

Approved: January 21, 1997
Date

MINUTES OF THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT

The meeting was called to order by Chairman Bill Mason at 3:30 p.m. on January 14, 1996 in Room 423-S of the Capitol.

All members were present except: Barbara Allen (Excused)

Committee staff present: Lynne Holt, Legislative Research Department
Beverly Renner, Committee Secretary

Conferees appearing before the committee: Lynne Holt, Legislative Research Department

Others attending: See attached list

Committee members were introduced and indicated their interests in the field of Economic Development.

Chairman Mason's opening remarks gave background on the progress of Economic Development in Kansas and asked for input from the members on expectations for this Session.

Lynne Holt, Legislative Research Department briefed the committee on the three major development agencies in Kansas; Kansas, Inc.; the Kansas Technology Enterprise Corporation; and the Kansas Department of Commerce and Housing (Attachment 1). Ms. Holt spoke on the history of these organizations from 1986 legislation to the present.

Ms. Holt continued her presentation to discuss the major issues addressed by the Joint Committee on Economic Development during the 1996 interim (Attachment 2). These issues included the evaluation of a state's economic performance; a profile of the workforce and training initiatives; an examination of the implementation of privatization by various state agencies; and, conflict of interest.

Ms. Holt summarized the conclusions and recommendations reached by the Joint Committee. Legislation should be introduced to amend the Kansas Economic Opportunity Initiatives Fund (KEOIF) to include funding for housing needs and the Senate Commerce, House Economic Development and Joint Committees should look at issues related to rural areas and redevelopment needs in the inner cities. The Committee recommended that workforce training programs administered by the Department of Human Resources should emphasize the importance of work ethic and appropriate employee attitude, particularly to the most disadvantaged segment of the unemployed population. The Department of Administration was urged to report to the Senate Commerce and the House Business, Commerce and Labor Committees any problems and deficiencies related to the contractual process and a proposal of measures to redress these problems. The committee also recommended changes in existing policies and the introduction of legislation to correct various conflict of interest issues.

Chairman Mason adjourned the meeting at 4:40 p.m.

The next meeting is scheduled for January 15, 1997.

HOUSE ECONOMIC DEVELOPMENT COMMITTEE
COMMITTEE GUEST LIST

DATE: January 14, 1997

NAME	REPRESENTING
Kelly Kuitala	City of Overland Park
Janie Rutherford	KTEC
Candra Ottenbach	KTEC
Roger Troutie	KGC
Mark Barcellina	KDOC&H

January 13, 1997

To: Senate Commerce Committee and House Economic Development Committee

From: Lynne Holt, Principal Analyst

Re: Brief Description of Kansas Economic Development Agencies

Below is a brief description of the three major economic development agencies in Kansas: Kansas, Inc.; the Kansas Technology Enterprise Corporation; and the Kansas Department of Commerce and Housing.

Kansas, Inc.

Kansas, Inc. was created by the 1986 Legislature to conduct economic development planning, policy research, and program evaluation. Kansas, Inc. provides policy advice to the Governor, the Secretary of Commerce and Housing, and the Legislature. In FY 1997, Kansas, Inc. purchased an economic forecasting and impact model (the REMI model) that can be used to analyze policy changes and evaluate program effects.

Examples of recent Kansas, Inc. activities include: a detailed analysis of 32 Kansas business assistance programs; completion of three contractual studies on the labor force; and lead sponsorship of a symposium which explored employment and the workforce in Kansas and the underlying implications for business and public policy. The most recent activity is the completion of the strategic plan for economic development for Kansas, *A Kansas Vision for the 21st Century*. Kansas, Inc. is also scheduled to conduct an assessment of school district performance among 48 school districts under the School Performance Accreditation System and submit the results of the analysis to the 1998 Legislature.

Kansas, Inc. has five staff, including the President, Dr. Charles Warren. The President serves at the pleasure of a 17-member Board of Directors. The majority of the Board is comprised of private sector individuals appointed by the Governor. In addition, four legislative members serve on the Board, as well as a member appointed by the Board of Regents. The Secretary of Commerce and Housing and the Commanding General of the Kansas Cavalry also serve on the Board. The Board is co-chaired by the Governor and one of the private sector members, John Moore of Cessna.

