

Approved: January 23, 1996
Date

MINUTES OF THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT.

The meeting was called to order by Vice Chairperson Cindy Empson at 3:30 p.m. on January 18, 1996 in Room 423-S of the Capitol.

All members were present except: Rep. Allen - excused
Rep. Glasscock - excused
Rep. Henderson - excused
Rep. Long - excused
Rep. Toplikar - excused
Rep. Packer - excused
Rep. King - excused

Committee staff present: Eric Milstead, Research Department
Nancy Kirkwood, Committee Secretary

Conferees appearing before the committee: Gloria Timmer, Director, Division of the Budget, Dept of Administration

Others attending: See attached list

Gloria Timmer, Director, Division of the Budget, Dept of Administration gave an overview of the usage of EDIF funds for FY'97 (Attachment 1).

Rep. Cindy Empson requested committee approval for introduction of a bill concerning the Kansas Development Finance authority relating to the court liability thereof. Rep Boston moved the committee introduce the bill, and Rep. Benlon seconded the motion. The motion passed.

The meeting adjourned at 4:05 p.m.

The next meeting is scheduled for January 22, 1996.

HOUSE ECONOMIC DEVELOPMENT COMMITTEE
GUEST LIST

DATE: Thurs Jan 18, 1996

NAME	REPRESENTING
Gloria Timmer	No Budget
Dan Hermes	BUDGET
John C. Bottenberg	Bottenberg A

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Bill Graves
Governor

Gloria M. Timmer
Director

MEMORANDUM

TO: House Committee on Economic Development
Representative Barbara Allen, Chairperson

FROM: Gloria M. Timmer, Director of the Budget

DATE: January 18, 1996

SUBJECT: Governor's Budget Recommendations--Economic Development Initiatives Fund

Thank you for the opportunity to brief you on the Governor Graves' recommendations for the Economic Development Fund for FY 1997.

When the Legislature created the existing Economic Development plans and the funding for those plans, seven foundations toward which the state and its funding should be targeted were identified. Over the years, a significant portion of the EDIF was used to offset State General Fund expenditures leaving less funding for economic programs. Governor Graves made the refocusing of the EDIF a priority in his FY 1996 budget recommendations and again in FY 1997. As you can see from the attached tables, in FY 1995, 6.4 percent of the total available was used in "Other" category. In FY 1996 and FY 1997, the Governor has recommended no EDIF funding in that category. In FY 1996, 2.4 percent of the fund was used in "Quality of Life" projects. In FY 1997, the Governor has funded those programs from the State General Fund.

The attached information is from Volume One of the FY 1997 Governor's Budget Recommendations. Included are an overview of the fund and a table showing by agency the FY 1995 expenditures, FY 1996 approved and the FY 1997 recommendations. The third attachment briefly highlights the Governor's major program recommendations. Finally, the last table shows the Governor's recommendations by economic development foundation.

I will be happy to answer questions the Committee might have. Thank you again.

Economic Development
January 18, 1996
Attachment 1

Economic Development Initiatives Fund

The Economic Development Initiatives Fund (EDIF) received 90.0 percent of the receipts deposited in the State Gaming Revenues Fund in FY 1995 and will receive 85.0 percent of Gaming Revenues Fund receipts in FY 1996 and FY 1997. Coupled with the limitation of the Gaming Revenues Fund of \$50.0 million, this limits estimated transfers to the EDIF to \$42.5 million.

Without a change in the law, therefore, any initiatives for economic development will need to be funded from a different revenue source or through reallocation of existing resources. The following section of this report details the Governor's recommendations for use of the EDIF. Significantly, the Governor has targeted the limited resources to priority areas for economic development that affect the business community. These are primarily contained in the budgets of the Department of Commerce and Housing and the Kansas Technology Enterprise Corporation.

Revenue Estimates. The Governor's recommendations are based on available resources in the EDIF of \$49.5 million in FY 1996 and \$44.3 million in FY 1997. The table on the status of the EDIF details the balances and receipts for the fund in FY 1995, FY 1996, and FY 1997. The Governor recommends transfers and expenditures of \$47.9 million from the EDIF in FY 1996 and expenditures and transfers of \$44.2 million in FY 1997.

