

Approved: January 23, 1996
Date

MINUTES OF THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT.

The meeting was called to order by Chairperson Barbara P. Allen at 3:30 p.m. on January 16, 1996 in Room 423-S of the Capitol.

All members were present except: Rep. Lisa Benlon - excused
Rep. Kenneth King - excused
Rep. Greg Packer - excused

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

Conferees appearing before the committee: Charles Warren, President, Kansas Inc.
Gary Sherrer, Secretary of Kansas Department of Commerce and Housing

Others attending: See attached list

Charles Warren, President, Kansas Inc., reported to the Committee the findings and recommendations of the Kansas Inc. report, Analysis of Kansas Business Assistance Programs (Attachment 1).

Gary Sherrer, Secretary of Kansas Department of Commerce and Housing, gave his response to the Business Assistance report by Kansas Inc. (Attachment 2).

Gary Sherrer, Secretary of Kansas Department of Commerce and Housing, introduced the Department's package of bills on Economic Development.

A motion was made by Rep. Empson to introduce the KDOCH bills, and Rep. Wempe seconded. The motion passed.

The meeting was adjourned at 4:30 p.m.

The next meeting is scheduled for January 17, 1996.

**ANALYSIS OF
KANSAS BUSINESS ASSISTANCE PROGRAMS**

Testimony of

**Charles R. Warren, Ph.D.
President, Kansas, Inc.**

before

**House Economic Development Committee
The Kansas Legislature**

January 16, 1996

*Economic Development
January 16, 1996
Attachment 1*

Madame Chair, members of the Senate Committee on Commerce, I appreciate this opportunity to report to you on the findings and recommendations of the Kansas, Inc. report, *Analysis of Kansas Business Assistance Programs*.

This evaluation project was undertaken by Kansas, Inc. staff in May 1995. Over 50 programs designed to assist Kansas business directly were identified in eight separate state agencies or state-funded entities. Thirty-two (32) of these programs were selected for detailed analysis and extensive data collection on clients served and related performance measures of outputs and outcomes. Kansas, Inc. developed a data base of 2,876 separate businesses that received 4,148 "incidents of assistance" primarily during a three year period, beginning in Fiscal Year 1992 and ending in Fiscal Year 1994. In some cases, data was collected over a longer and more recent period of program performance.

Preliminary results of the analysis were presented to the Kansas, Inc. Board of Directors at its annual retreat in August 1995. A draft report was presented to the Board on November 21, 1995. The revised and final report was provided to the Board at a meeting on December 29. The contents of the report were approved by formal motion of the Board, and the recommendations contained in Chapter Nine were also adopted by the Board of Directors.

Kansas Economic Development

The State of Kansas has engaged in a decade-long effort to use the authority and resources of state government to develop and strengthen its economy. In 1986, the Kansas Legislature recognized the economic and fiscal crisis facing it, and responded with a comprehensive and bold program of institutional reform and programmatic innovations. Ten years ago, the Kansas economy was in recession. The major sectors of manufacturing, aviation, oil and gas, and agriculture were all in decline. Unemployment was high. The fiscal condition of the state was dire.

In November 1995, the statewide unemployment rate was estimated at 3.9 percent. Over 1.3 million jobs exist for Kansas residents, and Kansas will finish the year with its highest annual average employment levels ever. Since the economic crisis in 1986, the total personal income of Kansans has risen 50.6 percent (nominal dollars). During this same time period, Kansas' per capita income levels have risen 43.5 percent (nominal dollars), and is at 102 percent of the average for plains states. The prosperity of Kansas residents and businesses have translated into steady growth in state revenues. In 1996, our economy is indeed strong, stable and diversified. The issue today is not jobs for Kansans, but locating and training a skilled workforce capable of fulfilling the needs of Kansas businesses. In Wichita alone, approximately 1,500 job vacancies exist. The demand for workers in Johnson County has led to increased wage rates for entry level workers. To a great extent, the goal of economic prosperity envisioned by Kansas legislators ten years ago has been achieved.

Kansas has an economic development infrastructure that ranks among the best in the nation. We have a formal strategy for economic development that articulates a vision, mission statement, and explicit goals and objectives. Our three major entities: The Department of Commerce and Housing, Kansas Technology Enterprise Corporation, and

Kansas, Inc. have a wide range of tools and the professional staff to carry out their missions. Kansas has established a stable and assured source of funding through the Lottery and the Economic Development Initiatives Fund (EDIF) to provide the resources for implementation. There exists a wide array of program initiatives and business tax incentives to help new start-up companies, existing companies that are expanding, and businesses relocating to Kansas. The results achieved through these programs over the last several years are impressive and justify the investments made by the State. Details of program outcomes are provided in this *Analysis of Kansas Business Assistance*.

We have reached a stage of maturity in economic development, and achieved a state of relative economic prosperity, or at the least, stability. We have the opportunity to advance to a higher level of performance and sophistication. We are indeed fortunate in not having the "wolf at our door," and to no longer be in a desperate search for jobs. Still, some communities and residents face difficult economic conditions. Many Kansas firms are challenged by strong competitors and struggle to make a profit or even survive. Some Kansas workers receive only subsistence wages and lack adequate benefits and health care. The State continues to receive only average, or in some cases, failing grades, on the annual score cards of state economic performance.

The Kansas, Inc. analysis provides a starting point for setting new and higher goals and objectives for economic development. I would like to suggest that we establish the following as operating principles to guide performance for the next decade of economic development:

1. Analytical
2. Accountable
3. Customer-driven
4. Strategic
5. Systemic
6. Targeted
7. Equitable
8. Balanced Investment with maximum returns

Analytical. A comprehensive system of data collection and analysis needs to be established on an inter-agency basis that accurately and fully records program activities, outputs, and accomplishments. Existing data and reporting systems must be enhanced to enable ease of information retrieval and to support economic analysis.

Accountable. Economic development programs and expenditures must meet the highest standards of accountability to ensure that these activities serve the public interest, achieve strategic goals, and are justifiable expenditures of public monies. A more sophisticated and credible system of data collection, reporting, and performance measurement is required to meet accountability standards.

Customer-driven. Agency performance and program management must become more customer-driven and responsive to clients and their needs. Customer satisfaction and increased value to the businesses served must become a greater determinant of program

success. Public sector programs, by themselves, do not create jobs. The state's role is to enable Kansas companies to add employment, increase investment, and become more competitive.

Strategic. The broader mission of economic development is to increase the standard of living and quality of life of all Kansans. Economic development agencies and programs must operate within a broader, strategic context. Programs are "tools" designed to achieve strategic objectives. Program managers and staff cannot operate in isolation. Agency and program performance should be judged on their contribution to strategic goals.

Systemic. When the 1986 Legislature adopted its economic development package, it had an explicit organizational design for the new institutions. It was creating a system of economic development entities, based on the concept of public-private partnerships, that would operate within individual areas of expertise, but together would provide an integrated and coordinated framework of assistance. Individual agencies and programs were designed to meet articulated needs in business finance, technology, international trade, business recruitment, and so on. Each was to function within a strategic framework with oversight by the Governor, the Legislature, and the Kansas, Inc. Board of Directors.

