

MINUTES OF THE SENATE COMMERCE COMMITTEE

The meeting was called to order by Chairperson Julia Lynn at 8:30 a.m. on Thursday, January 29, 2015, 548-S of the Capitol.

All members were present except:

Senator Susan Wagle – Excused

Senator Tom Holland – Excused

Committee staff present:

Reed Holwegner, Legislative Research Department

Debbie Bartuccio, Kansas Legislative Committee Assistant

Edward Penner, Legislative Research Department

Chuck Reimer, Office of Revisor of Statutes

Conferees appearing before the Committee:

Kristen Rottinghaus, Senior Auditor, Legislative Post Audit

Others in attendance:

[See Attached List](#)

Possible bill introductions

Chairperson Lynn asked if there were any bill introductions and there were none.

Presentation on:

Chairperson Lynn recognized Kristen Rottinghaus, Senior Auditor, Legislative Post Audit, who provided an overview of the Economic Development Post Audit, Part 3, which focused on determining which economic development programs are most important and effective in promoting job creation and economic growth in Kansas. Ms. Rottinghaus provided a Reports Highlight document ([Attachment 1](#)) and reviewed the actual Post Audit Report which can be obtained by contacting the Legislative Post Audit Department.

Ms. Rottinghaus stated the goal of the audit was to address the question of whether the implementation of major Kansas economic development programs has been successful.

As background, the Department of Commerce, the Kansas Bioscience Authority, and the Department of Revenue administer the state's main economic development programs. This analysis did not include programs offered through the Kansas Bioscience Authority. She indicated six major economic development programs were evaluated based on a sample of 42 projects initiated between fiscal year 2006 and fiscal year 2011. These projects comprised 98 different agreements from the six main state programs and local government incentives. An economic consultant was hired who used IMPLAN to model the direct and secondary effects of the job and capital investment data collected. IMPLAN is an economic modeling software package that is commonly used to study economic effects.

Some key findings included:

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- The state's six major economic development programs created significant returns on investment for Kansas with regard to business activities.
- All programs appeared to generate significant returns on investment, which means the business activities programs generated greatly exceeded the incentives they contributed.
- The programs also appeared to generate more business activities in Kansas than an across-the-board tax cut equal to the incentive (net present value).
- All major programs appeared to yield positive returns on investment in terms of tax revenue generated for state and local governments.
- The number of jobs a project created or retained had a more significant effect on return on investment than a project's capital investments.
- The High Performance Incentive Program (HPIP) is fundamentally different than the other major economic development programs that were evaluated. Because HPIP is more like an economic development entitlement program, its incentives may be given to companies for investments that would have been made even without the incentive.

Chairperson Lynn reflected in past years there has been a level of frustration concerning a lack of willingness in measuring the results of funds allocated to various programs. She stated, based on reports such as this audit, there can now be a higher level of confidence that these programs are producing what the Legislature intended.

Concerning HPIP, Senator Melcher asked if the Department of Commerce were to use their discretion and award an incentive to those companies for which the it felt there was the greatest risk of loss, how would doing so effect the calculations. Ms. Rottinghaus responded it could change the results and likely the return on investment would increase.

Referring to page 12 of the Post Audit Report, Senator Denning asked what discount rate was used. Ms. Rottinghaus replied she believed it to be 4.5%, but would need to verify the percentage.

Senator Faust-Goudeau asked if she had understood correctly that the effects of the Economic Development Act appeared to be better than if the state had implemented tax cuts. Ms. Rottinghaus responded affirmatively.

Chairperson Lynn expressed her appreciation for the hard work done by the Legislative Post Audit Department.

Written only testimony concerning the Audit was provided by:

Unless specifically noted, the individual remarks recorded herein have not been transcribed verbatim. Individual remarks as reported herein have not been submitted to the individuals appearing before the committee for editing or corrections.

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- Kansas Department of Commerce ([Attachment 2](#))

At the conclusion of the question and answer session, Chairperson Lynn adjourned the meeting at 9:00 a.m. The next meeting is scheduled for February 3, 2015.