

**STRATEGIC ECONOMIC INVESTMENT AND COMMERCIALIZATION BOARD**  
**March 3, 2010**

**ADOPTED MEETING MINUTES**

A meeting of the Strategic Economic Investment and Commercialization Board (SEIC) Board was held on Wednesday, March 3, 2009 at the Michigan Economic Development Corporation (MEDC), 300 North Washington Square, Lansing, Michigan.

**MEMBERS PRESENT:** David Baumgarten; Mary Campbell; Mary Sue Coleman; Keith Cooley; Susan Corbin (acting on behalf of Stanley “Skip” Pruss); Eric Gilbertson (via telephone); Michael Jandernoa; Jerry “Jay” Noren (via telephone); Robert Kleine; Lynnette Rhodes; Lou Anna Simon; and Dennis Wend.

**MEMBERS ABSENT:** John Brown; David Cole; John Dunn; Glenn Mroz; Kenneth Rogers; and George Vande Woude.

**CALL TO ORDER:** Mr. Jandernoa called the meeting to order at 10:08 a.m.

**APPROVAL OF MINUTES:** Mr. Jandernoa asked for a motion to approve the December 2, 2009 meeting minutes. **Mr. Baumgarten motioned approval of the minutes. Dr. Simon seconded the motion.** The motion carried unanimously – 12 ayes; 0 nays; 0 recused; 5 absent

**COMMUNICATION ITEM:** Nathan Ohle, MEDC Board Relations Liaison, indicated that President Coleman, President Gilbertson, and President Simon had submitted letters recusing themselves for items on the agenda.

**AWARDEE UPDATE:**

**[RECUSED:** Eric Gilbertson and Lou Anna Simon]

**Resolution 2010-001: MSU Push Pull Investment**

*Leslie Smith, MEDC 21<sup>st</sup> Century Jobs Competition Manager, provided information for the action.*

Ms. Smith indicated that MSU received a grant of \$750,781 through the 21 CJF Program to work with Midland Tomorrow to promote technology transfer, technology mining, commercialization, and start-up development by using and coordinating the resources at MSU, in the Midland area, as well as across the State. Ms. Smith talked about MSU recommending a sixth and final loan in the amount of \$50,000 from the fund be made to Kinetic Wave Power, LLC (KWP). KWP is an alternative energy company that helps to lower the cost of electricity through the company’s higher efficiency wave energy converter. The \$50,000 loan will be used to validate the company’s technology.

**Recommendation:** MEDC Staff recommends that the SEIC Board approve the loan to Kinetic Wave Power, LLC under the terms as outlined above.

**Board Discussion:** Mr. Jandernoa asked the Board if there were any questions. Being none, **Dr. Coleman made a motion for approval of Resolution 2010-001. Mr. Kliene seconded the motion.** The motion carried unanimously – 10 ayes; 0 nays; 2 recused; 6 absent

**[RETURNED:** Eric Gilbertson and Lou Anna Simon]

**[RECUSED:** Mary Sue Coleman]

**Resolution 2010-002: University of Michigan Disbursement [Action Item]**

*Leslie Smith provided information for the action.*

Ms. Smith indicated that the University of Michigan (UM) received a 2006 21st Century Jobs Fund award totaling \$899,713 to develop new low-cost high capacity sulfur absorbents. UM has completed all

milestones in compliance with the Loan Agreement, submitted a Final Report, and requested that the MEDC recommends its final disbursement request for \$194,713.

**Recommendation:** MEDC Staff recommends that the SEIC Board approve the final disbursement of \$194,713.

**Board Discussion:** Mr. Jandernoa asked the Board if there were any questions. Being none, **Ms. Campbell made a motion for approval of Resolution 2010-002. Dr. Simon seconded the motion.** The motion carried unanimously – 11 ayes; 0 nays; 1 recused; 6 absent

**Resolution 2010-003: University of Michigan Final Disbursement #2 [Action Item]**

*Leslie Smith provided information about the action.*

Ms. Smith indicated that the University of Michigan (UM) received a 2006 21st Century Jobs Fund award totaling \$285,100 to develop advanced machine learning algorithms for learning knowledge about the driving patterns that are useful in vehicle power management. UM has completed all milestones in compliance with the Loan Agreement, submitted a Final Report, and requested that the MEDC recommends its final disbursement request for \$23,330.

