

Approved: January 12, 1996
Date

MINUTES OF THE SENATE COMMITTEE ON COMMERCE.

The meeting was called to order by Chairperson Alicia Salisbury at 8:00 a.m. on January 11, 1996, in Room 123-S of the Capitol.

Members present: Senators Salisbury, Burke, Downey, Feleciano, Gooch, Harris, Hensley, Jordon, 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:
Gary Sherrer, Secretary, Department of Commerce and Housing

Others attending: See attached list

Upon motion by Senator Vidricksen, seconded by Senator Burke, the Minutes of the January 10, 1996 meeting were unanimously approved.

Gary Sherrer, Secretary, Department of Housing and Commerce, briefed the Committee on the change in program policies, change in program performance measures and change in staff performance levels instituted by the Department in the last year.

Secretary Sherrer informed the Committee about the activities of each division within the agency: Administration, Business Development Community Development, Housing, Trade Development and Travel and Tourism, and the restructuring and reassessment of programs and goals.

Secretary Sherrer concluded that the agency will maintain its focus on results, initiate changes wherever and whenever needed, and find new ways to strengthen the Kansas economy. Attachment 1

Upon motion by Senator Steffes, seconded by Senator Jordon, the Committee unanimously approved the introduction of the following bill requested by the Secretary: Enterprise Zone, Change KEIOF program; expansion of SKILL program concept; elimination of statutes mandating divisions and division heads; consolidation of agency reports; and an amendment to the Job Investment Credit Act.

The next meeting is scheduled for January 12, 1996, a public hearing on SB 328 and SB 405.

**TESTIMONY TO THE SENATE COMMERCE COMMITTEE
THE KANSAS DEPARTMENT OF COMMERCE AND HOUSING
GARY SHERRER, SECRETARY
JANUARY 11, 1996**

Madam Chairperson and members of the Committee, it is my pleasure to appear before you today, allowing me an opportunity to share with you our successes over the past twelve months at the Kansas Department of Commerce and Housing. Our first year was marked by significant change - change in program policies, change in program performance measures, and change in staff performance levels. The result has been a change in the overall manner in which we conduct business.

The nature of these changes, and their subsequent results, will be the primary focus of my presentation today. First, I would like to offer you a brief description of Commerce and Housing, with an explanation of the various divisions and their functions. Second, I will introduce you to a sample of program policy changes. Finally, I wish to provide you current results on our business assistance programs and the impact they have had on some of our Kansas communities.

I. The Kansas Department of Commerce and Housing is dedicated to ensuring economic opportunity for Kansans through effective, efficient leadership. The agency is comprised of six divisions: Administration, Business Development, Community Development, Housing, Trade Development, and Travel and Tourism, employing 124 individuals (FTEs), most of whom work in Topeka. We also operate six field offices throughout the state (Garden City, Hill City, Manhattan, Pittsburg, Topeka and Wichita), two out-of-state (Chicago and Los Angeles), and three overseas (Belgium, Japan and Australia). Additionally, the agency is represented at five Travel Information Centers (Statehouse, Goodland, Kansas City, Olathe and South Haven).

More than half of our budget is derived from federal monies, primarily from the Department of Housing and Urban Development. About one-fourth comes from the Economic Development Initiatives Fund (EDIF) and the State General Fund (FY96 State General Fund is allocated at \$1.7 million). The remainder is made up of a variety of special revenue funds, such as KANSAS! Magazine and fee funding for the Low Income Housing Tax Credit program, to name two examples. The agency's total operating budget for Fiscal Year 96 is \$73.8 million.

Accountability is a primary responsibility at Commerce and Housing. Each division has specific, measurable goals. These goals focus on results, not activities; outcomes, not inputs. They are reviewed quarterly, as each division director is held accountable for meeting, or exceeding, each one.

The Administration Division directly oversees the operations of the agency. The Division serves several functions, including human resource management, research and analysis, data processing, fiscal/budget management, and public information. Its impact on the state economy is more indirect than the other divisions, yet it serves a vital purpose, providing critical support functions that allow us to carry out our mission every day.