The 1986 Legislature established Kansas, Inc. as a quasi-public entity and required one-third of its annual budget to be financed by the private sector. That requirement was deleted by the 1996 Legislature and the Kansas Economic Development Institute—a 501 (c)(3) not-for-profit corporation—was created to receive private sector moneys for economic development-related research and educational activities. Operational funding comes from the Economic Development Initiatives Fund (lottery and parimutuel wagering proceeds) and the State General Fund.

HOUSE ECONOMIC DEVELOPMENT
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Attachment 1

Kansas Technology Enterprise Corporation

The Kansas Technology Enterprise Corporation (KTEC) was established in 1986 to foster innovation in advanced technology economic development. To stimulate innovation and the commercialization of products and processes, KTEC does the following: finances collaborative research and the transfer of technology between academic institutions and industry; finances Centers of Excellence at four state universities for basic and applied research and technology transfer; provides seed capital financing for new and emerging technology-based Kansas industry; provides proposal development grants for the federal Small Business Innovation Research program; provides technical information and referral services to new, emerging, or mature businesses; and helps attract research and development facilities and programs to Kansas. In addition, KTEC funds three commercialization corporations and five affiliate commercialization corporations in Kansas to promote the swift movement of new products and processes into the marketplace.

KTEC has 17 staff, including the President, Rich Bendis. The President serves at the pleasure of a 20-member Board of Directors. Half of the Board is comprised of private sector members (six appointed by the Governor; four appointed by the Legislature). The remaining half of the Board is represented by the Secretary of Commerce and Housing, the Secretary of the Department of Agriculture, four legislators, and four scientists or engineers with academic research expertise who are appointed by the Governor. The Board is chaired by a private sector member, Tracy Taylor, Cohen-Esrey Housing Partners, Inc.

The 1986 Legislature established KTEC as a quasi-public entity and transferred the powers, duties, and responsibilities of a predecessor agency—the Kansas Advanced Technology Commission—to KTEC. The intent was to create “a powerful institution which brings Kansas universities, the private sector and state government into a creative partnership to finance research and development in the state’s basic industries and to support the birth and expansion of innovative new Kansas firms.” (Memorandum from Speaker Jim Braden to all members of the Legislature, March 19, 1986.) As with the creation of Kansas, Inc., the creation of KTEC has as its underpinning the concept of public-private partnerships. To make KTEC even more responsive to private sector needs, the 1992 Legislature enacted legislation that, among other provisions, expressly authorized KTEC to establish wholly-owned subsidiaries. Examples of such subsidiaries include: the commercialization corporations; the Mid-America Manufacturing Technology Center (MAMTC), which provides hands-on technical and management consulting to small and mid-sized manufacturers in Kansas, Missouri, Colorado, and Wyoming; and two seed capital funds and one venture capital fund.

KTEC is funded primarily by proceeds from the Economic Development Initiatives Fund although some of its programs are financed from federal funds.

Kansas Department of Commerce and Housing

The Kansas Department of Commerce and Housing (KDOCH) is the lead agency for economic development through the promotion of business, industry, trade, and tourism in Kansas (K.S.A. 74-5005). The Department's overall effort is to assist in the efficient use of the state's labor, capital, and land resources and to foster the availability of affordable housing in Kansas.

The Department operates through seven divisions—the Administration Division; the Business Development Division; the Agricultural Products Development Division; the Trade Development Division; the Travel and Tourism Division; the Community Development Division; and the Division of Housing.

The Administration Division provides information, technical assistance, and analysis for Kansas companies and communities; provides information about agency programs; and provides support services to the other divisions within the agency.

The Business Development Division encourages job creation and business investment in Kansas through: participation in various national marketing initiatives; the implementation of three workforce training programs; the provision of information and technical assistance to small business owners and entrepreneurs; and the availability of financial assistance, tax credits, and other incentives. The Division directs its efforts to both recruitment of out-of-state businesses and expansion of existing businesses.

