

Approved 1-30-89
Date

MINUTES OF THE SENATE COMMITTEE ON ECONOMIC DEVELOPMENT

The meeting was called to order by Senator Dave Kerr at
Chairperson

8:00 a.m./p.m. on January 25, 1989 in room 123-S of the Capitol.

All members were present except:

Committee staff present:

Bill Edds, Revisor of Statutes' Office
Lynne Holt, Kans Leg Research Dept
Carol de la Torre, Secretary to the Committee

Conferees appearing before the committee:

Charles R. Warren, President, Kansas, Inc.

The meeting was called to order at 8:00 a.m. by the Chairman,
Senator Dave Kerr.

The Chairman asked the Committee to introduce a bill to raise the tax credit ceiling for Certified Venture Capital from \$24 million to \$40 million. It was moved by Senator Vidricksen and seconded by Senator Francisco to introduce such a bill. Motion carried.

The first conferee was Charles R. Warren, President, Kansas Inc. Kansas Inc. is the long-range strategic planning entity for economic development in Kansas. Mr. Warren briefed the Committee on the Board of Directors' recommendations for allocations from the Economic Development Initiatives Fund. (Attachment 1)

Senator Winter questioned whether Kansas still has a specific economic development strategy. Mr. Warren replied that Kansas does have one, which includes seven elements. They are included in Attachment 1, under the chart entitled Board of Directors Recommendations FY90. Senator Winter stated he felt the strategy had become clouded and made ambiguous despite specific issues identified in 1986. He sees the need to get the state back to a position where it will have clear economic development strategies. He felt there is a difference between general economic development on one hand, which includes clean water and clean air, and on the other, very specific economic development initiatives which is what the law states. The Chairman said he felt there was general agreement with these points.

There being no further business, the meeting was adjourned.



Governor Mike Hayden, Co-Chairman
Eric Thor Jager, Co-Chairman

Charles R. Warren, President

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**Economic Development Initiatives Fund
Fiscal Year 1990 Recommendations**

**Testimony of Charles R. Warren, President
Kansas Inc.**

Senate Committee on Economic Development

January 25, 1989

*Sen Eco - News
1-25-89
Attachment 1*

Thank you for this opportunity to testify on the allocation of Economic Development Initiative Funds for Fiscal Year 1990. Today, I would like to provide you a briefing on total funding for economic development over the past five years and for Fiscal Year 1990. I would then like to present the Board of Directors of Kansas Inc. recommendations for the allocation of EDIF funds for FY 1990.

Total Funding for Economic Development

Since 1985, state funding for the primary economic development agencies (Commerce, KTEC, Kansas Inc.) has increased dramatically from just over \$4 million five years ago to over \$19 million in 1989 and 1990. That is a 475 percent increase. ~~When federal and other funds are added,~~ the Governor has recommended total state funding for these economic development agencies of \$19,381,071 for FY90.

I believe that from an overall funding perspective, the State of Kansas is about where we should be in terms of budgeting for economic development. The priorities within those budgets should be debated. As a state government, we are investing near the levels we should, particularly at this stage of our development in economic development strategies and programs. The Governor is to be commended for the attention given to overall funding for economic development activities.

I would like to quickly review the Governor's recommended budgets for the Department of Commerce and KTEC.

Department of Commerce: Total budget is \$29,112,196. Significant increase include approximately \$500,000 more for Travel and Tourism, and new funding for a rural assistance center and 7 new positions in the Community Development Division. In FY89, the Governor has recommended an \$800,000 supplemental from SGF for the Kansas Industrial Training program. In addition, the Governor has recommended that the lottery shortfall be made up with SGF dollars for the Partnership Fund.

KTEC: Total budget is \$5,651,469. KTEC is recommended to receive \$224,691 from the State General Fund; the remainder of their budget is from EDIF. In FY89, KTEC's total budget was \$7.6 million, however that included a carryover amount from FY88 of \$1,694,732.

A significant factor that the Committee should be aware of is that for FY89 and FY90, we are seeing a commitment of both SGF and EDIF funds for important initiatives such as KIT, Centers for Excellence, and the Partnership Fund. In light of this, EDIF recommendations cannot be viewed in isolation from amounts allocated from other funding sources.