The vision of a system of economic development assistance has not been fully achieved. Coordination between and among agencies and individual programs needs to be improved. Agency desires for independence and an over-emphasis on program specific missions have led to fragmentation and duplication of services.

Targeted. A statutory purpose of Kansas, Inc. is to "oversee the targeting of scarce state resources by size and sector of economic activity and by geographic location within the state. . ." The favorable economic conditions of Kansas now allows state agencies to be more proactive and selective. We have an opportunity to target and focus our economic development programs.

While the State as a whole is prosperous, we need to target our efforts: a) to selected industries, b) to specific communities, and c) to minorities and disadvantaged persons.

We have a diversified economy, but we need to strengthen certain industries. KTEC, in cooperation with Kansas, Inc., has prepared a Strategic Technologies Action Plan that identifies Kansas strengths in research technologies and related industrial sectors. Analysis is needed on a sector and firm basis to further develop and implement a targeted industry program that will advance our goals in science and technology. A targeted industries strategy is also needed to provide guidance to our industrial recruitment efforts.

A number of rural communities need help in creating and retaining jobs. Almost all of our rural counties have economic development strategies, most prepared through assistance from the Community Strategic Planning Program. Distressed communities that have organized and prepared sound plans for revitalization should be targeted for assistance.

General economic prosperity and a strong demand for labor provide the conditions necessary to extend targeted assistance to minorities and disadvantaged persons. Current programs in KDOC&H, KTEC, the SBDCs and CDCs designed to assist entrepreneurs and small businesses need to reach out to minority groups. Assistance to minorities in Sedgwick, Shawnee, and Wyandotte Counties, in particular, should be emphasized by state economic development agencies.

Equitable. At the same time, we target assistance to specific industries, communities, and minority groups, we must also ensure that all regions of the state, and types and sizes of industries, are served. The Kansas, Inc. *Analysis* provides evidence that state economic development programs have been distributed in an equitable fashion. As described in the findings, during Fiscal Years 1992 through 1994, rural areas were well-served, businesses in 104 counties received assistance, and small businesses were the predominant clients. The distribution of assistance should be continually monitored to ensure that service equity is achieved.

Balanced Investment with Maximum Return. The state's investment in economic development, both from the State General Fund and EDIF, should be viewed as an investment portfolio: As a portfolio, the various investments should be balanced and distributed across the types and stages of community and economic development. State policy makers should not make large bets on any one sector or economic development category. Budgetary decisions should be understood beyond agency budgets to comprehend the proportion of funding that is dedicated to the various approaches, e.g., industrial recruitment, business assistance, applied research, basic research, international trade, and so on. Kansas, Inc. has prepared a categorization of expenditures to show the distribution among economic development categories.

Budgetary decisions to allocate funds among the various approaches should be based on the "return on investment" achieved by the agencies and programs. Such factors as "cost per job" and other quantifiable outcome measures should be used to decide funding allocations. The methodologies for calculating "return on investment" need to be improved to provide reliable data to state decision makers.

The *Analysis of Kansas Business Assistance* completed by Kansas, Inc. provides a starting point and a foundation to achieve the principles and objectives I have just outlined. The recommendations in Chapter 9 of the report are designed to ensure that the principles I have outlined are implemented.

State Economic Development Budget, FY 1996

Source: FY 1996 Budget Estimates

	SGF FY 1996	EDIF FY 1996
Kansas Department of Commerce & Housing		
Funding by Division		
Administration	\$261,451	\$1,233,410
Business Development	\$472,521	\$1,560,706
Trade Development	\$0	\$927,300
Travel & Tourism	\$363,780	\$833,852
Community Development	\$353,719	\$235,952
Funding by Major Program		
Operations	\$1,451,471	\$4,791,220
KIT/KIR	-	\$3,000,000
Trade Show Promotion	-	\$270,000
Strategic Planning Grants	-	\$400,000
Tourism Promotion	-	\$270,000
KEOIF	-	\$4,000,000
HPIP	-	\$75,000
Micro-Loan program	-	\$1,000,000
Main Street Development	-	\$200,000
SBDCs	-	\$325,000
CDCs	-	\$475,000
Wichita World Trade Center	-	\$65,000
Olathe Travel Information Center	-	\$35,000
Sub-Total:	\$1,451,471	\$14,906,220
Total KDOC&H Revenue from State of Kansas:		\$16,357,691

Kansas Technology Enterprise Corporation		
Applied Research Matching Grants	-	\$1,260,000
Small Business Innovative Research Grants	-	\$86,000
Traning Equipment Grants	-	\$250,000
Industrial Liaison Offices	-	\$300,000
Seed Capital	-	\$3,300,000
EPSCoR	-	\$3,450,000
Special Projects	-	\$453,000
Commercialization Grants	-	\$1,400,000
Kansas Value Added Center	-	\$880,737
Centers of Excellence	-	\$3,502,896
Centers of Excellence - MAMTC	-	\$847,104
MAMTC	-	\$1,000,000
Operations	-	\$1,195,631
Total KTEC Revenue from State of Kansas:		\$17,925,368

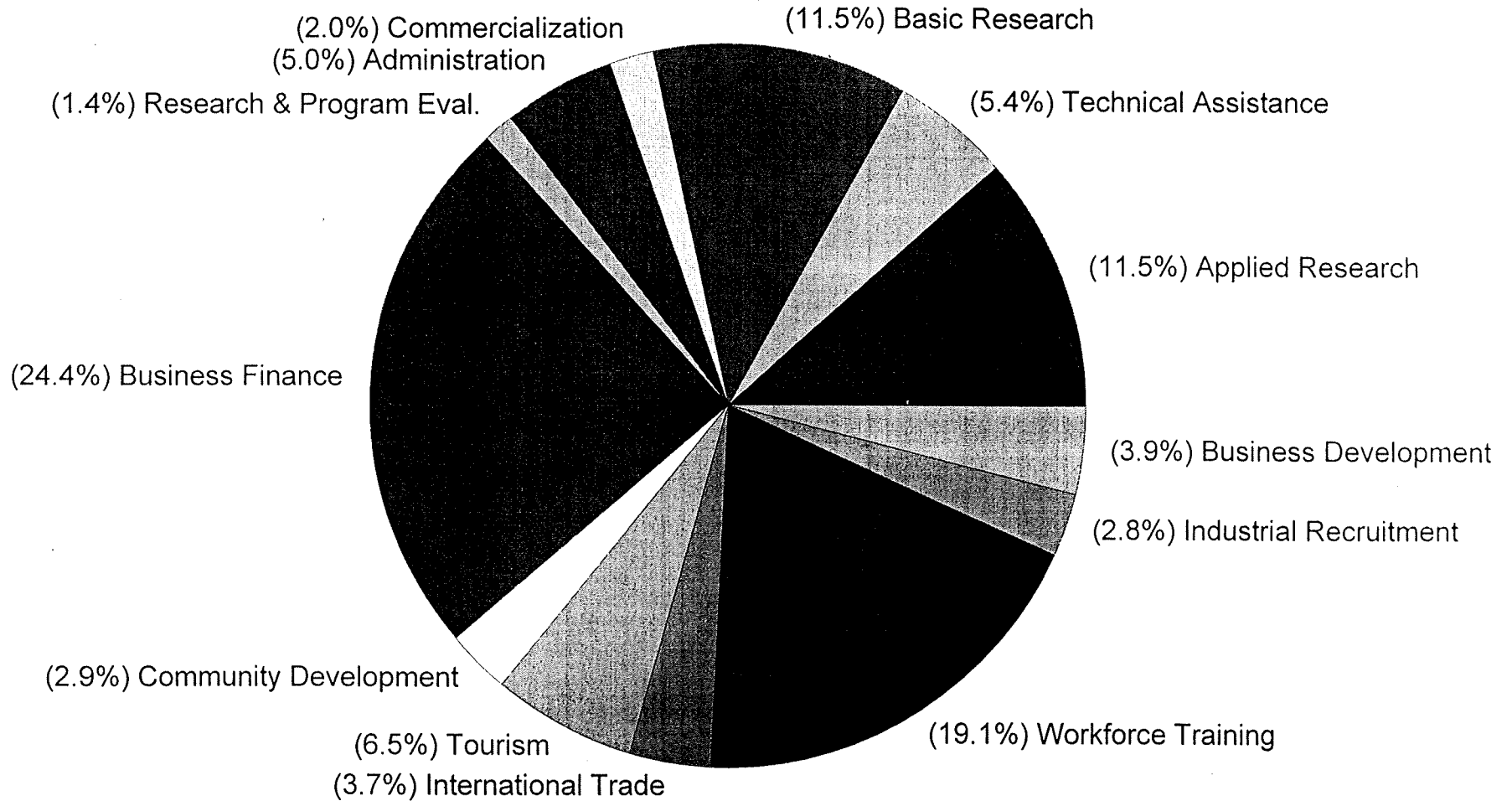
Kansas Dept. of Ag.-Marketing Division	-	\$316,707
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Kansas, Inc.	\$170,195	\$137,926
Total Kansas, Inc. Revenue from State of Kansas:		\$308,121

