

Approved _____

1-18-90
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 16, 1990 in room 123-S of the Capitol.

All members were present except:

Senator Moran Senator Oleen Senator Steineger
Senator Vidricksen Senator Karr Senator Winter

Committee staff present:

Bill Edds, Revisor of Statutes' Office
Lynne Holt, Kansas Legislative Research Dept.
Sue Pettet, ~~Secretary~~ Secretary to the Committee

Conferees appearing before the committee:

Charles R. Warren, President, Kansas, Inc.

Chairman Dave Kerr called the meeting to order. He announced that Charles Warren, President of Kansas, Inc. was going to testify on behalf of S.B. 436.

Charles Warren, Kansas, Inc. distributed testimony to the Committee. (Attachment #1)

Mr. Warren explained that S.B. 436 would establish an annual reporting requirement for state development grants and loans. It also attempts to answer the questions of where and how the funding was allocated.

The "Rural Development Action Plan", prepared by Kansas Inc. : introduces the problems of rural Kansas; reviews national and state efforts to address rural decline; discusses several policy issues related to rural development, and offers recommendations developed by Kansas Inc. staff.

He stated that the need for data on funding have come from concerns being raised regarding a bias in economic development programs toward Eastern and urban regions of the State.

The Division of Budget compiles information on annual expenditures of the Economic Development Initiatives Fund (EDIF). The report provides only total dollars by district, but does not discriminate between urban and rural areas, making it difficult to understand.

Mr. Warren stated that there are flaws in both the EDIF distribution requirement and reporting method.

In answer to a question from Sen. Salisbury, Chairman Kerr stated that the report originated from the question of how Lottery money was being spent, and if it was all going to urban areas. Lottery and State General Fund (SGF) dollars were to be spent for the same programs, so a report on both became necessary.

Senate Bill 436 would enable the establishment of an annual report on the entire economic development funding system and would be compiled by Kansas, Inc. A process has been devised that should not be a burden to state agencies or have any significant fiscal impact.

Meeting adjourned.

Testimony On
Senate Bill 436
Development Assistance Reporting Requirement

by

Charles R. Warren
President, Kansas Inc.

Senate Committee on Economic Development

January 16, 1990

Mr. Chairman, members of the committee, thank you for this opportunity to testify on Senate Bill 436 that would establish an annual reporting requirement for state development grants and loans.

During the 1989 legislative session, Senator Kerr asked Kansas Inc. to prepare a "Rural Development Action Plan," that would assess and compile the actions taken by Kansas State Government to assist our rural communities and make specific recommendations to encourage rural development. During the interim, we prepared that report and presented it to the Joint Committee on Economic Development. The Joint Committee was briefed on its contents and held hearings on the proposals on at least four occasions. The Kansas Inc. report was mailed to each member of the Legislature and distributed widely throughout the State.

The report includes four basic sections: an introduction to the problems of rural Kansas and a review of national and state efforts to address rural decline; a discussion of several policy issues related to rural development, and set of recommendations developed by Kansas Inc. staff.

Among the recommendations are: 1) the establishment of a regional and community strategic planning grant program, now incorporated in H.B. 2602 and 2603; 2) the establishment of an economic development grant reporting system (S.B. 436); 3)

creation of uniform regions for state funded entities (H.B. 2602); 4) co-location of regional and field offices; and, 5) further development of a strategic planning data base on rural communities. Other longer term recommendations for further research were also suggested.

Since 1985, Kansas has taken unprecedented action to equip the State with programs and appropriations for economic development. The extensive legislation and actions taken by the Governor and the Legislature were documented by Kansas Inc. in the report, "Kansas Economic Development Update" (June, 1989). These initiatives are for the most part still in their first or second year of operation. Little evaluation has been done, nor has there been any systematic attempt to document the geographical incidence of program delivery.

Implementation and evaluation of the existing economic development programs and tools, along with an increased sensitivity on the part of program managers to rural needs, is required.

The Need for Data on Funding

Concerns have been raised in Kansas about a presumed bias in state economic development programs toward Eastern and urban regions of the State. These concerns cannot be addressed without data on program delivery and funding by region or size of community. Some economic development programs will naturally provide greater benefit to firms located in metropolitan areas simply because the scale and scope of economic activity in urban areas is significantly greater. An analogy can be drawn with the

AFDC program that disproportionately benefits urban residents as a class, simply because the concentration of poverty is greater in cities than in rural communities. Other programs such as KTEC's Centers of Excellence are explicitly designed to involve universities and indirectly the cities in which they are located.

There is a demonstrated need to systematically document and report on a regular basis the geographical incidence of community and economic development grants and loans made by state government by size and type of community.