EDIF RECOMMENDATIONS

I would like to make some introductory and background remarks on the process we followed this year to develop a general set of recommendations on EDIF.

In June, we sent a request to all state agencies asking for their recommendations for proposals from EDIF. By August, a number of proposals were received and presented to the Board of Directors at our August 25 meeting. The Board reviewed staff recommendations again at their November 17 meeting. On January 12, the Board considered the EDIF recommendations again and concurred in the staff recommendations with a couple of exceptions.

The Board of Directors has found it difficult to engage in a budgeting process for EDIF. It has not had the time given the very full agendas of its board meetings to analyze each agency's request. It has also not desired to interfere in the Governor's budget process. Given the fact that funding for economic development comes from a variety of sources: Federal, state, EDIF and other fee funds, it is difficult for the Board and its staff to make judgments without knowledge of the amounts that will be available and will be recommended by the Governor from these other sources.

The Board's recommendations for specific dollar amounts are very general in nature. Kansas Inc. does not advocate a set amount of dollars for each program, but rather provides these numbers as an indication of its priorities for economic development. Specific funding decisions are appropriately made by the Legislature and the Governor.

I would like to now comment individually on the Board's recommendations and compare those to the Governor's, as outlined

in his FY90 budget. You have been provided a table listing both sets of recommendations.

The Board's recommendations should be considered in context with the policy issue recommendations they made at their last meeting and presented to you in my testimony last week. Specifically, I refer to our recommendations concerning the State Water Plan, the Export Financing Program, Trade Assistance, and the Small Business Loan Fund.

I would like to make the general comment that the Governor's recommendations in the majority are very positive, and as you will see the Board of Directors generally concurs with the suggestions made by the Governor.

SPECIFIC RECOMMENDATIONS FOR FY90 EDIF

Attached to my testimony is a table titled Kansas Inc. Board of Directors' Recommendations. It lists both the Board recommendations and the Governor's recommendations for FY90 by the elements of our economic development strategy.

1) Entrepreneurial Environment

The Board recommends that state funding for Small Business Development Centers be increased to \$275,000. It should be noted that the SBDC's and the CDC's are also recommended to receive \$500,000 in state general funds. The SBDC's and CDC's have greatly expanded their operations, and are the primary direct service providers to small businesses within the State. We believe both should be strongly supported. I would hope this

Committee would schedule both the State SBDC Director and the President of the Association of Certified Development Companies to identify their needs in Fiscal Year 1990.

Under business assistance, the Board recommends that \$100,000 be allocated to a new initiative to establish a trade fair assistance program within the Trade Development Division. This program can play a major role in helping to increase Kansas Exports and is a separate policy recommendation of the Board provided to you last week.

2) Human Capital

The Kansas Industrial Training program has been one of the most successful new initiatives undertaken in economic development. It has had extensive demand. As noted, the Governor has recommended FY89 and FY90 state general funding for the program. We believe that the appropriate funding level for KIT should be approximately \$3,000,000 for FY90. The Governor has recommended total funding of \$2,450,000 in FY90.

The Kanwork self-employment seed capital fund is a recommendation for a new initiative developed jointly by SRS and Kansas Inc. It would provide start-up business loans to Kanwork participants who successfully graduate from a self-employment training program conducted by the Small Business Development Centers.

Funding for the McMasters program of the Department of Aging is not recommended. This is essentially money for McDonalds to train elderly workers in their fast-food restaurants. Such

funding does not fit within our economic development needs. We also believe it is bad precedent for the state Legislature to appropriate training funds to a single corporation. Such a funding request should compete with the needs of other Kansas corporations for funding.

3) Capital Availability

In separate policy positions, the Board of Directors has strongly recommended two new initiatives that relate to capital availability: 1) an export financing program, which this Committee is currently holding hearings on, and 2) a small business loan fund (H.B. 2020). The Board recommends that each program be capitalized with \$1 million to provide a debt reserve fund for the guarantee of loans. The Joint Committee on Economic Development made no decision on where the funding should come for these loan guarantees. If both programs are enacted, and if state general funds are not available to provide the initial capitalization, then it would be appropriate for EDIF to be allocated to them. The Board and I consider these two initiatives to be among our highest priorities for FY90.