*Senate Commerce Committee
January 10, 1996*

Attachment 1 thru 1-10

The Business Development Division exists to promote the retention and creation of jobs, as well as capital investment. This is accomplished through a wide variety of programs and activities designed to enhance the growth of the Kansas economy. The businesses we assist range from simple, one-person operations to some of the largest companies in the world.

The Community Development Division has as its mission to preserve and enhance the livability of Kansas communities by increasing their capacity to meet their needs. Economic and community development goals are met through grants, loans and downtown revitalization programs.

The Housing Division addresses a wide variety of housing concerns, usually working closely with the Community Development and Business Development Divisions. Its many programs benefit an array of Kansans, with a focus on senior citizens, the disabled and low-income housing residents.

The Trade Development Division serves two functions: To prepare Kansas companies for international marketing opportunities, thus promoting Kansas products overseas - and to increase international investment in Kansas by recruiting foreign companies to establish operations in the state. The staff accomplishes this mission by identifying companies with export potential, providing expertise, and introducing them to the international marketplace.

The Travel and Tourism Development Division is responsible for promoting Kansas as a travel destination (for both in-state and out-of-state travelers). The staff handles a wide array of tourism-related matters, such as developing strategic marketing plans to promote the state, publishing *KANSAS!* magazine, keeping all statewide Convention and Visitors Bureaus informed of developments, encouraging Hollywood directors to utilize Kansas as a motion picture site, operating the Travel Information Centers, and strengthening Kansas attractions through the administration of Attraction Development and Marketing grants.

The State Gaming Agency became a part of Commerce and Housing under Executive Order by the Governor in August of 1995. Its permanent home will be determined during the 1996 Legislative Session. Last September, the Agency began its task of monitoring the four tribal gaming compacts. The Agency also works with each tribe to establish policies and procedures for licensing and investigating employees, consultants, and manufacturers.

II. At the start of 1995, I challenged my division directors to create effective, results-oriented policy changes, tailored to our customers' needs. The following are among the most significant:

The Kansas Consolidated Plan. Three of the agency's divisions (Business Development, Community Development, and Housing) have joined together in the development of the Kansas Consolidated Plan. The first of its kind in the United States, this plan is intended to

provide the blueprint for delivery of our programs, encouraging comprehensive solutions to community problems. Interrelationships exist between infrastructure, housing, and business development, all of which must be addressed through community development efforts. By implementing this new process, communities can combine and focus resources in a comprehensive manner, thereby leveraging more resources and maximizing their impact on the community. Two pilot, demonstration projects have already been awarded to the City of Independence and a region in north central Kansas that includes the counties of Cloud, Jewell, Mitchell, Osborne, Republic and Smith.

Administration Division - As a result of Kansas Quality Management, and in an effort to serve our customers better, Commerce and Housing has implemented a Quality Assurance program. Assessing our programs through a series of customer surveys, we will better know which programs are working and which need improvement. Three surveys are currently in progress. These include a Travel & Tourism survey which has received a 21.6% response rate, a field representative survey with a 36.6% response rate, and a research section survey, distributed to nearly 280 various customers, both inside and outside the state.

Division Cost Savings - We eliminated our agency library resulting in salary savings in excess of \$20,000 annually. Computer maintenance contract savings for the fiscal year ending June 30, 1996 will be approximately \$3,800. Magazine subscriptions canceled, or not renewed, saved more than \$4,500. Total savings under the Administration Division exceed \$28,000.

Business Development Division - Appropriated by the Legislature, the Kansas Economic Opportunity Initiatives Fund (KEOIF) has been restructured as a forgivable loan agreement, providing the recipient meets and maintains its commitment to the State. This policy ensures the State has an opportunity to reclaim the funds if these standards are not met. In 1995, KEOIF retained and created over 2,700 jobs, as the program allows us the opportunity to become partners with communities as they seek to expand and/or attract industry. It is, without question, the single most effective economic development tool we have.

The Division implemented a reorganization plan that will build a more effective marketing structure. This will eventually allow us to promote all aspects of Commerce and Housing throughout the state, the nation and the world.

Last year the Kansas Business Appreciation Month program kicked off a new philosophy for the agency, one that focuses on taking a more proactive approach to recognizing existing Kansas businesses. Business appreciation efforts were enhanced as the program went from a week-long event to a more intense month-long celebration of business. In addition, a new Kansas Business Appreciation Award program was introduced across the state. As a result, 60 businesses were recognized not only for their contributions to the state's economy, but for what they have given back to their local communities as well.