The Agricultural Products Development Division assists in the development of, and markets and promotes, value-added agricultural products, processed food products, and agricultural Kansas commodities for the purpose of expanding the economic opportunities of Kansas' agricultural industry. The 1996 Legislature transferred the duties associated with that mission from the Department of Agriculture and KTEC to KDOCH.

The Trade Development Division creates opportunities for primarily small and medium-sized businesses to market their products internationally and domestically. This is accomplished through assistance to Kansas companies to attend trade shows and to expand into new and existing export markets. In addition, the Division provides support for international professionals in foreign offices to promote the state and its products and services. The Division also helps Kansas communities in recruiting foreign investment.

The Community Development Division provides technical assistance to communities to stimulate economic development. This is accomplished through initiatives that: develop leadership and enhance economic development capacity in communities; preserve and revitalize downtown commercial districts; develop community strategic planning processes; and provide technical and financial assistance (Community Development Block Grants and others) for projects that expand economic opportunities, primarily for persons of low and moderate incomes.

The Travel and Tourism Division promotes the attractions in Kansas and provides information to travelers in the state. To accomplish those objectives, the Division provides assistance for the development of tourist attractions, facilitates film production in Kansas, and generates articles in publications, as well as through other media, about Kansas attractions.

The Housing Division designs and administers programs which foster the availability of affordable housing and assist homeless citizens. Division services are designed to: increase home ownership and improve rental housing opportunities; replace dilapidated housing stock and ease tight markets; assist in housing rehabilitation efforts; improve residential energy efficiency; improve the availability and efficiency of emergency shelters and transitional housing; expand community capacity to provide housing-related services; develop additional resources to increase affordable housing; and increase awareness of affordable housing resources through marketing activities.

The Department has 134 staff, including the Secretary, Gary Sherrer, who is appointed by the Governor and is also Lieutenant Governor. KDOCH was substantially reorganized in 1986 and has subsequently undergone other restructuring initiatives.

Funding for Department operations comes from the Economic Development Initiatives Fund, State General Fund, and federal funds. Federal funding is particularly significant in housing programs and community development assistance.

JOINT COMMITTEE ON ECONOMIC DEVELOPMENT

STUDY TOPIC: Evaluation of the state's economic performance; workforce profile and training initiatives; privatization issues; and conflict of interest issues related to economic development agencies.

SUMMARY: The Joint Committee on Economic Development held three meetings during the 1996 interim: August 28-29; September 24; and November 21-22. The meeting in August primarily addressed the question of how one evaluates the effectiveness of a state's economic development performance. The meeting in September had essentially two interrelated thrusts— a profile of the workforce and a review of state and community-based workforce training and assistance initiatives. The November meeting was devoted to an examination of the implementation by various state agencies of their contractual services (also referred to as privatization). In addition, conflict of interest issues pertaining to economic development agencies were considered at that meeting. These issues were discussed in a recent performance audit report. That report referred certain recommendations on these issues to the Joint Committee on Economic Development for its review. The Committee made several policy and legislative recommendations to the 1997 Legislature pertaining to housing, workforce preparation, conflict of interest issues, and state contractual services (discussed in greater detail in the Conclusions and Recommendations section below).

BACKGROUND

Below is a brief summary of the major issues addressed by the Joint Committee on Economic Development during the 1996 interim.

REPORT CARD OF THE STATES. The Committee used as its basis for evaluating Kansas' economic development performance the *1996 Development Report Card of the States* (hereafter referred to as the *Report Card*), which is published annually by the Corporation for Enterprise Development. The *Report Card* compares and grades all states in each of the following indexes: Economic Performance; Business Vitality; and Development Capacity. It also measures different aspects of each state's economic health. Another index (not

graded) is the Tax and Fiscal System. The four indexes contain over 50 socio-economic data measures.

