

Approved: 2-21-95  
Date

## MINUTES OF THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT

The meeting was called to order by Chairperson Bob Miller at 3:30 p.m. on February 16, 1995 in Room 423-S of the Capitol.

All members were present except:

Committee staff present: Lynne Holt, Legislative Research Department  
Bob Nugent, Revisor of Statutes  
Bonnie Fritts, Secretary

Conferees appearing before the committee: Lynn Holt, Legislative Research Department  
Rep. Gary Haulmark  
Rep. John Toplikar  
Jim Edwards, Director, Chamber and Association Relations,  
Kansas Chamber of Commerce and Industry

Others attending: See attached list

The meeting was called to order at 3:30 p.m. by the Chairperson Bob Miller. The minutes of February 15, 1995 were distributed and approved.

### **HB 2058**                      **An act concerning the state gaming revenues funds**

Lynne Holt addressed the committee regarding EDIF monies and presented a flow chart (Attachment 1) showing State Gaming Revenue Fund Revenue Flow - Statutory Requirements.

Rep. Haulmark spoke as a sponsor and proponet of **HB 2058** and provided detailed outlines of Statewide Projects, Grant Programs and other uses of EDIF monies (Attachments 2 & 3).

Chairperson Miller concluded the hearings on **HB 2058**.

### **HB 2409**                      **An act concerning the state gaming revenues funds; limiting expenditure therefrom**

Rep. Toplikar, sponsor of the bill, proposed amendment of the bill and presented reports on EDIF history and use, initiatives, lists of priorities, budget, and other pertinent information (Attachments 4-10).

Jim Edwards appeared before the committee in support of the Economic Development Initiatives Fund, but opposes the bill in its present form (Attachment 11).

Meeting was adjourned at 4:30 p.m.

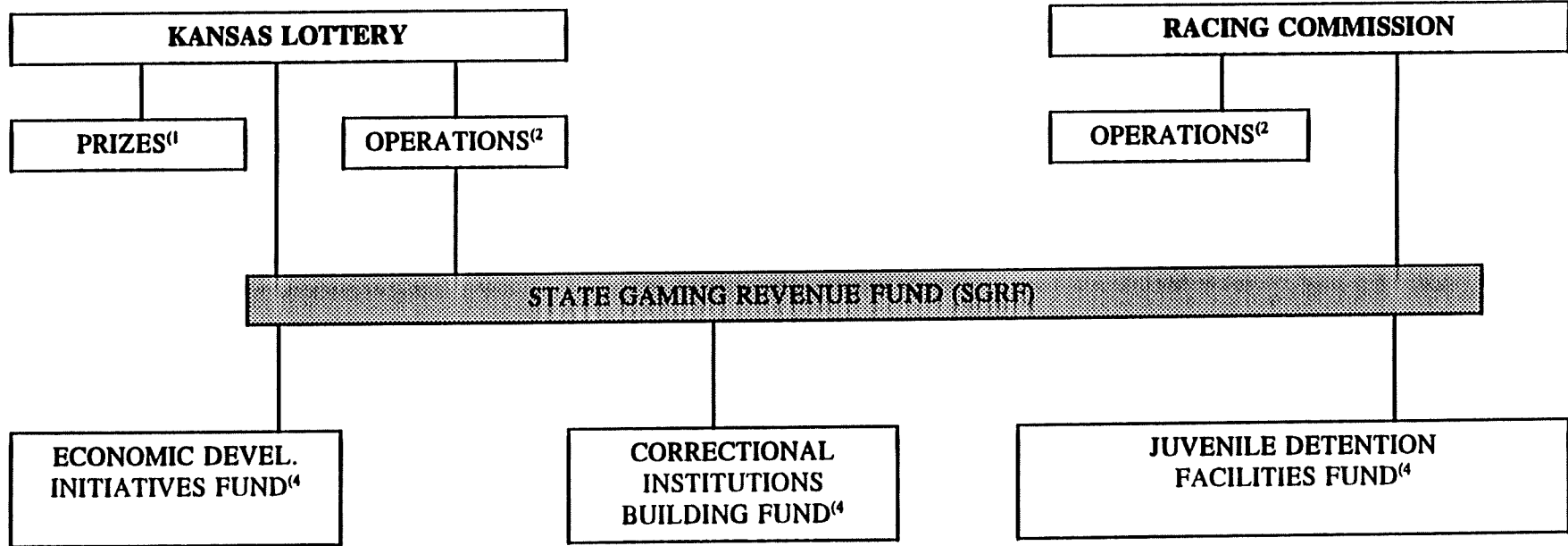
The next meeting is scheduled for February 21, 1995.

HOUSE ECONOMIC DEVELOPMENT COMMITTEE  
GUEST LIST

DATE: 2-16-95

NAME	REPRESENTING
Roger Franze	FFC
Jim Edwards	KCCI
Mike Montero	Alan Cobb
Mark Borellina	KDOGH
Laura Alayto	PBP Tribal Gaming Commission
Jean Barber	Travel Industry Assn. of KS
Cindy Deatea	Koch Crime Commission

**STATE GAMING REVENUE FUND  
REVENUE FLOW -- STATUTORY REQUIREMENTS**



- 1) Minimum 45 percent.
- 2) Established in appropriations acts.
- 3) Minimum 30 percent of Lottery sales, all Racing Commission revenue not otherwise appropriated.
- 4) Effective July 1, 1995: 85 percent for EDIF, 10 percent for Correctional Institutions Fund and 5 percent for Juvenile Detention Facilities Fund.

0012563.01(2/7/95(8:34AM))

HOUSE Eco. Devo.  
 2-16-95  
 ATTACHMENT 1

## Economic Development Initiatives Fund

	FY 1995 <u>Estimate</u>	FY 1996 <u>Request</u>	FY 1996 <u>Gov. Rec.</u>
State Water Plan	\$2,000,000	\$2,000,000	\$2,000,000
Department of Commerce and Housing			
Small Business Development Centers	325,000	325,000	325,000
Certified Development Companies	475,000	475,000	475,000
Kansas Industrial Training/Retraining	2,727,500	3,000,000	3,000,000
Trade Show Promotion	247,420	270,000	270,000
Strategic Planning Grants	600,000	600,000	600,000
Kansas Quality Improvement Network	65,000	65,000	65,000
Tourism Promotion	379,600	1,120,000	379,600
Boot Hill Tourism Grant	100,000	-	-
Wichita World Trade Center	100,000	-	-
Travel Information Centers	878,025	35,000	35,000
Kansas Economic Opportunity Initiatives Fund	1,700,000	5,000,000	4,000,000
High Performance Incentive Grants	75,000	75,000	75,000
Micro Loan Program	-	2,400,000	2,400,000
State Economic Development Block Grants	-	10,000,000	-
Operations	5,274,613	6,960,596	6,150,914
<b>Subtotal Commerce and Housing</b>	<b>\$12,947,158</b>	<b>\$30,325,596</b>	<b>\$17,775,514</b>
Kansas Technology Enterprise Corporation			
Research Matching Grants	1,259,613	1,800,000	1,260,000
Business Innovative Research Grants	85,000	565,000	86,000
Training Equipment	150,000	300,000	250,000
Industrial Liaison	200,000	300,000	300,000
Centers of Excellence	4,267,386	5,000,000	4,250,000
Seed Capital	1,500,000	4,500,000	3,300,000
Research Equipment Grants	-	1,000,000	-
EPSCOR	2,028,793	4,000,000	4,000,000
Special Projects	163,000	400,000	163,000
Commercialization	790,221	1,282,984	1,286,539
Agricultural Value Added Center	541,301	880,000	528,250
Mid-America Manufacturing Technology Ctr.	1,004,921	1,000,000	1,000,000
Telecommunications Grants	100,000	-	-
Operations	1,390,873	1,900,847	1,651,579
<b>Subtotal KTEC</b>	<b>\$13,481,108</b>	<b>\$23,028,831</b>	<b>\$18,075,368</b>
Department of Education			
Cultural Arts Center	25,000	25,000	-
Foundation for Agriculture	25,000	25,000	-
At-Risk/Innovative Program Assistance	1,485,000	2,000,000	1,351,234
Matching Grants - AVTS	495,000	500,000	145,000
Postsecondary Aid - AVTS	5,700,000	6,500,000	6,050,000
Capital Outlay - AVTS	1,500,000	2,000,000	1,500,000
<b>Subtotal Education</b>	<b>\$9,230,000</b>	<b>\$11,050,000</b>	<b>\$9,046,234</b>
Agriculture Market Promotion	366,707	366,707	366,707
KSSB Accessible Arts Program	150,000	-	-
Kansas, Inc.	516,889	132,928	129,144
Revenue	3,000,000	12,000,000	-
Wildlife and Parks	652,337	742,000	-
State Fair	114,000	200,000	-
Public Broadcasting	588,776	877,292	-
Arts Commission	1,124,650	1,573,171	-
Historical Society	119,200	823,198	-
Board of Regents	40,000	40,000	-
Human Resources	100,000	-	-
University of Kansas	829,735	862,290	-
Kansas State University	408,694	423,468	-
Kansas State University-ESARP	1,395,856	1,440,735	-
Wichita State University	393,686	408,826	-
State Library	1,250,277	330,000	-
<b>Total EDIF Transfers</b>	<b>\$48,709,073</b>	<b>\$86,625,042</b>	<b>\$47,392,967</b>

STATE OF KANSAS



TOPEKA

HOUSE OF  
REPRESENTATIVES

**GARY HAULMARK**

REPRESENTATIVE, 30TH DISTRICT  
JOHNSON COUNTY  
8709 GALLERY  
LENEXA, KANSAS 66215  
(913) 894-2035

ROOM 181-W, CAPITOL BLDG.  
TOPEKA, KANSAS 66612-1504  
(913) 296-7640

COMMITTEE ASSIGNMENTS  
APPROPRIATIONS  
TAX, COMMERCE & TRANSPORTATION  
SUB-COMMITTEE  
BUDGET REFORM & GOVERNMENTAL IMPACT  
SUB-COMMITTEE

Mr. Chairman and committee members,

Thank you for the chance to testify in favor of H.B. 2058.

Under current law, adopted last session, the Correctional Institutions Building Fund receives a 10% transfer from the Gaming Revenues Fund, the Juvenile Detention Facilities Fund receives a 5% transfer and the Economic Development Initiatives Fund receives a 85% transfer.

This legislation would provide that the EDIF would go back to a 90% transfer from state gaming revenues (90% was the transfer prior to last session). A 90% transfer into the EDIF would allow for \$2.5 million more to be spent on economic development activities.

In 1986 when voters approved the pari-mutual constitutional amendment the proceeds were intended to finance Kansas economic development activities. The EDIF monies have been spent statewide and have helped in the diversification of our state economy.

Despite our successes in the economic development area, Kansas still lags behind most states in Eco Devo spending. The integrity of the fund must be protected. These dollars help to create jobs and business growth, thereby expanding the tax base. They need to be protected, because people are constantly looking to raid EDIF monies for this project or that.

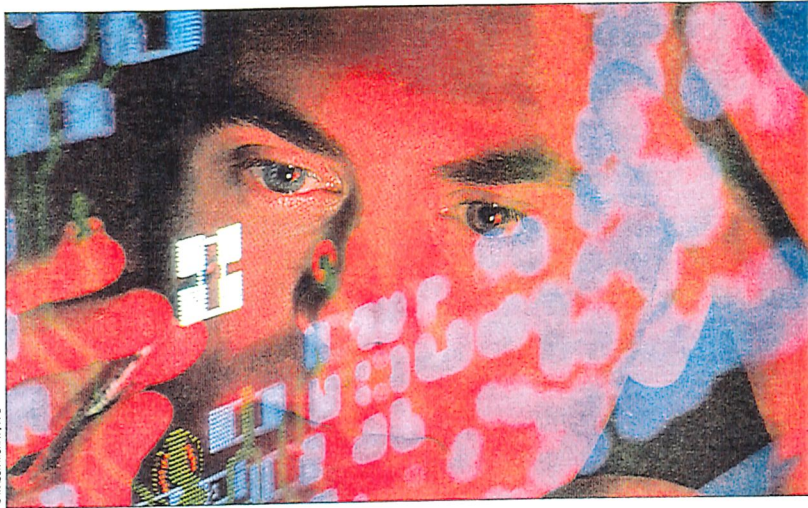
Mr. Chairman lets return this \$2 1/2 million to it's rightful place, working to create a stronger Kansas economy.

