

Approved 2/12/87
Date

MINUTES OF THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT

The meeting was called to order by PHIL KLINE at
Chairperson

3:30 a.m./p.m. on Thursday, January 29, 1987 in room 423-S of the Capitol.

All members were present except: Rep. Barkis, Goossen, Helgerson (All Excused)

Committee staff present:

Jim Wilson, Revisor
Lynn Holt, Research
Molly Mulloy, Secretary

Conferees appearing before the committee:

Harland Priddle, Secretary, Department of Revenue
John Peterson, Kansas Assn of Private and Career Schools
Fred Gainous, Assistant Commission, Community Colleges & Vocational Education, Kansas
State Department of Education
Dr. Frances Horowitz, Vice Chancellor, University of Kansas
Dr. Robert F. Kruh, Dean of the Graduate School, Kansas State University
Phil Bradford, Advanced Technology Commission

Chairman Kline called the meeting to order and introduced Harland Priddle, who concluded the presentation he had begun at the Committee meeting on 1/27/87. Priddle emphasized that the strategy plan developed by the Department of Commerce (see Attachment 3, 1/27/7) is the road map he'll use this year to implement economic development initiatives in Kansas. He added that since he receives more correspondence from legislators on Community Block Grant Development programs than on any other issue, he would like to talk over the system and procedures with the Economic Development committee. He concluded by stating that he strongly supports all of the bills relating to partnership ideas, such as KTEC and the Centers for Excellence.

H.B. 2075 was summarized by Lynn Holt, who stated that this bill establishes the Kansas Information Training Program to provide consumers information on the placement and earnings rates of each job training program. This bill requires the State Board of Education to administer the program, issue an annual report which includes placement and earnings information, and establish an advisory committee to assist in the administration of the program. The intent of this legislation is to make job training programs offered by community colleges more attuned to consumer demands. The Economic Development Commission estimates that it will cost \$14,500 to establish the program in FY-88 and \$10,000 annually to maintain it.

The first conferee on H.B. 2075 was John Peterson, who spoke in support of it. He said the nationally accredited, proprietary business and technical schools he represents provide job training and business/career education to 2500 Kansas annually, at no cost to the state, and receive no state or federal tax appropriations. He noted that these schools pay income tax, sales tax, property taxes and other taxes to help the state and that the role and function of proprietary business and technical schools is exceedingly important to Kansas' economic development. Peterson noted that private career schools receive none of the \$20 million a year Kansas provides in state aid to area vocational/technical schools and hoped that the Economic Development Committee would recognize the role that career schools play in delivery of business training services in Kansas. He stated that he strongly supports H.B. 2075 because the state should continue to have standardized information as a beneficial resource to students, for businesses and for economic planners in the state.

The last conferee on H.B. 2075 was Fred Gainous, who stated that the Department of Education supported the bill in general but had reservations about Section 3(a)(2) of the bill which proposes to have the State board conduct follow-up surveys. He feels that placement and followup are part of local program accountability, best used at the local level for continuous modification and development of curriculum and to provide feedback to teachers on skills needed for entry level employment. He proposed the following change in H.B. 2075: amend Section 3(a)(2) to read... such other information

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT,
room 423-S, Statehouse, at 3:30 a.m./p.m. on Thursday, January 29, 1987.

as the state board may require in order to assist in locating program completers not located by the institution.

Lynn Holt summarized H.B. 2077 as follows: H.B. 2077 would amend Supp. 74-8106 to permit projects funded by KTEC and the Centers of Excellence to involve incidental amounts of applied research, technology transfer, technical assistance or training. She stated that the Commission on Economic Development felt projects should not be disqualified from funding simply because they involve an incidental amount of research or technology transfer different from the basic research and development activities -- the primary scope of these projects.

Dr. Frances Horowitz was the first conferee on H.B. 2077, stating that she was representing not only the University of Kansas but all of the Regents institutions in supporting H.B. 2077. She said that H.B. 2077 changes wording which would permit the Centers of Excellence to undertake additional activities to enhance their primary mission, and suggested an additional section be added to the bill which would permit a modest core budget for basic research centers that would be exempt from the matching provision (Attachment 1, p. 10).