4) Infrastructure

The Board of Directors recommends that the Partnership Fund receive \$2,000,000 from EDIF for Fiscal Year 1990. As the Budget Director has testified, the FY89 funding will be brought up to \$3.5 million through the addition of SGF. This will provide a total of \$5.5 million instead of \$7 million recommended by the

Governor. Given the slow start of the Fund and the very low demand for the program, \$5.5 million should be sufficient, especially if those funds are used to leverage additional money raised through the bond market by the Kansas Development Finance Authority as was the original intent of S.B. 470. It does not appear that funds will be allocated until Fiscal Year 90 anyway.

As Co-Chairman of Kansas Inc., Governor Hayden requested the recommendation of the Board for \$4,000,000 to partially fund the State Water Plan. The Board has made that recommendation. The Board's support for use of EDIF monies for water projects must be understood in the context of its policy position on funding of the State Water Plan. That statement has been provided to you earlier and is attached to my testimony.

a) Funding of water projects is already authorized under the Economic Development Endowment Account

b) Water projects, either new supply or clean-up activities, should have a direct relationship to a community's need for job growth or retention.

c) The Legislature should request a cost-benefit analysis which details the economic development that will accrue to a community from water projects selected for funding with lottery dollars. Economic justification is available either through budget documents or other information presented to the Committees on all of the other programs for which funds are requested.

The Board of Directors has not endorsed any of the specific projects in the State Water Plan or natural resources categories

recommended by the Governor in his FY90 budget.

5) Quality of Life. The Recreation Outdoor Access program is not considered an economic development project. In fact, the Budget Director has described it variously as a natural resource or quality of life activity. This program for hunters is not part of the State Water Plan and thus would not meet the Board's criteria for funding with lottery dollars. The Recreation Outdoor Access program includes \$240,000 for 4.5 FTE position in the Department of Parks and Wildlife. That part of the request violates our criteria that funds not be used for salaries of permanent personnel.

The Hillsdale Lake project and the Lake at Jetmore are substantiated not on economic development grounds but on the need for recreational facilities. This, of course, is a factor in quality of life which is a part of our economic development strategy. As you can see, the Board has recommended that the Arts Commission receive \$450,000 again in FY90, and that too is a quality of life activity.

The question is not whether quality of life projects should be funded but how much they should receive from a limited amount of resources. \$450,000 for the Arts represents 3 percent of the FY90 EDIF funds. The recreational projects in the Governor's budget at \$2.65 million would constitute another 17 percent of the EDIF expenditures. From an economic development strategy, we need to seriously question whether giving 20 percent of the funds

to recreational/quality of life projects meets our needs and priorities. Personally, I do not believe we can justify that level of expenditure given other more pressing needs for Job training, business assistance and business financing programs.