Gary Haulmark  
District 30

HOUSE ECO. DEVO.  
2-16-95  
ATTACHMENT 2

# AND THE WINNER IS . . . KANSAS

LUCKY NUMBERS ADD UP TO MORE JOBS AND INCREASED REVENUES IN THE SUNFLOWER STATE.



© MASHIN/GETTY IMAGES

**KTEC can provide as much as 40% of the funds for basic-research projects and gets a royalty if the project yields a successful product.**

**Y**OUR DREAM HOUSE, WORLD TRAVEL, A NEW CAR, all your wildest fantasies fulfilled, if only you would win the lottery. Ticket in hand, glued to the TV set, your heart pounds as the balls bounce around, then shoot up those tubes. "The winning numbers are 5,487 and \$118 million."

Huh? You better believe it. In Kansas everyone wins the lottery, even those who don't play. There, technology-transfer programs are funded with proceeds from the state lottery. And those winning numbers are the new jobs and new revenues created by lottery-funded programs since their inception in 1987.

In 1993 alone, \$33 million was attracted into the state via grants, industry matches, and venture capital, a 4:1 leverage of program spending. These numbers are that much more impressive considering Kansas has a population of just 2.5 million and receives little federal assistance.

"Kansas is not a major recipient of federal grants, and there are no federal labs here, so we had to do it the old-fashioned way and fund programs with our own imagination and creativity," says Rich

Bendis, president of Topeka-based Kansas Technology Enterprise Corp. (KTEC). A private-sector-driven company charged with establishing and funding programs to foster innovation and commercialization of new technology, KTEC was established by legislators in 1987 as part of a new economic-development initiative. "Our mission is basically to create jobs around technology in the state of Kansas," says Mr. Bendis.

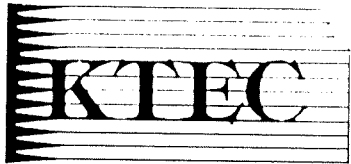
Funding began when the state lottery was voted in by the general public in 1988, with proceeds mandated for economic-development initiatives. "By statute, a minimum of 85% of lottery proceeds are divided among three different economic-development agencies," says Mr. Bendis. KTEC has the tech-

nology mission, and in 1993 received \$11.1 million from the pot of \$42.6 million.

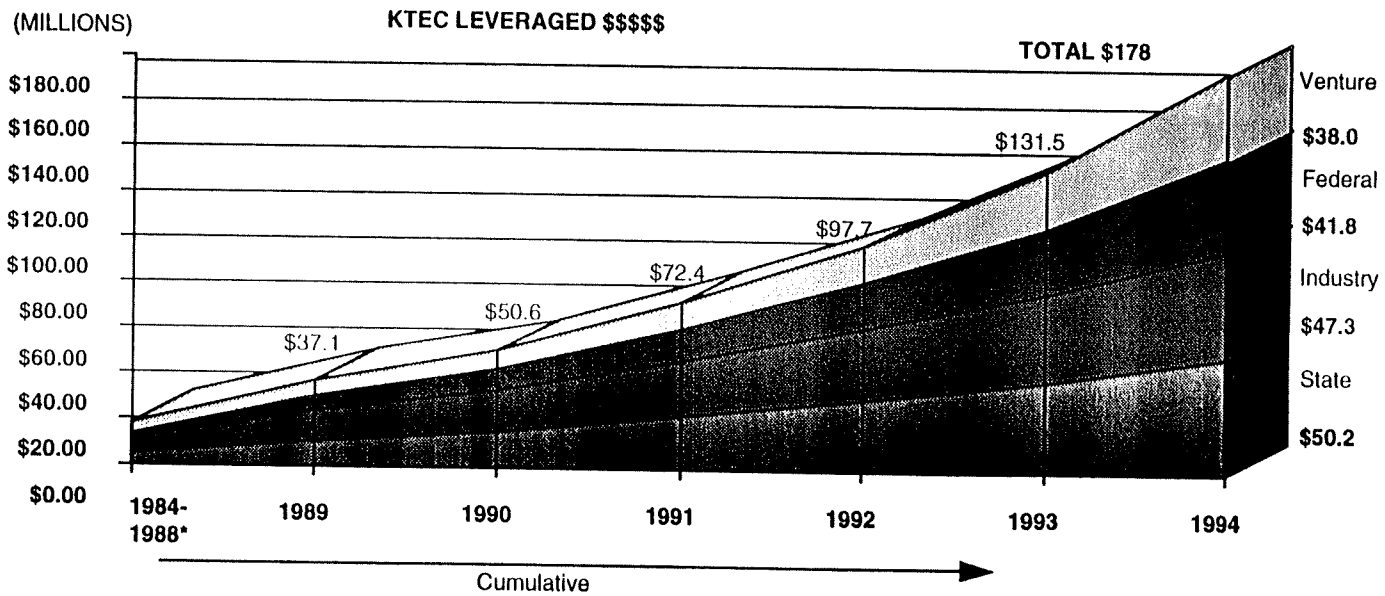
"We believe Kansas has created one of the most comprehensive infrastructures for tech transfer, innovation, and commercialization of technologies in the country," states Mr. Bendis, "but it's one of the best kept secrets. Now we're going to start telling our story to people outside Kansas, because we know if you make an investment here, the money will be well spent."

Some key KTEC programs include:

- **Centers of Excellence.** University-based, these centers team academia's scientists with industry researchers to conduct joint experimentation and basic research. Three biotech/pharmaceutical companies have spun out of the center at the University of Kansas, Lawrence.
- **Applied research matching-grant fund.** KTEC cofunds applied research up to 40%, with 60% contributed by the industry partner. In return, KTEC gets a royalty on sales if technology is commercialized successfully. "Since 1992 we've developed royalty positions with 80 companies," says Mr. Bendis. "Our goal in 1994 is to generate about \$100,000 in royalties."
- **A seed capital fund.** Operating like venture capital, matching funds from the private sector, institutions, and foundations help finance early-stage technology start-ups for entrepreneurs, inventors, corporate projects, or through technology transfers from the universities. Examples include companies in 3-D biomedical imaging, superconductivity, medical diagnostics, and drug delivery.
- **Training-equipment grants.** With these funds community colleges and vocational/technical schools buy state-of-the-art equipment that the institutions, generally located in rural areas, could not normally afford. The equipment must be accessible to industry in the local community for training as well.
- **NIST manufacturing-extension partnerships.** These matching grants from the U.S. Dept. of Commerce program "are designed to upgrade the technical capabilities and processes of small manufacturers, making certain they remain competitive," says Mr. Bendis.
- **Innovation and commercialization corporations.** "One of our latest initiatives," says Mr. Bendis. Private/public partnerships are formed including KTEC, a university, and the private sector in the local community, with the goal to accelerate the rate of successful commercialization of technologies. "What we have is scientific, education, and business-planning services combined with a ready source of capital to provide jump-starts to emerging entrepreneurs in the technology field," says Mr. Bendis. <



# Summary Report



## 1984-1994 Accomplishments

### Investments

\$50.1 million in state funding  
 \$47.3 million in industry funding  
 \$41.8 million in federal funding  
 \$38 million venture capital  
 \$.8 million in institutional funding

**TOTAL \$178.0 Million**

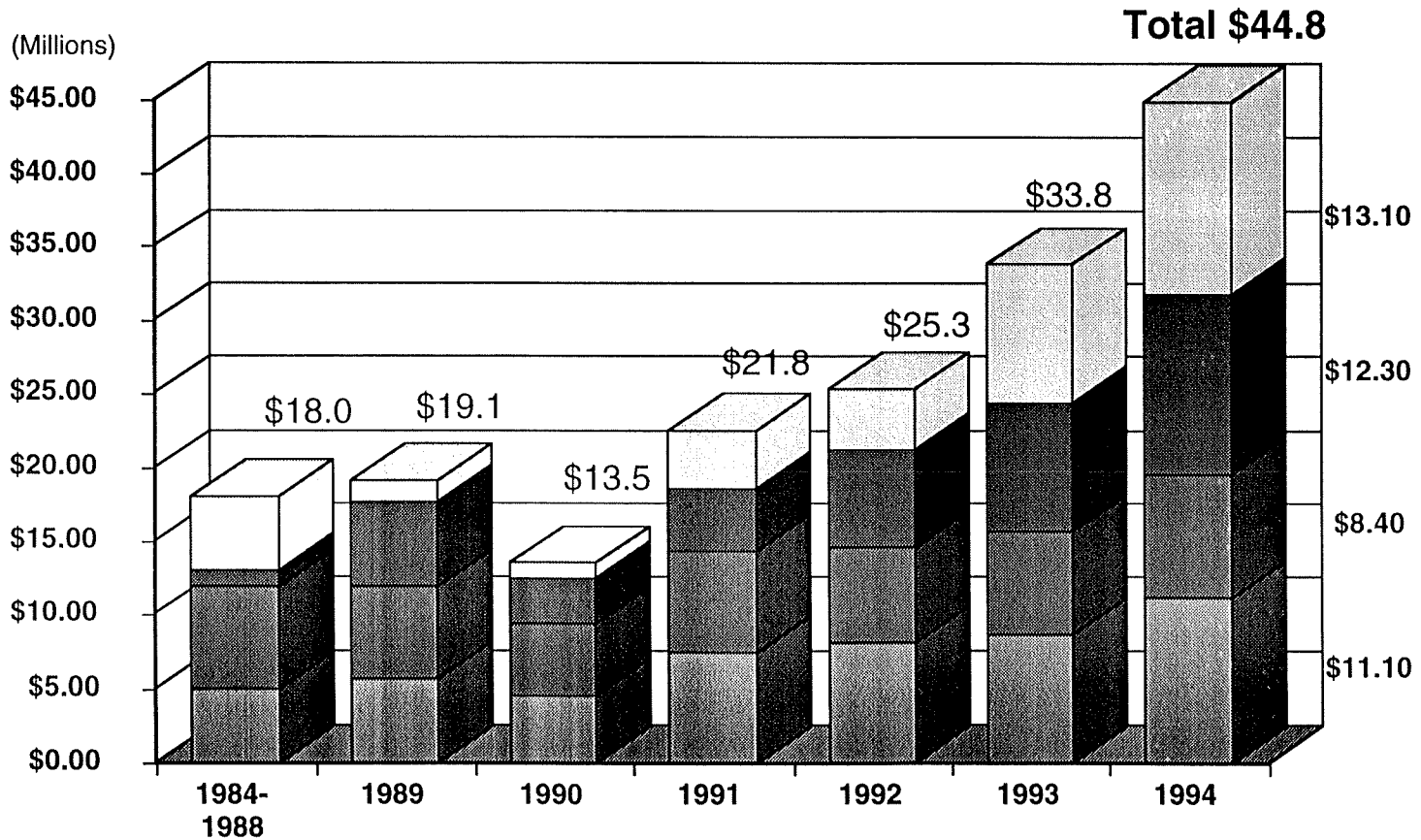
### Results

\$118.4 million in increased sales  
 114 company start-ups  
 36 company expansions  
 5,187 jobs created  
 6,642 industry employees trained  
 2,228 manufacturing plant visits