Lynn Holt summarized H.B. 2078 as follows: H.B. 2078 would exempt Regents institutions from state purchasing requirements pertaining to research and development activities when a contract is for less than \$10,000, financed entirely from State General Fund appropriations, or when a contract is financed 50% or more from moneys received from KTEC, federal agencies or private sources. Under existing law, bids are required for purchases estimated to exceed \$2000. This bill also waives state requirements for travel funded as part of a research and development activity.

Dr. Horowitz spoke in support of this bill, noting that externally funded projects at the University of Kansas totaled more than \$36 million last year, with an economic impact calculated at over \$100 million. A very serious problem faced by researchers on such projects are the state purchasing procedures, which are time consuming, inefficient and have a demonstrated negative effect on productivity. Dr. Horowitz said H.B. 2078 was an excellent bill which would remove sponsored project purchasing from the state system, but suggested the following wording changes in the bill: that the words "or private sources" on line 30-31 be changed to "or other external sources," because in addition to KTEC and federal agencies, KU holds contracts and grants from state agencies in Kansas and with other universities in the country. On line 45 she suggests that the word "research" be deleted so that the reference is to "sponsored projects" and then add "or any other research and development activity" to conform with the language of the first part of the bill.

Rep. Chronister asked Dr. Horowitz if she was aware of other universities with similar problems regarding state purchasing requirements on external projects. Dr. Horowitz responded that most states already have a decentralized campus-controlled purchasing system and that Kansas was probably the most extensively controlled.

The next conferee on H.B. 2078 was Dr. Robert Kruh, who supported Dr. Horowitz' remarks and underscored them with specific examples of problems encountered by researchers at Kansas State University because of the requirement for purchases and travel under current procedures. He stated that because of these requirements, universities are unable to respond in a timely, flexible manner to take advantage of cost saving, time saving, efficiency producing opportunities, to the detriment of strengthening the university's capabilities to conduct sponsored project activity that ultimately strengthens the economic base of the state.

Rep. Sader asked what type of internal control the university would have on purchasing should the bill be passed. Both Drs. Horowitz and Kruh stated that the universities already have Business Procedures Manuals with policies regarding the bidding process, and that if H.B. 2078 were passed, there would be a new manual regarding procedures and required audit trails for externally funded projects.

Rep. Baker asked if there would be feelings of rivalry from those university departments which did not have externally funded projects and were thus required to use the state purchasing requirements. Dr. Horowitz said that H.B. 2078 affects only a small number of departments which have external funding, and that other faculty would view this Bill as a help to their colleagues.

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MINUTES OF THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT,
room 3:30, Statehouse, at 423-S a.m./p.m. on Thursday, January 29, 1987.

The last conferee on H.B. 2078 was Phil Bradford, who spoke in support of the bill. He noted that Kansas is only one of five states that still require money for externally funded projects to go through state procedures for travel and purchasing. He emphasized that this bill only applies to external projects such as federal grants and private grants, and that there is no risk to the state.

The hearing concluded at 4:15pm. The next meeting of the Economic Development Committee is on Monday, February 2, 1987 at 3:30pm in Room 514-S.

Date: 1/29

QUEST REGISTE

HOUSE

Committee on Economic Development

NAME

ORGANIZATION

ADDRESS

<u>NAME</u>	<u>ORGANIZATION</u>	<u>ADDRESS</u>
David Duffin	S.A.C.	Emporia, Ks
Chris Grayes	ASK	Topeka
Mark ^{Mr} Duffin	ASK	"
Wayne Price	Journal World	Lawrence
Randy Williams	DHR. - KOCCC	Topeka
Brett Berry	for Sen. Salisbury	Siber Lake
Marlin Rein	KU	
Vickie Thomas	KU	
Michael O'Keefe	KUMC	
Fred Gainous	KSDE	Topeka
Kristie Weimar	KANU	Lawrence
Gail Karmelton	KS NOW	Lawrence
R.F. KRUH	KSD	Manhattan
Francis Dejen Horowitz	University of Kansas	Lawrence, Kansas
Mike Hinder	KU	" "
Jeff Roach	K.S.B.A.	Topeka
NICK ROACH	Div. of Purchases	Topeka

Date: 4/29

U E S T R E G I S T E R E D

H O U S E

Committee on Economic Development

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Leshi A. Greenwood Washburn University 1256 Lakeside (Topeka)

RICHARD HAYTER KSU MANHATTAN

TED D. AYRES KANSAS BOARD OF REGENTS Topeka

ROY J. BERRY Ks. assoc. of AUTS TOPEKA

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January 29, 1987

Testimony Before the House of Representatives

Committee on Economic Development

in Support of HB 2077 and HB 2078

Frances Degen Horowitz

Vice Chancellor for Research,, Graduate Studies and Public Service

The University of Kansas

I appreciate this opportunity to appear before you and to indicate our strong support for House Bills 2077 and 2078. These bills reflect, I believe, the growing partnership between the Regents' institutions and the legislature as we try to find ways in which higher education in Kansas can redouble its efforts to contribute to the economic revitalization of Kansas through activities that will, in the long run, create jobs.