Division Cost Savings - Out-of-state industrial recruitment offices now provide services on a performance-based contractual basis, saving \$17,000 for FY96. The Northeast Kansas field office will now be staffed in Topeka, saving \$2,500.

Community Development Division - The Division created the Community Assistance Services program, combining the functions of Main Street, Strategic Planning and PRIDE. Under the new program, communities can plan for the future, assess their strengths and weaknesses, and develop and implement a strategy to capitalize on these characteristics.

The Incentives Without Walls (IWW) grant program was implemented to attract new business to downtown areas, create and retain jobs, and stimulate 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 \$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.

The scoring system for the CDBG program was modified to include an additional 50 points for communities that have never received CDBG funding (Community Improvement and Housing categories), and 25 points if funding was not received within the past three years. Of the 50 communities that received CDBG Community Improvement grants in 1995, 18 that had never been funded received nearly \$3 million, and 14 that had not received funding in the past three years were awarded more than \$3 million. Of the 14 communities receiving CDBG Housing grants, twelve were new to this program. They received in excess of \$3 million.

Housing Division - In 1995, the Division privatized the Housing Quality Standards Inspections. The result has saved considerable staff time and salary.

Trade Development Division - The New-to-Export program was implemented to help companies evaluate the export sales potential of their products, identify export opportunities, and develop a basic export marketing plan. The program provides the greatest benefit to companies that have never exported, or those exporting on an ad hoc basis.

New guidelines were issued for the Kansas Trade Show Assistance Program. Only those companies attending a particular trade show for the first time will receive funding. Previously, monies were made available for repeat participants.

Division Cost Savings - The Trade Development Division stopped subsidizing company participation in the U.S. Department of Commerce's export catalog, *Commercial News USA*, for a cost savings of approximately \$3,000.

Travel & Tourism Development Division - Because of a low rate of return on investment, the "Kansas Secrets" travel incentive program has been eliminated. This will allow approximately \$60,000 to be used toward enhancing the Division's advertising campaign, which returns \$8 for every \$1 spent.

The new Travel Information Center in Olathe will be operated by a private management firm. In a further attempt to privatize, the gift shop at the Olathe facility will also be under contract. New revenue-generating concepts at the TIC in Olathe have so far generated \$60,000 (toward a goal of \$150,000).

Division Cost Savings - Female inmates at the Topeka Correctional Facility are now answering the Division's toll-free travel information line, saving approximately \$8,500 annually. This change in service is also providing job training to these inmates. Combining both the Travel and Event Guides into a single Guidebook will save \$15,000. And private management contracts at TIC in Olathe will save the Division \$13,000 annually. Total savings under the Travel & Tourism Development Division are approximately \$36,500.

III. Those programs we continue to operate have met with tremendous success as well. In 1995, Commerce and Housing produced substantial results in these programs, ultimately benefitting large and small communities throughout the state of Kansas. Here are some of our success stories thus far:

Business Development Division - Recruitment efforts resulted in the addition of new business that will provide over 1,900 new jobs and \$120 million of capital investment. Additionally, with the assistance of Commerce and Housing staff, existing Kansas businesses expanded to create more than 1,500 new jobs and retain an additional 480 existing jobs. Expansion projects across the state resulted in a capital investment of over \$115 million. Combined recruitment and expansion efforts last year 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.

During the past twelve months, nearly \$150 million in private activity bonds were issued around the state, including \$51.5 million for manufacturing/processing projects, \$35.3 million for first-time homebuyer projects, \$31.6 million for residential rental projects, \$29.6 million for waste management projects, and \$1.9 million for beginning farmers bonds. This tax-exempt bond authority comes to the state from the federal government. It allows local governments, or the Kansas Development Finance Authority, to issue bonds on a federally tax-exempt basis, effectively lowering financing costs.

The Workforce Training staff approved funding for 65 projects, providing training for over 7,000 Kansas workers. Thirty-three percent of these projects were awarded to businesses with fewer than 100 employees. Workforce Training puts the emphasis on the worker, providing that person specific skills, which ultimately creates "employability."