Total from EDIF:		\$33,286,221
Total from SGF:		\$1,621,666

Total Economic Development Dollars from SGF and EDIF:		\$34,907,887
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Economic Development Expenditures FY 1996 Budget (Excludes Fed Funds)



KANSAS BUSINESS ASSISTANCE PROGRAMS

As of Fiscal Year 1995

I. Kansas Department of Commerce & Housing

A. Community Development Division

1. *Small Cities Community Development Block Grants (CDBG) - Economic Development*

B. Business Development Division

Business Assistance Programs

2. *First Stop Clearinghouse*
3. *Business Retention & Expansion Program*
4. *Kansas Match*
5. *Strongest Link*
6. *Regional Field Offices*

Business Finance Services

7. *Venture and Seed Capital*
8. *High Performance Firms Initiatives Program (HPIP)*
9. *Private Activity Bonds*
10. *Partnership Fund*
11. *Enterprise Zones*
12. *Export Finance*
13. *Kansas Economic Opportunity Initiatives Fund (KEOIF)*

National Marketing Services

14. *National Business Recruitment*
15. *Kansas Cavalry*
16. *Out-of-State Offices (Chicago, Los Angeles)*

Office of Minority & Women Owned Business Development

17. *Certification Program*
18. *Procurement Seminars*
19. *Directory of Minority & Women Owned Businesses*

Work Force Training Services

20. *Kansas Industrial Training Program (KIT)*
21. *Kansas Industrial Retraining Program (KIR)*
22. *State of Kansas Investment in Lifelong Learning (SKILL)*

C. Trade Development Division

23. *Trade, Marketing & Promotions*
24. *Trade Services*
25. *International Industrial Development*

26. *Trade Show Assistance*
27. *From the Hands of Kansas*

II. Kansas Technology Enterprise Corporation

28. *Applied Research Matching Fund Grants*
29. *Innovation Research (SBIR)*
30. *Seed Capital (Ad Astra I & II)*
31. *Training Equipment Grants*

Centers of Excellence

32. *Center for Computer Aided Systems Engineering (KU)*
33. *Higuchi Biosciences Center (KU)*
34. *Advanced Manufacturing Institute (KSU)*
35. *National Institute for Aviation Research (WSU)*
36. *Center for Design, Development and Production (PSU)*

Commercialization/Innovation Centers

37. *Kansas Innovation Corporation, Lawrence*
38. *Mid-America Commercialization Corp., Manhattan*
39. *Wichita Technology Corporation, Wichita*

Industrial Liaison Offices

40. *Tech-Industry Consultants, Lenexa*
41. *Western Kansas Technology Corp., Great Bend*

III. Kansas Value Added Center

42. *Foods and Feeds Uses Program*
43. *Industrial Agriculture Uses Program*

IV. Mid-America Manufacturing Technology Center

44. *One-on-One Client Consultation*
45. *Seminars and Workshops*
46. *Technical Assistance Contracts*

V. Kansas Venture Capital, Inc.

47. *Venture and Equity Financing*

VI. Certified Development Companies

48. *Business Financing*

VII. Small Business Development Centers

- 49. *Long-Term Business Assistance*
- 50. Short-Term Business Assistance
- 51. Seminars and Workshops

VIII. Kansas Department of Agriculture, Marketing Division

- 52. Agricultural Producers Directories
- 53. *Food Producers Directories*
- 54. National & International Trade Assistance

Total: 54 Business Assistance Programs

KANSAS, INC. METHODOLOGY AND DATA BASE

The Kansas, Inc. Data Base

What does it contain?

4,148 "incidents of assistance" provided to 2876 individual businesses,

Representing the Activity of:

8 state agencies or state-funded entities, and
32 business assistance programs serving Kansas businesses
primarily between FY 1992 and FY 1994.

The Agencies/Entities:

- Kansas Department of Commerce & Housing (KDOC&H)
- Kansas Technology Enterprise Corporation (KTEC)
- Mid-America Manufacturing Technology Center (MAMTC)
- Kansas Small Business Development Centers (SBDC)
- Kansas Certified Development Companies (CDC)
- Kansas Venture Capital, Inc. (KVIC)
- Marketing Division, Kansas Department of Agriculture
- Kansas Value Added Center (KVAC)

What kind of data was recorded?

- | | |
|--------------------------------|---------------------------|
| • Firm Name | • Program & Agency Used |
| • Telephone Number | • Year of Assistance |
| • Contact Person | • Amount of Grant or Loan |
| • Full Mailing Address | • Firm's Investment |
| • Industry and SIC Code | • Jobs Created |
| • Size of Firm | • Jobs Retained |
| • County & Region of the State | • Wage Rates |
| • Metro or Nonmetro | • Type of Project |

How was the information collected?

Primary sources of data were agencies themselves.

Formal requests were made of agencies to provide standardized information on every "incident of assistance" between FY 1992 and FY 1994. When a program client base was very small, Kansas, Inc. requested information for the *life of the program*. In some cases, incidents of assistance for FY 1995 were used, for example, the Centers of Excellence where FY 1992 through FY 1994 was too incomplete to analyze fairly.

