Approved: March 8 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 March 6, 1996 in Room 123-S of the Capitol.

Members present: Senators Salisbury, Burke, Downey, Feleciano, Gooch, Harris,Jordan, 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:
Charles R. Warren, Ph.D., President, Kansas, Inc.

Others attending: See attached list

HB 2825: Reorganizing, Kansas, Inc.

Charles R. Warren, Ph.D., President, Kansas, Inc., appeared in support of HB 2825. Dr. Warren also submitted written testimony of Warren Schmidgall, Executive Vice President, Hill's Pet Nutrition, and a board member of Kansas, Inc. Attachment 1

Dr. Warren stated HB. 2825 incorporates changes to the Kansas, Inc. statute. The two significant changes contained in HB 2825 are (1) enlarge the Board of Directors of Kansas, Inc. by two additional members: one member an owner of a small business and one member representing the business and professional services sector; and (2) eliminate private sector funding as a mandated matching requirement. Dr. Warren stated the proposed changes in HB 2825 are the result of a Peer Review by the National Association of State Development Agencies.

Dr. Warren advised the Boardwould establish a 501(c)(3) non-profit corporation be, governed by the existing board, to receive and disburse private donations; therefore, allowing Kansas, Inc. to obtain grants from private national and state foundations. HB 2825 further codifies the procedure for the appointment of the President of Kansas, Inc. Attachment 2

Senator Burke moved, seconded by Senator Ranson, that an editorial amendment be made to Section 2 and **HB 2825** be recommended favorable for passage. The recorded vote was in favor of the motion.

Senator Burke moved, seconded by Senator Reynolds that the following bills be not passed:

SB 26: Reduction of employment security fund control ratios to total wages

SB 117: Release of employer from liability in cases separate from workers compensation actions during workers compensation settlement prohibited

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON COMMERCE, Room 123-S Statehouse, at 8:00 a.m on March 6, 1996.

SB 186: Fair share representation fee for labor organization from non-member employees

SB 210: Attorney general review of certain claims

SB 226: Public works projects for state agencies, Kansas resident worker preference

SB 235: Employment security; reduction of employer rates

SB 242: Workers compensation procedural changes

SB 243: Workers compensation administrative law judges

SB 244: Defines permanent partial disability for purposes of workers compensation

SB 245: Abolishes workers compensation advisory council

SB 246: Director of workers compensation administer workers compensation fund

SB 247: Workers compensation director sole administrator of fraud and abuse claims

SB 292: Defining purpose and scope of public employer-employee relations act

SB 327: Change in the provision of and eligibility for workers compensation benefits

SB 328: Cities, Tax increment financing

SB 456: Repeal of enterprise zone detrimental reliance exception

SB 457: Expansion of enterprise zone act

SB 501: Tax increment financing; taxing subdivisions within redevelopment district

SB 553: Workers compensation coverage for volunteer firefighters

SB 586: Enacting accountability spending act

SB 596: Concerning the minimum wage and maximum hours law

SB 613: Training and retraining programs, laid off employees of closed institutions

SB 648: Excluding group-funded workers compensation pools from workers compensation surcharged

SB 694: Eliminating the need to miss one week of work to qualify for permanent partial disability

The recorded vote was in favor of the motion: Aye - 7, Pass - 3, Not present and not voting - 3.

The meeting adjourned at 8:50 a.m.

The next meeting is scheduled for March 7, 1996.

SENATE COMMERCE COMMITTEE GUEST LIST

DATE: March 6, 1996

NAME	REPRESENTING
Bob Corzanti	KCCI
Jim Brown	Mid America Commerce Assn
Roger Franzio	Ks Gov Consult
Bill Yancee	BOEING
Bernie Koch	Wichita Chamber of Commerce
Mark Barcellina	KDOC&H
Johnny Damon	Royals

Testimony
in support of
HB 2825

Senate Committee on Commerce

By

Warren Schmidgall
Executive Vice President
Hill's Pet Nutrition

March 6, 1996

Senate Commerce Committee
March 6, 1996

Attachment 1 thru 1-3

Good afternoon, Madam Chair and Members of the Committee. My name is Warren Schmidgall, and I am here to urge your support for this bill. I am executive vice president with Hill's Pet Nutrition, here in Topeka, and appear before you today in two capacities: First, I represent Hill's, which is a private sector contributor to Kansas, Inc., and second, I currently serve on the Board of Directors of Kansas, Inc., representing the manufacturing sector.

