

Approved: February 8, 1995
Date

MINUTES OF THE SENATE COMMITTEE ON COMMERCE.

The meeting was called to order by Chairperson Alicia Salisbury at 8:00 a.m. on February 7, 1995 in Room 123-S of the Capitol.

Members present: Senators Salisbury, Burke, Downey, Gooch, Harris, Hensley, Kerr, Petty, Ranson, Reynolds, Steffes and Vidricksen.

Committee staff present: Lynne Holt, Legislative Research Department
Jerry Donaldson, Legislative Research Department
Bob Nugent, Revisor of Statutes
Betty Bomar, Committee Secretary

Conferees appearing before the committee:
Susan Seltsam, Chairperson, Kansas Corporation Commission

Others attending: See attached list

Susan Seltsam, Chair, Kansas Corporation Commission, presented a progress report on the telecommunications study required of the Commission pursuant to Senate Concurrent Resolution 1627.

The Commission divided its investigation into competition within the telecommunications industry into two parts: Phase I addresses general and policy-related questions; Phase II explores issues of implementation of policy decisions made as a result of Phase I findings. There was consensus that it is in the public interest to allow competitive entry in all segments of the telecommunications industry, including the local exchange market, provided that appropriate mechanisms and procedures are instituted to encourage and allow the development of effective competition and ensure and promote reasonable rates, efficient and sufficient services and universal services. It has become quite apparent to the Commission that the traditional methods of subsidizing low residential telephone rates are disappearing as competition in telecommunications erodes profit margins and limits the ability of competitors to charge prices that do not accurately reflect costs. Traditional methods of pricing are in the past. Don Low, staff of Kansas Corporation Commission advised the Committee that the proposed Federal legislation to deregulate the telecommunications industry appears to provide the state commissions with greater flexibility rather than last years legislation which delegated regulation to the Federal Communications Commission. See attachment 1 and Executive Summary, attachment 2

Lynne Holt, Legislative Research Department, submitted the Report of the Blue Highway Committee on Urban Revitalization. Ms. Holt related the Committee heard from officials in seven cities throughout the State. The Committee identified seven areas of concern and made suggestions for addressing the concerns. The Committee further recommends the introduction of five bills. See attachment 3

Representative Phill Kline, Chairperson of the Blue Highway Committee on Urban Revitalization appeared in support of the Committees' legislative recommendations. He advised that the recommendations were being drafted and introduced in the House of Representatives. In response to questions, he advised that the Committee had no recommendations relating to the "takings" issue, however, the report notes it presents some concern with respect to cities' liability.

Senator Vidricksen, a member of the Blue Highway Committee conveyed his endorsement of the Committee and the work that it accomplished.

Senator Gooch, in response to a question from Senator Steffes as to breakdown of urban and rural, stated that rural had been identified by Federal regulations, but urban had not been defined.

Upon motion of Senator Steffes, seconded by Senator Vidricksen, the Minutes of the February 6, 1995

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON COMMERCE, Room 123-S Statehouse, at 8:00 a.m.
on February 7, 1995.

meeting were adopted.

Upon motion by Senator Harris, seconded by Senator Kerr, the following bills to amend the Workers Compensation Act were unanimously recommended for introduction: 5RS. 111, 5RS 112, 5RS 113, 5RS 133, 5RS 134, and 5RS 922.

The meeting adjourned at 9:00 a.m.

The next meeting is scheduled for Wednesday, February 8, 1995.

Text of legislative testimony for
Kansas Corporation Commission Chair Susan Seltsam
in the Senate Commerce Committee
regarding telecommunications competition
and universal service

I am pleased to present a progress report on the telecommunications study the Kansas legislature directed the Kansas Corporation Commission to undertake in Senate Concurrent Resolution 1627.

I would like my testimony to bring an understandable summary to the weighty volume the Commission recently presented to the chairs of the House and Senate committees.

Most policy issues before the Commission directly affect all Kansans, and involve highly complex legal, economic, accounting, and regulatory matters. Many of those matters are open to different interpretations by different parties, and it falls to the Commission to resolve such differences in a manner that protects the interests of all the parties.

Telecommunications policies may exceed the complexity of typical issues because of:

- dramatically and rapidly changing technologies;
- the size and influence of traditional providers;
- the size and aggressiveness of alternate providers;
- the increasingly indispensable role of telecommunications in our lives;
- and,
- Federal legal and judicial orders.

The Commission's responsibility, within the context of all this complexity, is to balance the needs of Kansas consumers with the needs of current and potential providers of telecommunications services.

To fulfill that responsibility, and to meet the charge presented to the Commission by SCR 1627, the Commission undertook a series of docket hearings that began in early 1994, and will conclude in late 1995. As with all issues before the Commission, the Commissioners and their staff have made every effort to solicit ideas, opinions, and positions from the broadest range of interested parties, so the resulting orders will reflect the best possible decision for all Kansans. The report I presented to your chair details the range of those interests.

The Commission first examined the regulation of long-distance services, as reflected in the first section of the Executive Summary, relating to what we call inter-LATA interexchange carriers and resellers. Most humans refer to those animals as AT&T, Sprint, and MCI, among others. We found that, contrary to conventional wisdom, the long distance market is not fully competitive. So, while we pursued the conventional wisdom course of deregulation and competition by streamlining our reporting requirements, the Commission maintained its right to review tariffs -- the agreements telecommunications companies have with the people of Kansas, which the KCC maintains and monitors -- in order to protect Kansas consumers.

Long distance, however, is a relatively minor aspect of telecommunications when it comes to reasons the Legislature and the Commission are exploring the issue. When most people think of telephones, they think of a dial tone -- a gateway to their friends and community, and a necessary tool in case of an emergency. The best way to insure that everyone has access to at least some level of telephone service was the subject of the Commission's investigation into universal telecommunications service, Kansas' telecommunications infrastructure, and quality of service standards. The parties who responded to the Commission's request for testimony suggested a broad range of services that should be available to all Kansans, and a variety of methods of financing the guarantee of those services.

Under traditional regulatory plans, the Commission used its authority to regulate monopolies to support basic residential service through such methods as higher-than-cost rates for businesses and for such exotic, non-essential services as call waiting, call forwarding, and caller ID. Those of you with teenagers at home may not consider any of those services non-essential, but traditionally those services carried higher profit margins, and the difference paid for lower-than-cost rates for basic residential service.

However, traditional methods of subsidizing low residential telephone rates -- particularly in rural Kansas -- are disappearing as competition in telecommunications erodes profit margins and limits the ability of competitors to charge prices that do not accurately reflect costs.