I will address each of these bills separately and indicate to you the reasons we are supportive of them. First, House Bill 2077. This bill is in large measure one which was passed in the last session of the legislature. The changes are, basically, "clean-up" changes to provide official wording to give important latitude to activities in the Centers of Excellence. The wording changes permit the Centers to undertake additional activities to enhance their primary mission.

For example, the Centers of Excellence for basic research will engage in basic research but the word "primarily" is added to recognize that sometimes it is absolutely necessary, in the pursuit of a basic research

Attachment 1
1/29/87

problem, to take on some applied questions which feed back into a basic research project. Similarly, Centers of Excellence devoted to applied research must, on occasion, drop back to do a little basic research in order to make progress on a specific applied problem. If the Centers were, by legislative wording, prohibited from such flexibility, important work might be stymied unnecessarily, thereby reducing the potential of the Centers to realize their goals of enhancing economic development in Kansas. Thus, the word "primarily," is inserted to define the mission of each kind of Center of Excellence while permitting other research which is incidental but very important to the main mission of a Center. We support these wording changes because they will enhance the kinds of contributions the Centers can make to economic development in the State.

There is one section that we would suggest be added to this bill. It was recommended in the report of the Legislative Commission on Kansas Economic Development but was, we believe, left out inadvertently. The purpose of this provision recognizes that, in the ultimate, basic research drives applied research and technology transfer. With respect to basic research, however, the scope for private sector matching funding is more limited because the payoff is much longer term. Therefore, the provision permits a modest core budget for basic research centers that would be exempt from the matching provision. This core funding would not be sufficient to carry out the mission of the basic research centers; but, it would provide an important stable underpinning to the Centers, enabling the retention of key personnel. These kinds of individuals can only be recruited if some period of job continuance is promised, subject, of course, to acceptable performance by the individual. In recruiting such personnel the Centers are competing nationally for highly sought after technical and scientific

associates.

Since the basic research centers will be reviewed periodically and since the level of core funding will be decided by the Kansas Technology Enterprise Corporation as a result of an external peer review, the provision for some core funding without a match requirement will not give the basic research centers a blank check. Rather, it will provide an important stabilization factor that will help each Center increase its productivity in being able to recruit and retain certain key personnel. I shall be happy to answer any questions you might have about this at the conclusion of my testimony.

House Bill 2078 addresses a very important problem which we encounter in the Regents' institutions in connection with sponsored projects. "Sponsored projects" is the technical term which we and others use to refer to projects taken on by university faculty and staff that are funded externally by federal agencies and other external sponsors. These sponsored projects come to the university as a result of applications and proposals made by faculty and staff to external sponsoring agencies or because an external entity has asked the university to solve a particular problem. Last year the total volume of these kinds of awards to the University of Kansas (the Lawrence and the Medical Center campuses) was in excess of \$36,000,000. The economic impact on the state is calculated at over \$100,000,000. To evaluate the importance of this to the state's economic activity one must add to this an indirect impact stemming from several factors. One is that a portion of these awards is for research, training and development activities from the private sector. To the extent that the results of the activities make private sector clients in Kansas more competitive and profitable, they enhance the state's economy. When we serve

private sector clients who are from outside of Kansas we not only bring new money into Kansas but we increase the probability that these entities will continue to award contracts to the university. In some instances these entities will consider locating a portion of their enterprise in Kansas in order to be near the expertise important to their profitability.

A second factor is that excellent performance on grants and contracts, no matter their source, tends to attract even more such project activity. It helps us to attract excellent graduate students and it increases the quality of education and experiences available to undergraduate students. In addition it is these kinds of activities and the spin-off companies which will help us retain the best and brightest of the students who now leave the state to find employment elsewhere. These "value added" elements are, we believe, making important contributions to the realization of our common aspirations to enhance and diversify the economic base of the state.

