# COM.01 - Enhance Commerce's Business to Business Strategies

## Recommendations – a summary of the State General Fund and Economic Development Initiatives Fund Savings

| | | Target Savings and Revenue Estimate (All values in 2015 dollars, in 000s) | | | | | |
|---|---|---|---|---|---|---|---|
| Rec # | Recommendation Name | FY17 | FY18 | FY19 | FY20 | FY21 | Total |
| 1 | Enhance Commerce's Business to Business Strategies with increased financial modeling, research analysis, project auditing, and marketing/sales service support efforts | $6,400 | $6,400 | $6,400 | $6,400 | $6,400 | $32,000 |
| 3 | Revise Primary Tax Incentive Programs | $5,000 | $5,000 | $0 | $0 | $0 | $10,000 |
| 4 | Eliminate Community Service Tax Credit Program | $2,000 | $4,000 | $4,000 | $4,000 | $4,000 | $18,000 |
| | State General Fund Subtotal | $13,400 | $15,400 | $10,400 | $10,400 | $10,400 | $60,000 |
| 1 | Enhance Commerce's Business to Business Strategies with increased financial modeling, research analysis, project auditing, and marketing/sales service support efforts (EDIF) | ($530) | ($530) | ($530) | ($530) | ($530) | ($2,650) |
| 2 | Implement a Community Finance Administrative Fee, Tax Incentive Application Fee, and Administrative Cost Recovery on Grants (EDIF) | $3,018 | $3,018 | $3,018 | $3,018 | $3,018 | $15,090 |
| 5 | Ensure no program subsidy for Athletic Commission fee for service operation (Athletic Fee Fund) | $26 | $26 | $26 | $26 | $26 | $130 |
| 6 | Centralize Commerce's Human Resources and Information Technology Infrastructure Operations within the Department of Administration (EDIF) | $25.4 | $25.4 | $25.4 | $25.4 | $25.4 | $127 |
| | Non-General Fund Total | $2,539 | $2,539 | $2,539 | $2,539 | $2,539 | $12,697 |
| **Department of Commerce Total** | | **$15,939** | **$17,939** | **$12,939** | **$12,939** | **$12,939** | **$72,697** |

## Recommendation #1 – Enhance Commerce's Business to Business Strategies with increased financial modeling, research analysis, project auditing, and marketing/sales service support efforts

Various state agencies, including the Department of Commerce, the Kansas BioSciences Authority, and the Department of Revenue, administer the state's economic development programs. The state's incentive programs are also combined with community finance or local government incentives to form development incentives for new and expanding businesses.

In December 2014, a Legislative Post Audit (LPA) Report analyzed whether the major Kansas economic development programs have been successful. The report highlights the major economic programs, which created significant returns on investment for Kansas through business activities of the associated state and local tax revenue generations.[6]

The Report also highlighted several High Performance Incentive Program (HPIP) limitations in reporting the

6 2014 Legislative Post Audit Report Highlights – Economic Development: Determining Which Economic Development Tools are Most Important and Effective in Promoting Job Creation and Economic Growth in Kansas, Part 3

benefits of the program. Per the LPA report[7]:

- HPIP is more like an economic development entitlement program—its incentives may be given to companies for investments that would have been made without the incentives
- LPA was not able to analyze projects that had only HPIP incentives due to the programs' structures and lack of documentation

The department identified a requirement for six new staffing resources to address the need for improved financial analysis, project forecasting, monitoring, and enhanced business to business sales and marketing strategies. Any new positions would be funded from the dedicated Economic Development Initiative Fund and not the State General Fund. These positions could allow the department to improve the total financial impact of development projects including the direct, indirect, and induced impacts that new proposed developments would bring into the state.

Since mid-December 2015, the department is now creating strategic roadmaps, or Strategic Market Entity Analysis (SMEA), on all new development projects to measure the true economic impact and value of the state's portfolio of economic development incentives. However, added resources are needed within the Incentive and Marketing Units to support the enhanced business-to-business proactive marketing efforts.