In very few cases were complete firm identifications submitted to Kansas, Inc. The most often missing data was firm size and industry classification. This was especially true of the clients of the Kansas Department of Agriculture and the Kansas Value Added Center.

Kansas, Inc. staff spent a great deal of time and effort in the attempt to "fill in" these blanks. Sources used to identify these missing variables were the *1995 Kansas Directory of Commerce, A Guide to Manufacturers and Other Major Employers* published by the Wichita Eagle and Beacon Publishing Co., KDOC&H's Project Tracking System, and by contacting over 150 firms directly by telephone. Due to time constraints, missing variables that could not be filled were labeled "unknown."

How was the data base developed?

Information received from the agencies was entered into a single Lotus spreadsheet which was then exported to a statistical software program.

Each firm was assigned an identifying number. If a firm was listed more than once, the firm still received only one identifying number. The spreadsheet was exported into a software program developed to tabulate survey data. Frequency reports were run keying off data variables and the numbers assigned to companies. Results of those reports were used to produce the tables and charts that profile the programs and the clients.

How was customer satisfaction measured?

Since some programs have only an indirect impact on job creation, a rating of customer satisfaction is a significant and meaningful indicator of the value of the assistance provided to an individual or company.

Kansas, Inc. contracted with Central Research & Consulting of Topeka to conduct surveys of eleven programs. Some agencies conduct regular surveys of their clients, and, where appropriate, Kansas, Inc. relied on those results.

Program	In Data Base		Not Included in Data Base		
	Incidents of Assistance	Number of Firms Served	Not a Business	Outside Time Period	Other IOA Removed
Small Business Development Centers(SBDCs)	1228	1132	2		
First Stop Clearinghouse	0	0			2795 (See Text)
Certified Development Companies (CDCs)	812	738	2		1 (unidentified client)
Kansas Venture Capital Inc. (KVIC)	18 Life of Program	18 Life of Program			
KS Certified Venture & Seed Capital Companies	62 Life of Program	62 Life of Program			
Minority & Women Owned Business (WMOB)	46	45	17		
Partnership Fund	2	1			
High Performance Firms Initiative Program(HPIP)	14 Life of Program	14 Life of Program			
Export Finance	13 Life of the Program	8 Life of the Program			
General Trade Assistance	232	179			

Program	In Data Base		Not Included in Data Base		
	Incidents of Assistance	Number of Firms Served	Not a Business	IOA Outside Period	Other IOA Removed
KS Trade Show Assistance Program (KTSAP)	224	128			
International Industrial Development	8	8			
Kansas Industrial Training Program (KIT)	109	99			
Kansas Industrial Retraining Program (KIR)	108	96			
State of Kansas Investment in Lifelong Learning (SKILL)	10	9			
Recruitment/ National Marketing	32	32			
KS Economic Opportunity Initiatives Fund (KEOIF)	13 Life of the Program	13 Life of the Program	2		
Community Development Block Grant Program (CDBG)	53	51			

Program	In Data Base		Not Included in Data Base		
	Incidents of Assistance	Number of Firms Served	Not a Business	IOA Outside Period	Other IOA Removed
Dept. of Ag, Food Marketing Program	370	370			
Centers of Excellence	133	114	7	51	7 (Removed by AMI)
Applied Research Matching Funds (ARMF)	99	76	1		
Small Business Innovation Research (SBIR)	26	15			
Ad Astra I & II	16	16			
Mid-America Manufacturing Technology Center (MAMTC)	497	156	4		
Kansas Value Added Center (KVAC)	76	71	1		

Programs Surveyed by Central Research & Consulting or Agency	Firms Surveyed	Response Rate
Trade Assistance	100	38%
Community Development Block Grants (CDBG)	51	65%
Minority and Women Owned Business (MWOB)	61	31%
First Stop Clearinghouse	100	26%
Business Recruitment	31	22%
Small Business Innovation Research (SBIR)	15	40%
Applied Research Matching Fund (ARMF)	70	48%
Centers of Excellence	100	34%
Kansas Venture Capital, Inc. (KVCI)	15	100%
Certified Development Companies (CDCs)	104	43%
Certified Venture & Seed Capital Companies (CDCs)	25	56%
Kansas Trade Show Assistance Program (KTSAP)*	85	100%
Kansas Industrial Training & Retraining Programs (KIT/KIR)*	59	86%
Mid-America Manufacturing Technology Center (MAMTC)*	156	79%
Small Business Development Centers (SBDCs)*	627	35%

* Indicates these programs were surveyed by the agency.

FINDINGS

The Issue of Accountability

Although there are notable exceptions, in general, Kansas economic development programs do not meet rigorous standards of accountability, because of the lack of consistent and reliable data on program performance and outcomes. In its 1990 evaluation of KDOC&H, Kansas, Inc. cited the inability of program managers to provide consistent and quantifiable data on performance and impact. This lack of complete and meaningful data for programs continues to be a problem within the Department, as well as with KTEC and the other agencies that receive state funds for economic development purposes.

This evaluation found not only a lack of data on results for some programs, but also found it difficult to clearly identify program costs and expenditures. For most programs, it is impossible to determine what the "return on investment" (ROI) has been. Calculating ROI requires a direct identification between expenditures and results. In many cases, budgets are either not broken down by program, or a complex set of budgetary and organizational arrangements make it difficult to sort out how expenditures and program objectives are related.

Project Tracking Systems

All agencies discussed in this section (KDOC&H, KTEC, and MAMTC) are currently using computerized client tracking systems for a significant number of their programs, although there are several programs which have not yet been completely incorporated into a such a network. For all programs not currently included in a computer tracking system, plans are in progress to extend each agency's system to include these programs in the immediate future.

Each system includes many common elements pertaining to the clients each program serves. This common data includes name, address, telephone number and contact person for each client; client background data such as firm SIC code, firm size and years in business; nature of the assistance provided; and customer satisfaction with services received. Both the MAMTC and KTRAC systems include, or will include, outcome data such as jobs created and retained, average wages of all new jobs, savings in production costs, and new sales resulting from the assistance received.

Based on the analysis of the tracking systems examined in this report, Kansas, Inc. has identified the following issues.

- ▶ Little coordination or cost-sharing in development between agencies.

The four project tracking systems have been developed independently by KDOC&H, KTEC, and MAMTC. There was apparently little, if any, coordination among the agencies in developing the systems, nor does there appear to have been any effort to share the costs

of developing the various systems. The selection of both main frame and pc-based systems has made it difficult to integrate the data bases across programs and agencies.

- ▶ A lack of capacity to share data across agencies.

The possibility for electronic data interchange among the agencies does not presently exist because of the different programs utilized and the varying data fields on clients and related information that have been developed. Currently, each agency must enter data on clients that have been served through other economic development programs or agencies as if they were new to the system.

- ▶ The lack of uniformity among agencies and programs in the data collected.

While there is a great deal of similarity in the basic information collected on each of the clients served through the various programs, the data is not recorded in a uniform manner. This makes it difficult to develop comparisons across programs or to determine, for example, if such outcome measures as jobs created or investments made are duplicative or original to the individual programs.

- ▶ Inconsistent implementation of existing tracking systems.