The grants and contracts we receive, however, share one common characteristic. They are all "time sensitive." That is, they are given for a certain period of time. During that period of time there is the expectation that particular work will be carried out, that a product or process will result and that it will be delivered by the time specified. It is this common characteristic that produces the problem which House Bill 2078 proposes to solve. The bill provides for the exemption of purchasing and travel from state procedures when those activities have as their source at least 50% funding from a sponsored project or when the items to be purchased from state funds are under \$10,000.

Of the \$24 million in sponsored project activity on the Lawrence campus \$1 million of expenditures would have been affected by this bill. It is a small amount from the sponsored project activity at KU and a very small part

of the overall state purchasing function. Yet, these expenditures loom large at KU - they represent the core of sponsored project enterprise at KU. These research and training projects are essential to the health of KU as a comprehensive research university. They represent the heart of KU's capability to contribute to economic growth for the State of Kansas. When these funds are subjected to the State's purchasing procedures the result is a conflict with the extreme time sensitive nature of the projects. This is because they elongate the amount of time needed for procurement of goods and services - time which is precious in the conduct of a project and the achievement to excellent results in a timely manner; they put up barriers of efficiency and to economy. Let me give you some specific information and examples:

1. The average time for procurement of goods which are acquired using the centralized state purchasing procedures is 63 days; university direct purchasing averages 17 days. This is a savings of 73% in terms of time. A campus based purchasing system for the limited items on sponsored projects, with due safeguards for sound business practice and accountability, will save precious time and permit us to be more timely and more responsive to the contracting clients, increasing the probability that good performance will contribute to renewed and expanded contracts and grants, thus enhancing not only the volume of funding but giving better service, especially to the private sector.
2. In addition to the issue of time, there is the matter of flexibility and fiscal responsibility. As an example, one of our faculty, working on research supported by a grant, had a key component on a major piece of equipment fail. The research was interrupted and critical days were to be lost while the component

was fixed. It was possible, under state procedures to secure emergency permission to have the component repaired without going through the bid process. But, it happened that this piece of equipment was quite old.. The researcher determined that a newer upgraded model was available and could be purchased which would do a better and more efficient job and have some needed new capabilities. The repair on the old equipment was quite costly. Given the age of the equipment and its near obsolescence it was not good business practice to invest in the repair when funds were available in the grant that could be put toward the purchase of the new equipment if one did not have to pay for the repair. However, if the researcher wanted to buy the new piece of equipment, state purchasing procedures required that he go out on bid. The time necessary to prepare the bid specifications and go through the bid process would have consumed at least two to three months. The project could not afford to lose that much time and produce the promised results when they were due. So, the researcher repaired the old equipment; he then did not have enough money to buy the newer model. The result was a repaired piece of older equipment, obsolete and soon to break down again. This is not sound management of resources.

3. Another example: A piece of equipment was needed for research, the funds were provided by the grant; bid specifications were prepared and the bid was let. While the bids were out the manufacturer announced a new superior model with modifications and new capabilities. For a few \$100 more this new model could have been purchased. But, we did not have the flexibility to take

advantage of this opportunity in a timely manner. To buy the newer model the investigator would have had to start the bid process all over again - losing time and delaying the research. The investigator could not afford to lose that time. Instead, he went ahead and purchased the outmoded equipment, foregoing a purchase, for a little more money, of a superior, state-of-the-art model.

I could provide you hundreds of such examples in only the last few years - they all involve being unable to respond in a timely, flexible manner to take advantage of cost saving, time saving, efficiency producing opportunities - to the detriment of strengthening the university's capabilities to conduct the sponsored project activity that ultimately strengthens the economic base of the state.

I will give you only one other example - it has to do with travel associated with sponsored projects. When sponsors of research, development and training activities provide for travel funds on a grant or contract they do so for particular reasons. They have determined that the staff associated with the project need to travel to accomplish the goals of the project. These may involve getting information in a timely manner, being at a certain place at a certain time, sometimes with little notice. Some grants require considerable travel. There are two problems which we encounter. One is prior approval by the state, through the Board of Regents, involving three to four weeks lead time; the second is limitation on recovery of expenses. This results in faculty and staff having to pay out of their pockets legitimate costs for which they have receipts and for which there is money in the grant but which the state will not permit to be recovered because of state regulations regarding limits on permissible expenses.