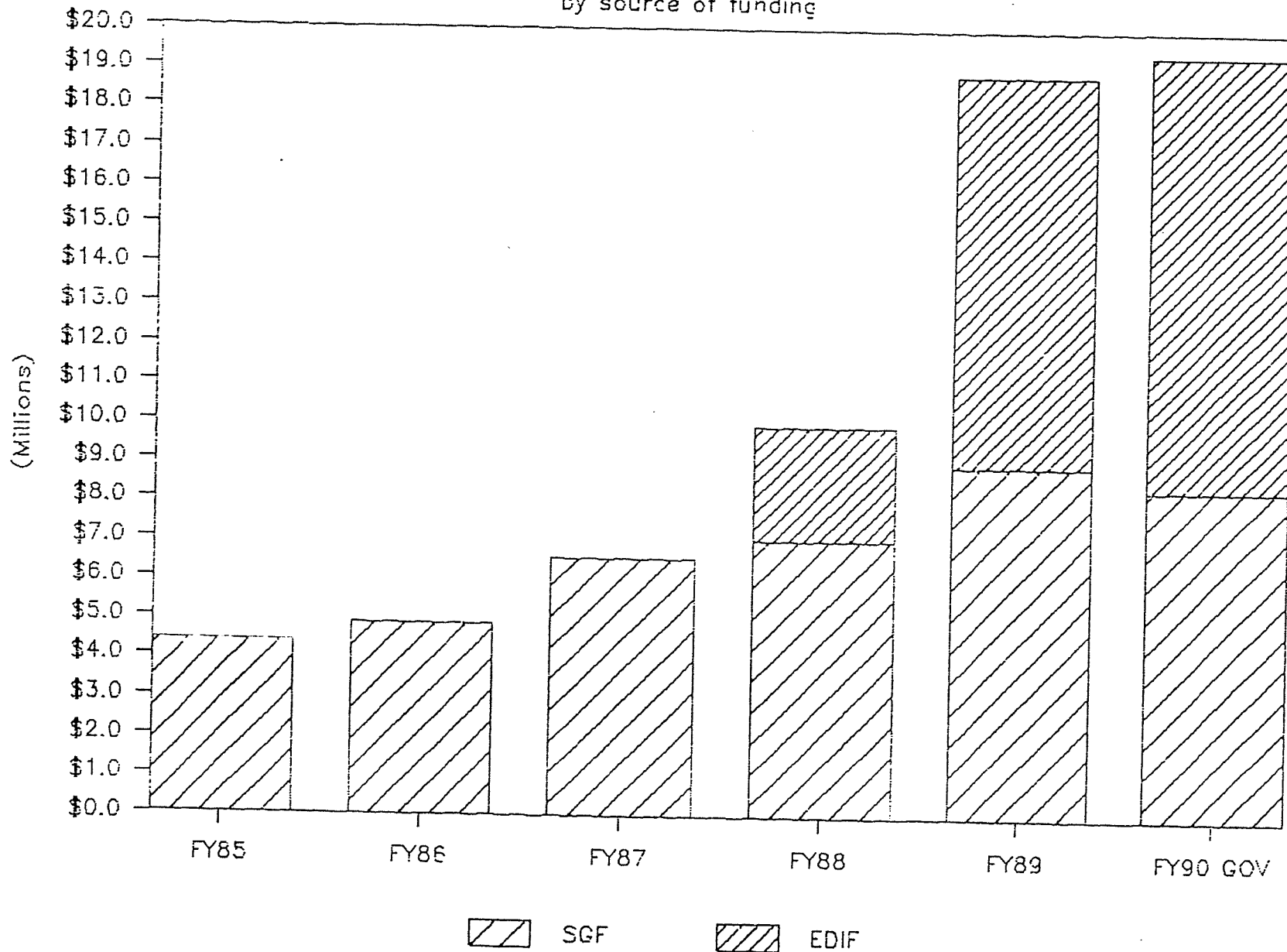
6) Technology

The Board of Directors has concurred with the Governor's recommendations for EDIF funding of the Kansas Technology Enterprise Corporation. Our recommendations do not speak to the need for state general funding of KTEC. Originally, we had hoped that funding for the Centers of Excellence and all of KTEC operations would be funded out of the State General Fund. The \$276,778 of lottery funds for operations probably also violates our criteria of funding salaries of permanent personnel, as may some of the funding for the Centers of Excellence. The Kansas Inc. Board has not been provided any details or justification of KTEC's needs, so at this point I do not believe we are qualified to make recommendations on their Fiscal Year 1990 budget. The Board does strongly support KTEC and recognizes that state funding for technology is low and should be increased over time to bring Kansas in a comparable position with similar states.

Thank you. I would be pleased to answer any questions or provide you with additional information on any of these issues.

ECONOMIC DEVELOPMENT EXPENDITURES

by source of funding



ECONOMIC DEVELOPMENT EXPENDITURES
Fiscal Years - 1988 to 1990

Agency/Fund	FY 88	FY 89	FY 90 (Gov.)
Commerce (SGF)	\$5,824,167	\$8,354,891	\$7,804,958
KTEC (SGF)	1,176,013	272,355	224,691
Kansas Inc. (SGF)	291,712	277,239	290,781
Total SGF:	\$7,291,892	\$8,904,485	\$8,320,430
Total EDIF:	\$2,889,526	\$9,944,832	\$11,060,641
TOTAL FUNDING:	\$10,181,418	\$18,849,317	\$19,381,071
Increase from Previous Year:		\$8,667,899	\$531,754

Governor's Recommendations
Economic Development Funding - Fiscal Year 1990
 (by funding source)