The Committee heard explanations and critiques of the indexes from: the President of Kansas, Inc. (the Economic Performance and Business Vitality Indexes); staff of the Kansas Legislative Research Department (the Development Capacity and Tax and Fiscal System Indexes); an Associate Professor from Wichita State University (the Tax and Fiscal System from a methodological perspective); a representative of the Kansas Chamber of Commerce and Industry (implications for Kansas business taxes); the President of the Kansas Technology Enterprise Corporation or KTEC (the technology resources subindex of the Development Capacity Index); a representative of the Kansas Bankers Association (the financial resources subindex of Development Capacity Index); and the Executive Director of the Kansas Public Policy Institute (implications of tax incentives for state economic growth). The Secretary of the Kansas Department of Commerce and Housing outlined several problems with the methodology used in the *Report Card* (reinforcing similar concerns raised by other conferees in their respective presentations). Most of the criticism focused on deficiencies with the benchmarks used in the *Report Card*.

NEIGHBORHOOD REVITALIZATION ACT. A portion of the August meeting was devoted to a status report on the implementation of the Neighborhood Revitalization Act, which was enacted by the 1994 Legislature and further amended in 1996. The Committee heard a presentation by Joe Swalwell, Downtown Topeka, Inc. Mr. Swalwell informed the Committee that Topeka was the first city to implement the program, and that revitalization projects in excess of \$40 million have been undertaken in the city. He apprised the Committee of the primary intent of the Act, which is to provide communities with long-term expansion and stabilization of their property tax base. According to Mr. Swalwell, one of the major strengths of the program is that it has encouraged rehabilitation or new construction which might not otherwise have occurred. He noted that one of the program's shortcomings is that it has not provided sufficient incentives for residential home improvements. Staff informed

the Committee that an Attorney General opinion was issued on April 17, 1996 on the Neighborhood Revitalization Act. In response to several questions, the opinion stated that the Act authorizes a municipality to designate only one or more areas for revitalization and not the entire municipality. This is an issue for Atchison and Doniphan counties which have designated their respective counties as revitalization areas. The opinion further states that the property tax rebates associated with the program would only apply to taxpayers who have made improvements to their property and not to subsequent owners of the property.

PROFILE OF WORKFORCE. The Committee heard presentations on several reports on workforce issues, which disclosed the following information.

- The Kansas average wage per job declined from slightly more than 90 percent of the U.S. average in 1985-86 to almost 85 percent in 1994 (Kansas Inc: *Kansas Wages, Data, and Trends*).
- In a survey of 2,517 households, the percentage of workers who considered their skills to be underutilized in their current employment was 2.3 percent, thus suggesting that Kansas employers were doing a fairly good job in matching workers with jobs (Institute for Public Policy and Business Research, University of Kansas: *Effective Labor Force in Kansas: Employment, Unemployment, and Underemployment*).
- In a 1996 survey of 600 Kansas businesses, which replicated the methodology of a survey of Kansas businesses conducted in 1989, 91 percent of respondent firms reported that employees needed to improve work habits and attitudes compared to 77 percent in 1989 (Institute for Public Policy and Business Research, University of Kansas: *Kansas Workforce: Employer Assessment*).
- The Kansas labor market is expected to create over 200,000 new jobs between 1993 and 2005. The services sector will expand the fastest, increasing from approximately 381,000 jobs in 1993 to 483,000 jobs in 2005. The professional, paraprofessional, and technical occupation category will experience the most rapid growth with a 22.9 percent increase in employment, increasing from 251,770 in 1993 to 309,340 in 2005. Over one-third, or 38.3 percent, of job openings

that occur through 2005 will be due to y created jobs. The remaining job openings will be due to replacement needs for workers who will change careers, retire, or leave the labor force (Kansas Department of Human Resources: *Kansas Occupational Outlook 2005*).

WORKFORCE PREPARATION, TRAINING, AND PLACEMENTS. In addition to hearing presentations on the profile of the existing workforce, the Committee heard presentations on various efforts and initiatives throughout the state to assess employee skills, assist in the placement of employees, and provide necessary training and retraining. Information was furnished on the Kansas Industrial Training (KIT) program, the Kansas Industrial Retraining (KIR) program, and the State of Kansas Investments in Lifelong Learning (SKILL) program. These programs are administered by the Kansas Department of Commerce and Housing and provide customized workforce training for businesses and industry. In FY 1996, the three programs funded in aggregate 89 projects totaling over \$8.7 million in obligations and leveraging almost \$19 million in private sector matching funds. Also provided was information on the One-Stop Career Center initiative, administered by the Kansas Department of Human Resources. The initiative will depend upon workforce centers, which will include: common intake; preliminary assessment; integrated job search assistance; case management employer relations; and the use of *America's Workforce System*. This system provides a shared database of service providers and programs, which is designed to assist both job seekers and employers.