Hill's has contributed to Kansas, Inc. over the past couple of years, because we believe strongly in the role that Kansas, Inc. plays in the economic development process. At the same time, we are concerned.

We are concerned that the ability of Kansas, Inc. to provide continued economic development insight and leadership is potentially limited by their success in raising funds from the private sector.

And, we are concerned that we, along with other donors, are funding salaries and operating expenses of Kansas, Inc. Other than Kansas, Inc., Hill's does not fund basic staff and support services of any organization. We are interested in supporting programs or activities with specifically defined objectives. We would prefer to do the same with Kansas, Inc., but this requires that mandated private sector fund raising be discontinued.

As a member of the Board of Directors of Kansas, Inc., I also urge your passage of this legislation. Kansas, Inc. has a small staff with a critical oversight role to play in the economic development of the State. It is an organization that we can leverage for economic development by keeping them focused on their mission. Kansas, Inc. has proven that it is a viable and credible element of economic development. It is an organization that separates Kansas from many other states. And I don't have to tell you that any advantage we can get in this era of global competition is vital. But with such a small staff, Kansas, Inc. must remain focused.

Relieving them of the responsibility of supporting operations through mandated private sector fund raising, which is likely to become increasingly difficult and time consuming, allows greater focus on their basic mission and responsibilities.

Finally, it is very important that the independence and public/private nature of Kansas, Inc. be maintained. Independence is assured by the make-up of the Board of Directors. In fact, this bill adds two private sector members which will further increase the role of the business community in Kansas, Inc.

Kansas, Inc. has always relied on the State for its principal source of funding. This legislation does not change that. What it does do, is allow the private sector to contribute in support of specific research projects.

In summary, I think this legislation is important because private sector donors are increasingly unwilling to fund basic salaries and operating expense of Kansas, Inc. Furthermore, it would allow Kansas, Inc. to function more effectively, and in the long run that will give the State more for its economic development investment.

H.B. 2825
Amendments to Kansas, Inc. Enabling Statute

Senate Committee on Commerce
March 6, 1996

Testimony of
Charles R. Warren, Ph.D.
President, Kansas, Inc.

Senate Commerce Committee
March 6, 1996
Attachment 2 thru 2-12

Madame Chair, members of the Committee, I appreciate the opportunity to testify on H.B. 2825 today. This bill incorporates several changes to the Kansas, Inc. statute, some of which are technical in character. The bill does make two significant changes that affect the membership of the Kansas, Inc. Board of Directors and the funding of the agency. I have attached a section-by-section explanation of the amendments included in H.B. 2825.

NASDA Peer Review

In the Winter of 1995, Kansas, Inc. underwent a Peer Review by the National Association of State Development Agencies (NASDA). A team of outside experts and a leading Kansas business person evaluated Kansas, Inc. through surveys, interviews and a three day site visit. The NASDA team concluded that Kansas, Inc. "has played a role in the state's policy making process that is unique and quite important." And, "Kansas, Inc. Is a credible independent voice that provides valuable input into public discussions about economic development issues through its strategic planning, research, policy development, and program evaluation activities." The NASDA report (see attached executive summary) contained several recommendations. This bill responds to two of their recommendations:

1. Maintain the independence of Kansas, Inc. as a quasi-public organization and expand its membership to include broader participation by the private sector in setting the organization's agenda.