252 technologies developed  
 95 patents issued  
 447 inventors assisted



## KTEC Leveraged Funding by Fiscal Year

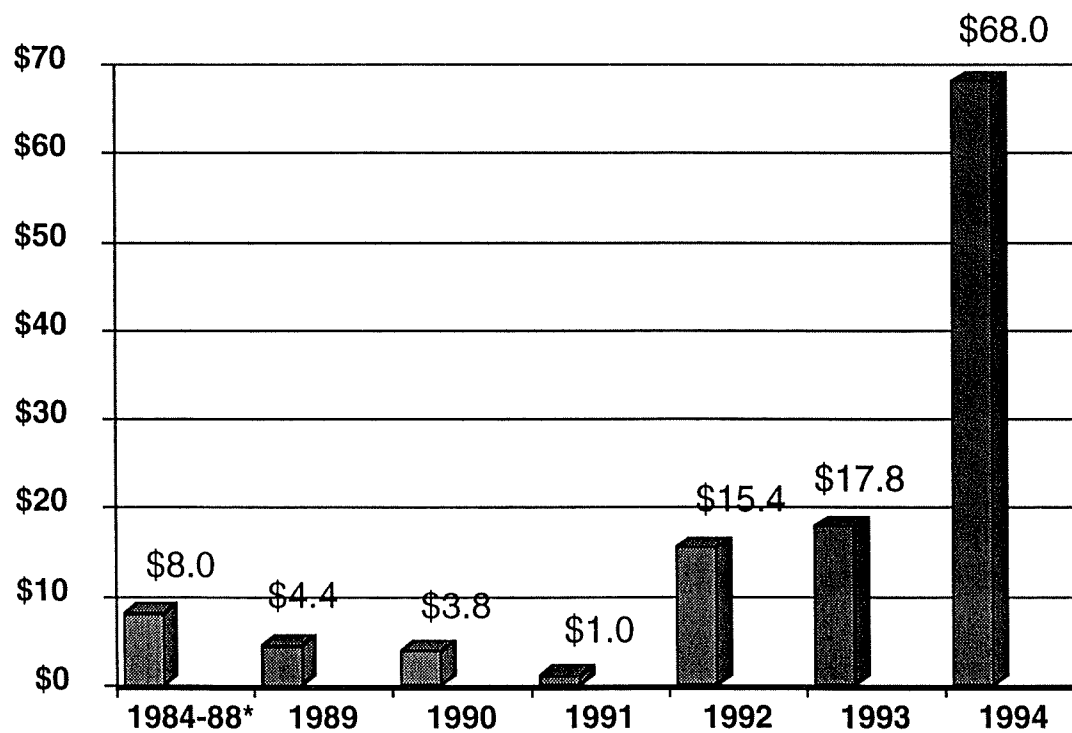


\*Includes activities of KTEC's predecessor, the Kansas Advanced Technology Commission.

KTEC ©1994

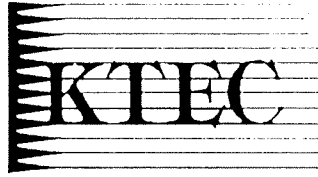


## Increased Sales Reported by Companies Associated with KTEC by Fiscal Year



\*Includes activities of KTEC's predecessor, the Kansas Advanced Technology Commission.

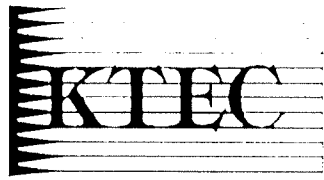
KTEC ©1994



## **Economic Overview**

- **Kansas is now recognized as one of the leading states in the U S with a comprehensive science and technology and commercialization infrastructure which can support technology through every stage of evolution**

©KTEC 1995



## Economic Overview

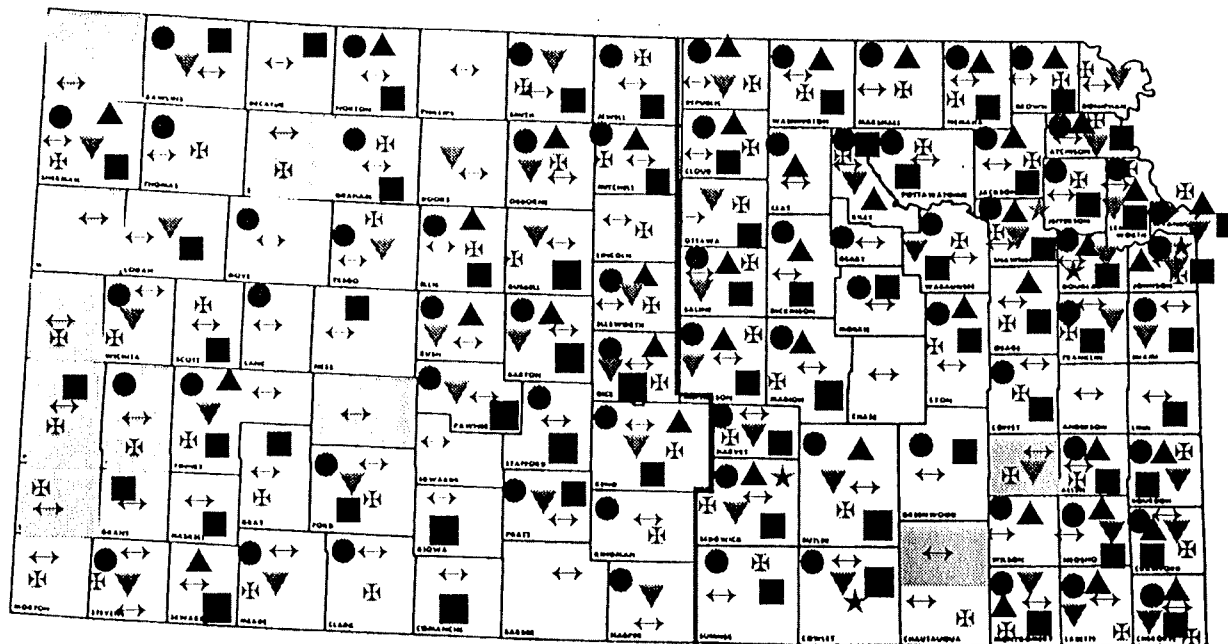
- **Kansas is a small business state**
  - **Kansas has 73,716 businesses**
  - **64,888 have 19 or fewer employees**
  - **161 businesses have 500 or more employees**

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KANSAS  
TECHNOLOGY  
ENTERPRISE  
CORPORATION

# Statewide Projects by County



★ Ad Astra

▲ Centers

■ Counties with  
no manufacturers

▼ Grants

↔ KICIN

⊠ KVAC

■ Inventors Assisted

● MAMTC

Population:	422,670	(16.8%)	Population:	2,092,650	(83.2%)
Employees:	123,592	(14.2%)	Employees:	747,922	(85.8%)
Est. Firms:	14,451	(20.7%)	Est. Firms:	55,263	(79.3%)
KTEC Projects:	274	(17.5%)	KTEC Projects:	1287	(82.5%)

Data as of 2/95.

KTEC™1995



## Grant Programs

### **Applied Research Matching Fund**

**KTEC™ finances academic/industry research which leads to new or improved products.**

**The state, through KTEC™, funds 40% of the cost of research while the participating company funds 60% of the project. If the product becomes commercially successful, KTEC™ receives a royalty on product sales.**

#### **In FY 1994 KTEC**

- **awarded 29 ARMs**
- **26 projects were completed**
- **royalties in the amount of \$51,870 have been received**

**Royalty relationships exist with more than 90 companies**

©KTEC 1995



## Grant Programs

**Training Equipment Grants**  
**Matching monies awarded to two-year academic institutions**  
**for the purpose of providing advanced equipment for**  
**workforce training.**

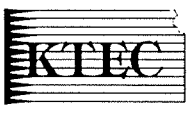
1993--Cowley County Community College  
1993--Ft. Scott Community College  
1993--Pratt Community College  
1993--Wichita Area Vo-Tech School

1992--Garden City Community College  
1992--Hutchinson Community College  
1992--Wichita Area Vocational Technical School

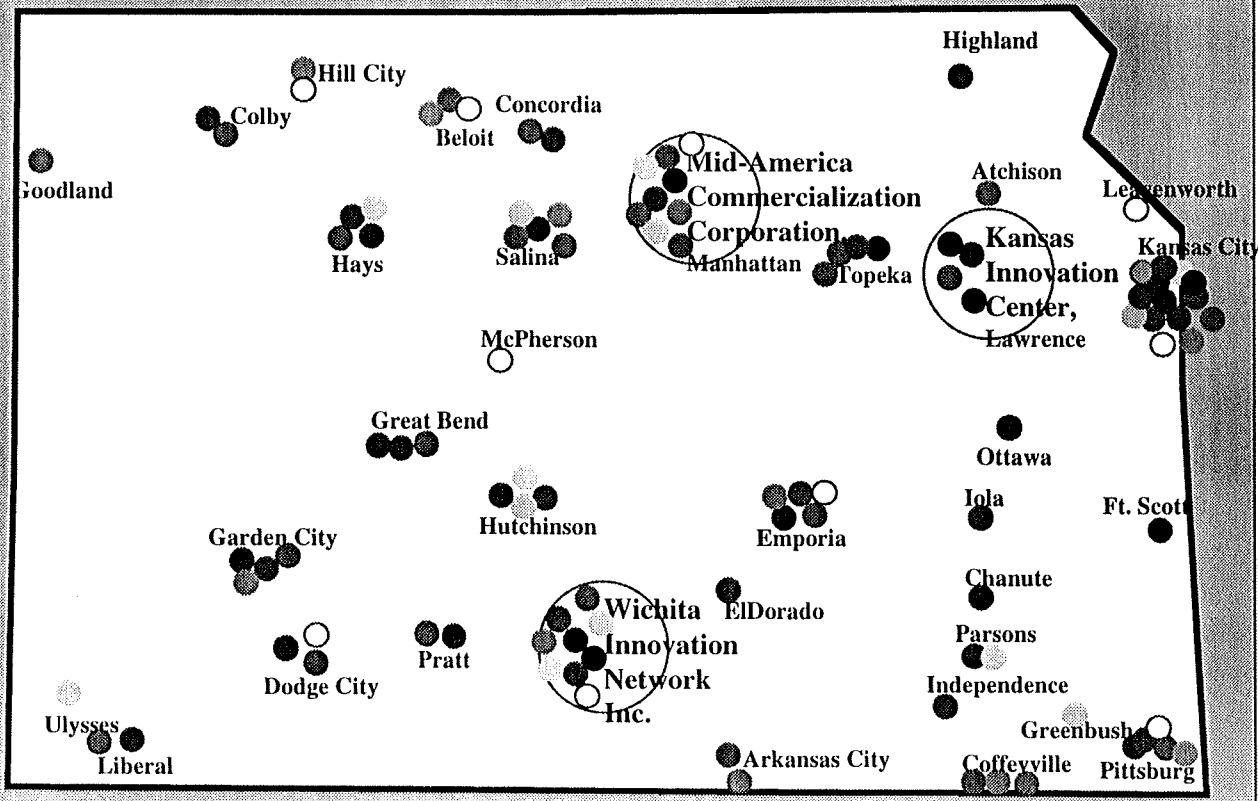
1991--Wichita Area Vocational Technical School  
1991--Garden City Community college  
1991--Cowley County community College

1989--Neosho County Community College  
1989--Wichita Area Vocational Technical School  
1989--Kansas City Kansas Community College  
1989--Garden City Community College

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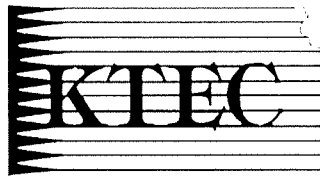
# KTEC™ Commercialization Corporation Network



- Centers of Excellence
- Certified Development Company
- Commercialization Corporations
- Community Colleges
- Kansas Dept. of Commerce & Housing
- Kansas Value-Added Center
- Incubators (current)
- Incubators (proposed)
- MAMTC Offices
- Small Business Development Centers
- State Colleges
- Vocational-Technical Schools
- KU Med Center
- Kauffman Foundation Center for Entrepreneurial Leadership
- Coder/decoder sites