The primary recipients of EDIF funds in FY 1996 are the Department of Commerce and Housing (\$17.9 million), the Kansas Technology Enterprise Corporation (\$14.0 million), and the Department of Education (\$9.7 million). The recommendations include the statutory demand transfer of \$2.0 million to the State Water Plan Fund. Also included is a total of just under \$175,000 for operation of Kansas, Inc. and marketing efforts of the Department of Agriculture as well as \$500,000 for the Department of Human Resources related to developing a One-Stop Career Center System.

Economic Development Initiatives Fund Status (Dollars in Thousands)

	FY 1995	FY 1996	FY 1997
Beginning Balance:	8,964	5,339	1,567
Gaming Revenues	45,000	42,500	42,500
Other Revenue	694	1,627	350
Total Available	\$54,658	\$49,466	\$44,417
Transfers	49,319	47,899	44,208
Balance Forward	5,339	1,567	209

Geographic Distribution. By statute, half of all expenditures from the EDIF must be distributed equally among the state's congressional districts. For FY 1995 (see the table below), each of the four congressional districts is to receive a minimum of 12.5 percent of expenditures from the fund. Given that expenditures from the EDIF totaled \$49,318,652 in FY 1995, each congressional district was entitled to a minimum of

EDIF Geographic Distribution (Dollars in Thousands)

	FY 1995	Percent
District 1	9,248	18.8
District 2	14,466	29.3
District 3	15,307	31.0
District 4	10,297	20.9
Total	\$49,319	

\$6.2 million. Clearly, each of the districts received far more than the amount required by statute. The second congressional district historically has received the largest share of expenditures; however, the third district received more support in FY 1995 primarily because of increased activity of KTEC in this district during the year.

Economic Development Initiatives Fund

	FY 1995 Actual	FY 1996 Revised	FY 1997 Recomm.
State Water Plan	2,000,000	2,000,000	2,000,000
Department of Commerce and Housing			
Small Business Development Centers	325,000	325,000	325,000
Certified Development Companies	474,850	475,000	475,000
Kansas Industrial Training/Retraining	2,693,514	3,000,000	3,250,000
Trade Show Promotion	247,420	270,000	270,000
Strategic Planning Grants	595,913	400,000	250,000
Tourism Promotion	601,842	379,600	379,600
Wichita World Trade Center	100,000	65,000	--
Travel Information Centers	809,902	103,084	35,000
Economic Opportunity Initiatives Fund	2,700,000	4,000,000	4,000,000
High Performance Incentive Grants	25,000	75,000	75,000
Micro-Loan Program	--	1,000,000	1,000,000
Main street Development Grants	--	200,000	200,000
Existing Industry Expansion Program	--	--	1,000,000
Operations	5,109,198	6,243,094	6,624,521
Subtotal Commerce and Housing	\$13,682,639	\$16,535,778	\$17,884,121
Kansas Technology Enterprise Corporation			
Research Matching Grants	1,259,613	1,260,000	1,060,000
Business Innovative Research Grants	49,653	86,000	86,000
Training Equipment	150,000	250,000	250,000
Industrial Liaison	200,000	300,000	300,000
Centers of Excellence	4,267,386	4,350,000	4,350,000
Seed Capital	1,500,050	3,300,000	--
EPSCoR	2,028,793	3,450,000	3,400,000
Special Projects	163,000	603,000	487,303
Commercialization Grants	798,303	1,266,407	1,300,000
Agricultural Value Added Center	885,362	880,737	--
Mid-America Manufac. Tech. Ctr.	1,006,458	1,000,000	1,000,000
Industrial Agriculture Grants	--	--	200,000
Operations	1,172,490	1,255,192	1,511,118
Subtotal KTEC	\$13,481,108	\$18,001,336	\$13,944,421
Department of Education			
Innovative Program Assistance	1,485,000	1,485,000	1,485,000
Matching Grants - AVTS	495,000	500,000	--
Postsecondary Aid - AVTS	5,700,000	6,050,000	6,570,000
Cultural Arts Center	25,000	20,000	--
Foundation for Agriculture	25,000	25,000	--
Capital Outlay - AVTS	1,500,000	1,650,000	1,650,000
Subtotal Education	\$9,230,000	\$9,730,000	\$9,705,000
Agriculture Market Promotion	366,707	366,707	41,491
Kansas State School for the Blind	150,000	--	--
Kansas, Inc.	516,889	137,926	132,851
Revenue	3,000,000	--	--
Wildlife and Parks	652,337	115,000	--
State Fair	114,000	114,000	--
Public Broadcasting	362,874	--	--
Arts Commission	1,124,650	500,000	--
Historical Society	119,200	187,490	--
Department of Human Resources	100,000	--	500,000
Board of Regents and Institutions	3,067,971	--	--
State Library	1,350,277	211,200	--
Total EDIF Transfers/Expenditures	\$49,318,652	\$47,899,437	\$44,207,884