Although the tracking systems have been under development for at least four years, they have not been implemented across all agency programs nor have all program managers been required to collect and record data in a systematic fashion. For example, the Western Kansas Technology Corporation, a KTEC Industrial Liaison Office, had an excellent data base on its clients, while the other Industrial Liaison Office in Johnson County maintained only incomplete paper records of its activities and clients. Although better tracking measures are now in place, the data provided Kansas, Inc. by KTEC's Centers of Excellence on clients served during the three year analysis period, was so inadequate that FY 1995 data had to be used for the analysis.

Distribution of Business Assistance

- ▶ Assistance to businesses was distributed widely across the state with firms in all but one of the 105 counties receiving some form of assistance between FY 92 and FY 94. The delivery system is also biased toward rural firms. The aggregate profile shows that 55% of client firms were located in *nonmetropolitan* counties. The extensive coverage of rural areas is due primarily to the service delivery of the SBDCs and the CDCs.
- ▶ The majority of firms served by KDOC&H and KTEC were located in metropolitan areas. 58% of firms served by KDOC&H and 57% of firms served by KTEC were located in *metropolitan* counties. KTEC services were even more biased toward metropolitan counties if the activities of MAMTC are excluded from the KTEC distribution analysis. When MAMTC clients are removed, 66.7% of KTEC's services were delivered to firms located in metropolitan counties.
- ▶ Approximately 43.8% of KDOC&H clients were located in the Northeast region, and 26% were in the South Central region.
- ▶ 33% of firms served by KTEC were located in the Northeast region, followed by 29.9% of firms in the South Central region.
- ▶ Despite the fact that more firms in the Northeast region were served than firms in other regions, this region was under served based on a ratio of the total number of firms served to the total number of firms located in Northeast counties.
- ▶ Of the total number of firms listed in the Kansas, Inc. data base where firm size is known, those firms with less than 10 employees received the most assistance. Of those firms served by KDOC&H, 85% had less than 250 employees, and the same was true for 89% of firms served by KTEC.
- ▶ Manufacturing firms received the greatest share of assistance (39%), followed by the service sector (23.6%), and the retail sector (21.7%). Of those firms served by KDOC&H, 72.8% were manufacturers, while only 13% were service sector firms. 75% of firms served by KTEC were manufacturers, followed by service sector firms which received 15.6% of KTEC's assistance.

Agency and Program Interactions

- ▶ Of the 2,876 firms identified as business assistance clients in the Kansas, Inc. data base, only 8% received assistance from more than one agency.
 - 7% received assistance from 2 agencies
 - 1% received assistance from 3 agencies
 - .07% received assistance from 4 agencies
- ▶ The greatest total interaction was between the SBDCs and CDCs. These two agencies combined to serve 50 common clients. However, these 50 clients represent only 4.4% of SBDC clients and 6.8% of CDC clients.
- ▶ 26.9% of MAMTC clients also received assistance from KDOC&H, particularly from the workforce training programs. 19.2% of MAMTC clients also received assistance from KTEC. 21.4% of KTEC clients also received assistance from KDOC&H.
- ▶ Most business assistance programs offered multiple incidents of assistance to individual firms. With regard to some programs, multiple incidents of assistance may be appropriate (CDCs), while with other programs, the provision of multiple incidents of assistance contradicts the purpose of the program (KTSAP).

Program Profiles

Kansas Department of Commerce & Housing

Kansas Venture and Seed Capital Program

- Expenditures consist of corporate tax credits awarded to investors in these funds. Approximately \$6.5 million in tax credits have been awarded to these investment groups.
- 62 firms have received a total of approximately \$18.1 million in funding as of the end of CY 1994.
- These investment companies report the creation of 365 new jobs and the retention of 564 existing jobs.

High Performance Firms Incentive Program (HPIP)

- Expenditures consist of \$5.8 million in corporate tax credits, sales tax exemptions awarded to eligible firms, and \$75,000 appropriated in FY 95 for consulting services.
- 14 businesses have been certified under HPIP as of September 1995.
- Program outcomes to date are 324 jobs created, 310 jobs retained and \$58.3 million of investment.
- Follow-up surveys are needed to confirm actual jobs and investment outcomes.

Kansas Partnership Fund

- No direct line-item funding has been made since FY 93 when \$900,000 was appropriated.
- One firm was served during the evaluation period.
- Program outcomes are 1,025 jobs created and \$90 million of investment.

Export Finance Program

- No direct line funding has been made since FY 89 when \$500,000 was appropriated to capitalize the guarantee fund.
- 8 firms have been served over the life of the program.
- Almost \$9.6 million of export sales is credited to the program.
- Program has been constrained by the small size of the fund, but has been used recently in conjunction with SBA export program to finance larger projects.

Kansas Economic Opportunity Initiatives Fund (KEOIF)

- KEOIF has received a total of \$3.2 million funding in FY 94 and 95.
- 13 firms have been provided funds plus a variety of other projects have received support.
- The creation of 2,330 jobs and retention of 1,197 jobs are credited to the program.

Business Recruitment

- Annual funding of business recruitment ranges from \$874,978 in FY 92 to \$978,864 in FY 94.
- 32 companies are reported as recruited to, or retained in, Kansas during the evaluation period.
- This activity is credited with creating 5,198 jobs, retaining 1,324 jobs, and producing \$349.5 million in private investment during the evaluation period.
- Performance measures need to distinguish between out-of-state firms recruited and Kansas firms retained, more detailed investment data is needed, and collection of wage data should be done more systematically. Follow-up surveys are needed to determine whether anticipated outcomes are achieved over time.

First Stop Clearinghouse

- This activity is funded within the Department's operating budget; one full time staff person is involved.
- In FY 94, 1,580 clients were provided information and services. This number almost doubled in FY 95 with assistance to 2,795 people.
- The clearinghouse is a cost-effective, efficient method of providing information and referral services and received a very high customer satisfaction rating from the clients surveyed.

Minority and Women Owned Business

- This program is funded within the Department's operating budget; 2 full time persons staff the activity.
- Poor record keeping on clients prevented an accurate count of the number of clients served.
- No outcome measures are available for this activity. The overall satisfaction rating from the clients surveyed by Kansas, Inc. was 3.53, below the 3.8 threshold considered acceptable and the lowest of all the programs surveyed.

Kansas Industrial Training and Retraining (KIT/KIR)

- Annual direct line-item appropriations from the EDIF have ranged from \$2,250,000 million in FY 92 to \$2,727,500 in FY 95.
- 109 training contracts were signed with 99 companies under the KIT program, and 108 contracts with 96 companies were reported for the KIR program between FY 92 and FY 94.
- The KIT program is credited with creating 4,870 jobs and the KIR program with retaining 17,723 jobs.
- Under both programs, a total of 22,593 trainees participated.
- Program managers maintain excellent records on clients and outcomes and both KIT and KIR receive very high ratings from clients.

State of Kansas Investment in Life Long Learning (SKILL)

- This program is funded with bond revenue. \$9,982,075 of job training funds were expended through the program between FY 92 and FY 94.
- Training funds were provided to 9 companies during the evaluation period.
- 3,293 jobs are reported as being created under the SKILL program.