**Recommendation:** MEDC Staff recommends that the SEIC Board approve the final disbursement of \$23,300.

**Board Discussion:** Mr. Jandernoa asked the Board if there were any additional questions. Being none, **Ms. Campbell made a motion for approval of Resolution 2010-003. Mr. Kleine seconded the motion.** The motion carried unanimously – 11 ayes; 0 nays; 1 recused; 6 absent

[RETURNED: Mary Sue Coleman]

**2010 COMPETITION UPDATE:**

*Ned Staebler, MEDC VP of Capital Access and Business Acceleration, provided information for the action.*

Mr. Staebler indicated that the SEIC RFP subcommittee spent a significant amount of time putting together the RFP before the Board, and thanked Mary Campbell, Lou Anna Simon, and Dave Baumgarten for all their time and effort put into revising the document. Mr. Staebler indicated that the RFP would need to be sent to public hearing for discussion, and would then come back to the Board for final approval in April, and continued through the timeline listed in the RFP. Mr. Staebler also indicated that staff would be putting together recommendations on potential Peer Review agencies as well as scoring criteria for proposals at an upcoming meeting. Mr. Staebler walked the Board through the RFP, highlighting key areas that had changed since the December SEIC Board meeting.

*Mr. Staebler indicated that there is no longer a requirement for a relationship or “Lead Fund” and rather that mentorship is important and the respondent must describe in detail how they will get that mentorship, which can come from a scientific or review board or other potential relationships. Mr. Staebler indicated that there was no required match in the prior version of the RFP, but the subcommittee felt strongly that there needed to be a required match. There is now a \$1 million required match to be secured by the applicant within 90 days of receiving an award; not necessarily cash in the bank but support letters, signed commitment letters, capital, bonds, etc.*

*Mr. Staebler clarified that staff would like to make a change to page 4 of the RFP to clearly state what the four competitive technology sectors are, keeping the reference to the appendix for the official definitions. The second change not reflected in the RFP is in regards to being more clear on the award structure (page 6). Staff added language about funding in the form of a grant to non-profit entities. This is not something that the RFP Subcommittee proposed and Mr. Staebler indicated removing that language as it wasn't the intention of the subcommittee that this will be responded to by “non-profit” companies.*

*Ms. Campbell thanked Ned, Paul & Leslie for their hard work on the RFP. Ms. Campbell stated that we can do anything, but that we can't do everything. The intent of this proposal is to address one of the gaps in Michigan's resources and helping technology companies launch and be successful and doesn't intend to cover all bases. Ms. Campbell stated that how the packages that are submitted will be scored is huge challenge. She indicated that the next step is to come back to the Board with clear strategies on how these four requirements get scored so that they get a clear sense of which number represents which parts. She continued by stating that how these scores are translated will be vital to ensure that someone who is applying has a clear indication of how proposals will be scored. Ms. Campbell indicated that the four legislatively mandated criteria may not be the best measure of success for a sustainable entity to help create jobs, but if those criteria can be used as banner headlines with subcategories, they can be useful.*

*Dr. Simon indicated that the subcommittee struggled with this proposal because it was like "putting a square peg in a round hole". Dr. Simon indicated that one question that needs to be addressed is the issue of covering all four technology sectors. She stated that with the limited amount of funds, it was not practical to ask a fund to support all four sectors. Dr. Simon concluded by stating that this is another step away from what the SEIC Board had focused on in the past, and that she wanted to be clear that this was not meant to create jobs immediately, but instead grow small companies that could potentially lead to large job growth.*

*Ms. Campbell indicated that the segment coverage issue can be dealt with, either by asking the applicant to identify which segments it would cover, or not awarding two proposals that cover the same market segment. Ms. Campbell stated that she felt the Board would be better off having concentrated expertise on the \$6 million, and that she felt as if they should award the best proposal, regardless of sector.*

*Mr. Jandernoa posed a question to the subcommittee members if from a jobs prospective, because of the amount of money we have and the gap we have in our state and where we have funding, are we are trying to fill a gap that's a good impact on our state from a longer term standpoint and not with immediate jobs as much as we have done in the past? Ms. Campbell responded that if \$6 million is divided among 10 companies – each company would get only \$600,000 which is not going to pay for very many people for a long time. The goal should be creating a successful company as it grows, and it is not reasonable to ask someone to forecast what that job creation will be. Dr. Simon responded that this proposal is not directly a job creation strategy. Mr. Baumgarten responded that the Board is looking at this venture as a long term investment, providing wealth creation and as the companies become more successful and add jobs in the long run. Mr. Baumgarten stated that the subcommittee did not want to limit these potential funds by saying how they had to use the administrative money, but instead let them tell the Board how they would use administrative money to create jobs within their fund through their business model. Dr. Simon stated that this is not a downstream venture investment, that failure is going to be a probability here at some higher level than you would see in other established down streamed professions, but that this RFP was trying to bridge the gap for pre-seed companies to get to the seed phase of development.*