The department indicated that the existing Business Incentive sales and marketing staff actively pursue 175 to 200 new projects each year with 80 projects closing, all of which generate 8,000 to 10,000 new jobs each year. The four new positions in the marketing and sales business incentive unit would provide return on investment to the state. Currently, each existing sales and marketing representative has an annual net return on bringing in 1,000 per jobs annually to the State. Each new job, based on annual salary between $56,000 and $65,000, generates $1,600 to $2,000 in new Kansas state income tax withholdings annually.

The state should undertake a more comprehensive incentive analysis and should analyze more than just the initial capital investment to the state-provided incentives. The direct, indirect, and induced impacts of projects provide a significant economic value to the state and should be considered.

Program enhancements recommended include:

- Fiscal Modeling, Research Support, and Audit/ Compliance – Two positions for increased accountability of Investment Projects
  - » Currently, only one Research/Fiscal Support modeling expert position exists within the Department of Commerce
  - » The two additional positions would allow the department to increase its financial forecasting and Return on Investment Analysis on proposed development projects
  - » New staffing resources would also allow the department to place added effort upfront in the marketing of the state and creating Strategic Market Entity Analysis roadmaps that highlight the competiveness of the state's assets (e.g., infrastructure, education, quality of life,) as an introduction to what the state has to offer
  - » The state should be leading its development discussions on the Strategic Quality of the state and not highlighting its incentive tools
  - » While most of the department's incentive programs are performance based, the department does not always claw back incentives from developments for sustaining the job creation or capital investment measures for a variety of reasons
  - » The department should coordinate project reviews with the Department of Revenue of existing and new incentives to ensure the state is receiving sufficient financial and compliance information for accountability of the provided tax incentives
- Marketing & Sales Support – Four positions for Marketing, Branding, and Imaging
  - » Retool marketing and sales departments to support efforts for a more positive and direct marketing business to business targeted campaigns
  - » Proactively recruit new and expanding business in the state using the new business to business SE
  - » Texas, North Carolina, and South Carolina have all experienced significant success in their state economic growth due to strong marketing efforts to align new development efforts with existing workforce skills and

7 Ibid

supplier locations

» Expand its business-to-business social media and advertising efforts

As shown below, the proposed expansion of the department's business-to-business strategy will result in increased revenues to the state. The EDIF funded staff proposal is estimated to generate $6.0 million in new tax revenue for a net return of investment, resulting from new state income tax withholding revenues to Kansas of $5.87 million annually or $26.7 million over the next five years. While it requires an initial outlay of funds, the return on investment is significant if Commerce is successful in its revitalized business-to-business strategy.

Secondly, the added Research Analyst positions will reduce the future spending requirements for outside consulting services for development of Strategic Market Entity Analysis documents (SMEAs). The new SMEA analytical tools would cost $25,000 to $50,000 each, if the department had to acquire from outside resources. Currently, the department's budget does not include monies for SMEAs. The marketing analysis will be a primary tool for the entire department for both inbound and outbound business opportunities.

| Recommendation #1 - (dollars in 000's) | | | | | |
|---|---|---|---|---|---|
| | FY17 | FY18 | FY19 | FY20 | FY21 |
| **Economic Development Initiative Funds** | **($530)** | **($530)** | **($530)** | **($530)** | **($530)** |
| **State General Fund** | **$6,400** | **$6,400** | **$6,400** | **$6,400** | **$6,400** |

## Key Assumptions:

- New position cost estimated at $80,000 per position (salary and benefits) paid from the EDIF.
- Increased marketing and research support costs of $50,000 annually paid from the EDIF.
- Based on historical data from the past four years, it is estimated that each new sales and marketing position will recruit 1,000 new jobs annually to the State, with an annual salary of between $56,000 and $65,000. Each new job is estimated to generate between $1,600 to $2,000 in new Kansas state income tax withholdings annually.
- The $6.4 million in new State General Fund Income Tax Withholdings assumes each new Business Incentive Sales/Marketing position would generate $1.6 million in new revenue to the state. This does not take into account any other direct, indirect or induced impacts generated by the increase in jobs and related business investments these indirect and induced impacts will add to the direct ROI.