As non-traditional providers of telecommunications services -- such as cable and direct-broadcast satellite television companies, cellular phone companies, new and existing smaller competitors that can exploit technologies that are rapidly dropping in price, even your electric company -- enter the business, they naturally look for the highest profit-margin areas of service, because that's where they can be most competitive, and get the most business. I'm sure you are familiar with the term cherry-picking -- taking the most lucrative business aspects of a market, and leaving your competitors with less desirable features.

This is a normal part of doing business . . . except for regulated monopolies, which our society has decided have an obligation to serve the people of Kansas. For a monopoly provider of telephone service, who traditionally subsidizes low residential rates with more expensive services, losing the more expensive services means there is less money -- or no money -- to support basic telephone services.

That scenario is why the Legislature and the Commission launched a general investigation into competition within the telecommunications industry in Kansas. The Commission divided the investigation into two parts: Phase I will address general and policy-related questions, while Phase II will explore issues of implementation of the policy decisions made as a result of our Phase I findings. The Commission is in the midst of completing Phase I, with a final public meeting on the issue tentatively scheduled for February 8, 1995, before the Commission will issue an order regarding Phase II. The Executive Summary contains the explicit details of the Phase I testimony in the body of the report, so I will briefly cover them here before making myself available to answer your questions:

There is now general agreement among most parties to the hearings that competitive entry into all aspects of the telecommunications industry is in the best interests of Kansas consumers. Competition requires that, to the extent possible, the prices for services accurately reflect their actual costs. Therefore, the desire for competition challenges a more important goal: the guarantee of universal access to affordable, basic local telephone service.

Such basic service probably includes a dial tone, connection to the consumer's long distance company of choice, listing in the white pages, and 911 service, to name a few of the options discussed in our hearings.

There will always be some geographic or business areas of the market that will not attract competition. Given the dramatic changes in technology and Federal rules, it is not entirely clear what those areas will be . . . and that situation is likely to prevail for the future. The Commission's role in these circumstances will be to balance the needs of consumers and businesses as it always has. However, during the transition to competition, and in areas where some, or less-than-perfect, competition exists, the Commission must carefully consider its role and the funding mechanisms to guarantee affordable local service.

The Commission recognizes that, under conditions of technological change and greater competition, we can more effectively discipline competitive market forces by competitive pressure in concert with some regulatory oversight, than by regulation alone. These demands call for alternate regulatory plans, which the Commission and its staff will more thoroughly analyze in Phase II of the investigation. Meanwhile, participants in the competition docket proposed a variety of methods to classify levels of competitiveness in markets, and to identify existing barriers to effective competition.

Parties to the hearing identified at least 15 barriers to entry into telecommunications markets, among them: number portability, or the ability to use your existing phone number if you change carriers; interconnection issues, such as the ability to conveniently call both locally and long distance, even though you may be calling people serviced by another carrier; and, the use of rights of way and easements by competitors. The Commission believes industry task forces should -- and can -- resolve many of these issues by reporting their findings to the Commission during Phase II hearings.

The Commission will then be able to address, through regulation or proposed legislation, the needs of Kansas and any further measures that aim to complement the goals of universal service and the consumer benefits of enhanced competition.

Mr./Madame Chair and members of the committee, thank you for the opportunity to share our progress in the investigation of competition in the Kansas telecommunications industry. The other Commissioners and I, and the staff of the Kansas Corporation Commission, look forward to completing our study, and using the findings to expand the range of services available to Kansans throughout the state.

Report to the Kansas Legislature
by the Kansas Corporation Commission
Regarding the State of Telecommunications Competition
and Universal Service

January 30, 1995

EXECUTIVE SUMMARY

The Kansas Corporation Commission has furnished to the Chair of each committee designated by Senate Concurrent Resolution 1627 a full copy of this Report. Additional copies of that full report are available on request. The structure of the Report provides information in increasing levels of detail. This Summary is the first level, then there are general and more detailed levels in the Report, along with attachments.

General Investigation Into Revised Rules and Regulations Governing InterLATA Interexchange Carriers and Resellers (Docket 187,168-U)

The Commission, in an Order dated March 21, 1994, modified its regulatory practices regarding intrastate long distance companies. Certification, annual reporting, and tariff requirements were simplified. However, tariffs are not insulated from review. Geographically deaveraged rates continue to be prohibited by the Commission. Promotions may not be offered for only one customer. The Commission did not find that the long distance market in Kansas is fully competitive. The Commission expressed concern about the recent trend of the major IXCs to increase rates in lockstep.

General Investigation Into Competition Within the Telecommunications Industry in Kansas (Docket 190,492-U)

1. **Phase I.** Parties to this proceeding included large and small long distance companies, large and small local telephone companies, consumer groups, Cable TV companies, new competitors, and, Commission Staff. Certain issue areas were addressed by the submission of written comments, and others were addressed by written testimony. The Commission split the proceeding into two phases, with Phase I addressing more general and policy-related questions. Phase II will address implementation considerations subsequent to Commission findings in Phase I. Phase I hearings were held from November 28 to December 5, 1994, for the Commission to receive testimony regarding the following issues in Competition in Telecommunications. There were varying positions among parties. Some of the significant points were:

- A. **Public interest considerations for increased competitive entry.** There was some consensus that the Commission find that it is in the public interest to allow competitive entry in all segments of the telecommunications industry, including the local exchange market, provided that appropriate mechanisms and procedures are instituted to encourage and allow the development of effective competition, and ensure and promote reasonable rates, efficient and sufficient services and universal service. In order to allow time to address the goal of universal service, the Commission should only authorize increased competition for switched local services in Southwestern Bell Telephone Company (SWBT) territory prior to February 1, 1997, if: 1) an application to provide such service is found to be consistent with the public interest, taking into account the then current status of new universal service mechanisms; and, 2) the applicant is found to possess the necessary technical, financial and managerial resources. Because in service territories of other local exchange companies (LECs) the potential for effective competition is not as apparent and universal service issues may be more difficult to address, the Commission should not necessarily authorize competition that soon for those territories.

An alternate position to assure the continuation of universal service and carrier of last resort obligations was that another mechanism must be in place of the current supports to local residential rates, prior to authorization of further competition in local markets.

February 7, 1995
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Attachment 2-

One overall view expressed was that universal availability of affordable local service is the necessary foundation upon which all telecommunications regulation must be built.

- B. **Effect of competition on universal service.** There was significant belief that the Commission should find that universal service continues to be a fundamental policy goal. To make a network available to all customers, local exchange rate levels have been supported by revenues and practices such as ratemaking rules, interstate and intrastate access charges, geographically averaged toll rates, Yellow Pages revenues, and explicit supports like the Universal Service Fund and "Link-Up" programs. Most parties agree maintaining the present support system is not a sustainable option for supporting universal service goals in a competitive environment. New universal service mechanisms are needed that will be competitively neutral and compatible with local exchange competition. However, the Commission should also prevent erosion of the network subscribership and reasonable prices during the transition to competition.