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Investment in Economic Development

A year ago, the Governor recommended major changes in the focus of expenditures for the Economic Development Initiatives Fund. These recommendations eliminated the use of the fund to finance quality of life items, the financing of basic research at Regents institutions, and items that could not be identified with the seven foundations included in the table below. For the most part, the Legislature adopted these recommendations, as can be seen from the same table.

Continued Refocusing

The Governor recommends that the EDIF expenditures approved for FY 1996 for quality of life expenditures be financed from the State General Fund for FY 1997. These expenditures include those at the State Fair, Historical Society, Arts Commission, and State Library. This requires \$1.1 million in additional State

	FY 1995	FY 1996	FY 1997
Human Capital	31.0 %	20.8 %	23.6 %
Technological Development	19.5	25.6	27.6
Business Capacity	28.4	27.0	28.3
Business Environment	1.5	1.5	1.3
Financial Capital	3.6	18.3	14.6
Quality of Life	5.5	2.4	--
Infrastructure Assistance	4.1	4.3	4.5
Other	6.4	--	--
Total	100.0 %	100.0 %	100.0 %

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

General Fund support for these agencies, which is included by the Governor in the recommendations for these budgets.

Continuing efforts to focus EDIF expenditures are especially important given the limited nature of the fund described on the preceding pages. Expenditure of the \$1.1 million redirected from quality of life programs and expenditure of the bulk of the beginning balance of the fund in FY 1997 allow the Governor to propose two significant new investment initiatives, while maintaining

the enhanced level of support for existing programs in the Department of Commerce and Housing, Department of Education, and Kansas Technology Enterprise Corporation.

Recommended New Investments

Existing Industry Expansion. The recommended budget for the Department of Commerce and Housing includes \$1.0 million to establish the Kansas Existing Industry Expansion Program (KEEP). This program, to be used similar to KEOIF, will focus on providing assistance to smaller existing Kansas industries to aid in their expansion. The program will focus on smaller communities and rural areas. Establishing the program will allow the financing for KEOIF to focus on major or larger employers and industrial recruitment, thereby providing a real increase in available funding by maintaining the current level of support but redirecting the uses of the fund.

One-Stop Career Center System. The Governor recommends \$500,000 for the Department of Human Resources to develop and implement a system of one-stop career centers in the state. This system is anticipated to transform a collection of separate workforce development programs, administered by several agencies, into a customer-focused system easily accessible to all Kansans. The system would include the Job Training and Partnership Program (JTPA), Job Service, Unemployment Insurance, Veterans Employment Services, Senior Community Employment, and other similar programs. The program will be designed to leverage approximately \$4.0 million in federal support.

Continued Investments

Kansas Technology Enterprise Corporation. The budget recommended by the Governor for KTEC maintains and builds on the enhanced level of services and performance recommended by the Governor and enacted by the Legislature last year. Programs

continued at this level include applied research matching grants, innovation research grants, support for Centers of Excellence, and the Mid-America Manufacturing Technology Center. Financing for EPSCoR of \$3.4 million is continued, which will leverage at least \$4.0 million in federal research and development expenditures at the state's research universities. This program, aimed at strengthening the basic research capability of the universities, is critical to ensuring the future success of other KTEC programs designed to provide the necessary framework for developing emerging technological companies.

The Governor's focus is also strengthened through the recommendation of increased support for KTEC's commercialization network, for a total state commitment of \$1.3 million. This level of support will allow for continued expansion of the network to include areas of the state not currently served.

Department of Commerce and Housing. The Governor recommends a budget from the EDIF for the Department of Commerce and Housing that will allow for enhancements to the agency's job training assistance programs. Investment in the Kansas Industrial Training and Retraining Program is increased by 8.3 percent, for a total state investment of \$3.25 million. This recommendation reflects the increased demand for this program.