## Critical Steps to Implement

- Commerce needs to deploy modeling applications to supplement its tax incentive projections including estimating the direct, indirect, and induced revenues and local spending related to proposed new development projects. Commerce is investigating the potential use of the Department of Revenue's modeling application to mitigate any added cost increase.
- Commerce needs to finalize its internal market branding and imaging campaigns to roll out a revamped business-to-business strategy plan.
- The department will have increased marketing and research operating costs including printing, publications, and travel and modeling application tools.

# Recommendation #2 – Implement Community Finance Administrative Fee and Tax Incentive Application Fees to Recover Program Oversight Costs

The department does not assess any administrative fee for its major economic development incentive programs or any of the community finance incentive projects. Commerce staff spends significant time each year in review, analysis, and negotiation of new proposed projects. The limited audit and project review that does occur is also not covered by any application or administrative fee.

# COM.02 - Implement a Community Finance Fees and Cost Recovery

supplier locations

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| Department of Commerce<br>Allocation of Staffing and Overhead Costs to Major Incentive Programs | | | | |
|---|---|---|---|---|
| | FY 2013 | FY 2014 | FY 2015 | Three Year Average |
| HPIP | $ 77,659 | $ 79,484 | $ 72,234 | $ 76,459 |
| PEAK | 44,391 | 86,366 | 112,451 | 81,069 |
| KIT/KIR | 95,831 | 101,976 | 146,339 | 114,715 |
| IMPACT | 23,512 | - | - | 7,837 |
| JCF | 45,489 | 127,537 | 8,759 | 60,595 |
| **TOTAL** | **$ 286,881** | **$ 395,362** | **$ 339,783** | **$ 340,675** |

Source: Kansas Department of Commerce Fiscal Office - December 2015

While the department does not have a time allocation/project tracking system, they did provide an estimate of personnel costs and direct administrative overhead costs that could be attributed to the major economic incentive projects. The estimate reflects staffing costs for ten positions in the Business Incentive unit including an allocation for time spent by the department's executive leadership.

Note: The IMPACT program technically ceased to exist other than spending down of final tax incentives. The department allocated any administrative overhead to the JCF program which was the replacement program.

| Comparison Summary of Kansas Primary Tax Incentive Programs | PEAK | HPIP | JCF | KIT/KIR |
|---|---|---|---|---|
| Applications Processed | | | | |
| FY13 | 44 | 303 | 18 | 113 |
| FY14 | 53 | 299 | 8 | 90 |
| FY 15 | 33 | 285 | 25 | 108 |
| *Three Yr Avg* | *43* | *296* | *17* | *104* |
| Active Projects/Agreements | * 227 | ** 311 | *** 4 | **** 50 |

Notes Related to Project Values and Tax Incentives:

* As of December 2015, the 227 active agreements had an estimated incentive value $380.5 million of which $80.6 million has been actualized.

** As of December 30, 2015, the active HPIP projects represents approx. $3.1 billion in new anticipated capital investment which may potentially qualify for income tax credits and sales tax exemptions

*** The four active JCF projects total $3.65 million

**** The KIT/KIR 50 active projects totaling $911,120

Commerce reported the following tax incentive program activity over the past three years:

It should be noted, that the Department of Commerce certifies projects as eligible for HPIP with the Department of Revenue being responsible for oversight of the businesses claiming the tax credit.

The above staffing allocation does not include time and effort the department staff spent on Community Finance Projects (like STAR Bond Projects), which take significant review and discussions with the local communities and developers. Even after the project financing is issued, Commerce has continued monitoring responsibilities on an annual basis for STAR Bond projects. As shown in the accompanying table, in calendar year 2015, the department completed the following STAR Bond Community Finance Initiatives. In most cases, the community finance projects (like STAR Bonds, e.g.) are complex development proposals with the work spanning several years before the project financing is issued.

| Department of Commerce - 2015 STAR Bond Issues | | |
|---|---|---|
| STAR Bond Projects | Total Project Costs (in millions) | STAR Bonds (in millions) |
| Wichita K-96 | $ 427 | $ 33 |
| Goddard | 155 | 25 |
| Dodge City | 43 | 13 |
| Schlitterbahn(UG) | 300 | 97 |
| National Training Center | 150 | 63 |
| Wichita West Bank | 31 | 5 |
| Total | $ 1,106 | $ 236.15 |

Source: Department of Commerce - Chief Attorney's Office

Commerce also indicated that during calendar year 2015, the state allocated $301.5 million in Private Activity Bonds (PAB) to six issuers. As of December 31, 2015, $17.3 million was actually issued. The department does collect application fees for all PAB projects but issuance fees apply only to the housing and qualified small issue projects.