The Division of Budget currently compiles information on expenditures from the Economic Development Initiatives Fund on an annual basis. Expenditure data is requested from state agencies by congressional district. By statute, one-half of EDIF funds must be spent evenly by congressional district. Volume I of the Governors Budget for FY1991 reports the distribution for FY1989. According to the Division of Budget, each congressional district should have received 10 percent of the 50 percent total or \$857,310.

The actual figures illustrate that expenditures in Districts One, Two, Four and Five exceeded the minimum amount. Expenditures in District Three fell short of the minimum by \$24,862 with a total of \$832,448. (p.28)

This report provides only total dollars by district; it does not discriminate between urban and rural areas, and there is a great deal of interpretation required. Dollars are recorded in terms of the addressee of the grant check, not in terms of actual program delivery.

There are serious flaws in both the EDIF distributional requirement and the reporting method. The requirement addresses

gaming revenues only, not economic development programs. For example, KIT (Kansas Industrial Training) funds were split between the state general fund and EDIF. Only those KIT grants made from EDIF dollars are reported. The Governor has recommended that KIT in FY1991 be funded entirely from EDIF. If appropriated in that manner, the report for 1991 will include the entire program. The report also does not identify EDIF distributions by program but only provides a lump sum by district. Not only does the statute provide no penalty for inequitable distribution, the report provides no data or insights for corrective action to remedy any inequities.

S.B. 436 would enable the establishment of an annual report on the entirety of economic, community and infrastructure grants by program and across an array of state agencies that would include funding from the EDIF, the State General Fund, and other sources such as bonding. The following chart identifies those development programs recommended by Kansas Inc. for inclusion in the grant reporting system.

The data would be collected and compiled by Kansas Inc. staff on an annual basis. We propose that each agency be required to submit an annual report to Kansas Inc. by October 1 so that it can be transmitted to the Legislature in January of each year and also be included in the Governor's annual budget.

A simplified report is suggested that would not pose an onerous administrative burden on state agencies and that would be easy to compile by our staff. The following data elements are suggested for the report:

1. Name of State Agency and responsible Division.
2. Program Title under which award was made.
3. Statutory authority for program (K.S.A. 00-0000).
4. Dollar amount of grant or loan award.
5. Source of funding (EDIF, SGF, Other).
5. Name of recipient organization or entity.
6. Address of recipient organization including city and county where it is principally located.
7. Congressional District in which address of organization in 6 above is located.

It is recommended that the report required in S.B. 436 be used as the source of the data for reporting on EDIF distributions by congressional districts.

To facilitate the collection and compilation of the data, we recommend that agencies submit the report both in hard copy and on diskette in a Lotus spreadsheet program. This process will provide for easy merging of the data into a single report with a minimum of staff time.

We believe that this report will serve several purposes. It will be helpful in program coordination. It will enable us to evaluate whether any regional or geographic bias exists in economic development funding. It will help determine whether programs are being applied in a mutually supportive fashion. Distributional data on program funding should also increase the sensitivity of program managers to the issue of statewide equity. We also feel that this type of information will be critical to the seven year sunset evaluation mandated as part of Kansas

Inc.'s responsibility in determining the effectiveness of our overall economic development efforts.

As presently conceived, this reporting requirement should not be a burden to state agencies nor should it have any significant fiscal impact, particularly if it is used to supplant the existing reporting requirement carried out by Division of Budget for EDIF distribution.

I urge your support of S.B. 436. I would be pleased to answer any questions or to provide any additional information the Committee may require.

State Agencies and Programs for Inclusion in a
Community and Economic Development Grant Reporting System

Department of Commerce -

Community Development Block Grants
Partnership Loan Fund
Kansas Industrial Training and Retraining Grants
Main Street Grants
Tourism Grants
Trade Fair Assistance Grants
Export Finance Loan Guarantees
Small Business Development Center Grants
Certified Development Company Grants
Rental Rehabilitation Program

Kansas Development Finance Authority

Small Business Basic Enterprise Loans
Industrial Development Pooled Bond Program

Department of Health and Environment

Water Pollution Revolving Loan Fund
Remediation Grants

Kansas Technology Enterprise Corporation

Applied Research Matching Grants
SBIR Matching Grants
Research Equipment Grants
Training Equipment Grants
Seed Capital Fund (Ad Astra Investments)

Kansas Venture Capital Inc.

Venture Capital Investments

Kansas Conservation Commission

Aid to Conservation Districts
Watershed Dam Construction
Multipurpose Lakes Program

Department of Wildlife and Parks

Land and Water Conservation

Kansas Arts Commission

Local Arts Grants

Kansas Historical Society

Local grant programs

Program expenditures, grants, loans, and awards made by any state agency that receives funds from the EDIF accounts.