The Committee also was apprised of various Kansas community workforce training, assistance, and employee recruitment initiatives. For example, the Wichita Chamber of Commerce reported several initiatives of this sort, including the Basic Manufacturing Orientation for Employment (BMORE). BMORE is a program for the unemployed and underemployed, which offers training in basic skills identified by local manufacturers as being necessary for employment. Wichita Area Technical College offers the courses for this program. Two other regional employment-related programs described at the meeting were the Steps program, which includes free testing and assessment by Wichita Area Technical College and has

n used in conjunction with the KIT and KIR programs, and the Work Keys program, which was adopted by USD 259 in Wichita. The Work Keys program measures skills; identifies the type and level of skills needed for particular jobs or occupations; provides individuals with information needed to make career choices, plans, or evaluate training programs, and identify qualified workers; and supplements or reinforces workplace skills instruction. With respect to recruitment efforts, the four aviation companies in Wichita have had to pool resources to advertise in various areas throughout the United States and recruit professional workers at job fairs throughout the country. The Wichita Nation Job Network also supports recruitment efforts by enabling prospective employees to access a list of jobs available in the Wichita area, including job descriptions and information about the companies listed.

The Committee also heard presentations on Cessna's multi-phase approach for preparing prospective employees for positions at the company's single engine facility in Independence. Cessna strongly emphasizes in its employees the behavioral skills of adaptability, job motivation, and teamwork. Yet another example of an innovative approach for assisting employees and businesses is the Regional Workforce Center in Salina. The Center's Project Director described the Center's services, which include assessments of individual client's skills, abilities, and knowledge. After an assessment is completed, an individual career plan is developed which provides a composite profile of the qualifications required for each type of business.

PRIVATIZATION ISSUES. The Committee devoted a portion of the November meeting to various presentations on contractual services in state government. The meeting began with an overview of 1996 S.B. 102, which established the Kansas Performance Review Board. The Board was charged with responsibility for reviewing governmental functions and recommending whether such functions should be delegated to the private sector, eliminated, retained in their present form, or modified. A counsel to Governor Graves described the background and qualifications of the five members appointed by the Governor to serve on the Board.

The Committee heard presentations on contractual services administered by the Department of Administration, the Department of Social and

Rehabilitation Services (SRS), the Department of Corrections, and the Kansas Department of Transportation (KDOT). To assist the Committee in assimilating this information, staff of the Legislative Division of Post Audit summarized the contents of the performance audit report *Reviewing State Contracting for Consultants and Other Professional and Technical Services* (March 1996). The audit responded to three questions:

1. What professional, technical, and consulting services do state agencies contract for, and how much has the state spent on those services during the past five years?
2. Are Kansas' procedures for acquiring such services adequate to ensure that state agencies receive quality services at reasonable price?
3. Do state agencies make reasonable efforts to assess whether the functions they perform are necessary, and whether those functions could be provided more cost-effectively through contracts with private entities?

The audit found that state agencies spent approximately \$221 million in contracting for a variety of professional services in FY 1995, an increase in spending of 56 percent since FY 1991. The audit also found that while state agencies generally followed most good contracting practices, Kansas' procedures for acquiring professional services were inadequate. The state lacked formal, written procedures to guide service acquisition. Also, no procedures existed to govern state agencies once contracts were awarded. Finally, the audit found that state agencies do not systematically assess whether their programs and services should be continued. Agency assessments of services considered for privatization often failed to include all costs or focus on the right issues. In an effort to address the deficiencies in state agency needs assessments, the performance audit report proposed several measures which are outlined in the section on Conclusions and Recommendations below.