Through the Kansas Export Finance program, Commerce and Housing guaranteed over \$1.4 million in loans to five Kansas exporting companies during the past year. 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 exporters. These combined state and federal guarantees supported nearly \$15 million worth of Kansas exports.

Nineteen companies received certification for the High Performance Incentive Program (HPIP). Under this program, eligible companies may receive substantial tax credits and other incentives, if they satisfy employee wage and training criteria.

The "First Stop" Clearinghouse provides new companies information about doing business in Kansas. The person who staffs this telephone line answers questions about licensing, regulations, taxes and filling out proper forms, to name just a few functions. This past year, more than 3,200 businesses received information from the Clearinghouse.

Over the past year, 44 minority- and women-owned businesses were certified through the Single Source Certification program, housed in the Office of Minority and Women Business Development. This program is responsible for certifying minority- and women-owned businesses as smaller, disadvantaged businesses, thus opening contracting opportunities for these entities. These businesses directly benefitted from becoming certified as Southwestern Bell Telephone awarded \$8.3 million in contracts to them.

The Division coordinates its efforts with other entities, such as Certified Development Companies (CDCs) and Small Business Development Centers (SBDCs). With our help (\$425,000 appropriated in our budget), CDCs retained and created nearly 2,300 jobs, utilizing well over \$90 million in financing. Commerce and Housing's \$325,000 investment in SBDCs resulted in more than 11,000 cases of business assistance, such as workshops, conferences, counseling and information requests.

Community Development Division - The Community Development Block Grant (CDBG) program (derived from the U.S. Small Cities CDBG program) reviewed 206 applications. From this, 84 projects were awarded, totaling \$20.9 million. Breaking this down, 50 were Community Improvement projects at \$9.4 million. Of the 50 projects, 36 went to communities of less than 5,000. Three more were granted to communities between five and 10,000 in population. Outside dollars leveraged on these projects exceeded a one to one ratio (\$9.4 million to \$10.3 million). Fourteen CDBG awards went to Housing Rehabilitation and Acquisition projects at \$3.7 million. Six Urgent-Need grants were awarded at \$1.8 million. Finally, 14 Economic Development grants were administered, totaling \$6 million and creating over 1,200 new jobs, while retaining an additional 37. All of these awards leveraged an additional \$130 million in outside funds, for a 21.6 to one return on investment. More than 100,000 Kansans benefitted from projects completed in 1995.

During 1995, the CDBG program also "closed" 87 projects. As a result, these projects created 842 jobs, rehabilitated 176 homes, assisted 16 first time home buyers, removed architectural barriers in five public facilities, constructed or rehabilitated six community buildings, installed more than 16 miles of water line and three miles of sewer line, upgraded four sewer treatment systems, and nine water treatment plants. The program provided benefits to more than 100,000 Kansas residents through these public infrastructure projects.

Strategic Planning and Action grants are used by Kansas counties to develop a "blueprint" from which they can enhance their capacity to sustain long-term commitment to local economic development strategies. During the past twelve months, 16 Planning grants, totaling \$225,000, allowed counties to begin developing their strategic development plan. This brings the total number of counties with a current plan to 97. Twenty Action grants, totaling nearly \$400,000, provided the necessary funding to begin implementing existing plans.

The Kansas Disaster Recovery program awarded 32 projects totaling more than \$8.7 million over the past year. These monies were used to restore and replace businesses, housing, and public infrastructure, resulting from damages attributed to the 1993 floods. These projects leveraged more than \$12.2 million from public and private resources, representing a 1.4 to one return on investment. More than 63,000 Kansans were direct beneficiaries of projects completed this year.

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.

On a similar note, the Kansas PRIDE program, designed to increase community-wide involvement, communication and organization, received significant support from the Kansas corporate community over the past year. \$22,000 in cash and \$6,000 in in-kind assistance came from corporate sponsors. One hundred-five communities participated in PRIDE, 97 of which have populations under 5,000.

Housing Division - The Homeowner Rehabilitation Services program awarded \$1.3 million, benefitting 227 people in their efforts to refurbish their homes.

The Tenant-Based Rental Assistance program administered nearly \$2.2 million, so that 500 people would have housing.