International Marketing Program

- Annual appropriations within the Department's operating budget have ranged from \$1.26 million in FY 95 to \$1.6 million in FY 93.
- 179 companies were served by this activity, although 55 could not be identified by year.
- No direct outcome measures are collected by this Division. The Kansas, Inc. survey of clients yielded generally positive results.
- The state maintains professional agreements with representatives in Japan, Australia, and Belgium. During FY 96, these foreign offices are budgeted for \$600,000. There are not quantifiable measures to support the contributions made by these representatives.

International Industrial Development

- Funding for this program is contained within the Department's operating budget; 2 full time staff persons manage the activity.
- Agency records indicate that 4 foreign companies invested in Kansas through the program.

- A total of 400 new jobs are reported and \$30 million of investment between FY 92 and FY 94.

Kansas Trade Show Assistance Program (KTSAP)

- Funding for this grant program has ranged from \$200,000 in FY 92 to \$272,420 in FY 94.
- 128 companies received 224 grants during the evaluation period.
- Increases in company sales 6 months after a trade show totalling \$61.3 million is reported.
- The Department is changing the grants to ensure that new-to-exporting companies receive assistance.

Community Development Block Grants (CDBG)

- This program is funded primarily by the federal government and operated by 12 staff people, 3 of whom are dedicated to economic development.
- Block grant financing was provided through cities and counties to 51 Kansas firms. A total of \$31.58 million in financing was provided between FY 92 and FY 94.
- These CDBG grants are reported to have created 1,839 jobs and to have retained 1,774 jobs between FY 92 and FY 94.

Kansas Technology Enterprise Corporation

Applied Research Matching Fund (ARMF)

- Program funding has ranged annually from \$1.1 million in FY 93 to \$1.35 million in FY 92.
- During the evaluation period, 76 separate firms received 99 ARMF grants.
- KTEC's ability to correlate annual outcome measures to current year grants is limited due to the time lag between research activity and commercialization or successful project completion.

Centers of Excellence

- Funding for the Centers of Excellence has increased by more than \$1 million between FY 92 and FY 94 from \$3.2 million to nearly \$4.4 million. In addition, the Centers have received more than \$600,000 in special projects funding.
- In FY 95, MAMTC received \$757,593 in matching funds from the Centers of Excellence.
- Data on clients served and outcomes achieved by the Centers for the period FY 92 to FY 94 was determined to be inadequate for reporting purposes. KTEC provided a client list of 254 companies receiving technical assistance during FY 95. No outcome measures were available.

Small Business Innovation Research (SBIR)

- Funding for the SBIR program remained constant at \$25,000 annually from FY 92 to FY 94.
- 15 companies received grants under this program during the evaluation period.
- Clear performance measures were not available.

Seed Capital (Ad Astra I and II)

- Expenditures consist of corporate tax credits awarded to investors in these funds. Approximately \$348,000 in tax credits have been awarded to investors in these investment groups. The State of Kansas invested \$1.8 million in FY 1989, \$1.5 million in FY 94 and another \$1.5 million in FY 95, for a total of \$4.8 million in state funds.
- Private investment in Ad Astra I & II totaled \$1.76 million as of the end of CY 1994.
- 16 firms have received a total of approximately \$2.4 million in funding as of the end of CY 1994.

- These investment companies report the creation of 78 new jobs and the retention of 98 existing jobs.

Mid-America Manufacturing Technology Center (MAMTC)

- MAMTC received its funding from a variety of sources, in addition to \$1 million base funding from EDIF in FY 95, MAMTC received \$907,000 from the Centers of Excellence and Industrial Liaison Offices and \$3.8 million from the federal government.
- During the evaluation period, 156 firms signed technical assistance contracts.
- MAMTC reported job creation of 366 and job retention totalling 642 between FY 92 and FY 94.
- The MINES data base, or tracking system, should be considered a model for other economic development programs.

Other State Agencies and State-Funded Entities

Kansas Venture Capital, Inc. (KVC)

- Expenditures consist of corporate tax credits awarded to investors in these funds. Approximately \$1.6 million in tax credits have been awarded to investors in these investment groups. The state made an initial investment of \$5 million in FY 86.
- Private investment in KVC totaled \$6,582,790 as of end of CY 1994.
- 18 firms have received a total of approximately \$12.8 million in funding as of the end of CY 1994.
- KVC reports the creation of 823 new jobs and the retention of 1,198 existing jobs.

Certified Development Companies (CDCs)

- State funding of the CDCs has remained constant each fiscal year at \$475,000.
- During the evaluation period, 738 firms received business financing assistance.
- From FY 92 through FY 94, the CDCs helped obtain \$219.4 million in financing, creating 2,966 jobs, and retaining 4,672 jobs.

Small Business Development Centers (SBDCs)

- State funding of the SBDCs remained constant at \$325,000 annually.
- Long-term clients totalled 1,132 between FY 92 and FY 94.
- The SBDCs do not record outcome measures of jobs and investment but rely on client surveys to measure performance. The most recent survey conducted by the SBDCs indicates that 96% indicated that the SBDC responded to their needs.

Kansas Department of Agriculture (Marketing Division)

- EDIF funding for the Marketing Division in FY 94 was \$346,767. Funding for all division marketing directories and publications was \$35,656.
- The 1994 "Land of Kansas" directory contains 370 individual companies, the vast majority of which are food and kindred products manufacturers.
- No outcome measures are collected for these activities.

Kansas Value Added Center (KVAC)

- EDIF funding has ranged from \$622,192 in FY 93 to \$882,950 in FY 95.
- KVAC reported that 71 companies or individuals entered into agreements for technical assistance between FY 92 and FY 94.
- Program outcomes were not adequately recorded, however, existing records show 6 jobs created and 6 jobs retained during the evaluation period.

Policy Options and Recommendations

Four major categories of recommendations are offered. The first category deals with **Budgeting and Funding Economic Development**. The second category addresses the organization of service delivery on a regional basis and proposes the creation of a set of **Kansas Business Development Centers**. A third category of policy options suggests a number of procedural and organizational changes to improve **Program Accountability and Performance Measurement**. The fourth, and final, category suggests a set of programmatic transfers and reforms that can improve **Program Coordination and Effectiveness**.