The Beginning Farmers Program administered by Kansas Development Finance Authority (KDFA) is provided allocations that Commerce then reallocates to multiple, typically small users. Any issuance fees resulting from housing-related activities are remitted to the Kansas Housing Resource Corporation but Commerce retains the application fees.

The department indicated the demand for PAB allocation is very low at this time because of other financing options that exist. The First Time Homebuyer Program, which is where the vast majority of allocation goes, is as a holding mechanism for unused PAB authority. This is because housing has carry forward capability which allows the PAB allocation to be viable for a period of time into the future.

It is also our understanding the Kansas Development Finance Authority requires the state agency, which issues bonds through KDAF, to recover costs their ongoing monitoring costs.

Application fees for development projects can be viewed as a hindrance for promoting new development. However, significant time and resources are spent by the Commerce staff in the research, analysis, and negotiation of the development projects, which often does not move forward. The department currently requires an Application Fee for all Private Activity Bonds. The current fee schedule is:

- $250 Allocation per request up to $5,000,000
- $500 Allocation per request from $5,000,001 to $10,000,000
- $1,000 Allocation per request from $10,000,001 and above

Another example of project application fees is from a local unit of government. The Unified Government of Wyandotte County/Kansas City, Kansas in conjunction with the State of Kansas for the development of a Casino Project, required each developer to submit a non-refundable application fee of $25,000 to cover the costs of the development review process.

A&M recommends Commerce propose legislation that would require any Community Finance Initiative—including Private Activity Bonds (PABs) and Sales Tax Revenue (STAR) Bonds—to include a one percent administrative fee for STAR Bonds and an application fee of up to five percent of the issuance amount for Private Activity Bonds.

Secondly, Commerce should develop an application fee for its major tax incentive projects where the department is not recovering any administrative processing or monitoring fees. We recommend an application fee of $750 per application processed for the PEAK, HPIP, JCF, and KIT/KIR programs. The application fee would cover the costs of administration for the tax incentive applications.

Additionally, the department is not allocating all administrative overhead costs to its various grants and pass-through funding programs. Based on the FY15 Budget, two grant programs that are not being assessed for any administrative overhead include:

- Kan-Grow Engineering Fund $ 10,500,000
- State Affordability Airfare Fund $ 5,005,000

The department should have the availability to assess any operational overhead program expenses against these program funds.

- State Affordability Airfare Fund: Currently Commerce has a contract agreement with Sedgwick County for the Affordable Airfare funds to use $10,000 for the independent review by the University of Kansas. The department would need to clarify this provision which would also allow Commerce to assess an administrative fee. The state could request clarification in KSA 74-50,150(a), or language could be added to the appropriations bill to allow for administrative overhead recoupment.
- Kan-Grow Engineering Fund: Similarly, KSA 76-7,141 would have to be amended to make the provision for Commerce to recoup any overhead expenses in the authorization of the appropriation bill.

In both instances, the appropriation language could include the citation: "Secretary is authorized to deduct from amounts transferred under this act an annual administrative fee not to exceed two percent of annual grant appropriation."

| Recommendation #2 - (dollars in 000's) | | | | |
|---|---|---|---|---|
| FY17 | FY18 | FY19 | FY20 | FY21 |
| **$3,018** | **$3,018** | **$3,018** | **$3,018** | **$3,018** |

Key Assumptions:

- An application fee of $750 per filed tax incentive application (PEAK, HPIP, JCF, KIT/KIR Programs) based on a three-year average of 460 applications would generate $340,000 in administrative fees to recover Commerce direct and indirect costs.
- Proposed 100 basis points or one percent of cost of issuance for Department of Commence administrative fee for STAR and PAB Bond issuances.
  - » STAR Bonds - $ 2,361,500
  - » Private Activity Bonds - $ 157,275
  - » Total Community Finance Admin Fee - $ 2,518,775
  - » Based on FY15 PAB Bond issuances of - $17.3 million
  - » Based on FY15 STAR Bond issuances of - $236.15 million