2. Eliminate the private sector match requirement while maintaining the current budget level for Kansas, Inc.

Expansion of Board Membership

The bill would add two private sector members to the Kansas, Inc. Board of Directors bringing the total membership of the Board to 17. One new member would represent the business and professional services sector. This is an extremely important area of the economy and one that is growing rapidly. The other new member would be an owner of a small business. Kansas is a state of small businesses and this important constituency deserves representation on the Board. In addition to providing representation for these very significant sectors and constituencies of the Kansas economy, these additional private sector members would strengthen our public-private partnership and give the business community a stronger voice in Kansas, Inc. We currently have eight members from the private sector and seven from the public sector. This would change the ratio to ten private and seven public. This change has little fiscal impact. Board members are entitled to salary and per diem, but since our inception private sector members have not requested payment for service on the Board.

Private Sector Funding

The other significant change would eliminate private sector funding as a mandated matching requirement. The responsibility of the state to fund salaries and operations would continue as currently in statute. The responsibility of the private sector to fund research and educational activities would also continue. This change does not diminish our responsibility to raise funds from the private sector to fund our research program. It simply allows Kansas, Inc. to raise the funds it needs in the amount it is able to secure and to spend those funds in a more flexible manner for the purposes currently expressed in statute.

The Kansas, Inc. statute requires the organization to raise 33 percent of its budget from donations from the private sector to match the funding from state government. There has been a growing concern and objection to this matching requirement on the part of elected legislators, the business community, and some Board members. From its interviews, the NASDA peer review team identified five major negatives to the mandated private sector funding:

1) *It is becoming increasingly difficult to raise the private sector match because of the dependence on a selected group of Kansas businesses that have contributed significant sums for as many as nine years, and are beginning to exhibit signs of "donor burnout." The small number of large, affluent companies in Kansas makes fund raising difficult.*

2) *Many Kansas corporations are under increasing financial pressures and are "branch plants" with headquarters outside of the state that do not have the authority to decide how corporate resources will be used. Furthermore, competition for charitable contributions is intense and discretionary funds of business have declined.*

3) *There is the perception of linkage between the Kansas, Inc. research and policy agenda and funding by major contributors. The view that large corporate donors influence the agenda has a negative effect on the credibility and objectivity of its work and recommendations.*

4) *Successful fund raising requires intensive time and effort in mounting campaigns, making solicitations, and numerous personal visits to potential donors. The burden of fund raising has fallen on the President, who now spends about 20 percent of his time raising money. This detracts from his management, planning and research responsibilities. The staff consists of only three professionals. There are no funds for a marketing or fund-raising position on staff.*

5) *The private fund raising obligation can also lessen interest of business leaders in serving on the Board when they are asked to raise funds from their colleagues and their own company.*

NASDA recommended not only that the private match requirement be eliminated, but that the state replace those dollars with public funds. The Board agreed that the private match requirement should be eliminated. It did not agree that the state should make up the difference. The Board recognizes the tight budget parameters set by the Governor, and cannot suggest an additional $140,000 of state funding. Kansas, Inc. should continue to rely on private funds for its research program or state funding when projects are directed by the state. It should, however, be given the flexibility to raise the amounts it can and needs, and to expend those dollars as its work program dictates.

Presently, the Legislature sets the exact amount of funds we are required to seek from private donors. It then allocates those funds within our annual budget. We are not only required to raise a specific amount of private dollars, but to spend that amount during the fiscal year.

In 1990, the Kansas, Inc. statute was amended to define clearly the obligations of state government and the private sector in funding Kansas, Inc.: "The state shall . . . fund the salary and operating expenses," and private funds will be raised to support research and education activities. Despite this explicit language, this has not occurred. Kansas, Inc. has a very modest budget with most expenses for salaries and fixed operational costs, such as rent, supplies, and communications. State funding has declined or been level over the years. Because of limited state funding, private dollars have had to be used to support operating expenses, contrary to legislative intent. In FY 1995, $19,777 of private monies were used for operations; in FY 1996, $10,448 in private monies will be needed for operations; and, in FY 1997 $27,525 will be required to meet operating expenses.

The state not only mandates a specific amount of private funds, it also budgets and controls the use of private dollars. State budget documents do not indicate clearly that private donations are supporting Kansas, Inc. The budget document reports total agency dollars without credit to the private sector, and this practice implies that the state's contribution is far greater than actual. As a result, appropriations committees do not appreciate the contributions by private donors. Private funding of Kansas, Inc. should be kept separate from the state budget process, and not be included in its annual appropriation.