Budgeting and Funding Economic Development

- *A comprehensive and unified budget framework for state economic development that combines proposed expenditures of all state agencies and state-funded entities should be developed. It should list all programs and proposed funding by major category to enable the Budget Director, the Governor, and the Legislature to understand the allocation of state funding and the priorities given to major areas of economic development and business assistance.*
- *Past and proposed expenditures for various entities and programs need to be more clearly stated and identified in agency budgets.*
- *Kansas policy makers need a formal methodology and reliable information on programs that will enable them to analyze economic development programs and investments on a "Return on Investment" (ROI) basis.*

Kansas Business Development Centers

- *The creation of a new system of Kansas Business Development Centers to provide coordinated and comprehensive delivery of business assistance to firms should be tested on a pilot basis and evaluated for statewide adoption.*

Program Accountability and Performance Measurement

- *A uniform system for the collection of basic data on clients and program outcomes needs to be established that is standard across state and state-funded economic development agencies and entities.*
- *The data base of clients served and incidents of assistance developed by Kansas, Inc. for this evaluation should be continued and updated on a quarterly and annual basis. It should become a management tool that records basic identifying information on clients served by KDOC&H, KTEC, MAMTC, CDCs, and SBDCs.*
- *Explicit policies need to be developed on the confidentiality of client data to identify those items of information, e.g., financial and proprietary data, that should not be disclosed and those that should be reported to ensure accountability of public expenditures.*

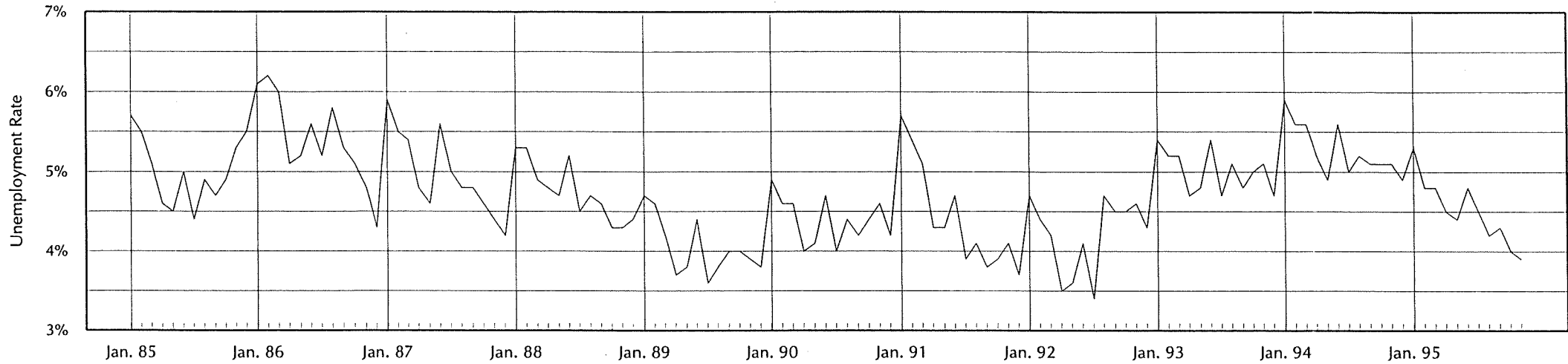
- *A comprehensive review of all performance measures utilized by economic development agencies should be conducted with the assistance of Kansas, Inc. staff, Division of the Budget staff, and program managers to ensure greater reliability and validity.*
- *In its review and refinement of agency performance measures, the task force should adopt the following guidelines:*
 - 1) *The number of individual clients served by programs should be identified when reporting outputs in annual budget documents.*
 - 2) *Where appropriate, job creation and job retention outcomes that programs help achieve should be reported. Standards for measuring job retention should also be developed.*
 - 3) *When reporting on clients served, out-of-state clients and Kansas-based firms should be clearly distinguished.*
 - 4) *Standard and uniform categories of services provided to business clients should be established and the use of such vague and non-descriptive terms as "interactions with business" or "business contacts", etc. should be avoided.*
- *The use of client surveys and other methods of follow-up to collect information on customer satisfaction and program outcomes on both a short-term follow-up basis and on a longitudinal or long-term basis should be made more effective.*
- *The Department of Commerce & Housing should undertake a comprehensive review and evaluation of the mission, objectives, and performance monitoring system of the Trade Development Division, its general trade assistance activities and its international industrial development program. The Department should develop a new set of performance measures that will better measure the effectiveness of the Division's efforts.*
- *Clear and highly measurable objectives for the international marketing program and each of its foreign offices should be established and documented results required to justify the expenditures authorized for these activities.*

Program Coordination and Effectiveness

- *Clear guidelines on the responsibilities of program staff and field personnel for client referral to appropriate agencies and programs should be established.*
- *The role of, and justification for, each Center of Excellence in terms of the following missions: a) basic research, b) applied research, c) technical assistance to business clients, and, d) commercialization of new products or processes should be explicitly defined.*
- *The statewide mission and role of the Centers of Excellence should be emphasized and performance standards set to ensure that Center directors market and provide their services to Kansas firms located outside their immediate region.*

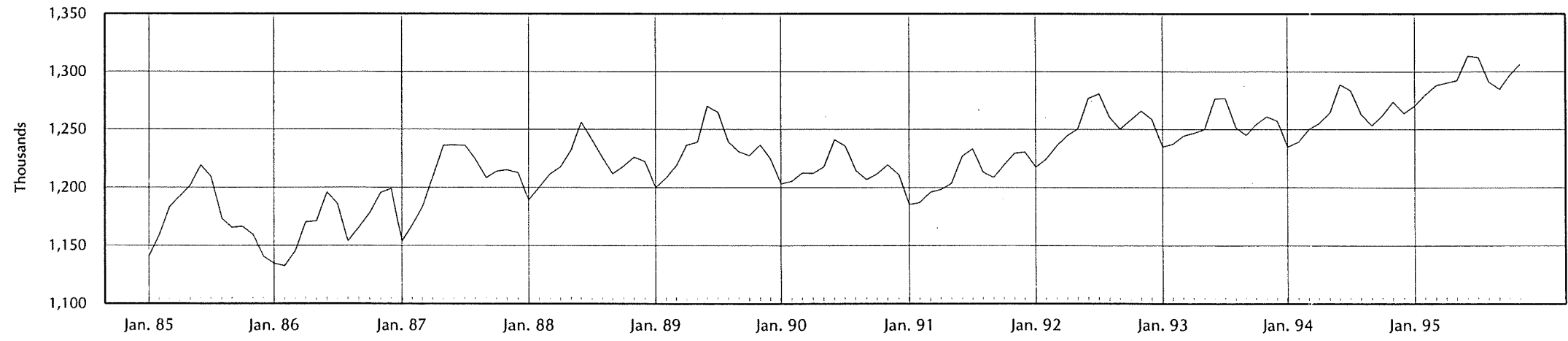
- *In its efforts to replace federal investment, MAMTC should expand its service to a larger number of manufacturers and shift away from its emphasis of signing multiple contracts with individual firms.*
- *State funding of the separately organized and budgeted industrial liaison offices, currently operated as the Tech-Industry Consultants in Johnson County and the Western Kansas Technology Corporation, should be reviewed in light of the earlier recommendation to establish a system of Kansas Business Development Centers. The outreach activities of the liaison offices might be consolidated with existing entities such as MAMTC or provided within other outreach programs.*
- *The Training Equipment Grants program in KTEC should be more closely coordinated with the functions of the Work Force Training Section in the Kansas Department of Commerce & Housing. The possibility of transferring responsibility for the training equipment grants to KDOC&H should also be evaluated.*
- *Value added agriculture can provide significant opportunities for economic diversification and job creation in Kansas, especially in rural communities. State programs to aid the creation and expansion of value added agriculture business need to be reorganized and strengthened to increase their effectiveness. Assistance to small value added food processors needs to be integrated with other business development activities within the Kansas Department of Commerce & Housing. The functions and resources of the Kansas Value Added Center food and feeds program should be transferred from KTEC to KDOC&H. The Kansas Value Added Council should be abolished. Responsibility for the industrial use of agricultural products should be retained in KTEC. The Kansas Legislature should examine the organization and management of value added agriculture programs and adopt reforms necessary to improve their effectiveness.*
- *The Standing Committees on Economic Development in the Kansas House and Senate should undertake an evaluation of the state's experience with tax credits and direct investments in seed and venture capital funds. The examination should identify changes as necessary to improve the availability of capital for new and expanding Kansas companies. The committee should review the administration of seed and venture capital programs; the results achieved to date; the need for venture capital within the state and potential returns of such investments and tax expenditures. The Legislature should adopt a detailed and explicit set of policies to guide future investments or expenditures.*