*Note: The Private Activity Bond projections are net of the existing $3,500 in PAB application fees and $12,225 in Business Expansion Qualified Small Issue bond financing issuance fees.*

- Annual administrative fee not exceeding one percent of the annual grant amount for the existing operating grants where administrative costs are not assessed or $155,050. This amount is one percent of the above two grants Kan-Grow Engineering Fund, $10,500,000 and State Affordability Airfare Fund, $5,005,000 where Commerce is not recovering any administrative overhead or programming costs for the two pass through grants.
- Any monies generated should be credited back to the department.

Critical Steps to Implement

- Revise appropriate statutes and KAR's to allow the Department of Commerce to assess the administrative fee on any STAR Bond and Private Activity Bond financings
- Revise appropriate statutes and KAR's to allow the Department of Commerce to assess the tax incentive administrative fee on any approved tax incentive projects
- Communicate administrative fee provisions to the local governments issuing the STAR Bond or PAB financings
- Create an application process for the tax incentive programs to recover an administrative application fee
- Clarify the existing contract language related to administrative costs for the Affordability Airfund Grant with Sedgwick County
- Clarify either the budget appropriation bill and/or statute allowing the Secretary of Commerce to assess the administration fee
- Communication to the grantee agencies of the administrative fee offset

## Recommendation #3 – Revise Primary Tax Incentive Program Caps

As shown in the accompanying tables, the December 2014 Legislative Post Audit Report analyzed whether the major Kansas economic development programs have been successful. The report highlights the major economic programs that did create significant returns on investment for Kansas, with regard to business activities and of the associated state and local tax revenue generations.[8]

The December 2014 Legislative Post Audit also reported the existing economic development programs generate a return on investment of $56.20 for each dollar HPIP dollar awarded, and $57 of economic activity generated by every dollar of foregone revenue through PEAK.

**State and Local Tax Revenue Created by the Six Major Kansas Economic Development Programs and Local Incentives (in millions) (a)**

| Program | Incentives Contributed | Measures of Success | | | |
|---|---|---|---|---|---|
| | | State Tax Net Present Value | Local Tax Net Present Value | Total Tax Net Present Value | Return on Investment (b) |
| IMPACT | $13.2 | $287.4 | $71.9 | $359.3 | **$27.2** |
| JCF | $2.8 | $14.2 | $3.5 | $17.7 | **$6.3** |
| PEAK | $29.4 | $102.2 | $25.5 | $127.7 | **$4.4** |
| KIT/KIR | $0.4 | $1.1 | $0.3 | $1.4 | **$3.9** |
| HPIP | $49.4 | $135.9 | $34.0 | $169.9 | **$3.4** |
| KEOIF | $6.8 | $7.4 | $1.8 | $9.2 | **$1.4** |
| Local | $71.9 | $83.6 | $20.9 | $104.6 | **$1.5** |

(a) The values above are based on 19 projects from our full sample of 42 projects. The values reflect the midpoint of our estimates. The high and low estimates are +/- 12% of the midpoint.
(b) Values are per $1 of investment.
Source: LPA analysis of unaudited Kansas Department of Commerce and Kansas Department of Revenue economic development data.

### High Performance Incentive Program[9]

The High Performance Incentive Program (HPIP) provides tax incentives to employers that pay above-average wages and have a strong commitment to skills development for their workers. This program recognizes the need for Kansas companies to remain competitive, and encourages capital investment in facilities, technology, and continued employee training and education. A substantial investment tax credit for new capital investment in Kansas and a related sales tax exemption are the primary benefits of this program.

8 2014 Legislative Post Audit Report Highlights – Economic Development: Determining Which Economic Development Tools are Most Important and Effective in Promoting Job Creation and Economic Growth in Kansas, Part 3

9 Kansas Department of Commerce, Testimony to the Special Committee on Taxation, November 6, 2015

# COM.05 - Ensure no program subsidy for Athletic Commission fee for service operation

growing.

