

MINUTES OF THE HOUSE NEW ECONOMY COMMITTEE.

The meeting was called to order by Chairman Mason at 3:40 p.m. on March 14, 2002 in Room 522-S of the Capitol.

All members were present except:

Representative Kuether - E
Representative Beggs - E
Representative Steve Huebert - E
Representative Judith Loganbill - E
Representative Winn - E
Representative Welshimer - E

Committee staff present:

April Holman, Legislative Research Department
Deb Hollon, Legislative Research Department
Bob Nugent, Office of Revisor of Statutes
Rose Marie Glatt, Committee Secretary

Conferees appearing before the committee:

Steve Kelly - KDOC&H

Others attending:

See attached list

The Chairman introduced Tracy Taylor, the new President of KTEC.

Staff explained the flow of funds through the State Gaming Revenue Fund into the Economic Development Initiative Funds (Attachment 1). The status of the Problem Gambling Grant Fund, a new program (2001), administered by SRS was questioned and staff agreed to provide additional information. The amount of dollars from the EDIF funds being used for Education was reviewed. (FY 2003 - \$9.4 million per the Governor's recommendation)

Staff reviewed revenue source dollars (1994-2003) from SGF, EDIF and Federal Funds for KDOC&H, KTEC and Kansas, Inc. (Attachment 2). Percentages of increases/decreases in each agency were listed. The Chairman requested the data, anticipating that perhaps they could find programs or areas in the budget that could be delayed 1, 2, or 3 years to help the immediate budget shortfall for next year. He suggested that Committee members review the information and email their questions or ideas to him prior to the next meeting. He pointed out the differences in growth and funds between KDOC&H and KTEC and Kansas, Inc.

KDOC&H's staff answered questions regarding Federal funds, stating that there was little flexibility, due to specific guidelines for housing, community development and schools to career programs. Discussion followed regarding the flexibility of dollars and what line items are covered with EDIF dollars.

It was suggested that the Lottery Fund overages should be reflected in the report to the Appropriations Committee. The Chairman encouraged the member's to review the material presented and provide their feedback for the response letter to Chairman Wilks.

The Chairman opened **SB 565** for discussion. Staff explained the differences between that bill and **HB 2962** which lowers the thresholds for IMPACT funds. The underlying **SB 565** raised the percentage of individual withholding taxes that would pay for the bonds from 1% to 2%. The fiscal note was reviewed. Passage of the bill would reduce the SGF by \$1.8 million in fiscal year 2004 and \$2.9 million in fiscal year 2005. The bill would not have any fiscal impact in 2003, if the cap was raised from 1% to 2% on the debt service.

Mr. Kelly provided an information sheet regarding the fiscal effect of SB 565 as amended by the Senate, that included an analysis of bill and the impact on the agency (Attachment 3). He explained the reasons for the discrepancies between KDOC&H and KDFA figures and the importance of the bond issuance

CONTINUATION SHEET

timing. In the original bill it was anticipated that it would be in fiscal year 2005 before another bond issuance was needed, however with the change in the thresholds the impact was not clear. He described the methodology K DFA used to determine the fiscal impact, noting that they believe those figures are questionable. He reviewed the department's history for bond issuances and explained the methodology used to determine the positive fiscal impact from the projects, as reflected on page 2 of his testimony. Although their projections do not show a need for additional bond issuance for 2003, they would support an increase of .5 % in 2004 and the other half to follow, if that would lesson concerns of the Committee.

Discussion followed regarding the importance of showing the positive impact of bills as well as the revenue drain.