The First-Time Homebuyer program committed \$2.4 million in loans, and leveraged another \$7.5 million, to allow over 600 Kansans to own a home.

The Low Income Housing Tax Credit program allocated \$44.9 million in tax credits to assist developers in the construction and renovation of housing projects for low income families, the elderly, disabled and homeless. More than 1,100 units were created, giving a home to 2,750 of these individuals.

The Weatherization program made 2,088 Kansas homes weather-tight, benefitting 5,610 individuals, most of them elderly, disabled and children under the age of 19.

Additional Housing programs include:

Community Housing Development Organization (CHDO) - Awarded \$2 million
Flood Recovery program - Awarded \$4.4 million
Section 8 New Construction - Awarded \$1.7 million
Emergency Shelter Grant program - Awarded \$575,000
Permanent Housing for Handicapped Homeless - Awarded \$278,000
Operation & Rural Operation Homeless - Awarded \$630,000
Community Service Block Grants - Awarded \$2.7 million
Emergency Community Services Homeless Grants - Awarded \$166,000
Sunflower Supportive Services program - Awarded \$67,600

Trade Development Division - The Kansas Trade Show Assistance Program (KTSAP) 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 39.5 to one return on investment (February through June, 1995).

In 1995, the Division provided their expertise to 360 Kansas companies, making them export-ready.

Another responsibility of the Division is international business recruitment. This endeavor resulted in bringing three overseas companies to Kansas, creating 180 new jobs, contributing to a \$13.5 million capital investment for the state.

Eighty new jobs were created resulting from expansions of two existing Kansas companies. These two international companies contributed an additional \$2.5 million of capital investment in Kansas.

Travel and Tourism Development Division - The Travel Information Centers promoted Kansas to more than 420,000 travelers from around the world. This generated a \$40 million economic impact on the state.

Results from a leisure travel advertising campaign indicate that more than 114,000 requests for information were handled as a result of regional marketing (this is a 19% increase over last year's figures). Forty-one percent of those requesting information ultimately paid a visit

to Kansas, spending well over \$25 million in the state.

Eighty-eight travel articles on Kansas were published as a direct result of the division's sales and promotional efforts. These articles are valued at \$588,000 for the space dedicated directly to Kansas. Another promotional endeavor resulted in committing Tauck Tours (considered one the nation's top tour companies) to conduct 25 tours of Kansas in 1996.

During this past year, *KANSAS!* magazine celebrated its 50th anniversary. The quarterly publication, a beautiful promotional tool for the state, increased subscriptions nearly 15 percent last year. Likewise, the number of outlets selling the magazine and *KANSAS!* calendar increased 15 percent. The completely self-sufficient magazine has nearly 53,000 subscribers.

Through the efforts of the Film Promotion staff, filming projects in Kansas numbered 28 last year. Three feature films, seven television shows, seven documentaries, three commercials, one music video, and seven more related projects generated nearly \$4.2 million in production revenues for the state. To raise this number, the staff responded to 115 requests for photographs from production companies, sending nearly 500 photograph portfolios. Over 400 requests for location assistance were facilitated and the staff sent out 1,271 Production Guides. The staff also escorted 18 scouting trips with 30 different production people.

This month, we will be awarding \$340,000 through the Attraction Development grant program. The grants are used to develop new tourist attractions, or enhance existing ones. Currently, we are reviewing 37 applications from communities requesting more than \$1 million in funding.

The Marketing grant program awards funds to not-for-profit entities that promote Kansas to out-of-state travelers. Sixteen grants were awarded over the past year, totaling nearly \$40,000. This is a dollar-for-dollar match that encourages communities to market their region in cooperation with other communities. It has been of particular value to our rural tourism efforts, as 13 grants were awarded to rural entities.