Any elimination or scaling back of these programs would have a negative impact on the state's ability to grow business and compete with other states and countries vying with Kansas for new and existing business opportunities.

| Recommendation #4 - (dollars in 000's) | | | | |
|---|---|---|---|---|
| FY17 | FY18 | FY19 | FY20 | FY21 |
| **$2,000** | **$4,000** | **$4,000** | **$4,000** | **$4,000** |

## Key Assumptions

- Elimination of the Community Service Program Tax Credits could result in an additional $4.0 million in taxable income from the almost 900 Kansas taxpayers who filed for the exemption in state tax year 2012.
- Kansas would realize a first year impact after January 1, 2017 due based upon implementation at the beginning of a state tax year.
- The staff resource savings in the Department of Commerce and Department of Revenue for the monitoring efforts are assumed to be redirected to other program activities within each department's tax incentive program functions.
- Staff efficiency savings from Department of Commerce personnel would not be a savings to the State General Fund but from the Economic Development Initiative Fund which is funded from the Kansas Lottery Fund appropriation.

## Critical Steps to Implement

- Create a working committee to determine if the Community Service Tax Credit program allocations could be funded with private resources and foundations instead of directing the business tax contribution.
- If the decision is made to eliminate the Community Service Tax Credit Program, legislation would be needed to amend the K.S.A. 79-32,194 and 197 et seq. and Schedule K-60, which allows business firms contributing to an approved community service organization to participate.

# Recommendation 5 – Ensure no program subsidy for Athletic Commission fee for service operation

As noted in the introduction of this Chapter, the department oversees the operations of the Kansas Athletic Commission. This includes inspection of the health and safety of the contestants and the revenue facilities. The programs cover authorized control and direction for professional boxing, kickboxing, mixed martial arts, and wrestling, while encouraging the promotion of such sporting events in the State of Kansas. The Commission continues to facilitate the health and safety of contestants and fair and competitive bouts, in addition to protecting the public.

**Department of Commerce - Athletic Commission Comparison**

| | FY 2013 Actuals | FY 2014 Actuals | FY 2015 Actuals |
|---|---|---|---|
| **Revenues** | $ 106,691 | $ 100,738 | $ 78,682 |
| **Expenses** | $ 142,777 | $ 32,681 | $ 104,218 |
| **Difference** | $ (36,086) | $ 68,057 | $ (25,536) |

***Source: Department of Commerce Fiscal Office - November 2015***

We found over the past several years, the revenues from 5 percent of the gross receipts fee from gate fees, event application, and promoter license/fees were not fully covering the costs of the department's oversight. While not significant today, if boxing, wrestling, and related Athletic Commission events are expanded across Kansas, the state should not be subsidizing the cost of the events from its state coffers.

It is recommended that the licenses and gross receipt fees should fully recover the costs for the Athletic Commission to regulate the commissioned events. The state assesses a 5 percent athletic fee upon the gross receipts calculated for Boxing, Mixed Martial Arts, Kickboxing, and Wrestling events. K.A.R. 128-3-1- defines gross receipts "as the total amount of all ticket sales, including complimentary tickets and passes, after sales tax is deducted."

In addition to various professional license and application fees, the event promoters shall obtain a surety bond or irrevocable letter of credit in the amount of $10,000 to guarantee payment of all fees and taxes due the Athletic Commission. The Commission may adjust the required amount to assure sufficient protection to the state.

The department should adjust the gross receipt fee for each event to ensure its costs in providing the statutory defined regulatory and compliance functions are fully recovered.

| Recommendation #5 - (dollars in 000's) | | | | |
|---|---|---|---|---|
| FY17 | FY18 | FY19 | FY20 | FY21 |
| $26 | $26 | $26 | $26 | $26 |

Key Assumptions

- No growth in sporting events over the planning period
- Increased license fees and/or increase in gross receipt fee to ensure the Athletic Commissions costs are recouped with each event
- Ability of the Athletic Commission to recover any costs not recovered by the license fee or gross receipt fee to be recovered by the $10,000 posted event surety bond
- All monies received are credited back to the Athletic Commission budget

Critical Steps to Implement

- Amendments to KAR 128 allowing the Athletic Commission to fully recover its regulatory and enforcement costs from applicant license fees, gross receipt fees, or the surety bond
- Communication to promoters of the cost recovery changes including any administrative overhead costs

## Recommendation 6 – Centralize Commerce's Human Resources and Information Technology Infrastructure Operations within the Department of Administration

### Human Resources

The Department of Commerce currently has 1.5 FTE assigned to support Human Resource functions. The department is also not currently using the state's time-keeping application resulting in manual processing of leave approval time.