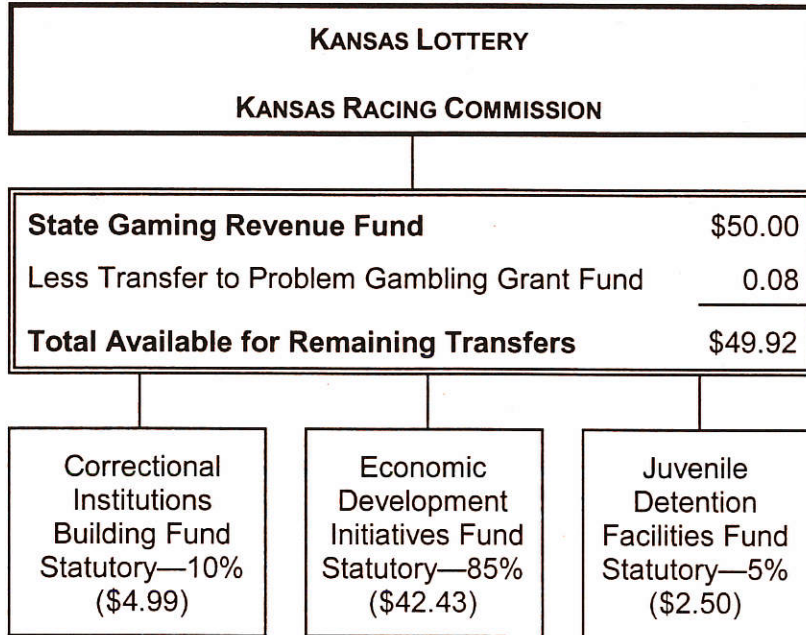
Representative Cox moved that the amendment to increase the percentage from 1% to 2% be phased in, placing the first half in 2004 and the second half in 2006 be accepted. Representative Novascone seconded. Discussion followed clarifying the timing and staff reiterated that it would be 1.5% for FY 2004 and 2% FY 2006. The motion carried.

Representative Gordon moved, seconded by Representative Compton that **SB 565** be passed out favorably. The motion carried.

The meeting adjourned at 4:15 p.m.

ECONOMIC DEVELOPMENT INITIATIVES FUND

Revenue Flow (In Millions)



Department of Commerce and Housing

| Fiscal Year | SGF | % Change | EDIF | % Change | Federal Funds | % Change | All Funds | % Change |
|-----------------|-------------|-----------|------------|----------|---------------|----------|-------------|----------|
| 1994 | 2,795,434 | 2.1 % | 12,580,923 | 38.6 % | 34,675,848 | 0.5 % | 63,433,679 | 0.3 % |
| 1995 | 2,862,710 | 2.4 % | 13,682,639 | 8.8 % | 37,408,875 | 7.9 % | 59,877,992 | (5.6) % |
| 1996 | 1,650,187 | (42.4) % | 15,145,346 | 10.7 % | 42,162,046 | 12.7 % | 63,909,092 | 6.7 % |
| 1997 | 2,727,990 | 65.3 % | 17,597,760 | 16.2 % | 42,734,127 | 1.4 % | 70,095,846 | 9.7 % |
| 1998 | 2,028,338 | (25.6) % | 19,256,075 | 9.4 % | 40,464,389 | (5.3) % | 70,914,526 | 1.2 % |
| 1999 | 1,964,177 | (3.2) % | 23,679,804 | 23.0 % | 43,045,007 | 6.4 % | 77,811,573 | 9.7 % |
| 2000 | 2,220,099 | 13.0 % | 19,804,206 | (16.4) % | 51,279,144 | 19.1 % | 86,928,910 | 11.7 % |
| 2001 | 5,014 | (99.8) % | 23,172,636 | 17.0 % | 45,219,099 | (11.8) % | 92,825,744 | 6.8 % |
| 2002 Gov. | 200,000 | 3,888.8 % | 20,129,951 | (13.1) % | 62,113,494 | 37.4 % | 105,125,355 | 13.3 % |
| 2003 Gov. | 200,000 | 0.0 % | 19,353,185 | (3.9) % | 80,361,644 | 29.4 % | 121,981,486 | 16.0 % |
| Ten Year Change | (2,595,434) | (92.8) % | 6,772,262 | 53.8 % | 45,685,796 | 131.8 % | 58,547,807 | 92.3 % |