© KTEC 1994

3-10



## **Kansas Integrated Commercialization Information Network (KICIN™)**

**Problem:**                    **Disparity of Access to Economic Development Information**

**Remedy:**                    **Web of 200 “virtual satellite offices” using internet and the Information Network of Kansas (INK) as delivery tool for interactive economic development information exchange.**

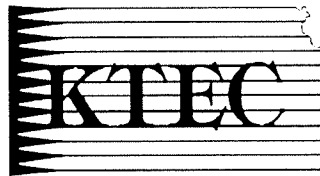
**Use of INK permits infrastructure to be easily and inexpensively adapted to other public service needs.**

**Placement of personal computers and staff training at public libraries, SBDC's, and approximately 200 “economic extension offices”.**

**Trained local service providers will assist users in rural areas to learn, ask questions, and receive responses through the system.**

©KTEC 1995





**Kansas Integrated Commercialization  
Information Network (KICIN™)**

**Partners:**

**KTEC™  
Center for Excellence in Computer-Aided Systems  
Engineering  
Information Network of Kansas  
Kansas State Library System  
School Library and Information Management at  
Emporia State University  
Kansas Department of Commerce & Housing  
Kansas Inc.  
Kansas Rural Development Council**

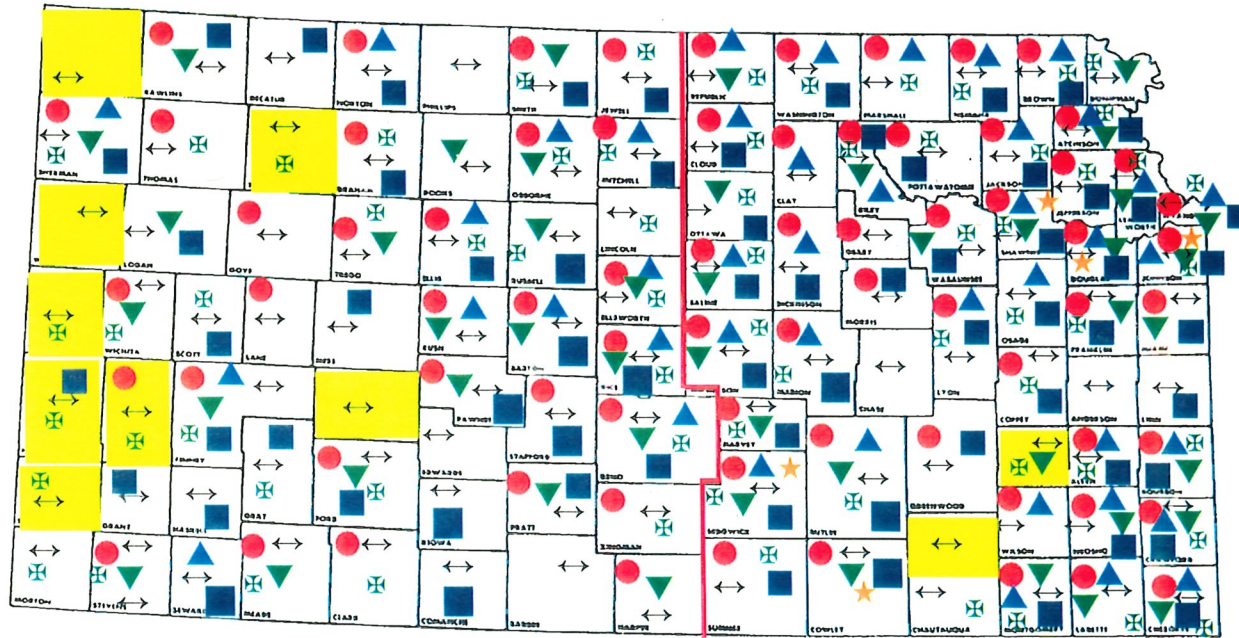
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3-12



KANSAS  
TECHNOLOGY  
ENTERPRISE  
CORPORATION

# Statewide Projects by County



★ Ad Astra

▲ Centers

■ Counties with  
no manufacturers

▼ Grants

↔ KICIN

⊞ KVAC

■ Inventors Assisted

● MAMTC

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Data as of 2/95.

KTEC™1995

JOHN M. TOPLIKAR

REPRESENTATIVE, 15TH DISTRICT

507 E. SPRUCE  
OLATHE, KS 66061

HOUSE OF REPRESENTATIVES

OFFICE: 155 EAST  
TOPEKA, KS 66612  
(913) 296-7683February 16, 1995  
Rep. John Toplikar  
Testimony on HB-2409

Mr. Chairman and members of the committee:

Over the last several years the EDIF has been used inappropriately as a funding source for "overflow" programs from the State General Fund.

In a January 10, 1993 report to the Economic Development Committee, Dr. Charles Warren referred to the "hyprocrisy" of having set aside money for job creation purposes going to fund non-economic development programs, (See copy of report on History of EDIF)

Also, Kansas Inc., in its Proposed 1994 Legislative Package of Initiatives to Implement "A Kansas Vision" cited as its No. 1 initiative, the need to set specific guidelines for the appropriation of EDIF monies. (See copy of Initiative No. 1 of Report)

The Economic Development Committee last year prioritized expenditures we considered as appropriate to the fund. (See '94 copy of Subcommittee Recommendation to Appropriations Committee).

The Governor reported in his budget report, the need for tightening up the use of this fund. (See copy of remarks & copy of Budget Report, page 27).

KCCI has, as one of its stated agenda items, the need to prevent this fund from being dipped into. (See copy of 1995 KCCI Major Leg. Issues)

The intention of this bill is to statutorily tighten up the fund so that it is only used for real economic development purposes.

I ask the Committee to support HB-2409 to help restore the original intended purpose of the fund.

A handwritten signature in black ink, appearing to read "John".

HOUSE ECO. DEVO.  
2-16-95  
ATTACHMENT 4

Economic Development Initiatives Fund  
*Its History and Use for Economic Development*

Charles R. Warren, Ph.D.  
President, Kansas Inc.  
632 S.W. Van Buren Street  
Topeka, Kansas 66603

January 10, 1993

HOUSE Eco. DEVO.  
2-16-95  
ATTACHMENT 5

## Economic Development Initiatives Fund

### *Its History and Use for Economic Development*

♦ ♦

#### Statutory Authority for the Economic Development Initiatives Fund

##### □ Initial Establishment of State Gaming Revenues Fund

In 1986, the Kansas Legislature approved S.C.R. 1609 and H.C.R. 5024 which provided for a popular vote on the establishment of a state-administered lottery and pari-mutuel racing. The voters overwhelmingly approved both referenda. The Legislature also approved H.B. 2789 which created the State Gaming Revenues Fund (SGRF). This legislation was approved as an indication of how revenue generated by the lottery and pari-mutuel racing would be used.

The bill that established the SGRF also created three funds to which gaming revenues would initially be credited. The funds and their initial share of revenues were:

- ♦ Country Reappraisal Fund (30 percent)
- ♦ Juvenile Detention Facilities Fund and Correctional Institutions Building Fund (10 percent), and
- ♦ Economic Development Initiatives Fund (60 percent).

**Reappraisal** This fund was created for the purpose of "paying a portion of the costs incurred by counties in carrying out the program of statewide reappraisal of real property." [K.S.A. 79-4802]. The reappraisal fund was designed to be a temporary allocation to help pay for statewide reappraisal; it was not intended to reimburse counties for the on-going maintenance of reappraisal. This temporary nature was stated clearly and explicitly in statute [K.S.A. 79-4802]:

"No such transfer shall be made after June 30, 1990."

"On July 1, 1990, the county reappraisal fund is hereby abolished. The provisions of this section shall expire on July 1, 1990."

**Corrections** The Legislature created two funds to finance the construction and maintenance of correctional facilities. The original statute stated that these funds should be for the "use and benefit of state correctional institutions." These funds are subject to annual legislative appropriations.

Economic Development The Legislature also created the Economic Development Initiatives Fund which had as its purpose

"the financing of such programs supporting and enhancing the existing economic foundation of the state and fostering growth through the expansion of current, and the establishment and attraction of new commercial and industrial enterprises."

❑ Changes in Use of Gaming Revenues

*Elimination of County Reappraisal Fund and Increase in Economic Development* The distribution formula of the gaming revenues fund, as originally created, was designed to change as of July 1, 1990. At that date, the County Reappraisal Fund was sunset and its 30 percent share of gaming revenues transferred to the Economic Development Initiatives Fund. From fiscal years 1991 through 1994, the Kansas Legislature has nevertheless appropriated \$3,000,000 annually from the EDIF for county reappraisal. No statutory authority exists for the appropriation or expenditures of EDIF monies for this purpose.

*State Water Plan* In 1989, the SGRF authorizing statute was amended to provide for an annual transfer of \$2,000,000 from the EDIF to the State Water Plan Fund created by K.S.A. 82a-951. This fund supports the management, conservation, and development of the state's water resources as required under the State Water Resources Planning Act (K.S.A. 82a-901 et seq.). The Kansas Water Office is responsible for the development of a statewide water resources plan.

❑ Existing Gaming Revenues Distribution

Under existing state law, the authorized purposes for state gaming revenues and the respective allocations are:

- ◆ Economic Development - 90 percent of funds minus State Water Plan allocation
- ◆ State Water Plan Fund - \$2,000,000 annually from the EDIF
- ◆ Corrections and Juvenile Detention - 10 percent of funds

Appropriations and expenditures outside of these three major purposes are not within the statutory authority of the gaming revenues fund.

These allocations have been reaffirmed by vote of the Kansas Legislature. In 1991, Governor Finney submitted H.S. 2455 to the Legislature to modify the allocation of gaming revenue funds, reducing the amount available for economic development from 90 percent to 65 percent. This bill was defeated by the House.

## Definition of Economic Development

The EDIF has been used to fund a wide variety of programs and projects that have had little relationship to economic development. This allocation of funds occurs principally because of differences in opinion over the definition of economic development.

### □ Statutory Attempts to Define "Economic Development"

No exact definition of economic development exists in statute. The legislation that established the EDIF does not specifically outline what programs or initiatives qualify as "economic development." The law does state the EDIF is to be used to finance programs that:

- ♦ support and enhance the existing economic foundation of the state, and
- ♦ foster growth through the expansion of current, and the establishment and attraction of new commercial and industrial enterprises.

The first phrase is a particularly vague and general definition and has been used by legislators to justify a wide range of expenditures, many of which have little, if any, direct relationship to economic development.

The enacting legislation attempted to provide a mechanism for distinguishing economic development initiatives from other expenditures. The legislation includes provision for three accounts into which all monies credited to the EDIF are to be deposited. These three accounts and their respective purposes are the:

- ♦ *Kansas Capital Formation Account* - "to provide, encourage and implement capital development and formation in Kansas"
- ♦ *Kansas Economic Development Research and Development Account* - "to promote, encourage and implement research and development programs and activities in Kansas and technical assistance funded through state educational institutions under the supervision and control of the state board of regents or other Kansas colleges and universities."
- ♦ *Kansas Economic Development Endowment Account* - "to provide an ongoing source of funds which shall be used for economic development activities in Kansas [including]... specific community infrastructure projects in Kansas that stimulate economic growth."

In 1988, Kansas Inc. prepared a report for the Legislature that outlined basic guidelines by which EDIF monies should be allocated. These criteria were approved by the Legislature through the adoption of H.C.R. 5326. The three criteria are:

- ✓ ♦ "expenditures from the state economic development initiatives fund should not be used for salaries of permanent personnel.
- ✓ ♦ the EDIF should not replace the state general fund as a source of financing established economic development programs since the purpose of the EDIF is to provide financing for economic development 'initiatives' and to enhance economic development in the state, and
- ✓ ♦ expenditures from the EDIF should be applied only to those programs and policies which clearly identify with a pillar of the economic development strategy of the state"

The three accounts and their stated purposes along with the adopted resolution provide the clearest window to the legislative intent of EDIF distribution.