In giving you all of these examples we are not being critical of sound state purchasing procedures. Rather, I have described the kinds of problems we routinely encounter. Timing and flexibility demands are regularly part of university-industry cooperative research programs; in the private sector "time is money." Sponsored project purchases are often unique, specifically determined by circumstance and subject to severe time limitations which have profound impact on project productivity. The constraints that we encounter are time consuming, inefficient and have a demonstrated negative effect on productivity. The solution is very appropriately provided for in this bill. It removes sponsored project purchasing from a system that was not designed to handle these problems and permits the university to establish a separate, campus-based, accountable and responsive system to facilitate acquisitions - acquisitions which, after the project is completed, usually remain at the university to be used for other research and for the education of students.

In its intent this is an excellent bill and one which would increase productivity significantly. There are a few details that we believe merit your attention. Specifically, we would suggest that the words "or private sources" on lines 30 and 31 be changed to "or other external sources." The reason is that in addition to KTEC and federal agencies we hold contracts and grants not only from private sector sources, but from state agencies in Kansas, from other states and from other universities around the country. Therefore, the suggested change in wording. Another minor change, for consistency - and to use the technical terminology that covers the kinds of projects involved - on line 45 we suggest that the word "research" be deleted so that the reference is to "sponsored projects" and then add "or any other research and development activity" to conform with the language of the first part of the bill.

The provisions of this bill are heartening because they will help us solve a problem that has been and is a barrier to efficient use of resources. This is especially the case as we increase our private sector relationships. Our private sector contractors are very puzzled and ultimately frustrated when they work with us under our current procedures. They do not understand why it takes 28 days to get approval to travel. They do not understand why the work on a project must be delayed 2 to 3 months and sometimes more because a piece of equipment cannot be purchased in a timely fashion.

I want to assure you that the scope for abuse of the flexibility the bill will give us is extremely limited. Sponsors of projects demand accountability and efficient use of their funds. There is always a fixed total amount of money available; it is usually skimpy in relation to the demands of a project. It is in the interest of the university to conserve those funds and to make them go as far as possible. The incentive is to do as much as we can so that the grant will be renewed or extended and/or attract other funding because of the excellence of the results. This kind of growth contributes to the reputation of the faculty and staff, to the reputation of the university and to the benefit of the state - ultimately enabling us at the university to make the maximum contribution to the economic development aspirations of Kansas.

Thank you very much for your attention; more to the point, thank you for being concerned and for considering legislation to help solve some of the problems we face. I shall be happy to answer any questions you may have.

H. B. 2077

Suggested Amendments

Section 1.

(Beginning at line 0110)

(g) The corporation shall award funding for new centers and increased funding for established centers only after:

(1) Developing, adopting and publishing the criteria it shall use when evaluating centers of excellence;

(2) developing a level of core funding for each basic research center of excellence; and

(2 3) receiving the recommendation of the centers of excellence committee which will review proposals for new or established centers of excellence containing:

(A) Documentation that not less than 50% of the center's total funding above the established level of core funding will be matched by sources other than the corporation; machinery or equipment may be considered as part of the matching funds, but must be accompanied by a statement that the center of excellence has received the machinery or equipment, it is state of the art; and either

(i) verifying that the machinery or equipment is donated and has only been used in testing to insure quality control, or used by a wholesaler or retailer for demonstration purposes only; or

(ii) detailing the price paid by the center of excellence, with an invoice showing the amount paid for the equipment;

(B) a description of a potential for future benefit to industry;

(C) an itemized operations budget; and

(D) other information that may be required by the board.

H. B. 2078

Suggested Amendments

New Section 1.
(Beginning at line 0023)

(a) Each contract entered into by a state educational institution for the acquisition of goods or services for a research and development activity shall be exempt from the provisions of K.S.A. 75-3739 through 75-3744 and amendments thereto if the contract is (1) financed entirely from appropriations from the state general fund for an amount of \$10,000 or less, or (2) financed 50% or more by moneys received from the Kansas technology enterprise corporation, federal agencies or ~~private~~ other external sources.

(c) (1)
(Beginning at line 0040)

"Research and development activity" means any center of excellence at a state educational institution, any research or development project or activity at the state educational institution funded under a research matching grant program of the Kansas technology enterprise corporation, or any other sponsored ~~research~~ project or other research and development activity at a state educational institution; and

(2) "state educational institution" means a state educational institution as defined by K.S.A. 76-711 and amendments thereto.