Kansas Technology Enterprise Corporation

| Fiscal Year | SGF | % Change | EDIF | % Change | Federal Funds | % Change | All Funds | % Change |
|-----------------|-----|----------|------------|----------|---------------|----------|------------|----------|
| 1994 | 0 | 0.0 % | 10,289,764 | 0.2 % | 3,826,858 | 0.3 % | 15,152,942 | 0.5 % |
| 1995 | 0 | 0.0 % | 13,481,108 | 31.0 % | 2,400,000 | (37.3) % | 17,069,541 | 12.6 % |
| 1996 | 0 | 0.0 % | 17,994,488 | 33.5 % | 2,003,935 | (16.5) % | 18,104,475 | 6.1 % |
| 1997 | 0 | 0.0 % | 13,333,322 | (25.9) % | 2,018,644 | 0.7 % | 17,047,842 | (5.8) % |
| 1998 | 0 | 0.0 % | 13,299,065 | (0.3) % | 2,085,234 | 3.3 % | 17,492,607 | 2.6 % |
| 1999 | 0 | 0.0 % | 14,145,412 | 6.4 % | 2,304,312 | 10.5 % | 16,629,102 | (4.9) % |
| 2000 | 0 | 0.0 % | 12,942,963 | (8.5) % | 4,481,925 | 94.5 % | 18,564,699 | 11.6 % |
| 2001 | 0 | 0.0 % | 13,086,060 | 1.1 % | 4,437,242 | (1.0) % | 17,941,692 | (3.4) % |
| 2002 Gov. | 0 | 0.0 % | 12,896,477 | (1.4) % | 2,869,242 | (35.3) % | 16,193,523 | (9.7) % |
| 2003 Gov. | 0 | 0.0 % | 12,207,251 | (5.3) % | 2,869,242 | 0.0 % | 15,351,133 | (5.2) % |
| Ten Year Change | 0 | 0.0 % | 1,917,487 | 18.6 % | (957,616) | (25.0) % | 198,191 | 1.3 % |

NEW ECONOMY
3-14-02
ATTACHMENT 2

2.2

Kansas, Inc.

| Fiscal Year | SGF | % Change | EDIF | % Change | Federal Funds | % Change | All Funds | % Change |
|-----------------|-----------|-----------|-------------|----------|---------------|-----------|-------------|----------|
| 1994 | 187,319 | (0.1) % | 1,604,935 | (1.4) % | 0 | 0.0 % | 1,941,502 | (1.8) % |
| 1995 | 178,011 | (5.0) % | 516,889 | (67.8) % | 0 | 0.0 % | 828,944 | (57.3) % |
| 1996 | 161,946 | (9.0) % | 137,926 | (73.3) % | 0 | 0.0 % | 421,655 | (49.1) % |
| 1997 | 150,231 | (7.2) % | 160,376 | 16.3 % | 0 | 0.0 % | 310,607 | (26.3) % |
| 1998 | 164,194 | 9.3 % | 270,163 | 68.5 % | 0 | 0.0 % | 421,893 | 35.8 % |
| 1999 | 169,626 | 3.3 % | 216,127 | (20.0) % | 0 | 0.0 % | 385,753 | (8.6) % |
| 2000 | 182,353 | 7.5 % | 189,563 | (12.3) % | 0 | 0.0 % | 378,196 | (2.0) % |
| 2001 | 0 | (100.0) % | 379,772 | 100.3 % | 65,000 | 0.0 % | 468,620 | 23.9 % |
| 2002 Gov. | 0 | 0.0 % | 343,102 | (9.7) % | 0 | (100.0) % | 384,102 | (18.0) % |
| 2003 Gov. | 0 | 0.0 % | 313,292 | (8.7) % | 0 | 0.0 % | 354,444 | (7.7) % |
| Ten Year Change | (187,319) | (100.0) % | (1,291,643) | (80.5) % | 0 | 0.0 % | (1,587,058) | (81.7) % |