□ Definition as Outlined in Economic Development Strategy

The 1986 "Redwood/Krider Report" provided a relatively clear outline as to what activities constitute "economic development." This outline was developed through a year-long research program that included the active support and involvement of the Kansas Legislature. This plan states that "the task for Kansas state government is to identify those limited but important areas where state involvement is *essential for economic success* and *establish the preconditions for business growth* [emphasis added].

The plan contains 52 specific recommendations which are intended to achieve the following objectives:

- ♦ foster competitiveness of Kansas industry through innovation
- ♦ foster productive interrelationships and linkages among Kansas institutions but particularly the private sector, the state, and the universities
- ♦ encourage entrepreneurship in Kansas business
- ♦ establish a favorable business climate and infrastructure
- ♦ remove barriers to business development

A clear review of the specific recommendations defines quite clearly what constitutes the primary or core economic development activities in which the state should act to fulfill this specific state role.

This objective and strategies have been refined over the past several years to meet



the current challenges to business development. Kansas' current strategy similarly provides key goals for the state's economic development activities. The role of state government to aid those areas "essential for economic success" and "preconditions for business growth" still remains.

□ The Definition's Application to Budget Appropriations

While legislation and the state's economic development strategy provide a fairly clear definition, there is still significant misinterpretation as indicated by EDIF appropriations. Two phrases in the enabling legislation of EDIF have been used to justify funding programs unrelated to economic development. The first is "*economic foundation*" and the second is "*economic development activities*"

The first term, "economic foundation," is excessively vague and has allowed for numerous interpretations. This term referred to the original 1986 economic development strategy prepared by The University of Kansas. This plan included reference to seven basic economic foundations that are:

- ♦ human capital
- ♦ financial capital
- ♦ infrastructure
- ♦ technology
- ♦ institutional capacity
- ♦ entrepreneurial environment, and
- ♦ quality of life.

These phrases, if loosely interpreted, cover most of the activities of state government. The inclusion of quality of life as a foundation, for example, has justified funding of arts and cultural programs and activities, and state historical programs.

A current and long-time senator who chairs a key committee that decides on EDIF appropriations has declared that "economic development is whatever 21 senators says it is." Thus, with no operational definition of economic development, EDIF monies have been used far beyond the original intent of the 1986 Legislature.

□ Actual Use of EDIF Monies

The result of this misinterpretation is that while economic development was to receive 90 percent of the funds, it has only been allocated an average of 60 percent over the past several fiscal years. Financial support of economic development has been eroded further by the substitution of EDIF monies for state general fund financing of state economic development agencies.

Pressure on the State General Fund (SGF) has been relieved by shifting numerous state programs from that source of financing to EDIF. In Fiscal Year (FY) 1994, the following programs and amounts previously supported by the SGF were shifted to the EDIF:

<i>Dept. of Education</i>	
Innovative grants	\$1,486,000
AVTS Capital Outlay	990,000
AVTS Postsecondary aid	4,982,370
AVTS Matching grants	495,000
<i>Board of Regents</i>	
KSU--Extension	1,355,200
University Research	942,187
<i>Dept. of SRS</i>	
Kanwork	2,475,000
<i>Dept. of Wildlife &amp; Parks</i>	
Capital Improvements	1,393,511
<i>Total</i>	<b>\$14,119,268</b>

The total amount of FY1994 dollars appropriated from the EDIF was \$50,668,027. The amounts shifted from SGF to EDIF represented 28 percent of the total. When reappraisal dollars at \$3 million are added to the SGF shifts, the percentage rises to almost 34 percent.

In Fiscal Year 1994, other beneficiaries of EDIF monies included the following state agencies that have at best, an indirect, role in economic development: Department of Administration (public television), Kansas Arts Commission, Heritage Cultural Center, Foundation for Agriculture, Historical Society, KU Medical Center, School for the Blind, State Fair, and the State Library. The only possible justification for this funding is a contrived assumption that each of the above enhance quality of life and thus contribute to business and job growth. The total FY1994 dollars appropriated to these agencies was \$4,188,254. When funding for these agencies is added to the agency funds shifted from SGF and to the dollars for reappraisal, the total allocated to non-economic development activities rises to \$21,307,522 or 42 percent of the EDIF.

□ Funding of Economic Development Agencies and Programs

The agencies and programs directly involved in economic development are: The Department of Commerce and Housing, the Kansas Technology Enterprise Corporation, Kansas Inc., and the Kansas Development Finance Authority. These agencies were appropriated the following amounts from EDIF in FY 1994:

KDOC&H	11,572,251
Partnership Fund	990,000
KTEC	10,990,241
Kansas Inc.	104,935
EPSCoR	1,485,000
KDFA	
Basic Loan Fund	990,000
Total	\$26,132,427

From this perspective, economic development expenditures represented only 52 percent of the total appropriations from the EDIF in FY 1994.

It should be emphasized that the statute calls for 90 percent of the state gaming revenues to be spent for economic development that amount for FY 1994 was \$50,668,027.

The shift from SGF to EDIF has also affected the economic development agencies. While funding generally increased during the first few years of gaming revenues, recent growth has been marginal as support is shifted from general funds to the EDIF. In FY1990, economic development activities received approximately \$9.6 million in state general fund monies and \$18.9 million in gaming revenues. By FY1993, the gaming revenues had increased to approximately \$22.6 million but the SGF contribution dramatically declined to slightly over \$2.5 million. Kansas Inc., Kansas Technology Enterprise Corporation (KTEC), and the Kansas Department of Commerce and Housing (KDOC&H) have had significant portions of their general operating budgets shifted from SGF to EDIF. KTEC is now solely funded by the EDIF and KDOC&H receives nearly all their salaries and wages and other operating expenses budgets from EDIF. Kansas Inc.'s budget, which has dropped in real terms over the past several years, has shifted from solely general fund monies to an equal split between SGF and EDIF.

### EDIF As An Investment Account

As gaming revenues continue to increase and if "economic development activities" are more narrowly defined, is it reasonable to assume that the core state agencies and programs need annual support of \$50 million? It can be argued that the state's economic development

agencies, strictly defined, do not require such a large annual funding to perform their role effectively. Most would probably agree that if that amount were appropriated for expenditures in FY 1994 for economic development it could be a wasteful and inefficient allocation of resources.

The legislators who designed the EDIF were challenged by the fact that lottery and parimutuel revenues could not be estimated accurately and that the revenues were highly uncertain. For that reason, the economic development endowment account was created so that funds would be "accumulated and invested ... to provide an ongoing source of funds which shall be used for economic development activities in Kansas."

K.S.A. 79-4804 authorizes the Pooled Money Investment Board to invest and reinvest the funds in U.S. treasury notes and bonds, in interest-bearing time deposits in Kansas banks, other U.S. government insured accounts, or in government guaranteed loans or debentures.

These investments were envisioned as providing a growing endowment fund whose principal might be preserved and the earnings from the fund then used to support annual and one-time economic development expenditures. While EDIF monies have been invested and interest earned, the endowment account has never been allowed to accumulate any significant principal. EDIF monies have been expended almost entirely each fiscal year, with only of modest carryover balances from one fiscal year to the next.

If the EDIF had not been viewed as a source of extra or supplemental funding for the on-going activities of state government, by this time, a very significant amount would have accumulated in the economic development endowment account, and significant investments in activities that would stimulate economic growth and job expansion in Kansas would be possible today.

### Suggestions for EDIF Reform

The predominant practice of using lottery and pari-mutuel funds has been to:

- ♦ finance state programs that are not related to economic development,
- ♦ supplant revenues from the state general fund,
- ♦ finance activities explicitly unauthorized in the EDIF statute, i.e., county appraisal, and
- ♦ provide financing for activities that cannot be justified for expenditure from other revenue sources.

This is poor public policy and disdains the state's commitment to support and enhance its

economic development agencies and programs.

The hypocrisy of the present arrangement is obvious. Kansas elected policy makers continually cite the "fact" that gaming revenues support economic development and job creation. Few among the Kansas public are aware that only little more than half of the funds are used directly for those purposes.

An obvious reform that would end the hypocrisy is to simply abolish the EDIF, transfer all of the gaming revenues into the State General Fund, and allow the programs now receiving funds from this source to compete with other state programs for support. To those who argue on general principle against dedicated funds, this reform has considerable merit. Since there is considerable political and public support for economic development, abolition of the EDIF would likely not have a damaging effect on economic development funding. Current funding levels would probably be maintained, but the likelihood of program enhancements or substantial one-time investments would be diminished.

Another possible avenue of reform would be to create more specific language defining economic development and setting criteria for EDIF appropriations. Some suggested changes might include:

1. Requiring that appropriations from the EDIF be used only for the purposes of fulfilling *A Kansas Vision: The 1993 Economic Development Strategy*, prepared by Kansas Inc.
2. Providing a statutory definition of economic development as: *Those programs and activities funded by Kansas state government that assist in the expansion, attraction, or retention of business or provide the conditions essential to the growth of private sector jobs and businesses*
3. Specifying the agencies and programs to which appropriations are authorized, for example:
  - ◆ The Kansas Department of Commerce and Housing
  - ◆ The Kansas Technology Enterprise Corporation
  - ◆ Kansas Inc.
  - ◆ The Kansas Development Finance Authority
  - ◆ State matching funds for university research and development.
  - ◆ Capital outlays for research and training equipment utilized in Kansas universities, colleges and vocational-technical institutions
  - ◆ Supplemental or enhanced funding of economic development programs of Kansas universities, community colleges and vocational-technical institutions
  - ◆ Adult basic education and literacy programs of the State Board of

- Education or State Library
  - School to work transition programs of the State Board of Education
4. Establishing a binding, statutory commitment for investment of EDIF monies into permanent funds, such as:
- A *Kansas Economic Emergency/Opportunities Fund* for expenses related to the retention, expansion or attraction of major, private sector commercial enterprises. This fund could be supported under existing authority of K.S.A. 79-4804(d)
  - A *Futures Fund* for state matching grants to federal research and development grants made to the Regent's universities, for example, National Science Foundation and other federal agency EPSCoR grants. This fund could be supported under existing authority of K.S.A. 79-4804(c)
  - A *Business Capital and Financing Fund* to provide annual investments in to venture capital funds, seed capital funds, such as Ad Astra, or loan loss reserve and guaranty funds, such as the Basic Enterprise Loan Fund, or the Export Finance Program. This fund could be supported under existing authority of K.S.A. 79-4804(b).
5. Require either the standing economic development/commerce committees or the Joint Committee on Economic Development to recommend the allocation of EDIF monies prior to their appropriation.

## **Initiative No. 1**

**Ensure adequate state funding and appropriate allocation of Economic Development Initiative Funds (EDIF) to programs that will build the Kansas economy and make Kansas business more competitive.**

- ❖ Amend the existing statute authorizing the State Gaming Revenue Fund and the Economic Development Initiatives Fund to set specific guidelines for the appropriation of EDIF monies and establishing criteria for its use.

*By statute, 90 percent of the lottery and pari-mutuel funds are dedicated to the EDIF for allocation to agencies such as the Kansas Technology Enterprise Corporation, the Kansas Department of Commerce and Housing, Kansas Inc., and other agencies directly involved in business assistance. In the past several years, no more than 65 percent of these funds have been appropriated for economic development. During fiscal year 1994, \$14 million was shifted from the State General Fund to the EDIF.*

- ❖ Create a statutory Economic Opportunity Fund and provide a FY94 appropriation of \$3.5 million for initial capitalization of the fund. Establish specific criteria for project eligibility to include project size or significance and wage criteria.

*Under existing law, there is established an Economic Development Endowment Fund that could be further specified for this purpose. This industrial recruitment and business retention fund would build on the precedent of the Kansas Economic Initiative Opportunity Fund now in place and funded at \$1.485 million. The fund should be capitalized at between \$5 and \$10 million and disbursement should be tied to quality job creation or retention.*

- ❖ Establish a "Futures Fund" with a FY 1995 appropriation from the EDIF of \$5 million to provide enhanced investments into research and development and technical assistance by the Regents' universities. The fund should be used to match federal R&D grants.