Kansas Monthly Unemployment Rates 1985 to Present



Source: KDHR Labor Market Information Services

Kansas Monthly Employment 1985 to Present



Source: KDHR Labor Market Information Services

**TESTIMONY TO THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT
RESPONSE TO THE KANSAS, INC. RESEARCH REPORT,
"ANALYSIS OF KANSAS BUSINESS ASSISTANCE"
THE KANSAS DEPARTMENT OF COMMERCE & HOUSING
GARY SHERRER, SECRETARY
JANUARY 16, 1996**

Madam Chairperson and members of the Committee, I appear before you today to share my response to the research report by Kansas, Inc. entitled "Analysis of Kansas Business Assistance." I wish to begin my testimony with some brief remarks about the nature of this report, and how it relates to some of the programs we deliver at the Kansas Department of Commerce and Housing. Second, I will explain the actions my staff and I are taking to meet, or exceed, recommendations contained in this report. Finally, I would offer you my reaction to this document.

I. Opening Remarks

The "Analysis of Kansas Business Assistance" is an examination of the numerous economic development programs currently serving the state. It provides an analysis of these programs, explaining how we might enhance some of them. There is a strong emphasis on the need to improve accountability, with a focus on results. I could not agree more, and I welcome the dialogue it has created.

Merely operating an economic development program does not necessarily make it effective. It either produces positive results for the economy, or it doesn't. Determining a program's effectiveness is not a simple task. It is an endeavor that requires close examination - from tearing down programs to building them up again. If we discover that some are not producing the desired results, then they must be changed or eliminated. Other programs that are performing remarkably well may benefit from more attention and, if possible, more funding. In either case, we must not lose sight of the main objective: maintaining a strong focus on results.

I would also point out that, as the report states, "The current set of institutions and programs...have served Kansas well." This report does not, as some have suggested, condemn these programs. It only proposes that we can do better - and we can!

II. Program Policy Changes at KDOC&H

At Commerce and Housing we are already meeting this challenge, examining program policies agency-wide. As a result, we have done away with some programs and strengthened others. This process started last year when I challenged my division directors to take a "lights out" approach to their programs. Which programs would be missed most? Least? Are there better ways to operate even our most successful programs? How can we deliver more quality and a higher level of performance? The following are but a few examples of what Commerce and Housing is doing.

*Economic Development
January 16, 1996
Attachment 2 - 1*

The Kansas Main Street program, dedicated to downtown revitalization efforts, was responsible for the creation of nearly 300 new jobs during the past year. In these 18 Main Street cities, a net 30 new businesses were added to the Kansas economy. Total reinvestment in designated Main Street cities in 1995 was nearly \$11.5 million, generating more than \$90 in private dollars for each state dollar spent.

But we realized we could do more...

Because Main Street has been so successful for Kansas communities, we made it even stronger. The Incentives Without Walls (IWW) grant program was implemented into Main Street operations as an additional tool for attracting new business to downtown areas, creating and retaining jobs, and stimulating private investment. Funds are used to purchase inventory or buildings, renovate building facades, or provide working capital. Communities have the option of utilizing these resources as grants or loans. (Loans are repaid to the Main Street program and reused as a revolving fund.) Seventeen cities participated in the first round of IWW funding, for a total of \$170,000. From this figure, seven new businesses will be started, eleven more will be expanded, more than 90 jobs will be created, and nine more retained. The first round also leveraged well over \$800,000 in private investment. The total return on investment was nearly five to one.

More and more Kansas companies are turning to the export arena to increase their sales. To assess the level of interest in their products overseas, many of these companies turn to Commerce and Housing's Kansas Trade Show Assistance Program (KTSAP), which last year awarded nearly \$140,000 in grants to more than 80 companies to assist in the cost of trade show participation. Fifty of these companies have fewer than 50 employees. Participants reported \$3.3 million in actual sales, yielding a return on investment of nearly 40 to one (February through June, 1995). Further, new guidelines were issued for KTSAP. Only those companies attending a particular trade show for the first time will receive funding. Previously, monies were made available for repeat participants.

Companies with more export experience benefitted from the Kansas Export Finance program. In 1995, Commerce and Housing guaranteed over \$1.4 million in loans to five Kansas exporters. Additionally, through a recently established co-guarantee program with the U.S. Small Business Administration, another \$1 million in export loan guarantees were secured for Kansas companies. These combined state and federal guarantees supported nearly \$15 million worth of Kansas exports. Thus, any past circumstances limiting the effectiveness of this program appear to have been eliminated.

Focused recruitment efforts by the Business Development staff resulted in the addition of new business to the state that will provide over 1,900 new jobs and \$120 million in capital investment. Additionally, existing Kansas businesses expanded to create more than 1,500 new jobs and retain 480 more. Expansion projects across the state resulted in a capital investment of over \$115 million. Last year's combined recruitment and expansion efforts will result in the

creation of 3,600 net new jobs, the retention of 480 existing jobs, and will generate approximately one quarter of a billion dollars worth of capital investment to the state. I point to these achievements as a reminder that many programs have an indirect impact on economic development. However, when taken as a whole, they produce significant, measurable results.

We recently implemented a Quality Assurance program as a tool for better gauging our performance. This will ensure we maintain a constant, ongoing measurement of program quality and effectiveness.

These examples provide evidence of economic development programs that perform well. We will continue to examine them carefully, measure their results, and determine what works best to strengthen the Kansas economy.

With the arrival of the Kansas Inc. report, we now have the opportunity to explore our programs even further. The leadership at Commerce and Housing will respond appropriately, as each division director will provide to me a plan for initiating necessary changes. While we have learned to do more with less, there is always room for improvement. We do not resist this report, we welcome it.

III. Reaction to the Kansas Inc. Report

I wish to take this opportunity to express my appreciation to the staff of Kansas Inc., who put in many long hours to complete this important document. Kansas Inc. is a very small organization (five individuals), existing on a small budget (less than \$500,000 this fiscal year), and operating numerous programs. Their staff took on an exhaustive task when they compiled this comprehensive analysis of business assistance programs in Kansas. For this alone I commend them.

The criticism they have recently faced is somewhat unfair. This report does not say that the economic development programs in the state are bad. (In fact, many programs are shown to be effective in both measurement and results.) Rather, it simply states how some programs can be improved. This brings us a new opportunity to deliver even more to the people of Kansas. This is a report that requires us to review our programs, and it contains many recommendations that are worthy of legislative discussion. I look forward to working with other economic development professionals in Kansas, including Kansas Inc., as we continue to build a stronger economy.