Another problem is that the state not only requires Kansas, Inc. to raise a specified dollar amount within a fiscal year, but also to spend that same amount during the fiscal year. As such, the state is compelling a voluntary charitable action by an unspecified group of donors and requiring utilization of those funds in a time period which may not realize the return on the use of those funds. Fund raising is a difficult task that can be motivated with goals, but results are always uncertain.

The Board has agreed that a separate entity with the status of a 501(c)(3) non-profit corporation be established, governed by the existing board, to receive and disburse private donations. Creation of such an entity would also enable Kansas, Inc. to obtain grants from private national and state foundations. The Board believes that private financial support should continue, but at an unspecified level, with the amount raised determined by research needs and fund raising success, rather than by a mandate of the state.

I hope you will support these amendments. I would be pleased to answer any questions or provide additional information. Thank you.

Proposed Amendments to the Kansas, Inc. Enabling Statute
H.B. 2825

Page 1, lines 21-22, 74-8003

The Board is required to meet at least quarterly and other times on call of the Governor. New language would also allow the Board to set additional meetings.

Page 1, lines 42-43, Page 2, line 1,74-8006

The date for submittal of the Kansas, Inc. annual report would be deleted. A fiscal year annual report would be prepared and submitted in coordination with the annual reports of KTEC and KDOC&H.

Page 2, lines 6-7, lines 18-24, lines 29-31, 74-8009a

Language requiring a private sector match would be deleted from this section, along with language that elaborates on the matching requirement and its reporting. This section would retain existing language that obligates the state to fund salaries and operating expenses, and enables private funds for research and education.

Page 2, line 33, Page 3, lines 2-3, line 13, 74-8010, 74-8011

Phrases related to periods of time would be deleted to provide for Kansas, Inc. evaluation duties to be ongoing and continuous. The phrase, "Four years after the effective date of this act," would be deleted to provide for review and evaluation of Kansas, Inc. by the Joint Committee on Economic Development as an ongoing function.

Page 3, line 27, Page 4, lines 3-7, 74-8001

Two private sector members would be added to the Board of Directors, bringing the total number of members to 17, and the number appointed by the Governor to nine. One member would be from the professional and business service sector and one member would be an owner of a small business.

Page 6, lines 33-39, 74-8004

Paragraph (9) would be deleted. It calls for Kansas, Inc. to review and evaluate the "state economic development plan" prepared by the Department of Commerce and Housing. There is no statutory requirement that KDOC&H prepare such a plan, and it has not done so for several years.

Page 7, line 11, 74-8005

The President is hired by the Board of Directors. New language is added that would make the selection of the next President by the Board subject to approval of the Governor.

Page 7, lines 32-36, 74-8005

The initial requirement of a business plan is deleted. This requirement pertained to the first year of operation and is obsolete.

Page 7, lines 38-39, 74-8005

New language clarifies the ability of Kansas, Inc. and KDOC&H to enter into joint contracts for research and other consulting services.

National Association of State Development Agencies

750 FIRST STREET, N.E., SUITE 710
WASHINGTON, D.C. 20002

(202) 898-1302
FAX: (202) 898-1312

MILES FRIEDMAN
Executive Director

A Peer Review of Kansas Inc.

Prepared for:
Gary Sherrer, Secretary
Kansas Department of Commerce & Housing

December 27, 1995

Prepared by:

National Association of State Development Agencies
750 First Street, NE Suite 710
Washington, DC 20002
202-898-1302

Miles Friedman, Executive Director

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EXECUTIVE SUMMARY:
A Peer Review of Kansas Inc.

During the past nine years, Kansas Inc. has played a role in the state's policy making process that is unique and quite important. The National Association of State Development Agencies (NASDA) was charged with reviewing the performance of Kansas Inc. during the past several years and examining the appropriateness of the organization's mission. The NASDA team found that Kansas Inc. is a credible independent voice that provides valuable input into public discussions about economic development issues through its strategic planning, research, policy development, and program evaluation activities. In addition, NASDA found that the role of Kansas Inc. has evolved over time reflecting changing needs of the state. In the early days of Kansas Inc., it helped to craft a strategic vision and new program ideas implementing that vision. Today, the mission of Kansas Inc. must focus on providing follow through in implementing the state's economic development vision and on evaluating how well state agencies are succeeding in their implementation efforts.