SWBT believes that universal service support must be addressed in advance of allowing competition. SWBT estimates its universal service obligation, not recovered in local rates, to be approximately \$128 million.

- C. **Implications of competition and technology for rate and tariff structure.** Some agreement exists that the Commission should find that in order to encourage competition, prices for telecommunications services need to reflect the cost of services, to the extent reasonable. Phase II of this docket should therefore include a review and analysis of the cost and pricing of telecommunications services for purposes of possible rate restructuring ("rebalancing"). Any rate restructuring would also reflect possible new mechanisms for cost recovery to promote continuation of universal service.

SWBT set forth a framework to recover universal service support and stated significant changes to residential rates should not be contemplated at this time. SWBT's framework included the pricing flexibility for a LEC to geographically deaverage toll and access rates, restructure intralocal support flows, bulk bill its competitors for accelerated capital recovery for LECs who are carriers of last resort. Also explicit support may be required for interservice support. SWBT suggests competitors could recover the funding amount from a customer surcharge to its customers.

- D. **Effect of competition on regulatory focus.** Under conditions of technological change and greater competition, market forces can be disciplined more effectively by competitive pressures in concert with some regulatory oversight, than by government control and regulation alone. Specifically, during transition from monopolistic to competitive conditions, care must be taken to minimize any uneconomic market distortions caused by government regulation, and maximize the potential benefits from increasing competition. There can be less emphasis on traditional rate base/rate of return regulation, and greater emphasis on the economics of the industry, including incremental costs and prices. The need to consider engineering and economic matters will increase, at least through what could be an extended transition period. For example, engineering or technical matters will include interconnection. Economic matters will include determinations about what constitutes relevant markets and effective competition therein, conducting appropriate long run incremental cost of service studies for use in pricing, and ongoing monitoring of concentration in various markets.

The Commission should find that alternative regulatory plans may be desirable in an increasingly competitive environment. SWBT indicates that historic rate base/rate of return regulatory policy is no longer appropriate because telecommunications markets are no longer a stable environment. The Commission should implement a permanent change to price regulation for SWBT; price regulation is appropriate for non-competitive services in the Kansas telecommunications markets.

- E. **Effect of competition on obligation to serve and investments.** Staff recommended, until such time as effective competition has developed, the Commission should have a rule against abandoning a

customer or territory, thereby leaving no other provider to offer service to customers. Staff recommended the Commission should not allow revenue replacement for incumbent LECs if they lose business to competitors, or equivalently, the Commission should not guarantee recovery of investment stranded by competition. Another position on the issue was that authorization of competition for rural local exchange service, if granted, must be subject to a mechanism providing the existing company continued opportunity for recovery and return on investments made in reliance on present policy.

- F. **The structure and sustainability of competition in telecommunications markets.** There is agreement that some level of alternate telecommunications service provision will occur in Kansas. Some parties argue that the emergence of powerful competitor and market forces have swept away the "natural monopoly" of local exchange service. Significant differences exist however regarding the depth, pace of development, and impact on prices of such competition. For example, it is not at all clear that competition is or would be sustainable in the rural areas of Kansas. As another example, it is agreed that Personal Communications Service (PCS) spectrum is being auctioned by the FCC and will attract substantial bids from large players. However, there is not agreement regarding the consequences of this. Systems will take time to build out, and there are still some technological issues to be addressed. Pricing and "mass market" appeal will not firm up until those matters are closer to resolution. Cellular telephone service does exist today, and is popular. Given current prices and quality however, its use appears to reinforce and complement the landline telephone network, rather than directly compete with it. There are indications of intent and ability for cable TV systems to be converted to allow telecommunications use. The depth of subscriber willingness to switch from the local telephone company to the CATV company for telephone service is not clear at this time. Competitive Access Providers (CAPs) exist in Wichita (Multimedia Hyperion) and Kansas City (Kansas City Fiber). Also, Metropolitan Fiber Systems has an application pending to serve the Kansas City area. CAPs generally provide high capacity dedicated lines to large entities such as interexchange carriers. Many CAPs are affiliated in some way with CATV companies, and have indicated interest in providing switched telecommunications services. Electric companies generally have substantial internal communications networks, and a "wire" to most customer premises. Accordingly, some electric companies around the country and in Kansas have some level of interest in the telecommunications business. The conditions and timing of their entry appears the least clear of the potential entrants. Overall, there is no effective competition in the local exchange today.

There are strongly held differences as to whether or not "potential" competition equates to effective competition. The issue is whether the potential for competitive entry alone can discipline incumbent behavior and ensure reasonable prices.

- G. **Evaluating the level of competition for each service, corresponding regulatory classifications to be used, and appropriate regulatory requirements for each such classification.** Several proposed classification methods were identified in the hearing. They are:
1. Non-Competitive/Potentially Competitive/Competitive
 2. Essential/Potentially Competitive/Competitive
 3. Non-Competitive/Competitive
 4. Discretionary Services/Non-Discretionary Services, with Non-Discretionary Services further subdivided between Competitive/Non-Competitive.

Other recommendations include:

The Commission should maintain its ability to review LEC costs to determine if rates are just and reasonable.

Regulation of SWBT should be commensurate with its degree of market power. The Commission should audit any incumbent LEC seeking price regulation and adjust current rate levels downward if necessary to ensure that the starting point of the price regulation plan does not build-in excessive profits. The Commission should weight the relative merits of pure price caps versus price caps with sharing of excess

earnings. The Commission should adopt a productivity factor that reflects the full expected level of average annual LEC productivity gains under price regulation. Ratepayers should receive the full benefits of savings associate with increased productivity.

"Discretionary services" should be regulated by market forces to the maximum extent possible. Local switched residential and business service is not currently competitive; for any other service the service will be deemed competitive in certain geographic areas upon a showing by a provider that there are one or more alternate suppliers offering an effective substitute, considering its features and prices, in those areas. Price regulation with price caps eliminates any incentive to cross subsidize or to price below incremental costs of service. The rate should be capped and subject to an adjustment/index factor change. The price plan should also include pricing flexibility to enable LECs to meet specific targeted sub-markets selected by competitors who do not have statewide service obligations. Price regulation should not include any sharing functions or a periodic re-evaluations of rates or the price regulation formula based on earnings.