*There is already authorized a Kansas Research and Development Account as part of the EDIF that can serve as the vehicle to implement this recommendation. This proposal responds to Strategy No. 30: "Increase federal and state funding for research and development to build the capacity and excellence of Kansas universities."*

REPORT OF THE HOUSE COMMITTEE ON THE ECONOMIC DEVELOPMENT

Bill No.	Agency/Program	Governor's Rec. FY 95	House Rec. FY 95	Economic Development	Note
<b>PRIORITY #1 - CORE ECONOMIC DEVELOPMENT PROGRAMS</b>					
79-4804	State Water Plan Fund	\$ 2,000,000	\$ 2,000,000	\$ 2,000,000	
H.B.2731	Department of Commerce and Housing				
	Salaries and Wages	\$ 1,411,335	\$ 1,705,435	\$ --	a
	Other Operating Expenditures	3,755,737	3,830,737	3,830,737	
	Small Business Development Centers	325,000	325,000	325,000	
	Certified Development Companies	475,000	475,000	475,000	
	Kansas Industrial Training/Retraining	2,227,500	2,727,500	2,727,500	
	Trade Show Promotion Grants	247,420	247,420	247,420	
	Strategic Planning/Action Grants	440,550	440,550	440,550	
	Kansas Quality Improvement Network	65,000	65,000	65,000	
	Capital Resource Network	--	--	--	
	Travel Information Center Repairs	24,000	24,000	24,000	
	Olathe Travel Center	750,000	750,000	750,000	
	Economic Initiative Opportunity Fund	--	--	4,467,000	
	Kansas Partnership Fund	--	--	--	
	High Performance Incentive Grants	--	75,000	75,000	
	Tourism Grants	279,800	279,800	279,800	
	Subtotal - KDCH	\$ 10,001,142	\$ 10,945,242	\$ 13,708,807	
H.B.2731	Kansas Technology Enterprise Corporation				
	Agency Operations	\$ 830,881	\$ 830,881	\$ 355,872	b
	Centers of Excellence	4,267,386	4,267,386	4,267,386	
	Research Matching Grants	1,259,613	1,259,613	1,259,613	
	Business Innovative Research Grants	25,000	50,000	50,000	
	Training Equipment Grants	150,000	150,000	150,000	
	Industrial Liaison Program	300,000	300,000	300,000	
	Seed Capital	1,500,000	1,500,000	1,500,000	
	Special Projects	103,000	103,000	103,000	
	Commercialization	520,218	900,000	900,000	
	Innovative Technology Program (ITEC)	120,000	95,000	95,000	
	Agricultural Value Added Center	880,281	880,281	880,281	
	Mid-America Manufact. Tech. Center	1,000,000	1,000,000	1,000,000	
	Telecommunications Grants	125,000	125,000	125,000	
	Subtotal - KTEC	\$ 11,081,179	\$ 11,460,661	\$ 10,985,952	
H.B.2731	Kansas, Inc.				
	Agency Operations	\$ 116,889	\$ 116,889	\$ 53,811	c
	EPSCoR	2,000,000	2,000,000	2,000,000	
	Economic Impact Model	--	--	100,000	
	Subtotal - Kansas, Inc.	\$ 2,116,889	\$ 2,116,889	\$ 2,153,811	
H.B.2640	State Library - Literacy Grants	\$ 277,200	\$ 277,200	\$ 277,200	
H.B.2701	Department of Education				
	Matching Grants - AVTS	\$ 495,000	\$ 495,000	\$ 495,000	
	Capital Outlay Aid - AVTS	1,500,000	1,500,000	1,500,000	
	Subtotal - Education	\$ 1,995,000	\$ 1,995,000	\$ 1,995,000	
TOTAL - PRIORITY # 1		\$ 27,471,410	\$ 28,795,202	\$ 31,118,770	
<b>PRIORITY #2 - PROMOTION AND MARKETING</b>					
H.B.2753	Board of Agriculture - Market Promotion	\$ 321,707	\$ 321,707	\$ 321,707	
H.B.2753	State Fair - Agency Operations	\$ 99,000	\$ 99,000	\$ 99,000	
TOTAL - PRIORITY # 2		\$ 420,707	\$ 420,707	\$ 420,707	
<b>PRIORITY #3 - QUALITY OF LIFE</b>					
H.B.2640	Kansas Arts Commission - Prog. Grants	\$ 1,024,850	\$ 1,024,850	\$ 1,024,850	
H.B.2640	Historical Society - Agency Operations	\$ 19,700	\$ 19,700	\$ 19,700	
H.B.2640	State Library - Library Grants	\$ --	\$ 429,985	\$ 429,985	
H.B.2640	Dept. of Administration - Public Broadcasting Grants	\$ --	\$ 588,778	\$ 588,778	
	Dept. of Wildlife and Parks				
H.B.2753	Rails to Trails	\$ --	\$ 200,000	\$ 200,000	
Prev. Appr.	Wichita Conser. Education Center	302,337	302,337	302,337	
	Subtotal - Wildlife & Parks	\$ 302,337	\$ 502,337	\$ 502,337	
TOTAL - PRIORITY # 3		\$ 1,346,687	\$ 2,565,428	\$ 2,565,428	
<b>PRIORITY # 4 - SHOULD NOT BE FUNDED FROM THE EDF</b>					
H.B.2701	Department of Education				
	At-Risk/Innovative Program Assist.	\$ 1,485,000	\$ 1,485,000	\$ --	
	Postsecondary Aid - AVTS	11,850,000	11,850,000	--	
	Subtotal - Education	\$ 13,335,000	\$ 13,335,000	\$ --	
H.B.2640	School for the Blind - Accessible Arts	\$ 150,000	\$ 150,000	\$ --	
H.B.2753	Dept. of Wildlife and Parks - Hillsdale S.P.	\$ 100,000	\$ 100,000	\$ --	
H.B.2731	Department of Revenue - Appraisal Aid	\$ 3,000,000	\$ 3,000,000	\$ --	
TOTAL - PRIORITY # 4		\$ 18,585,000	\$ 18,585,000	\$ --	

- a) - Salaries and wages total \$1,411,335 (Governor's recommendation) and \$1,705,435 (House recommendation) from the EDF. The Committee believes that such expenditures should be financed from the State General Fund.
- b) - Salaries and wages total \$475,009 (Governor's recommendation and House recommendation) from the EDF. The Committee believes that such expenditures should be financed from the State General Fund.
- c) - Salaries and wages total \$63,078 (Governor's recommendation and House recommendation) from the EDF. The Committee believes that such expenditures should be financed from the State General Fund.



# GOV'S BUDGET REPORT

## Investment in Economic Development

The Governor has recommended significant changes in expenditures for the Economic Development Initiatives Fund (EDIF) for FY 1996. These changes, based on the priorities for expenditure identified by the Governor, represent a reversal of the trend to finance items related to "quality of life" and other items not related to economic development from the EDIF. Items previously financed from the State General Fund for Regents universities that were included from the EDIF in FY 1995 have also been returned to the State General Fund for FY 1996.

### Redefining Economic Development

The Governor recommends that \$10.2 million from the EDIF used to finance items in the Regents system previously financed from the State General Fund, items related to "quality of life," and items unrelated to economic development would either be financed in FY 1996 from a more appropriate funding source or discontinued. This allows EDIF funding to be used for significant new investments in priority areas for economic development, such as financial capital, business capacity, and infrastructure assistance.

	FY 1995	FY 1996
Human Capital	33.7 %	25.9 %
Technological Development	15.2	16.6
Business Capacity	28.4	32.7
Business Environment	0.2	-
Financial Capital	3.1	12.0
Quality of Life	5.5	-
Infrastructure Assistance	7.6	12.7
Other	6.4	-
Total	100.0 %	100.0 %

*All State Operations are assumed to contribute to Business Capacity. Totals do not add because of rounding.*

Highlights of these investments include establishing a Small Business Investment Company (SBIC) in KTEC, creation of regional micro-loan funds administered by the Department of Commerce and Housing, additional

capital for the Kansas Economic Opportunity Initiatives Fund, and a significant increase in the ability to match federal research and development awards.

The preceding table displays the Governor's recommended expenditures by economic development foundation. As is clear from this table, a major shift is recommended for the items the Governor believes are priority areas for expenditure: human capital, technological development, financial capital, and infrastructure assistance. Most programs no longer financed from the EDIF have been recommended instead from the State General Fund.

### Recommended Investments

**Kansas Technology Enterprise Corporation.** The recommended budget for KTEC from the EDIF continues all programs at least at the level of service and performance expected in the current year. Programs continued at this level include applied research matching grants, innovation research grants and support for Centers of Excellence, the agriculture value added center, and the Mid-America Manufacturing Technology Center.

The recommendation includes \$3.3 million to establish a SBIC to target technology-based firms. This venture capital company, co-managed by KTEC and a private venture capital fund manager, would focus investments in the \$1.0 to \$2.0 million range. The state investment is expected to leverage \$27.7 million in private and federal dollars, for a total investment fund of \$30.0 million.

The Governor also recommends \$4.0 million for financing the state match to continue participation in the federal Experimental Program to Stimulate Competitive Research (EPSCoR). This program will leverage at least \$4.0 million in federal research and development expenditures at the state's research universities. This program, aimed at strengthening the basic research capability of the universities, is critical to ensuring the future success of other KTEC

programs designed to provide the necessary framework for developing emerging technological companies.

The Governor's focus is also strengthened through the recommendation of increased support for KTEC's commercialization network, for a total state commitment of \$1.4 million, an increase of over 50.0 percent compared to the current year. This level of support will allow for expansion of the network to include areas of the state not currently served by the commercialization centers in Lawrence, Manhattan, and Wichita. Communities that have expressed interest in establishing formal links with the existing centers include Hays, Salina, Great Bend, and Hutchinson.

Other increases in support recommended by the Governor include increased funding for training equipment grants and grants to industrial liaisons. The recommended increases will allow for grants to equal the demand for qualified projects.

**Department of Commerce and Housing.** The Governor recommends a budget from the EDIF for the Department of Commerce and Housing that will allow for enhancements to the agency's job training assistance programs. Investment in the Kansas Industrial Training and Retraining Program is increased by 10.0 percent, for a total state investment of \$3.0 million. This recommendation reflects the increased demand for this program.

The Governor also recommends \$2.4 million in FY 1996 to create six regional micro-loan programs to be administered by the existing Certified Development Companies. These regional funds would leverage a total of \$4.5 million in federal support from the Small Business Administration. The regional funds would be a source of loans for start-up costs in the range of \$1,000 to \$25,000 for emerging companies unable to obtain traditional financing.

A transfer of \$4.0 million is included in the Governor's recommended amount from the EDIF for

additional capital for the Kansas Economic Opportunity Initiatives Fund (KEOIF). This represents a substantial additional investment above the current year amount of \$1.7 million. The recommendation significantly enhances the state's ability to respond to unforeseen business recruitment, expansion, and retention opportunities.

The final increase in support recommended by the Governor is for increased out-of-state print advertising to document the varied tourism and recreation activities available in Kansas. This increase, totaling \$200,000, will be used in conjunction with \$100,000 in profits from the *Kansas Magazine* to encourage and attract additional tourism expenditures into the state.

Other programs and services of the Department financed from the EDIF are recommended at a level that will maintain current performance. These programs include strategic planning and action grants, trade show promotion grants, operating grants to Small Business and Certified Development Companies, and tourism development grants.

**Department of Education.** The Governor recommends continued support from the EDIF for postsecondary education at the area vocational-technical schools, internship matching grants, and the current year level of awards for capital outlays at the schools. No financing is recommended in the Department for any program not directly related to technical or vocational training.

**Other Agencies and Programs.** Although in prior years the number of other programs receiving financing from the EDIF has been extensive, the recommended expenditures for FY 1996 for programs in other areas include only two items. The Governor recommends just under \$130,000 for Kansas, Inc. to maintain its research and policy agenda at the current level and a recommendation for the current year amount of just under \$367,000 for the Board of Agriculture to continue its marketing effort for Kansas agricultural products.