State agency presentations responded to a set of questions submitted to agency heads by staff upon Chairperson Ranson's request. These questions sought to solicit information concerning the procedures used by the agencies to: decide whether to privatize a service; evaluate the delivery of the contractual service; evaluate the project bids; monitor the contractual service; assist employees in contract negotiation and management;

address contractual noncompliance; and deal with employees affected by the privatization decision. The Committee heard presentations on the evaluation process which ultimately led to the Department of Administration's decision not to privatize some functions of the Capitol Area Security Patrol Force and SRS' decision not to privatize the Kansas Industries for the Blind or food services in the state hospitals and youth centers. The Commissioner of Children and Family Services, SRS, responded to the questions listed above as they related to privatizing family preservation, adoption, and foster care. The Committee also received information concerning SRS' Child Support Enforcement Program which either contracts for support enforcement services from district attorneys and court trustees or uses in-house staff to perform those functions. Based on legislation enacted in 1994, any contracts reestablished for support enforcement services must submit to the competitive bid process. Committee discussion ensued about the termination of a child support enforcement contract in Sedgwick County. This contract involved a vendor with a convicted felony background.

The Secretary of Corrections focused his remarks primarily on the decision making processes used to privatize both medical and mental health services, in addition to food services, as these are the agency's largest contracts. In FY 1997, \$18 million was budgeted for medical and mental health services, and \$10.4 million was budgeted for food service. On a related matter, the Committee heard a presentation from a member of the Privatization Task Force of the Koch Crime Commission. The Task Force's mission: "is to assist the Koch Crime Commission by identifying, assessing, and analyzing criminal justice components and alternatives to public sector performance of criminal justice functions, and to identify and recommend to the Commission the best alternative to particular criminal justice components."

The Secretary of Transportation outlined the following examples of the Department's contractual services: contract programming; personal computer maintenance; computer training; audits of third party contract costs; appraisal, acquisition, relocation, and property management services; construction project design; construction project inspection; rest area maintenance; highway lighting repairs; and logo signing.

A presentation by the Director of Purchasing, Department of Administration, informed the Committee of several recent Division activities: a new draft policy and procedures manual which will cover all aspects of public procurement and a booklet for vendors titled *How to do Business with the State*; and one-day purchasing seminars for interested state employees. These seminars will include instructions on the development and preparation of cost analyses of government services. The Director noted that the Director of Accounts and Reports has asked the National Association of State Auditors to develop a standard methodology for preparing this analysis.

Many of the presentations, summarized above, contained recommendations for improving privatization efforts. These presentations are attachments to the minutes of the November meeting.

CONFLICT OF INTEREST ISSUES. An overview of a performance audit report titled *Reviewing the Compensation of Executives of the State's Economic Development Agencies* (September 1996) formed the basis of much of the Committee's deliberations and recommendations at the November meeting. Three questions were posed in the audit:

1. How is the compensation of executive-level staff in Kansas' economic development agencies set, and how do their responsibilities and compensation compare with their counterparts in other states?
2. Are adequate laws and procedures in place and being followed to guard against conflicts of interest for state officials responsible for administering economic development monies?
3. What relationships exist between state economic development agencies and entities that come into existence as a result of funding they provide?

The audit's findings and recommendations on the second and third questions elicited the most Committee discussion.

Prior to the meeting, staff had requested, under the Chairperson's direction, the submittal of conflict of interest policies from the following: Kansas Board of Regents; the Centers of Excellence; the Kansas Department of Commerce and Housing; Kansas, Inc.; KTEC; and the Mid-America Manufacturing Technology Center, Inc. These

ponses were disseminated to Committee members. The performance audit report recommended that the Commission on Governmental Standards and Conduct review recent changes in Kansas law to determine if KTEC and Kansas Inc. are subject to the state's ethics laws. The report further recommended that the results of the Commission's review, including any revised opinions it issued, be reported to the Joint Committee on Economic Development and the Legislative Post Audit Committee. The Attorney for the Commission informed staff that following the release of the report, the Post Audit Committee had decided to ask the Attorney General for an opinion on whether the designation of "state agency" actually applied to Kansas Inc. and KTEC. However, no request had been submitted to the Attorney General as of the Committee's meeting date in November.