H. **Specific Pricing or Tariff Practices, including Individual Case Basis (ICB).** Some argued that ICB pricing could produce efficiencies that would benefit all customers. A reduced rate may keep some customers on the system, making at least a partial contribution to common costs. Others recommended that the Commission not allow ICB pricing for LECs at this time, since no LEC has been shown to be other than a dominant carrier, and no markets have yet been determined to be competitive. If ICB is used by a dominant firm, such price discrimination is harmful, because it leads to arbitrary price differences not based on costs, and it can forestall possibly efficient entry.

I. **Existence of barriers to entry and exit.** There has been extensive discussion regarding barriers to effective competition perceived by potential providers of telecommunications services. At least fifteen barriers to entry have been identified in the general areas of: Interconnection of Competing Networks, Telephone Numbering Resources and Portability, Pricing and Compensation issues, Policy issues, and Market Power issues. Although not all parties agree, there is substantial belief that these barriers must be addressed if effective competition is to be promoted in Kansas. It was recommended that these barriers be addressed in Phase II, and that industry Task Forces be utilized to the greatest extent possible in resolving barrier issues.

II. **Phase II.** The Commission will explore implementation issues such as: service pricing, universal service support mechanisms, and potential rate rebalancing; costing and cost study policy; network interconnection matters (including tariffs, standards and procedures); resolutions regarding barriers; and changes to local resale and sharing restrictions.

General Investigation Into Universal Service, Telecommunications Infrastructure, and Quality of Service Standards (Docket 191,206-U)

The 1994 Telecommunications Infrastructure Study compiled by Staff with the assistance of the industry shows:

Kansas has a very high penetration level for local telephone service. More than 96% of residences and businesses in Kansas have local telephone service. This ranks among the best in the United States. The state is 96% served by digital or electronic central offices (on an access line basis). 99% of customers are served with one party service. 100% are served with "Touch Tone" service, with 86% actually subscribing. The rural nature of Kansas is shown by the fact that 53% of the wire centers in the state serve 5% of the state's total access lines. From the other direction, 7% of the wire centers (the metropolitan ones) serve 49% of the state's subscribers.

Within the filed comments of parties, there was varying discussion of the actual definition of Basic Service, with components identified by the parties collectively (but not necessarily individually) as follows:

- A. Local Dial Tone (voice grade), single party, digitally served
- B. Standard white pages listing
- C. Standard intercept service
- D. Access to/Availability of or Inclusion of:
 - 1. Local Calling or Usage (limited or otherwise)
 - 2. 9-1-1, operator, directory assistance, and relay services (for the speech and hearing impaired)
 - 3. Tone Signalling ("TouchTone")
 - 4. Access services/Access to a chosen long distance carrier
- E. Other similar elements or capabilities suggested include:
 - 1. Extended Area Service (grandfathered)
 - 2. Provision of a directory
 - 3. 900 services blocking available
 - 4. Transmission quality to support low speed data (9600 baud)
 - 5. Repair service
 - 6. Capabilities including: equal access to long distance providers and digital interconnectivity

There were a variety of comments regarding the definition of universal service and universal service objectives, and regarding what, if any, policies regarding modernization of facilities and services may be appropriate.

The need for quality of service standards may be proportional to the degree of deregulation of telephone companies. Experience in the fourteen states served by US West seems to indicate that service quality problems and response times seem to increase as companies undertake cost cutting measures that are encouraged in part by regulatory review of prices but not profits.

Report of the
Blue Highway Committee on
Urban Revitalization
to the
1995 Kansas Legislature

Chairperson
Representative Phill Kline

OTHER LEGISLATIVE MEMBERS

Senator "Rip" Gooch
Senator Al Ramirez
Senator Ben Vidricksen

Representative Les Donovan
Representative Melvin Minor

February 7, 1995
December, 1994
Carroll

Attachment 3

BLUE HIGHWAY COMMITTEE ON URBAN REVITALIZATION

Background

From December 19-22, 1994, the Blue Highway Committee on Urban Revitalization heard presentations from various city and county officials and representatives from local chambers of commerce and other nonprofit organizations and neighborhood organizations in the following cities: Garden City, Dodge City, Hutchinson, Wichita, Topeka, Leavenworth, and Kansas City, Kansas. Areas of concern included:

1. housing availability and affordability, code enforcement, housing rehabilitation needs, responsiveness of state-administered housing programs, and incentives for housing development;
2. unfunded state and federal mandates for localities;
3. the effectiveness of state-administered incentives in fostering economic development in urban areas;
4. mechanisms for improving the environment (particularly groundwater) and other public works infrastructure;
5. treatment of juvenile offenders and other public safety issues, including the capacity of the KBI lab to furnish up-to-date information to localities and the availability of crime prevention services;
6. developing capacity for neighborhood revitalization; and
7. the disposition of vacant and abandoned property in urban areas.

Each of these areas of concern will be addressed briefly in Part I, with suggestions provided by conferees and the designation of the committee or committees deemed most appropriate for considering those suggestions further. The Blue Highway Committee made specific recommendations based on input received from conferees in the seven cities. These recommendations are outlined in Part II.

PART I

Urban revitalization is a difficult subject matter because many of the problems that require attention are interrelated. Presentations to the Committee continuously underscored the interconnected nature of conferees' concerns, and various community strategies to address urban degradation reflected an understanding of that interconnection. Perhaps, the Director of Development from Kansas City, Kansas captured this understanding best in his observations about the distressed areas that were identified within the proposed federal Empowerment Zone in the Bi-State Empowerment Zone Strategic Plan:

The problem was not so much a lack of jobs, but that individuals were not prepared for the jobs that did exist and that they had a difficult time accessing the job market. Special

attention was given to the extreme risk which many people face. Many people in this situation, young and old, see little hope and are not convinced that the investment of their time and resources in job training and job searching will lead to quality employment.

While the first problem is related to people the second is related to place. Even if the people in these distressed areas were able to obtain quality jobs what would keep them in the inner city. Neighborhoods, the building blocks of the community, face a myriad of problems from crime and drugs to abandoned property, to lack of retail services. A critical problem is that there is little sense of community and neighborhoods feel isolated; isolated from government services, jobs, social services, information, and the rest of the metropolitan area in general.

The third problem is the lack of an integrated approach to social service delivery. Current systems tend to deal with individual problems, but most families deal with a number of different, but interrelated problems. They need job training and child care, they may have an alcoholic spouse, and have a child in trouble at school. Each problem affects the others and it is difficult to deal effectively with each problem in isolation.

The interrelated nature of problems is not only characteristic of families, but communities, as well. One factor that ties many of these problems together is poverty. Lack of quality employment means lack of income. Lack of earned income means a lack of resources for housing or basic necessities, such as food. It also means a lack of self respect and a turning to other means for gaining both money and self-respect, crime and gangs. With a lack of resources properties become abandoned, houses are not repaired, and retail services leave.