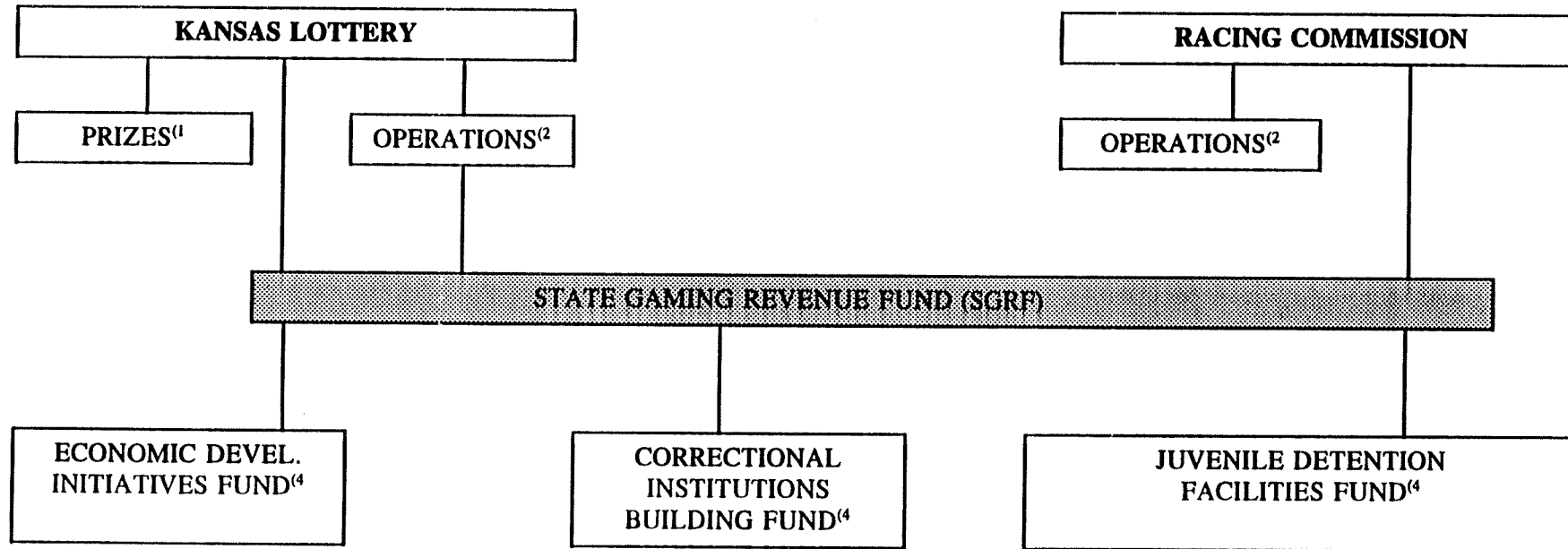
TABLE 2  
**GOV'S BUDGET REPORT**

**Economic Development Initiatives Fund**

	FY 1995 <u>Estimate</u>	FY 1996 <u>Request</u>	FY 1996 <u>Gov. Rec.</u>
State Water Plan	\$2,000,000	\$2,000,000	\$2,000,000
<b>Department of Commerce and Housing</b>			
Small Business Development Centers	325,000	325,000	325,000
Certified Development Companies	475,000	475,000	475,000
Kansas Industrial Training/Retraining	2,727,500	3,000,000	3,000,000
Trade Show Promotion	247,420	270,000	270,000
Strategic Planning Grants	600,000	600,000	600,000
Kansas Quality Improvement Network	65,000	65,000	65,000
Tourism Promotion	379,600	1,120,000	379,600
Boot Hill Tourism Grant	100,000	-	-
Wichita World Trade Center	100,000	-	-
Travel Information Centers	878,025	35,000	35,000
Kansas Economic Opportunity Initiatives Fund	1,700,000	5,000,000	4,000,000
High Performance Incentive Grants	75,000	75,000	75,000
Micro Loan Program	-	2,400,000	2,400,000
State Economic Development Block Grants	-	10,000,000	-
Operations	5,274,613	6,960,596	6,150,914
<b>Subtotal Commerce and Housing</b>	<b>\$12,947,158</b>	<b>\$30,325,596</b>	<b>\$17,775,514</b>
<b>Kansas Technology Enterprise Corporation</b>			
Research Matching Grants	1,259,613	1,800,000	1,260,000
Business Innovative Research Grants	85,000	565,000	86,000
Training Equipment	150,000	300,000	250,000
Industrial Liaison	200,000	300,000	300,000
Centers of Excellence	4,267,386	5,000,000	4,250,000
Seed Capital	1,500,000	4,500,000	3,300,000
Research Equipment Grants	-	1,000,000	-
EPSCOR	2,028,793	4,000,000	4,000,000
Special Projects	163,000	400,000	163,000
Commercialization	790,221	1,282,984	1,286,539
Agricultural Value Added Center	541,301	880,000	528,250
Mid-America Manufacturing Technology Ctr.	1,004,921	1,000,000	1,000,000
Telecommunications Grants	100,000	100,000	-
Operations	1,390,873	1,900,847	1,651,579
<b>Subtotal KTEC</b>	<b>\$13,481,108</b>	<b>\$23,028,831</b>	<b>\$18,075,368</b>
<b>Department of Education</b>			
Cultural Arts Center	25,000	25,000	-
Foundation for Agriculture	25,000	25,000	-
At-Risk/Innovative Program Assistance	1,485,000	2,000,000	1,351,234
Matching Grants - AVTS	495,000	500,000	145,000
Postsecondary Aid - AVTS	5,700,000	6,500,000	6,050,000
Capital Outlay - AVTS	1,500,000	2,000,000	1,500,000
<b>Subtotal Education</b>	<b>\$9,230,000</b>	<b>\$11,050,000</b>	<b>\$9,046,234</b>
Agriculture Market Promotion	366,707	366,707	366,707
KSSB Accessible Arts Program	150,000	-	-
Kansas, Inc.	516,889	132,928	129,144
Revenue	3,000,000	12,000,000	-
Wildlife and Parks	652,337	742,000	-
State Fair	114,000	200,000	-
Public Broadcasting	588,776	877,292	-
Arts Commission	1,124,650	1,573,171	-
Historical Society	119,200	823,198	-
Board of Regents	40,000	40,000	-
Human Resources	100,000	-	-
University of Kansas	829,735	862,290	-
Kansas State University	408,694	423,468	-
Kansas State University--ESARP	1,395,856	1,440,735	-
Wichita State University	393,686	408,826	-
State Library	1,250,277	330,000	-
<b>Total EDIF Transfers</b>	<b>\$48,709,073</b>	<b>\$86,625,042</b>	<b>\$47,392,967</b>

TABLE 1

**STATE GAMING REVENUE FUND  
REVENUE FLOW -- STATUTORY REQUIREMENTS**



1) Minimum 45 percent.

2) Established in appropriations acts.

3) Minimum 30 percent of Lottery sales, all Racing Commission revenue not otherwise appropriated.

4) Effective July 1, 1995: 85 percent for EDIF, 10 percent for Correctional Institutions Fund and 5 percent for Juvenile Detention Facilities Fund.

0012563.01(2/7/95)(8:34AM)

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**1995 KCCI Major L**

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To <i>Rep Topeka</i>	From <i>KCCI</i>
Co.	Co.
Dept.	Phone # <i>413-357-6321</i>
Fax # <i>296-1154</i>	Fax # <i>413-357-4732</i>

**SCHOOL FINANCE**

To provide for a stable and sufficient funding source for public education in Kansas, KCCI supports development of an equitable tax collection and distribution formula which insures fairness and adequate resources for K-12 and technical training programs.

**SALES TAX EXEMPTIONS**

To create a more competitive Kansas business tax structure fostering greater economic development, KCCI supports the full reinstatement of sales tax exemptions on utilities used in manufacturing processes and services used in original construction projects.

**PERSONAL PROPERTY TAX FAIRNESS**

To increase fairness and compliance in the enforcement of business personal property tax liability, KCCI supports proposals which would improve the equity to taxpayers through procedural reforms, interest and penalty reductions, or other appropriate means.

**HIGHWAYS**

To ensure an adequate and safe highway system in Kansas and to encourage economic growth and development in all areas of the state, KCCI supports the 1989 Comprehensive Highway Program, opposes any efforts to delay or otherwise cut its ongoing funding, and supports state compliance with federal mandates in order to avoid a net loss of federal highway funds.

**UNEMPLOYMENT COMPENSATION**

To ensure that unemployment compensation benefits are available to individuals who are unemployed through no fault of their own, KCCI supports revision of the Kansas Employment Security Law to make clear the benefit qualifications of individuals who cause their unemployment through misconduct and chronic absenteeism. In addition, KCCI opposes attempts to use unemployment compensation taxes paid by employers for purposes other than paying unemployment compensation benefits.

**GOVERNMENT SPENDING**

To control the rate of increase in state government spending, KCCI supports passage of a constitutional amendment which restricts future expenditures to a measurement of growth in Kansans' personal income and which returns Kansas state government to a biennial budget cycle.

**KANSAS LOTTERY**

In order to carry out the wishes of the people of Kansas as expressed by the 1986 amendment to the Kansas Constitution, and to assist in the funding of vital job-creating programs throughout the state, KCCI supports making permanent the Kansas Lottery and urges the continuation of the Economic Development Initiatives Fund (EDIF) at current levels.

**EDUCATION**

To insure that the skilled workforce demands in Kansas are being met, KCCI supports adequate resources for education programs that are accountability based.

**SOLID WASTE CONTROL AND DISPOSAL**

To provide long range management plans for reduction and management of solid waste, KCCI supports development of workable solutions regarding landfill closure and the disposal and re-use of waste material.

**EDIF EXPENDITURES**

To properly fund economic development in Kansas, KCCI urges that those funds allocated to economic development from the Economic Development Initiatives Fund (EDIF) be utilized for economic development enhancement only as originally intended.

*HOUSE Eco. DEVD.  
2-16-95  
ATTACHMENT 9*

# HOUSE BILL No. 2409

By Representative Toplikar

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9 AN ACT concerning the state gaming revenues fund; limiting expendi-  
10 tures therefrom; amending K.S.A. 1994 Supp. 79-4803 and 79-4804  
11 and repealing the existing sections.  
12

13 *Be it enacted by the Legislature of the State of Kansas:*

14 ~~Section 1. K.S.A. 1994 Supp. 79-4803 is hereby amended to read as~~  
15 ~~follows: 79-4803. (a) Before July 1, 1995, an amount equal to 10% of all~~  
16 ~~moneys credited to the state gaming revenues fund shall be transferred~~  
17 ~~and credited in accordance with the following:~~

18 ~~(1) A portion of such amount, which shall be specified by appropri-~~  
19 ~~ations act, shall be credited to the juvenile detention facilities fund; and~~

20 ~~(2) the remainder of such amount shall be credited to the correctional~~  
21 ~~institutions building fund created pursuant to K.S.A. 76-6b09, and~~  
22 ~~amendments thereto, to be appropriated by the legislature for the use~~  
23 ~~and benefit of state correctional institutions as provided in K.S.A. 76-~~  
24 ~~6b09 and amendments thereto.~~

25 ~~(b) On and after July 1, 1995:~~

26 ~~(1) An amount equal to 10% of all moneys credited to the state gam-~~  
27 ~~ing revenues fund shall be transferred and credited to the correctional~~  
28 ~~institutions building fund created pursuant to K.S.A. 76-6b09 and amend-~~  
29 ~~ments thereto, to be appropriated by the legislature for the use and ben-~~  
30 ~~efit of state correctional institutions as provided in K.S.A. 76-6b09 and~~  
31 ~~amendments thereto; and~~

32 ~~(2) an amount equal to 5% of all moneys credited to the state gaming~~  
33 ~~revenues fund shall be transferred and credited to the juvenile detention~~  
34 ~~facilities fund.~~

35 ~~(c) There is hereby created in the state treasury the juvenile detention~~  
36 ~~facilities fund which shall be administered by the ~~attorney general~~ *sec-*~~  
37 ~~*retary of social and rehabilitation services.* All expenditures from the ju-~~  
38 ~~venile detention facilities fund shall be for the retirement of debt of fa-~~  
39 ~~ilities for the detention of juveniles; or for the construction, renovation,~~  
40 ~~remodeling or operational costs of facilities for the detention of juveniles~~  
41 ~~in accordance with a grant program which shall be established with grant~~  
42 ~~criteria designed to facilitate the expeditious award and payment of grants~~  
43 ~~for the purposes for which the moneys are intended. "Operational costs"~~

HOUSE ECO. DEV.  
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1 shall not be limited to any per capita reimbursement by the secretary of  
 2 social and rehabilitation services for juveniles under the supervision and  
 3 custody of the secretary but shall include payments to counties as and for  
 4 their costs of operating the facility. The secretary of social and rehabili-  
 5 tation services shall make grants of the moneys credited to the juvenile  
 6 detention facilities fund for such purposes to counties in accordance with  
 7 such grant program. All expenditures from the juvenile detention facilities  
 8 fund shall be made in accordance with appropriation acts upon warrants  
 9 of the director of accounts and reports issued pursuant to vouchers ap-  
 10 proved by the secretary of social and rehabilitation services or the secre-  
 11 tary's designee.