ECONOMIC DEVELOPMENT INITIATIVES FUND

| <u>Agency/Program</u> | <u>2001 Legislative Approved FY 2002</u> | <u>Governor's Recommendation FY 2002</u> |
|--|--|--|
| Department of Commerce and Housing ⁽¹⁾ | | |
| Agency Operations | \$ 8,459,757 | \$ 8,450,051 |
| Small Business Development Centers | 485,000 | 485,000 |
| Certified Development Companies | 400,000 | 400,000 |
| Kansas Industrial Training/Retraining | 3,600,000 | 3,600,000 |
| Trade Show Promotion Grants | 150,000 | 150,000 |
| Community Capacity Building Grants | 197,000 | 197,000 |
| Kansas Economic Opportunity Initiative Fund | 3,500,000 | 3,500,000 |
| Kansas Existing Industry Expansion Program | 500,000 | 500,000 |
| Tourism Promotion Grants | 1,052,100 | 1,052,100 |
| Mainstreet Grant and Development Prog. | 216,800 | 216,800 |
| Agriculture Product Development | 540,000 | 535,000 |
| Training Equipment Grants | 277,500 | 277,500 |
| Travel Information Centers | 115,000 | 115,000 |
| Motion Picture and Television Rebate | 75,000 | 75,000 |
| HOME Program | 530,000 | 530,000 |
| Subtotal - KDCH | \$ 20,098,157 | \$ 20,083,451 |
| Kansas Technology Enterprise Corporation ⁽¹⁾ | | |
| Agency Operations | \$ 1,331,781 | \$ 1,341,174 |
| Centers of Excellence | 4,350,000 | 4,350,000 |
| Research Matching Grants | 1,216,000 | 1,260,000 |
| Business Innovative Research Grants | 76,000 | 516,000 |
| State Small Business Innovation Research | 440,000 | - |
| Special Projects | 79,303 | 79,303 |
| Commercialization Grants | 1,450,000 | 1,450,000 |
| Mid-America Manuf. Tech. Center | 1,000,059 | 900,000 |
| EPSCoR | 3,000,000 | 3,000,000 |
| Subtotal - KTEC | \$ 12,943,143 | \$ 12,896,477 |
| Kansas, Inc. ⁽¹⁾ | \$ 343,267 | \$ 341,663 |
| Board of Regents | | |
| Matching Grants - AVTS | \$ 166,855 | \$ 166,855 |
| Post-secondary Aid - AVTS | 6,916,110 | 6,882,981 |
| Capital Outlay Aid - AVTS | 2,700,000 | 2,700,000 |
| Comprehensive Grant Program | 250,000 | 250,000 |
| Subtotal - Regents | \$ 10,032,965 | \$ 9,999,836 |
| State Water Plan Fund ⁽²⁾ | \$ 2,000,000 | \$ 2,000,000 |
| Adjutant General - Kansas National Guard Educational Asst. | \$ 250,000 | \$ 250,000 |
| Death and Disability Transfer | \$ 16,412 | \$ 10,308 |
| TOTAL TRANSFERS AND EXPENDITURES | \$ 45,683,944 | \$ 45,581,735 |
| EDIF Resource Estimate | | |
| Beginning Balance | \$ 1,976,476 | \$ 1,868,022 |
| Gaming Revenues | 42,500,000 | 42,432,000 |
| Other Income ⁽³⁾ | 1,000,000 | 1,108,253 |
| Total Available | \$ 45,476,476 | \$ 45,408,275 |
| Less: Expenditures and Transfers | 45,683,944 | 45,581,735 |
| ENDING BALANCE | \$ (207,468) | \$ (173,460) |

1) Does not include expenditures from prior year EDIF allocations.

2) The Legislature approved a transfer of \$1,638,180 in FY 2002. Due to a technical error, \$2,000,000 was actually transferred.

3) Other Income includes interest earnings and released encumbrances.