In each of the seven communities, the Committee heard about concerns, local needs, and strategies that addressed some, if not most, of the issues identified in the above remarks. Larger cities, such as Wichita and Kansas City, Kansas had developed integrated plans to assist in resolving many of the problems associated with blighted neighborhoods. Smaller cities, such as Garden City and Dodge City, had less capacity to approach these problems in a systemic manner. Of course, the problems in those cities appeared to be of smaller magnitude, as well, especially when compared to Wichita and Kansas City, Kansas.

Housing

In each city, housing issues consumed the greatest amount of time. The problems varied depending upon the city. In Garden City and Dodge City, the most critical problem appeared to be a shortage of single family affordable housing. Job growth in both cities has exceeded affordable existing housing. In Garden City, an estimated 1,500 housing units will be needed in the next five years (representing an increase of 30 percent). The Committee was informed that in Dodge City, there has been sufficient housing stock in only four of the past 39 years. Job creation accounted for 1,120 new jobs in 1993 and 547 to date in 1994. A related problem to the shortage in housing is the lack of skilled contractors. A conferee in Garden City explained that the community college and local Tech Prep program are attempting to "grow their own" contractors. The Committee learned that a problem Garden City experiences is that contractors are generally more interested in new construction than in housing rehabilitation because profit margins are greater for the former than for the latter.

Affordable single family housing is likewise a major concern in Hutchinson. The word "affordable" is key because many of the projected jobs in these cities are not high paying; however, single family home ownership is important for long-term neighborhood stability. Compliance with housing codes varied. The Committee learned that Garden City does not have a housing code and that Dodge City and Hutchinson, by contrast, do have housing codes but they are not enforced. Bigger cities have housing codes but substandard rental property, problems with the proper maintenance thereof, and the need to rehabilitate rental and older single family housing units.

There are several federally-funded housing programs available to cities. The four most commonly mentioned were: the housing component of the Community Development Block Grant (CDBG) Program; the HOME Program; the Low-Income Housing Tax Credit Program; and the Section 8 New Construction Program. Concerns about, and suggestions pertaining to, each program are outlined below, as are the appropriate committees to review those concerns and suggestions. In addition, a section outlining other housing concerns is included.

Community Development Block Grant Program -- Housing

The Small Cities CDBG Program is administered by the Kansas Department of Commerce and Housing, which designated in FY 1994 \$2,627,900 for housing in nonentitlement cities. (The total CDBG funding allocation for nonentitlement cities in Kansas was \$21,225,000.) In addition, HUD awarded a total of \$13,684,000 in CDBG grants to entitlement cities and these cities, in turn, determine the amount of funding to be allocated among various CDBG program components, including housing. For purposes of this program, Garden City, Dodge City, and Hutchinson are nonentitlement cities and compete for funding allocations provided by the Kansas Department of Commerce and Housing. The cities of Leavenworth, Topeka, Wichita, and Kansas City receive funding directly from HUD. It was suggested that:

1. the Kansas Department of Commerce and Housing allocate more CDBG funding to housing, as opposed to other program components, for use by nonentitlement cities. Also, available housing programs are fragmented and it is difficult for nonentitlement cities to budget for CDBG funding given the unpredictability of the funding (subcommittees assigned to Kansas Department of Commerce and Housing, House Appropriations/Senate Ways and Means Committees).

HOME Program

This federal program consists of four modules:

1. the Homeowner Rehabilitation of Existing Property, which provides competitive grants to local governmental units for the rehabilitation of homes of low income persons (25 percent of allocation);
2. the First Time Homebuyers Program, which provides a subsidy to families for the downpayment on a home and associated closing costs (25 percent of allocation);
3. Community Housing Development Organizations (CHDOs), which receive funding through HOME to provide services to low-income and very low-income families

and individuals through the acquisition and rehabilitation of rental property (20 percent of allocation); and

- d. Tenant Based Rental Assistance, which provides monthly rental subsidies to very low income tenants and families who reside in public housing (20 percent of allocation).

In addition, 10 percent of the total allocation is designated for the participating jurisdiction administrative reserve. Under the Kansas HOME Program, cities can apply to the Kansas Department of Commerce and Housing for funding for homeowner rehabilitation and tenant based rental assistance but not for rental rehabilitation. The CHDOs participating in the program provide rental rehabilitation.

The Kansas Department of Commerce and Housing allocated \$5,631,000 in Program Year (FY 1994) and projected allocations of \$6.25 million in FY 1995 in HOME funding to nonentitlement cities. In addition, more than \$3.9 million was allotted in FY 1994 to entitlement cities, including Kansas City (\$888,000), Topeka (\$555,000), Wichita (\$1,494,000), Lawrence (\$500,000), and Johnson County (\$500,000). For purposes of this program, Leavenworth is included in the nonentitlement city category and receives funding from the Kansas Department of Commerce and Housing. It was suggested that:

1. Nonprofits be integrated into the HOME program at the local level so that unnecessary duplication can be avoided. In addition, the amount of HOME funding and CDBG funding should be increased to nonprofits for affordable housing (House Economic Development Committee/Senate Commerce Committee).
2. The HOME Program be less fragmented. In Kansas each of the four program components is overseen by a different type of service provider. It was noted that Missouri and Nebraska were possible models for emulation (House Economic Development Committee/Senate Commerce Committee).
3. There be greater discretion on the part of cities with respect to the use of HOME funding for rental rehabilitation, which is now provided only by CHDOs (House Economic Development Committee/Senate Commerce Committee).

Low-Income Housing Tax Credit Program

Under this federal program, the state receives an allocation of \$1.25 per capita in tax credits annually, to be awarded to developers who submit qualified plans for new construction, rehabilitation-related purchase, or rehabilitation of low-income housing units. Ten percent of the state's allocation must be set aside for nonprofit applicants. Tax credits are sold to raise equity for projects and investors may claim credits over a ten-year period. In 1994, the state's allocation was \$3.16 million. Also, in 1994, due to increased demand, the Kansas Department of Commerce and Housing applied to the national pool for additional credits and was eligible for and received an additional \$1.2 million in credits. Units in these housing projects must be rented to low- and moderate-income tenants for a period of 30 years. The Kansas Department of Commerce and Housing established a priority ranking system, in compliance with federal law, based on factors such as project location, housing needs characteristics, project characteristics, sponsor characteristics, tenant populations with special housing needs, and public housing waiting lists. It was suggested that:

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1. The program be locally controlled, rather than controlled by the state (House Economic Development Committee/Senate Commerce Committee).
 2. Problems exist with respect to tax credit allocations in terms of availability to meet demand (House Economic Development Committee/Senate Commerce Committee).