The consolidation would transfer the Human Resource related workload of the 235 full-time positions to the Department of Administration including position requisition requests, desk audits, and other payroll related tasks.

Secondly, the department should also automate its payroll processing procedures to eliminate the manual paper sign-off of vacation and other personal leave requests. Any functions not assumed by the Department of Administration should be assumed by the Office of the Chief Finance Officer and the fiscal staff.

- Information Technology and Infrastructure Operations
    - » The Information Technology and Infrastructure Team consists of six full-time employees that support the 223 full-time and nine part-time staff members throughout the 29 Commerce work sites. Three sites utilize the KanWin network including the Curtis State Office Buildings, the 1430 SW Topeka Workforce Center, and the Manhattan Workforce Center. The rest of the Commerce field offices utilize the local ISP's to gain access to the network.

The department indicated their infrastructure sits behind a pair of Cisco ASA 5520 firewalls (except what resides in the DMZ and operates a Microsoft Hyper V Host environment) currently consisting of:

- Various physical boxes located in the LSOB data center that include seven host servers, two Domain Controllers, four boxes for Polycom (server, bridge, video boarder proxy, and five port recording servers)
- Two database servers
- Two file servers
- One mail server
- One App server
- One O365 mail hybrid server

The current use of virtual server images includes various applications including:

- Two for MS CRM production and test
- Two SQL data base production and test

# COM.06 - Centralize Commerce’s HR and IT Operations within the Department of Administration

adjust the required amount to assure sufficient protection to the state.

The department should adjust the gross receipt fee for each event to ensure its costs in providing the statutory defined regulatory and compliance functions are fully recovered.

| Recommendation #5 - (dollars in 000's) | | | | |
|---|---|---|---|---|
| FY17 | FY18 | FY19 | FY20 | FY21 |
| **$26** | **$26** | **$26** | **$26** | **$26** |

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Critical Steps to Implement

- Amendments to KAR 128 allowing the Athletic Commission to fully recover its regulatory and enforcement costs from applicant license fees, gross receipt fees, or the surety bond
- Communication to promoters of the cost recovery changes including any administrative overhead costs

## Recommendation 6 – Centralize Commerce's Human Resources and Information Technology Infrastructure Operations within the Department of Administration

### Human Resources

The Department of Commerce currently has 1.5 FTE assigned to support Human Resource functions. The department is also not currently using the state's timekeeping application resulting in manual processing of leave approval time.

The consolidation would transfer the Human Resource related workload of the 235 full-time positions to the Department of Administration including position requisition requests, desk audits, and other payroll related tasks.

Secondly, the department should also automate its payroll processing procedures to eliminate the manual paper sign-off of vacation and other personal leave requests. Any functions not assumed by the Department of Administration should be assumed by the Office of the Chief Finance Officer and the fiscal staff.

- Information Technology and Infrastructure Operations
  - » The Information Technology and Infrastructure Team consists of six full-time employees that support the 223 full-time and nine part-time staff members throughout the 29 Commerce work sites. Three sites utilize the KanWin network including the Curtis State Office Buildings, the 1430 SW Topeka Workforce Center, and the Manhattan Workforce Center. The rest of the Commerce field offices utilize the local ISP's to gain access to the network.

The department indicated their infrastructure sits behind a pair of Cisco ASA 5520 firewalls (except what resides in the DMZ and operates a Microsoft Hyper V Host environment) currently consisting of:

- Various physical boxes located in the LSOB data center that include seven host servers, two Domain Controllers, four boxes for Polycom (server, bridge, video boarder proxy, and five port recording servers)
- Two database servers
- Two file servers
- One mail server
- One App server
- One O365 mail hybrid server

The current use of virtual server images includes various applications including:

- Two for MS CRM production and test
- Two SQL data base production and test

- Two SharePoint production and test
- Four Application
- One Domain Controller
- One SQL server, four File servers
- One Cert Server
- One SC Comfit Manager
- One SC Service Manager
- One C Virtual Machine Manager
- One Windows Update Server

Commerce IT is currently in the process of virtualizing the majority of their physical environment. They utilize Microsoft System Center Suite for protection and deployment and industry appliances to deploy third party patches. Microsoft Exchange 2010 is Commerce's mail system and is currently slated to move into the state consolidated O365 mail system approximately in January of 2016.

