the program grown and/or changed since its inception?
Initially designed to support Pennsylvania’s top-tier research institutions of higher education the program expanded to consist of 91 institutions of higher education ranging from community colleges to liberal arts institutions to those institutions situated in rural areas of Pennsylvania. Networking among the 29 KIZs is crucial and achieved through a variety of activities such as quarterly meetings and monthly conference calls. The Technology Investment Office is planning to host a conference in September 2008 which will bring together all the participants.

24. What limitations or obstacles might other states expect to encounter if they attempt to adopt this program?
Others seeking to implement a program similar to the KIZ program should take their audience into consideration before embarking on this program. In other words, set parameters upfront. If hoping to develop a program for research-focused institutions only, identify that in the development of your policy and/or program guidelines. Identify one date on which all applications should be received by the funding organization and review all applications for consideration at one time.