Agency	SGF	EDIF	Federal Funds	Other Funds	Total Funding
Department of Commerce	\$7,804,958	\$5,463,863	\$15,309,226	\$534,149	\$29,112,196
KTEC	224,691	5,426,778	0		5,651,469
Kansas Inc.	290,781	0	0		290,781
Board of Agriculture (Marketing Division)		180,000			180,000
Department of Aging		20,000			20,000
Kansas Arts Commission		100,000			100,000
SRS - Kanwork		50,000			50,000
TOTAL:	\$8,320,430	\$11,240,641	\$15,309,226	\$534,149	\$35,404,446

Commerce Department Funding - FY 1990
 Governor's Recommendation
 (by funding source)

Division:	SGF:	Other:	Total:
Administration	\$1,632,876	\$ 89,819	\$ 1,722,695
Existing Industry	1,360,327	205,000	1,565,327
Trade Development	700,340	0	700,340
Industrial Development	2,119,619	1,461,270	3,580,889
Travel and Tourism	1,159,464	708,887	1,868,351
Community Development	<u>832,332</u>	<u>18,842,262</u>	<u>19,674,594</u>
TOTAL:	\$7,804,958	\$21,307,238	\$29,112,196

KTEC Funding - Fiscal Year 1990
Governor's Recommendations
(by program)

<u>Program</u>	<u>Total</u>
Seed Capital Fund	\$1,000,000
Research Equipment Grant	700,000
Research Matching Grants	1,250,000
SBIR Matching Grants	300,000
Industrial Liaison Program	150,000
Training Equipment Grants	250,000
Centers of Excellence *	1,375,000
Special Projects	125,000
Operations	<u>501,469</u>
TOTAL:	<u>\$5,651,469</u>

* The Governor has recommended that \$300,000 be allocated to the Institute of Aviation Research at Wichita State University.

The Governor has recommended that the Agricultural Value-Added Processing Center located at Kansas State University receive \$175,000 from the Centers of Excellence EDIF allocation.

Economic Development Initiatives Fund
Fiscal Year 1990
Governor's Recommendations

Natural Resource Projects

Hillsdale Reservoir \$1,000,000

"The Governor recommends an amount of \$1,0 million from the Economic Development Initiatives Fund for FY 1990 to continue development of the Hillsdale State Park. This is the second year of a multi-year program to develop a state park at Hillsdale Reservoir in Miami County." (10-29)

Recreational Access Program 1,200,000

"This project would lease land from landowners for public recreational access." (10-29)

Jetmore - Multi-purpose small lake 451,250

"This project is in an area where a stable water supply is needed, as well as flood control and increased water recreation. The Pawnee Watershed District, City of Jetmore, and the state will work cooperatively on the project." (8-7)

Salt Water Contamination Cleanup 1,500,000

"A total of \$1.5 million is recommended to continue funding the clean-up of sites in the state that are contaminated with saltwater or other pollutants. These sites are not eligible for federal Superfund monies, but do pose environmental hazards." (8-6)

Superfund 100,000

"The recommendation for FY 1990 includes \$100,000 to be funded from the Economic Development Initiatives Fund (EDIF) to provide the state match for the Arkansas City Superfund clean-up." (8-6)

TOTAL FUNDING FROM EDIF: \$4,251,250

EDIF - FISCAL YEAR 1990
GOVERNOR'S RECOMMENDATIONS

Natural Resource Programs

Department of Wildlife and Parks:

"The Governor recommends the creation of two new programs in FY 1990 which will increase the accessibility of private land for wildlife recreational users. An amount of \$1.2 million is recommended from the Economic Development Initiatives Fund to establish a Recreational Access Program. This program will authorize the Department to lease land from private land owners for use by hunters and other authorized recreational users. The Governor includes in his FY 1990 recommendation for the Recreational Access Program an amount of \$240,000 and 4.5 FTE positions to implement the program." (8-4)

"This amount [for capital expenditures] includes...the lease purchases associated with the Recreational Access Program (\$960,000). (8-5)