There are two main business applications utilized by Commerce associates for business functionality: MS Dynamics 2011 (which is configured as an internal facing application) and SharePoint 2007. They are currently in the process of migrating and rebuilding their SharePoint 2007 sites to SharePoint 2013 while migrating off older 2003 and 2008 servers to a virtual environment.

As such, with the current configuration of older and non-virtual server applications and migration of Commerce's mail system to the state's O365 mail system in January 2016, A&M recommends that the IT Operations of the department be merged within the Department of Administration Office of Technology Information Support (OTIS) program. The merger would result in a consolidated IT system platform for delivery of services across the state and potential IT savings with consolidation of servers within the Commerce platform.

Further review is needed to examine the current server infrastructure design and to evaluate if further refinements can be made to provide a more efficient operating structure.

| Recommendation #6 - (dollars in 000's) | | | | |
|---|---|---|---|---|
| FY17 | FY18 | FY19 | FY20 | FY21 |
| **$25** | **$25** | **$25** | **$25** | **$25** |

## Key Assumptions

- The above cost savings include only the personnel costs for the department's Human Resource operations or $127,707.
- There is assumed to be a Service Level Agreement (SLA) that will be structured between DOA and Commerce at 80 percent of the staff salaries.
- Personnel costs of $646,265 for the department's Information Technology and Infrastructure Operations are included in cost savings under the Technology efficiency review chapter of this report and are not included in the Commerce cost savings projections.
- Cost savings excludes any training, system licenses, applications, and system maintenance due to these costs having to be assumed by the Department of Administration.
- The existing budgeted positions within the Department of Commerce would be eliminated with the workload being assumed within existing FTEs of the Department of Administration.
- No reductions in operating costs were included in the cost savings, except for the administrative overhead tax on the current space allocation at the Curtis and Landon Buildings.
- The Department of Administration OTIS would enter into a Service Level Agreement with the Department of Commerce for the delivery of IT support services.
- The Department of Administration Human Resources office would enter into a Service Level Agreement with the Department of Commerce for the delivery of Human Resource support services.

## Critical Steps to Implement

- Commerce and Administration would need to develop Service Level Standards to address their requirements.

- Department of Administration OTIS should review the technology infrastructure inventory and define the best plan and needs for Commerce.
- Any purchases of IT equipment funded with Federal Grant funds would have to be reviewed and evaluated if there was a transfer of assets for the Department of Administration.
- All closed Human Resource files of former Department of Commerce employees would be transferred to the Department of Administration.

## Other Areas for Further Efficiency

A&M also reviewed and have under consideration several efficiency measures that we recommend for continued study and analysis. Due to the close-out of the study period, we were unable to complete this final analysis. Other efficiency focus areas for continued operating efficiency within the Department of Commerce include:

- Centralize building leases and property management. All departmental leases and assets should be maintained by a central agency within the state (Department of Administration) to pursue enhanced facility lease pricing, payment review, and potential consolidation of buildings and facilities across the state. Commerce has a number of leased facilities for its Workforce Center operations, which should be managed by a central asset manager for all state agencies. A state-wide centralized asset manager would be able review the location of existing building and facilities (both owned by the state and leased property) to determine if cost savings could be achieved through consolidation of buildings and improved lease negotiation and management.
- Review of vacant positions. The department had 57 positions, or 53.55 FTE that have remained vacant on an average of 289.47 days. The 57 positions total $1,545,812 in various funding commitments of which $281,526 were Economic Development Incentive Fund funded positions.

The department is completing a review of the positions to determine which are critical to the operations of the state. As of January 8, 2016, the analysis was not complete so no cost savings are included in our recommendations at this time. We recommend the department review the existing inventory focusing on positions that have been vacant for a significant period of time to potentially achieve additional cost savings.