IV. Conclusion.

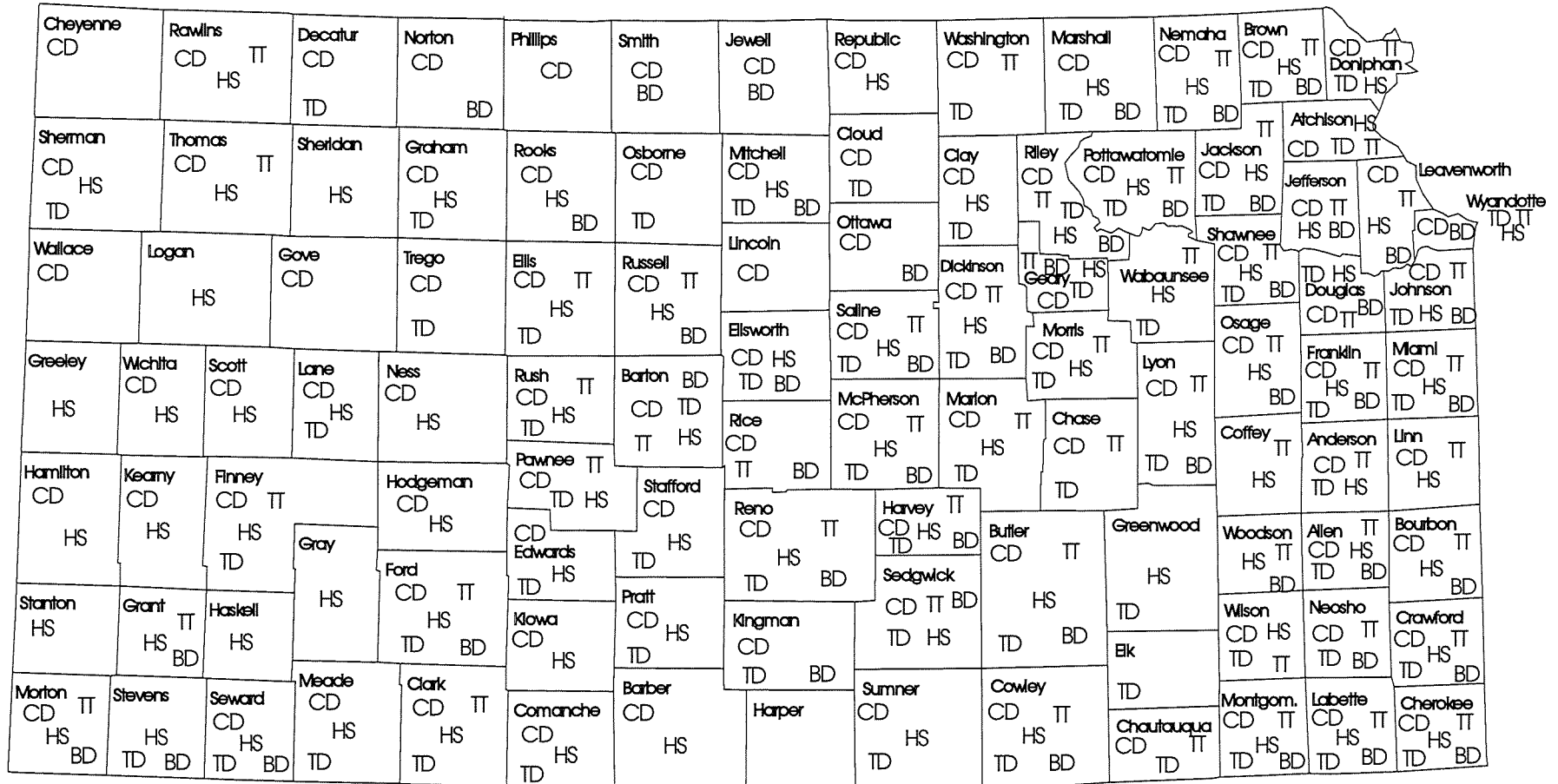
Economic development is a complicated task, requiring the dedicated services of every person within this agency. Although Commerce and Housing is a small organization, each person is raising his or her performance level to ensure that we achieve this enormous challenge. We will maintain our focus on results, initiate more changes wherever and whenever they are needed, and will always find new ways to strengthen the Kansas economy.

Commerce and Housing is committed to providing leadership to ensure economic opportunity for Kansans. This is an agency where outstanding people are working everyday to better serve Kansas.

KANSAS DEPARTMENT OF COMMERCE & HOUSING

Agencywide Program Distribution

Calendar Year 1995



BD	Business Development
CD	Community Development
HS	Housing
TD	Trade Development
TT	Travel & Tourism

1-10