KANSAS INC. BOARD OF DIRECTORS' RECOMMENDATIONS
EDIF - FISCAL YEAR 1990

Strategic Elements	Board Recommends	Governor Recommends
Entrepreneurial Environment:		
Business Assistance		
Small Business Dev. Ctrs.	\$275,000	\$100,000
Trade Fair Assistance	100,000	0
Tourism	185,000	185,000
Film Services	78,863	78,863
Ag. Domestic Marketing	180,000	180,000
Community Assistance		
Main Street Program	75,000	75,000
Capital Availability:		
Certified Development Corps.	100,000	100,000
Human Capital:		
Kansas Industrial Training*	1,921,250	1,425,000
Kanwork Self-Employment	50,000	50,000
McMasters Program	0	20,000
Infrastructure:		
State Water Plan	4,000,000	4,251,250
Partnership Fund	2,000,000	3,500,000
Technology:		
Seed Capital Fund	1,000,000	1,000,000
Research Equipment Grants	700,000	700,000
Research Matching Grants	1,250,000	1,250,000
SBIR Matching Grants	300,000	300,000
Indus. Liaison Programs	150,000	150,000
Training Equipment Grants	250,000	250,000
Centers of Excellence	1,375,000	1,375,000
Special Projects	125,000	125,000
Operations (KTEC)	276,778	276,778
Quality of Life:		
Kansas Arts Commission	450,000	100,000
TOTAL:		
	\$14,841,891	\$15,491,891
Unallocated		
	\$650,000	0

* \$1,025,000 from the SGF is recommended by the Governor

January 12, 1989

(Proposal #5)

Funding of State Water Plan

Board Decision: Should the following policy recommendation be adopted?

The Board of Directors of Kansas Inc. recommends that the Legislature provide a stable and secure source of long-term financing for the state water plan and related water projects. The assurance of a clean and adequate supply of water is essential to the State's continued economic vitality. The use of Economic Development Initiatives Funds for the state water plan is appropriate for those projects which are clearly and directly related to a community's need for job growth and/or retention.

Background:

The Kansas Inc. strategy for economic development includes as one of its major elements "Investment in Public Infrastructure," including water and wastewater treatment facilities. K.S.A. 79-4804(d) provides for the "Kansas Economic Development Endowment Account" to fund economic development activities including: "programs and projects which shall include, but are not limited to, specific community infrastructure projects in Kansas that stimulate economic growth."

Water projects selected for EDIF funding should be supported by a cost/benefit analysis which demonstrates the economic development contribution that will accrue from the investment. As applicable to all other initiatives to be supported by EDIF, water projects should meet the criteria outlined in H.C.R. 5033: 1) not to be used for salaries of permanent personnel; 2) should not replace state general funding; and, 3) clearly identify with a pillar of the economic development strategy of the State.

"The Governor's FY 1989 budget recommendation to the 1988 Legislature included a total of \$4,170,000 in expenditures for natural resources, including \$4,000,000 from the EDIF and \$170,000 from oil overcharge funds. The Legislature approved the funding of all projects recommended by the Governor but shifted \$1,157,482 of funding in the State Conservation Commission budget for the multipurpose small lakes program from the EDIF to the State Conservation Storage Water Supply Fund." Total Fiscal Year 1989 funding for water related projects was \$7.1 million of which \$2,942,512 was from EDIF. (Source: Interim Committee Report of Energy and Natural Resources November 1, 1988.)

In Fiscal Year 1989, \$4.5 million from the EDIF was appropriated to establish the Partnership Loan Fund expenditures which will finance loans for public infrastructure improvement projects. Certain types of water projects will be eligible for funding under this program. Due to an estimated \$4.2 million shortfall in anticipated lottery revenues, FY89 funding for the Partnership fund will be reduced. The Fund has not been implemented, but is awaiting approval of rules and regulations and completion of arrangements for additional bond financing through the Kansas Development Finance Authority.

The Interim Committee on Energy and Natural Resources has recommended that \$10 to \$15 million annually is necessary to implement the state water plan, and that several sources be used for funding to include: 1) fee on sale of water, 2) fee on sale of fertilizers, 3) fee on sale of restricted use pesticides, 4) dedicated portion of severance tax receipts, and 5) a solid waste tipping fee. The Interim Committee did not recommend use of EDIF for ongoing funding of the state water plan.