The Governor also recommends \$1.0 million in FY 1997 to complete capitalization of the regional micro-loan programs to be administered by the existing Certified Development Companies. These regional funds will leverage a total of \$4.5 million in federal support from the Small Business Administration. The regional funds will be a source of loans for start-up costs in the range of \$1,000 to \$25,000 for emerging

companies unable to obtain traditional financing. The budget approved for FY 1996 allowed for creation of three centers, and the recommended amount for FY 1997 will complete the project, for a total of six centers. Because this will work as a loan fund, additional state support for the program is not envisioned for some time.

The remainder of the EDIF programs are continued at the same level of support as in the current year. These programs include assistance to Small Business Development Centers and Certified Development Companies, Tourism Attraction Grants, export finance assistance, and mainstreet development.

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

Other Agencies and Programs. Although in prior years the number of other programs receiving financing from the EDIF has been extensive, the recommended expenditures for FY 1997 for programs in other areas include only two items. The Governor recommends just under \$133,000 for Kansas, Inc. to maintain its research and policy agenda at the current level and a recommendation for the current year amount of just under \$42,000 for the Department of Agriculture to continue financing of the research portion of the program that is retained in the Department's budget. Significant restructuring of agricultural-related economic development services is explained in detail in the section of this report dealing more specifically with the Department of Commerce and Housing budget.

Economic Development Initiatives Fund

Code	FY 1996 Revised	FY 1997 Recomm.
1 Foundation for Agriculture	25,000	--
1 Training Equipment	250,000	250,000
1 Matching Grants - AVTS	500,000	--
1 Postsecondary Aid - AVTS	6,050,000	6,570,000
1 Cultural Arts Center	20,000	--
1 Kansas State School for the Blind	--	--
1 Capital Outlay - AVTS	1,650,000	1,650,000
1 Board of Regents and Institutions	--	--
1 Department of Human Resources	--	500,000
1 Innovative Program Assistance	1,485,000	1,485,000
Total Human Capital	9,980,000	10,455,000
Percent	20.84%	23.65%
2 Commercialization Grants	1,266,407	1,300,000
2 Special Projects	603,000	487,303
2 KTEC Operations	1,255,192	1,511,118
2 EPSCoR	3,450,000	3,400,000
2 Centers of Excellence	4,350,000	4,350,000
2 Business Innovative Research Grants	86,000	86,000
2 Research Matching Grants	1,260,000	1,060,000
Total Technological Development	12,270,599	12,194,421
Percent	25.62%	27.58%
3 Industrial Agriculture Grants	--	200,000
3 KIT/KIR	3,000,000	3,250,000
3 Travel Information Centers	103,084	35,000
3 High Performance Incentive Grants	75,000	75,000
3 Industrial Liaison	300,000	300,000
3 Mid-America Manufac. Tech. Ctr.	1,000,000	1,000,000
3 Agriculture Market Promotion	366,707	41,491
3 Agricultural Value Added Center	880,737	--
3 Small Business Development Centers	325,000	325,000
3 Commerce Operations	6,243,094	6,624,521
3 Trade Show Promotion	270,000	270,000
3 Tourism Promotion	379,600	379,600
Total Business Capacity	12,943,222	12,500,612
Percent	27.02%	28.28%
4 Kansas, Inc.	137,926	132,851
4 Main street Development Grants	200,000	200,000
4 Strategic Planning Grants	400,000	250,000
Total Business Environment	737,926	582,851
Percent	1.54%	1.32%
5 Certified Development Companies	475,000	475,000
5 Micro-Loan Program	1,000,000	1,000,000
5 Economic Opportunity Initiatives Fund	4,000,000	4,000,000
5 Existing Industry Expansion Program	--	1,000,000
5 Seed Capital	3,300,000	--
Total Financial Capital	8,775,000	6,475,000
Percent	18.32%	14.65%
6 Arts Commission	500,000	--
6 Historical Society	187,490	--
6 State Library	211,200	--
6 Public Broadcasting	--	--
6 State Fair	114,000	--
6 Wildlife and Parks	115,000	--
Total Quality of Life	1,127,690	--
Percent	2.35%	--
7 State Water Plan	2,000,000	2,000,000
7 Wichita World Trade Center	65,000	--
Total Infrastructure	2,065,000	2,000,000
Percent	4.31%	4.52%
Total EDIF Transfers/Expenditures	\$47,899,437	\$44,207,884