Section 8 New Construction Program

This is a federal program for construction of new low-income housing. The Kansas Department of Commerce and Housing essentially serves as a public housing authority for those areas that do not have such an authority. The agency provides oversight of management companies which operate housing projects by monitoring the annual recertification of tenants, paying out monthly rental subsidies, and preparing annual budgets and quarterly requests to the federal government for each project. It was suggested that:

1. Consideration be given to securing waivers regarding federal restrictions on the number of persons per room to provide housing authorities with greater flexibility in accommodating families. (An alternative for such families might be applications for vouchers and certificates from HUD or tenant based assistance under the HOME Program.)

Other Housing Issues

Conferees in the seven cities had various suggestions, which included the following:

1. The sales tax on original construction should be eliminated (House and Senate Tax committees).
2. Housing programs administered by the Kansas Department of Commerce and Housing do not necessarily meet the needs of western Kansas and should be assessed from the perspective of end users (House Economic Development Committee/Senate Commerce Committee). A related suggestion was that local governments ought to decide the type of housing assistance that is needed (rental, homeownership, tenant based assistance, and special needs). However, with increased local decisionmaking, local governments should be required to develop strategic plans as a precondition for funding.
3. Alternative funding sources for housing should be examined (Pioneer Services in Seattle was suggested as a possible model) (House Economic Development Committee/ Senate Commerce Committee).
4. There needs to be more flexibility in Section 8 housing programs to effect the rehabilitation of existing housing (House Economic Development Committee/Senate Commerce Committee).

Unfunded State and Federal Mandates for Localities

In each city the Committee visited the refrain of unfunded or overly restrictive mandates recurred. In addition to general pleas to the state to ease the imposition of unfunded mandates, specific examples were cited:

1. Section (a) of K.S.A. 60-1111 should be amended to increase the threshold (currently \$10,000) governing the requirement for a contractor to have a performance bond as a precondition for entering into a public works contract with a city or county (House and Senate Local Government Committees/House Business, Commerce, and Labor Committee, Senate Commerce Committee).
2. Sentencing guidelines need to be reconsidered because, according to one conferee, jails are filled to overcapacity (House and Senate Judiciary committees).
3. Concerns were raised that communities have been required to shift funding from the repair of aging infrastructure (bridges, housing) to other areas (often environmental) that would not necessarily be a local priority to comply with mandates. (The general mandate issue has been discussed in past years by the House and Senate Federal and State Affairs committees and House and Senate Local Government committees).

The Effectiveness of State-Administered Incentives in Fostering Economic Development in Urban Areas

The Committee heard several ideas for modifications to state incentives or regulations to promote economic development. These included suggestions to:

1. consider the elimination of certificated jurisdictions to allow local telecommunications providers to compete (Southwestern Bell in Garden City apparently has impeded city access to a fiber optic backbone) (Telecommunications Strategic Planning Committee);
2. consider the establishment of a Center of Excellence in Western Kansas (there are currently a total of five centers located at the University of Kansas (2), Kansas State University (1), Pittsburg State University (1), and Wichita State University (1); there is a branch of the Western Kansas Technology Center, under the auspices of MAMTC, that is located in Garden City (House Economic Development Committee/ Senate Commerce Committee);
3. consider the creation of incentives to promote retail development; Enterprise Zone sales tax exemptions only apply to retail development in communities of 2,500 or less and, according to a conferee, it is difficult to obtain CDBG funding for that purpose; two examples were cited by a Dodge City conferee to illustrate the need for incentives to promote retail development (House Economic Development Committee/Senate Commerce Committee);

4. consider additional staffing for the Kansas Main Street Program (this program currently has two staff assigned to providing technical assistance, market analysis, and design proposals to 20 cities participating in the program); conferees in Hutchinson and Leavenworth -- cities with Main Street designation -- were very complimentary about the program (House Appropriations Committee/Senate Ways and Means Committee);
5. support an interim or special study to help communities plan for effective participation in telecommunications advances (Telecommunications Strategic Planning Committee);
6. enact legislation that would clarify that municipally-owned property will not lose its tax-exempt status when it is leased to another public agency for governmental purposes (House and Senate Local Government committees); and
7. clarify provisions of K.S.A. 12-757, which pertains to rezoning procedures to be followed by governing bodies. A concern raised was that the language in Section (a) is ambiguous (House and Senate Local Government committees).

Mechanisms for Improving the Environment (Particularly GroundWater) and Other Public Works Infrastructure

Environmental concerns surfaced in a few of the cities the Committee visited but it was most extensively discussed in Hutchinson. One conferee from Hutchinson urged the state to take a unified approach to infrastructure development and replacement for small and medium-sized cities, similar to the approach taken by the state to rebuild highways. This conferee underscored several problems related to wastewater treatment and contaminated water supply as a result of failing septic tank systems on undersized lots which were allowed due to inadequate planning, particularly as such lack of planning pertained to undeveloped land.

Existing Programs

The state currently has several programs but they may not apply to specific concerns raised by the conferee in Hutchinson. First, the Kansas Water Pollution Control Revolving Loan Program was initially capitalized with federal funds and loan repayments continue to capitalize the Fund. According to recent staff information, there is approximately \$1.3 million available for program loans this fiscal year. Based on a priority system, loans may be made for 100 percent of eligible costs for water pollution control facilities, including planning, design, construction, and temporary financing costs. Program loans cannot be applied to establishing water pollution control facilities on undeveloped land, nor can they be used solely for facility planning and the design of sewage systems. Second, the State Water Plan funds contamination remediation, local environmental protection, and a nonpoint source program, all of which are administered by the Kansas Department of Health and Environment. Expenditures from one program funded from the State Water Plan -- the Local Environmental Protection Program -- are used for grants to county health departments and local entities to prepare plans and implement environmental programs based on approval of county wide strategies for management of sewage which can affect private and public waters. Third, funding is available to reimburse underground and above ground storage tank owners for remedial or corrective actions related to pollution from oil and gasoline activities. Preliminary estimates of encumbered funding include \$11,450,000 for underground storage tank cleanup and \$920,000 for above ground storage tank cleanup. The Kansas Department of Health and Environment investigates sites to determine the

extensiveness of risk, designs a cleanup system, and assists tank owners in obtaining bids. The tank owner selects the contractor but the agency only reimburses on the basis of the lowest bid.