CONCLUSIONS AND RECOMMENDATIONS

HOUSING. The Committee recognized that recruitment of new industries to a community can be hampered if housing is inadequate or unaffordable in that community. To that end, the Committee recommended the introduction of legislation to amend the Kansas Economic Opportunity Initiatives Fund (KEOIF) program. This amendment would allow an intervention strategy encouraging expansion or recruitment of a commercial enterprise to include funding for housing needs. The Committee also recommended that issues related to housing in rural areas and redevelopment needs in the inner cities of Kansas be referred to the Senate Commerce Committee and the House Economic Development Committee during the 1997 Session for their consideration, as well as to the Joint Committee on Economic Development. This recommendation calls for a report to those Committees by the Housing Division of the Kansas Department of Commerce and Housing.

WORKFORCE PREPARATION. The Committee pursued the issue of employers' dissatisfaction with employees' work habits and attitudes, recalling the previously referenced survey by the Institute of Public Policy and Business Research. The Committee recommended to the Secretary of Human Resources that workforce training programs administered by the Department of Human Resources emphasize, in addition to technical training, the importance of work ethic and appro-

priate employee attitude. This emphasis should be directed particularly to the most disadvantaged segment of the unemployed population.

PRIVATIZATION ISSUES. The Committee urged the Department of Administration to execute the following recommendation in the performance audit report on contractual services. The Department of Administration should:

1. develop a general methodology for state agencies to use when conducting needs analyses;
2. adopt a general methodology for state agencies to use when assessing privatization alternatives;
3. train staff in state agencies to conduct needs and privatization analyses;
4. provide technical assistance in cost accounting and methods of estimating costs to agencies lacking expertise in these areas; and
5. review the adequacy of agencies' cost analyses for privatization decisions upon their request.

The Committee further recommended that the Department of Administration report to the Senate Commerce Committee and the House Business, Commerce and Labor Committee any problems and deficiencies related to the contractual process, including the issuance of request for proposals, contractual negotiations with selected vendors, disclosure of bidders' backgrounds, and other related issues. In addition, the Department should propose measures to redress these problems.

CONFLICT OF INTEREST ISSUES. Using as a basis the recommendations of the performance audit report, *Reviewing the Compensation of Executives of the State's Economic Development Agencies*, the Committee recommended the introduction of legislation to:

1. require officers, employees, and board members of KTEC, Kansas, Inc., and the Department of Commerce and Housing to file with the Kansas Commission on Governmental Standards and Conduct written statements of substantial interest;
2. require all Regents' institutions to require designated individuals involved in economic development activities to submit the state's disclosure form to the Commission on Governmental Standards and Conduct; and

3. prohibit any employees and officers of KTEC, Kansas, Inc., and the Department of Commerce and Housing from having an interest or role in any companies with which their agencies do business. This prohibition would not apply to board members who serve without compensation.

In addition to the proposed legislation, the Committee recommended several other measures for which legislation was not requested:

1. KTEC, Kansas, Inc., the Department of Commerce and Housing, and the Mid-America Manufacturing Technology Center should develop written policies and procedures regarding conflicts of interest, make their employees aware of the filing requirement; and consider having a written statement included as part of the documentation for each investment or technical assistance arrangement that indicates a review was made for conflicts of interest, and the results of the review;
2. these agencies should develop some method of reviewing their employees' statements of substantial interest before they are filed with the Commission on Governmental Standards and Conduct (the filing requirement is not applicable to the Mid-America Manufacturing Technology Center);
3. KTEC should require in its contracts with the commercialization centers and the venture capital fund manager any limitations, disclosures, or prohibitions considered necessary to ensure that potential conflict-of-interest situations are known and managed; and
4. the Board of Regents should work with the universities to reword the financial disclosure form used by employees of the Centers of Excellence to provide any expected information concerning substantial interests of Center employees.

It was further recommended that the employer should determine whether the employee has a substantial financial relationship representing a conflict of interest. That determination should not be made by the employee. The Committee required that the agencies affected by these recommendations report to the standing economic development committees concerning implementation efforts. ■