*Dr. Coleman referenced the issues of the four sectors, stating that the Board needs to identify whether they want to cover several sectors or get the best proposals overall regardless of sector. Dr. Coleman stated that there could be language added to the RFP to distinguish how those decisions would be made. Mr. Staebler stated that you could either decide that no two proposals would overlap in their market segment, meaning that if the top two proposals were in the life sciences arena, that you would pick the top proposal and move past the second proposal to the next highest scored proposal that focused on a different segment, or you take the two best proposals regardless of market segment.*

*Dr. Coleman asked who would be reviewing the applicants? Mr. Staebler indicated that staff was working diligently on this subject, but would need to wait until the RFP is sent to public comment before making a recommendation as several of the potential peer review agencies were also considering applying for the program.*

*Dr. Coleman asked what the subcommittee felt would be a successful proposal to this program. Ms. Campbell responded that taking the best two proposals is the most effective way to go, and that a success would be a fund that at sometime in the future goes forward with private money, that companies that are funded can sustain themselves for decades. For there to be a second generation of this fund, some group of people will have demonstrated they know early stage investing and will have done it successfully. There will be a second entity, hopefully larger, that is private funded.*

*Dr. Simon asked if there was a way to address the sector issue by screening companies over one hurdle, stating that they reached a certain level, but then after that hurdle you take the best proposals in different market segments.*

*Dr. Noren commented that the Board would need to be as specific as possible with the review criteria in order to give the peer review agency a clear understanding of what they should be looking for. Mr. Staebler indicated that it was essential to give as much guidance as possible to the reviewer, but suggested that the Board should wait to hear what comes out of the public comments to see what changes may need to be made to the RFP before determining the criteria. Ms. Campbell stated that the applicants need guidance as well on how proposals will be scored, and that it is important to have these issues ironed out when the RFP is officially approved by the Board. Mr. Staebler indicated that similar to the 2009 pre-seed RFP, staff would put together a scoring sheet for review criteria to be presented at the April SEIC Board meeting for discussion.*

*Mr. Wend suggested that the Board release the RFP as a draft today and get it out to the public hearing, then in April finalize what the preference should be in regards to market segments. Mr. Wend also indicated that he thought it would be beneficial to introduce the opportunity for these funds to potentially obtain additional funds in the future should funding be available, so that they do not have to go back through the entire RFP process and can continue to be successful. Mr. Staebler indicated that staff would explore if that option was allowable under the statute.*

*Dr. Coleman indicated that in Appendix D1, it references that stem cell research is not allowable under this program for funding. Dr. Coleman indicated that other states were funding this type of activity, and that she was concerned that Michigan would be missing out on some potentially very successful areas if not allowed to fund stem cell research. Dr. Coleman also stated that she was not aware if stem cell research was excepted from the definition of biotechnology, and that if so, there should be a statement that says this act prohibits the use of funds for embryonic stem cell users, not a blanket statement that stem cell research is not biotechnology. Sante Perrelli, Assistant Attorney General, indicated that he would review the language in the statute.*

*Mr. Cooley stated that he was very appreciative of all of the hard work the subcommittee and staff put into the RFP.*

**Recommendation:** MEDC Staff recommends that the SEIC Board approve proceeding to a public hearing with respect to the RFP.

**Board Discussion:** Mr. Jandernoa asked the Board if there were any additional questions. Being none, **Mr. Wend made a motion for approval of Resolution 2010-004. Mr. Kleine seconded the motion.** The motion carried unanimously – 12 ayes; 0 nays; 0 recused; 6 absent

### **2010 Competition Update – Peer Review Update [Information Item]**

*Ned Staebler provided information for this item.*

Mr. Staebler indicated that based on the number of responses, staff believes the responses to the RFP will be relatively small, and that one peer reviewer or agency could be found to effectively manage the proposals that are submitted.

*Dr. Simon asked whether staff thought it would seek a single peer reviewer or peer review panel. Mr. Staebler indicated that staff believes they will contract with one individual who will then convene a panel of judges to score the proposals*

*Mr. Baumgarten indicated that it was possible that the two best proposals could come from the life science sector, and that it could potentially create competition issues between the two funds. Ms. Campbell stated that it was an interesting question, and that in funding pre-seed companies it is often difficult to find many companies in one sector that have the chance to be successful, and that the two funds could run into the problem of identifying enough quality opportunities in one market segment in Michigan. Ms. Campbell indicated that finding a way to achieve diversity without compromising quality would be great. Paul Brown, MEDC Capital Markets Development Manager, stated that with funds of only \$6 million, there should still be significant opportunities to find quality companies to invest in because of the overall limited resources available.*

**PUBLIC COMMENT:** Mr. Jandernoa asked if there were any additional discussion items. There was none.

**ADJOURNED:** Being no further discussion, Mr. Jandernoa adjourned the meeting at 11:26 a.m.