Conferees' Recommendations

Several conferees made suggestions regarding strategies the state could adopt with respect to corrective environmental actions:

1. encourage the creation of tax incentives or tax decrement funding in distressed urban areas for development of public utilities and safety enhancements, especially in those areas vulnerable to groundwater pollution (House and Senate Tax committees/House and Senate Energy and Natural Resources committees);
2. encourage the creation of statewide rural/small community infrastructure matching fund for helping construct or reconstruct public utilities and safety enhancements, such as water and sewage development and fire protection in areas identified as recharge areas vulnerable to groundwater pollution (House and Senate Energy and Natural Resources committees/House Appropriations Committee, and Senate Ways and Means Committee);
3. encourage the development for joint city and county growth plans with tax incentives for new and innovative infrastructure development in those areas (House and Senate Local Government committees);
4. suggest adding a small increase to the state water fund and solid waste taxing formula to allow per capita funding to be returned to local communities for infrastructure development that must include protecting groundwater through public system development (House and Senate Energy and Natural Resources committees/House Appropriations Committee, and Senate Ways and Means Committee);
5. enact legislation to allow sales tax or an environment tax fund to be used for population-based environmental projects that will improve or promote groundwater protection (House and Senate Tax committees);
6. provide assistance to counties required by EPA regulations to construct new landfills with liners, leachate collection and treatment systems, methane gas venting, and monitoring systems (House Appropriations Committee/Senate Ways and Means Committee);
7. consider the establishment of a state "Superfund" program or the creation of a revolving loan program to assist local governments involved as potentially responsible parties in pre-CERCLA hazardous-waste cleanups (the Comprehensive Environmental Response, Compensation and Liability Act or Superfund legislation was enacted in 1980) (House and Senate Energy and Natural Resources committees/House Appropriations Committee/Senate Ways and Means Committee); and

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8. adopt a concurrent resolution supporting comprehensive Superfund reform (deliberations on reauthorization are likely to resume in Congress in 1995) (House and Senate Energy and Natural Resources Committees).

Treatment of Juvenile Offenders and Other Public Safety Issues

The Committee was informed by various community leaders that community policing was a promising approach. Citizens are more likely to share information about criminal activities with police, which, in the short term, might result in more convictions but, in the long term, should result in decreased criminal activity. In one community (Leavenworth), it was reported that citizens' homes are being used for surveillance of crack houses. Community policing is site-based, involves team work, and targets efforts toward becoming acquainted with at-risk people and building up trust with neighborhood residents. Juvenile crime prevention measures were identified, including the DARE and GREAT programs in schools throughout the state to prevent drug use and gang activity, respectively; activities of various community-based coalitions, such as the Project Freedom Family and Youth Coalition in Wichita; and programs which, in the long term, should result in decreased juvenile delinquency -- alternative education, family centers, Parents University (Garden City), prenatal care assistance, mentoring for students, and business education task forces. Several conferees offered suggestions to improve crime prevention and enforcement. A few recommendations pertained to adequate funding for the KBI (see No. 3).

Conferee Recommendations

1. Compliance with drivers' license requirements needs to be enforced and up-to-date automobile insurance information needs to be required (House and Senate Transportation committees).
2. Penalties should be increased for certain property crimes, such as automobile theft; automobile theft is usually charged as an unlawful deprivation of property, which is a class A misdemeanor and not a felony (House and Senate Judiciary committees).
3. The KBI lab needs increased funding, because backlogs impede law enforcement officers from adequately preparing their cases for court. Moreover, information needs to be disseminated in a timely manner to adequately assist local law enforcement agencies (House Appropriations Committee/Senate Ways and Means Committee).
4. Penalties for juvenile crime need to be revised to make them more effective in dealing with violent crimes (Select Committee on Juvenile Crime).

Developing Capacity for Neighborhood Revitalization

Throughout the tour, the Committee was informed about locally-based efforts undertaken to improve the appearance and safety of neighborhoods. The larger cities with more extensive problems naturally had the most community-based nonprofit organizations to assist in these endeavors, as well as the greatest number of programs (peer-to-peer training program, leadership training program, neighborhood courts, and others). The intent of almost all these programs is to assist neighborhood residents in becoming more self-sufficient and in developing pride in and respect for their property. Although most of the issues

raised by conferees concerning neighborhood revitalization were of a descriptive nature, more than one conferee requested state funding to assist nonprofit community organizations. The Committee learned that many of these operations run on "shoe string" budgets, although Committee members observed that administrative expenditures appear to take up a disproportionate amount in some cases. For example, in a proposal for predevelopment funding, consulting expenditures for the POWER Supermarket Development project in Wichita comprised \$20,800 of a total budget of \$25,970 for the first three to six months of preliminary predevelopment activity.

Existing State Programs

Two state programs were cited on this tour as a means of assisting urban communities:

1. The Kansas Community Services Program Act (1994 S.B. 230) authorizes credits for contributions by business firms to community services or governmental entities, which engage in the activities of providing community services. Beginning in tax year 1994, credits may be taken against income tax, financial institutions privilege tax, or domestic insurance company privilege tax. The credit granted a contributor may not exceed 50 percent of the amount contributed to a community service organization, or 70 percent of the amount contributed to a rural community service organization. The credits are limited to a total of \$5 million per year for all business firms. Any credits not used could be carried forward. Community services, in this context, include: activities which meet a demonstrated community need and which are designed to achieve the objectives set forth in the 1991 *Blueprint for Investment in Kansas Children and Their Families*; crime prevention, and health care services. (The Committee has a recommendation affecting S.B. 230 in Part II, below.)
2. The Community Strategic Planning Assistance Program (1994 Sub. for S.B. 183) was modified to allow neighborhood revitalization organizations -- groups organized for the purpose of encouraging economic development in blighted areas of metropolitan counties -- to apply for planning grants and action grants. Eligible metropolitan counties include: Douglas, Johnson, Leavenworth, Sedgwick, Shawnee, and Wyandotte. The program, prior to modification by the 1994 Legislature, applied only to rural counties. For the metropolitan component of the program, the 1994 Legislature approved \$200,000 for use in FY 1995.

Disposition of Vacant and Abandoned Property in Urban Areas

One of the biggest impediments to urban revitalization, according to several conferees, is the existence of vacant buildings and land. Conferees had suggestions on two pieces of legislation, particularly on 1994 S.B. 732.