12 (d) On July 1, 1994, the director of accounts and reports shall transfer  
 13 all moneys in the juvenile detention facilities capital improvements fund  
 14 to the juvenile detention facilities fund established pursuant to subsection  
 15 (c). On July 1, 1994, all liabilities of the juvenile detention facilities capital  
 16 improvements fund existing prior to such date are hereby imposed on the  
 17 juvenile detention facilities fund established pursuant to subsection (c)  
 18 and the juvenile detention facilities capital improvements fund is hereby  
 19 abolished.

20 (e) ~~Before July 1, 1996, an amount equal to 10% of all moneys credited~~  
 21 ~~to the state gaming revenues fund shall be transferred and credited to the~~  
 22 ~~secondary vocational education instructional equipment fund, created~~  
 23 ~~pursuant to section 5.~~

24 [Sec. 2] K.S.A. 1994 Supp. 79-4804 is hereby amended to read as  
 25 follows: 79-4804. (a) ~~Before July 1, 1995, an amount equal to 90% of all~~  
 26 ~~moneys credited to the state gaming revenues fund shall be transferred~~  
 27 ~~and credited to the state economic development initiatives fund which is~~  
 28 ~~hereby created in the state treasury. On and after July 1, 1995 1996, an~~  
 29 ~~amount equal to 85% [75%] of all moneys credited to the state gaming~~  
 30 ~~revenues fund shall be transferred and credited to the state economic~~  
 31 ~~development initiatives fund. Expenditures from the state economic de-~~  
 32 ~~velopment initiatives fund shall be made in accordance with appropri-~~  
 33 ~~ations acts for the financing of such programs supporting and enhancing~~  
 34 ~~the existing economic foundation of the state and fostering growth~~  
 35 ~~through the expansion of current, and the establishment and attraction~~  
 36 ~~of new, commercial and industrial enterprises as provided by this section~~  
 37 ~~and as may be authorized by law and not less than 1/2 of such money shall~~  
 38 ~~be distributed equally among the congressional districts of the state. Ex-~~  
 39 ~~cept as provided by subsection (g), all moneys credited to the state eco-~~  
 40 ~~nomic development initiatives fund shall be credited within the fund, as~~  
 41 ~~provided by law, to an account or accounts of the fund which are created~~  
 42 ~~by this section exclusively to [funds controlled] by the secretary of com-~~  
 43 ~~merce and housing, the president of the Kansas technology enterprise~~

Section 1.

(Restore)

85%

special revenue funds administered

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1 corporation, the president of Kansas, Inc. ~~or the state water plan fund~~  
2 pursuant to subsection (g).

3 (b) There is hereby created the Kansas capital formation account in  
4 the state economic development initiatives fund. All moneys credited to  
5 the Kansas capital formation account shall be used to provide, encourage  
6 and implement capital development and formation in Kansas.

7 (c) There is hereby created the Kansas economic development re-  
8 search and development account in the state economic development ini-  
9 tiatives fund. All moneys credited to the Kansas economic development  
10 research and development account shall be used to promote, encourage  
11 and implement research and development programs and activities in Kan-  
12 sas and technical assistance funded through state educational institutions  
13 under the supervision and control of the state board of regents or other  
14 Kansas colleges and universities.

15 (d) There is hereby created the Kansas economic development en-  
16 dowment account in the state economic development initiatives fund. All  
17 moneys credited to the Kansas economic development endowment ac-  
18 count shall be accumulated and invested as provided in this section to  
19 provide an ongoing source of funds which shall be used for economic  
20 development activities in Kansas, including but not limited to continuing  
21 appropriations or demand transfers for programs and projects which shall  
22 include, but are not limited to, specific community infrastructure projects  
23 in Kansas that stimulate economic growth.

24 (e) Except as provided in subsection (f), the pooled money invest-  
25 ment board may invest and reinvest moneys credited to the state eco-  
26 nomic development initiatives fund in obligations of the United States of  
27 America or obligations the principal and interest of which are guaranteed  
28 by the United States of America or in interest-bearing time deposits in  
29 any commercial bank located in Kansas, or, if the board determines that  
30 it is impossible to deposit such moneys in such time deposits, in repur-  
31 chase agreements of less than 30 days' duration with a Kansas bank or  
32 with a primary government securities dealer which reports to the market  
33 reports division of the federal reserve bank of New York for direct obli-  
34 gations of, or obligations that are insured as to principal and interest by,  
35 the United States government or any agency thereof. All moneys received  
36 as interest earned by the investment of the moneys credited to the state  
37 economic development initiatives fund shall be deposited in the state  
38 treasury and credited to the Kansas economic development endowment  
39 account of such fund.

40 (f) Moneys credited to the Kansas economic development endow-  
41 ment account of the state economic development initiatives fund may be  
42 invested in government guaranteed loans and debentures as provided by  
43 law in addition to the investments authorized by subsection (e) or in lieu

or to the following funds:

(1) The economic development fund of the state board of agriculture; and

(2) the economic development initiatives fund of the department of education, exclusively for purposes of funding the following:

(A) Vocational education capital outlay aid;

(B) post-secondary aid for vocational education; and

(C) technology innovation and internship program

10-3



1 of such investments. All moneys received as interest earned by the in-  
2 vestment under this subsection of the moneys credited to the Kansas  
3 economic development endowment account shall be deposited in the  
4 state treasury and credited to the Kansas economic development endow-  
5 ment account of the state economic development initiatives fund.

6 (g) In each fiscal year, the director of accounts and reports shall make  
7 transfers in equal amounts on July 15 and January 15 which in the aggre-  
8 gate equal \$2,000,000 from the state economic development initiatives  
9 fund to the state water plan fund created by K.S.A. 82a-951, and amend-  
10 ments thereto. No other moneys credited to the state economic devel-  
11 opment initiatives fund shall be used for: (1) Water-related projects or  
12 programs, or related technical assistance; or (2) any other projects or  
13 programs, or related technical assistance, which meet one or more of the  
14 long-range goals, objectives and considerations set forth in the state water  
15 resource planning act.

16 New Sec. 3. As used in this act:

17 (a) "Board" means the state board of education.

18 (b) "School" means any school district in Kansas.

19 (c) "Vocational education instructional equipment aid" means state  
20 financial aid distributed under this act by the board to a school for the  
21 purpose of acquiring vocational education instructional equipment.

22 New Sec. 4. (a) Subject to the provisions of appropriations acts, vo-  
23 cational education instructional equipment aid shall be distributed to  
24 schools in accordance with this act. Any such distribution shall be on a  
25 competitive basis and the amount thereof for each school shall be deter-  
26 mined by the board on the basis of the condition of existing equipment  
27 and potential for stimulating economic growth and enhancing employ-  
28 ment opportunities within the state. The board shall establish criteria for  
29 evaluating applications of schools for vocational education instructional  
30 equipment aid.

31 (b) Payments of vocational education instructional equipment aid  
32 shall be distributed by the board on dates to be determined by the board.  
33 Upon receipt of such payment, each school shall deposit the amount  
34 thereof to the credit of the vocational education instructional equipment  
35 fund.

36 New Sec. 5. There is hereby established within the state treasury the  
37 secondary vocational education instructional equipment fund which shall  
38 be administered by the state board of education. All expenditures from  
39 such fund shall be for the purpose of providing vocational education in-  
40 structional equipment aid to schools.

41 New Sec. 6. There is hereby established in every school a fund which  
42 shall be called the vocational education instructional equipment fund,  
43 which fund shall consist of all moneys deposited therein or transferred

board of directors of the Kansas technology  
enterprise corporation

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1 thereto according to law. All moneys received by a school from distri-  
2 butions made under this act shall be credited to the vocational education  
3 instructional equipment fund.

4 (b) Any moneys received, prior to or after the effective date of this  
5 act, by a school from donations, gifts, grants or bequests, subject to any  
6 terms or conditions to the contrary imposed by the donor thereof, may  
7 be transferred to or deposited in the vocational education instructional  
8 equipment fund and may be expended by the area vocational-technical  
9 school for any purpose for which vocational education instructional equip-  
10 ment aid may lawfully be expended.

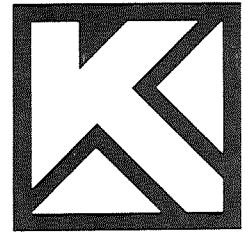
11 Sec. 7. K.S.A. 1994 Supp. 79-4803 and 79-4804 are hereby repealed.

12 Sec. 8. This act shall take effect and be in force from and after its  
13 publication in the statute book.

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# LEGISLATIVE TESTIMONY

Kansas Chamber of Commerce and Industry



835 SW Topeka Blvd. Topeka, Kansas 66612-1671 (913) 357-6321 FAX (913) 357-4732  
HB 2409

February 16, 1995

## KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony Before the

House Economic Development Committee

by

Jim Edwards

Director, Chamber and Association Relations

Chair Miller and members of the Committee:

I appear before you today also representing the Kansas Industrial Developers Association (KIDA). I am pleased to have this opportunity to reaffirm KCCI's and KIDA's support for the Economic Development Initiatives Fund. We oppose HB 2409 in its present form.

The Kansas Chamber of Commerce and Industry (KCCI) is a statewide organization dedicated to the promotion of economic growth and job creation within Kansas, and to the protection and support of the private competitive enterprise system.

KCCI is comprised of more than 3,000 businesses which includes 200 local and regional chambers of commerce and trade organizations which represent over 161,000 business men and women. The organization represents both large and small employers in Kansas, with 55% of KCCI's members having less than 25 employees, and 86% having less than 100 employees. KCCI receives no government funding.

The KCCI Board of Directors establishes policies through the work of hundreds of the organization's members who make up its various committees. These policies are the guiding principles of the organization and translate into views such as those expressed here.

First let me say that this is extremely hard testimony for me to give because some will read into it that KCCI and KIDA oppose vocational education. This couldn't be further from the truth. In fact KCCI has, and will continue to support strong vocational education programs. Why? Because in 1960, only 20% of the work force needed to have a high school degree, some college or

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ational skill training. Today, that figure is 80% and more emphasis is being placed on specific vocational training rather than a four-year degree.

Unfortunately though, KCCI and KIDA can't endorse a measure which would further narrow the funding base for economic development programs by creating a set aside for a specific program. All of the programs funded through EDIF need to be continually evaluated and expanded or reduced when necessary. Creating a specific set aside for one program does not lead to this.

While we applaud your efforts in recognizing economic development efforts as well as strong vocational educational programs, we can't endorse HB 2409 in its present form.

Thank you for the opportunity to visit with you on this issue. I would be pleased to answer any questions you might have for me.