To gain a better insight on the attitudes of its stakeholders, NASDA surveyed the Board members, funders, and partners of Kansas Inc. The survey found that nearly two-thirds of those responding noted that they were either very satisfied or somewhat satisfied with the efforts of Kansas Inc. to accomplish its mission. Only 15 percent responded that they were dissatisfied or very dissatisfied with the organization's accomplishments. The survey respondents cited the agency's most important accomplishments as (1) coordinating the state economic development strategy; (2) bringing professional expertise and continuity to economic development and policy making; and (3) improving policy making by providing significant research and data on economic issues and public problems. More than eight of ten respondents indicated that Kansas Inc. should be involved in (1) articulating the state's overall strategic vision and goals; (2) conducting policy and economic research, and (3) providing policy advice to the Governor and Legislature on business, economic and tax issues.

Generally, Kansas Inc. received favorable reviews from the survey respondents. More than two-thirds of the survey respondents rated Kansas Inc. as very effective or effective in (1) conducting policy and economic research and (2) providing policy advice to the Governor and Legislature on business, economic and tax issues. However, Kansas Inc. was criticized by 35 percent of the survey respondents for not being effective at ensuring the implementation of the strategic plan for the economy or at establishing measurable objectives for program and agency performance. While the agency's stakeholders perceive implementing *A Kansas Vision* as the agency's most important role, many do not feel that the organization is successfully accomplishing this goal.

In analyzing the results of our survey and in-depth interviews, the NASDA team noted three issues facing Kansas Inc. that directly affect the organization's ability to fulfill its mission. Those are its: (1) capacity to follow through in implementing the state's strategic plan; (2) funding; and (3) independence. First, while the organization's stakeholders view the mission of Kansas Inc. as important, its achievements are limited by its capacity to ensure that "action agencies" follow

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through on its recommendations. Second, the organization's funding is limited, and vital staff resources are being diverted for the private sector fundraising required by its mandate. Third, as a direct result of its independence from other organizations, Kansas Inc. has built a reputation for undertaking objective and credible research that is reflected in its policy recommendations and program evaluations.

Recommendations

To address these issues, NASDA proposes that the Governor, as the leader of economic development in the state, elevate and focus the role of Kansas Inc. so that it can become a more effective vehicle for strategic planning and program evaluation. Based on NASDA's assessment, Kansas Inc. has been fulfilling its role effectively within the context of a proactive legislature and prior Governors who chose not to utilize Kansas Inc. to its full potential. With a strong interest in economic development and in Kansas Inc., Governor Bill Graves has a unique opportunity to tap the organization as a tool for enhancing the effectiveness of state economic development programs. To improve the effectiveness of Kansas Inc. as well as the delivery of economic development services, the NASDA project team recommends that the Governor take the following actions:

1. *Maintain the independence of Kansas Inc as a quasi-public organization.*

As an advisor to the Governor and his implementation, Kansas Inc. needs to retain the objectivity and credibility that results from the organization's independence. Kansas Inc. should continue its role as strategic planner and program evaluator within the context of a coordinated team of economic development service providers. To ensure that its independence is maintained, the Board of Kansas Inc. should retain its authority and expand its membership to include broader participation by the private sector in setting the organization's agenda. Specifically, NASDA is recommending that Kansas Inc. balance its board membership with representatives from growth sectors, such as tourism, business services, engineering & management services, and/or advanced technologies.