1. S.B. 732 amended the City Unsafe and Abandoned Structures Law to allow for the rehabilitation of abandoned houses. The legislation authorizes a not-for-profit corporation, which has among its purposes the improvement of housing, to petition to the governing body of the city for temporary possession of abandoned property. After a due process notice and hearing, the organization may take temporary

possession of the property. If an owner of property declared abandoned takes no action to regain possession of the property within five years following the granting of temporary possession of the property to the organization, the organization may file a petition for judicial deed in district court. Upon due notice to the named defendants, an order may be entered by the court granting a quit-claim judicial deed to the organization providing that the property will be used for low and moderate income housing for at least a ten-year period after the deed is granted. Other provisions of the legislation allow any municipality covered by the cash basis law to designate neighborhood revitalization areas within its boundaries and to provide to taxpayers rebates in the amount of the incremental increases in property taxes resulting from improvements made to the property. The rebates are to be made within 30 days of the payment of taxes. (The Committee has a recommendation affecting S.B. 732 in Part II, below.)

Conferees' Concerns With 1994 S.B. 732

Conferees expressed several concerns with the provisions of S.B. 732, including:

The Takings Issue. It was recommended that the authority of cities be clarified with respect to their liability in the event that not-for-profit corporations fail to comply with the terms of the quit-claim judicial deed issued pursuant to the legislation.

Tax Lfd. It was recommended that property taxes levied which are to be rebates pursuant to S.B. 732 not be subject to a city's property tax lid.

Rehabilitation of Residential Property. It was recommended that rehabilitation apply not only to residential property but to commercial property, as well. Moreover, it was noted that a rebate might be an insufficient incentive to encourage developers to rehabilitate substandard property.

Time Period Allowed for Property Owners to Regain Possession. As previously noted, S.B. 732 allows property owners up to five years to regain possession of the property after the not-for-profit organization has been granted temporary possession. It was recommended that this time period be shortened.

Agreement Issue. There is no provision in S.B. 732 to require all entities within a given municipality to participate in a rebate plan proposed by one municipal entity. If the other municipal entities are not in agreement, they do not have to share the fiscal burden of that decision.

2. The Kansas Tax Increment Financing law has been in effect since 1976. Essentially, this law permits the apportionment of any increment in ad valorem property taxes resulting from a redevelopment project to be made to a special fund for the payment of the cost of the project, including the retirement of bonds issued

for that purpose. One conferee explained that this law has been used infrequently compared to similar legislation in Missouri. Staff was asked to compare the Kansas and Missouri laws and report to the Committee. The Kansas law has the apparent advantage of allowing the governing body to sell general obligation bonds, provided there is no protest petition, to pay for the costs of the project. The city also is allowed to use its ad valorem taxing authority for repayment if authorized sources of revenue are insufficient. In contrast, Missouri law authorizes cities to issue special obligation bonds for redevelopment purposes. This difference notwithstanding, Missouri law permits incremental sales tax proceeds generated by economic activities within the area of redevelopment, in addition to payments in lieu of taxes attributable to increased assessed valuation, to be used to retire the bonds. Kansas law includes no provision for sales tax proceeds to be used in this manner. Finally, Missouri law provides no veto authority to other governmental units, although the school board has representation on a commission that must be created to develop the redevelopment plan and project designations. This commission may not exercise the right of final approval of plans, projects, and designation of redevelopment areas.

In addition to the concerns expressed regarding 1994 S.B. 732 and the existing Tax Increment Financing law, a proposal was submitted to the Committee by the Liveable Neighborhoods Task Force, Wyandotte County, for the establishment of a land bank on a pilot project basis. The Committee was informed that the proposal was in the conceptual stages and was largely modeled after a land bank established by the City of Cleveland. The way it works is that all tax delinquent property which has been foreclosed by the county and not sold in the tax sale would be deeded to the land bank. Property will be accepted into the land bank only with approval of a three-member board of trustees (one member to be appointed by the county, one by Kansas City, and one by U.S.D. 500). Property would be excluded if it has potential liabilities. Owners should be allowed to forfeit their property without submitting to a foreclosure process. In addition, city-owned and county-owned property should be permitted to transfer to the land bank. The proposal requested \$150,000 in state start-up funds for a two-year basis. The proposal noted that the land bank would eventually be funded by a special mill levy with a cap determined by statute. The advantage cited for the establishment of the land bank is that it could provide for the sale of blocks of land to developers for redevelopment with clear title and without delinquent taxes. The proposal also noted that property tax abatements might be included to promote residential development and that property redeveloped through the land bank should also be eligible for tax increment financing. (The Committee addressed this proposal in Part II, below.)

PART II

The Blue Highway Committee on Urban Revitalization made the following recommendations:

1. Recommend legislation to establish a land bank in Wyandotte County on a pilot project basis. The Committee notes that there is a request for start-up costs of \$150,000 associated with the proposal (a matter for the House Appropriations

Committee and Senate Ways and Means Committee to consider if the bill is enacted).

2. Recommend legislation to create an urban revitalization program which allocates up to \$2 million per year for up to five years for each of three pilot projects. Funding for this program would come from the state's portion of proceeds from the sales tax, income tax, and property tax, generated within the blighted area which is designated for revitalization. Expenditures from the state's Economic Development Initiative Fund would be transferred annually to the State General Fund for each of five years to offset the foregone tax revenues that would have been generated in such area. A Neighborhood Revitalization Planning Board (NRPB) representing one or more neighborhood associations could apply to a review committee for a multi-year grant. The board's application would have to identify the blighted area to be revitalized and would have to include a strategic plan and other information outlined in the bill. No more than 25 percent of the area of a city, all of which must be contiguous, may be identified as "blighted" for purposes of this bill. In addition, the application would have to be accompanied by a resolution indicating support for the application from the city in which the blighted area is located. Factors to be considered in selecting a grant recipient would include: the degree of committed private sector involvement (monetary match or in-kind), the feasibility of the strategic plan, the compatibility of the proposed project with the city's comprehensive plan, the intended use of other government resources, the criteria for evaluating the proposed project, the proposed method of eliciting community input and the breadth of input, the budget for the proposed project, the proportion of the budget designated for administrative costs, and other relevant information.
3. Recommend amendments to S.B. 230 to authorize investors in neighborhood organizations governed by NRPBs, which receive funding under the proposed legislation in No. 2, to qualify for tax credits under the same terms as govern investors in community service organizations.
4. Recommend legislation modifying 1994 S.B. 732 to exempt from the tax lid property taxes which are rebated pursuant to the legislation. The Committee acknowledges conferees' concerns regarding the other issues raised pertaining to the law (takings issue, application of law to residential property only, time period for transfer of property ownership, and implications of nonconsensus on the part of other municipal entities), and recommends that those issues be considered in 1995 by the House and Senate Local Government committees.
5. Recommend the introduction of legislation to amend 1994 S.B. 459 (the Wyandotte County Accumulated Interest Property Tax Program) to shift responsibilities assigned to the county treasurer (partial payments) to the county commission. This would conform provisions of the Amnesty program to the proposed land bank legislation.