2. *Eliminate the private sector match requirement while maintaining the current budget level for Kansas Inc.*

The Kansas Inc. operating budget is quite modest by any standard. Obtaining matching funds from the private sector has been problematic for the organization in the past, diverting significant staff and Board resources from the organization's primary mission. An important reason for requiring company contributions was to ensure that the private sector is engaged in the mission of Kansas Inc. Yet, there may be negative side effects, such as less interest from board members in serving as leaders who are asked to raise funds and the possible perception that the private sector can influence the outcome of specific research projects. The active involvement of the private sector can be maintained by expanding the Board of Directors, maintaining its role in guiding Kansas Inc., and strengthening the ability of Kansas Inc. to implement its planning and evaluation work through improved coordination of economic development in the state. At the same time, the Board and staff of Kansas Inc. can focus on the organization's primary mission and responsibilities to the people of Kansas by eliminating the private sector match requirement.

3. *Develop a more focused work program for Kansas Inc.*

Kansas Inc. is too small in terms of staff and financial resources to meet the growing array of needs for everyone in the public and private sectors. Like everyone else, Kansas Inc. has limited resources. To use those resources effectively, it must define a clearly identifiable niche that meets the most pressing needs of the Governor, the legislature, and the private sector. The State, with help from Kansas Inc., has already established a comprehensive economic development program. Now, the primary needs include: (a) holding the state's economic development partners accountable for achieving the goals and objectives of the state's strategic plan, and (b) providing a means for the on-going monitoring of program performance. In this manner, the state's economic development program will have a "rudder" to ensure direction and a "compass" to gauge how close the program is to the course set out in the *Kansas Vision.* Kansas Inc. should perform these functions; thereby, allowing the public and private sector to make informed decisions on resource allocation and to ensure consistency and stability for the future.

4. *Create the* ***Kansas Economic Development Action Team.***

The most important challenge to the long-term credibility of Kansas Inc. may well be the limited capacity in Kansas to hold the state's implementing agencies accountable for achieving the goals and objectives laid out in the *Kansas Vision.* Governor Graves, as the state's economic development leader, can fulfill his goal of taking an aggressive stance on economic development while addressing this challenge by pulling together those implementing organizations into the **Kansas Economic Development Action Team**. The team should include key cabinet level agencies and other economic development allies such as local development organizations and the Kansas Technology Enterprise Corporation. The Kansas Department of Commerce and Housing would play a key role as the designated co-chair of the Action Team. Kansas Inc. would serve as the lead agency for planning and evaluation. Other organizations than those indicated should be added as appropriate.

5. *Present a unified economic development budget shaped by the Action Team.*

To reduce the fragmentation of state programs and strengthen the Governor's ability to articulate his economic development vision for the state, the Action Team, under the Governor's leadership, should develop a unified economic development budget. This would offer an opportunity to eliminate overlap and duplication. The unified budget would also strengthen the accountability of state programs by providing a single overview of funding allocated to economic development. Currently, activities funded through the Economic Development Investment Fund are aggregated into a list, but the state legislature also receives individual budget requests for separate related initiatives. This fragmented approach to budgeting reinforces the splintering of program implementation and creates disincentives for collaboration among the state-funded economic development partners.

To support a unified budget, Kansas Inc. should develop and implement a performance monitoring system as a tool for providing input to members of the team on how well their individual programs are doing in achieving their objectives and allow an opportunity for fine tuning programs through the budget process. In an environment of limited resources, it is important that the team members come together and set their priorities in a thoughtful and cooperative manner before approaching the legislature for funding. In this way, the State of Kansas sends a clear signal to the legislature, the business community, and the general public that economic developers are working cooperatively toward improving the economic well being of everyone in the state.

Conclusion

Kansas Inc. has been fairly successful in achieving its mission of developing a strategic plan and identifying new programmatic approaches. These successes have contributed to a changing environment to which Kansas Inc. must adapt. The mission of Kansas Inc. must evolve to reflect a greater need for taking on different responsibilities. It must become more involved in following through with the strategic plan to ensure its implementation. Kansas Inc. must also place a high priority on program evaluation efforts to ensure that the state's economic development efforts remain accountable to the Governor and the state legislature for their success.

Kansas Inc. has begun to take on this changing role, but the most important barriers to its success may be actions that are outside the organization's control. The recommendations laid out in this report are designed to address those barriers. By creating a coordinated action team and a unified budget from that team, the Governor can ensure that Kansas Inc. continues to be successful while playing an important role for the future of the state's economic development efforts.