ECONOMIC DEVELOPMENT INITIATIVES FUND

| <u>Agency/Program</u> | <u>Governor's Recommendation FY 2003</u> |
|---|--|
| Department of Commerce and Housing ⁽¹⁾ | |
| Operating Grant | \$ 15,320,885 |
| Kansas Economic Initiatives Opportunity Fund | 3,500,000 |
| Kansas Existing Industry Expansion Program | 500,000 |
| Subtotal - Commerce and Housing | <u>\$ 19,320,885</u> |
| Kansas Technology Enterprise Corporation ⁽¹⁾ | |
| Agency Operations | \$ 1,291,549 |
| Centers of Excellence | 3,925,000 |
| Research Matching Grants | 1,260,000 |
| Business Innovative Research Grants | 396,000 |
| Special Projects | 79,303 |
| Commercialization Grants | 1,350,000 |
| Mid-America Manufact. Tech. Center | 905,399 |
| EPSCoR | 3,000,000 |
| Subtotal - KTEC | <u>\$ 12,207,251</u> |
| Kansas, Inc. ⁽¹⁾ | \$ 313,292 |
| Board of Regents | |
| Matching Grants - AVTS | \$ 200,000 |
| Post-secondary Aid - AVTS | 6,467,660 |
| Capital Outlay Aid - AVTS | 2,700,000 |
| Subtotal - Regents | <u>\$ 9,367,660</u> |
| State Water Plan Fund | \$ 2,000,000 |
| TOTAL TRANSFERS AND EXPENDITURES | <u>\$ 43,209,088</u> |
| EDIF Resource Estimate | |
| Beginning Balance | \$ (173,460) |
| Gaming Revenues | 42,432,000 |
| Other Income ⁽²⁾ | 1,032,300 |
| Total Available | <u>\$ 43,290,840</u> |
| Less: Expenditures and Transfers | 43,209,088 |
| ENDING BALANCE | <u>\$ 81,752</u> |

1) Does not include expenditures from prior year EDIF allocations.

2) Other Income includes interest earnings and released encumbrances.

DATE: March 13, 2002

TO: Stephanie Buchanan, Budget Analyst, Division of the Budget

FROM: Rae Anne Davis, Chief Fiscal Officer, Department of Commerce and Housing

REGARDING: Fiscal Note for SB 565
Amended by Senate Committee

The Department of Commerce and Housing has prepared the following information on the fiscal effect of SB 565 as amended by Senate Committee.

I. Analysis of Bill

SB 565 was requested by the Department of Commerce and Housing. The bill would increase the statutory cap of the state's individual withholding tax revenues used to finance the debt service on bonds issued under the Investments in Major Projects and Comprehensive Training Program (IMPACT) from one percent to two percent. IMPACT is a bond-financed funding mechanism designed to respond to the training and capital requirements of major business expansions in, and relocations to, the state. The funds may be used to pay for expenses related to training a new workforce or for other expenses related to the expansion or relocation, including equipment purchase or relocation, labor recruitment or building costs. The state's investment is indirectly repaid through the Kansas withholding taxes paid by the new jobs created by companies utilizing program funds. KDOCH staff estimate that the statutory cap will be reached in about five years, based on funding of existing projects, the rate of new project creation, and the projected debt service over the next several years.

The bill would also reduce the eligibility requirements for participation in the IMPACT program. Currently, companies must maintain a minimum of 1,000 retained jobs and make a minimum capital investment of \$250 million. The amendment by the Senate Commerce Committee would lower those minimums to 250 retained jobs and \$50 million in capital investment. The amendment to the bill does not change the statutory provisions requiring the Secretary of Commerce and Housing to make a finding that the program or project will be a major factor in the Kansas basic enterprise remaining in Kansas in order to receive the retraining grants.

II. Impact on the Agency

SB 565 could increase the program's debt service and reduce withholding tax revenues to the state. However, by providing the state additional capacity to fund more business expansions and relocations, revenues would be returned to the state through additional Kansas withholding taxes paid by the new

jobs created under the program. The Department of Commerce and Housing does not anticipate that it would experience additional costs or need additional staffing.

Currently, debt service for FY 2003 is estimated at \$10.19 million. Passage of SB 565 would most likely not change this, as the Department of Commerce and Housing does not anticipate another bond issuance until FY 2005.

The Department of Revenue indicates that, although it seems unlikely based on the program's history, if the IMPACT program cost were to reach 2 percent of the estimated FY 2003 withholding tax amount, SB 565 could reduce State General Fund revenues by a net amount of \$23.2 million in FY 2003. However, the Department of Revenue would not expect the program cost to reach that level in FY 2003, unless currently unforeseen new major business expansion projects were to materialize and participate in the IMPACT program to that extent. The agency estimates that income tax withholding revenues will be \$1.5 billion in FY 2002 and assuming a 1.6 percent increase in the next two fiscal years, revenues could reach \$1.52 billion and \$1.54 billion in FY 2003 and FY 2004 respectively. In FY 2002, \$7.2 million was credited to the IMPACT program. The 1.0 percent rate has not been reached under the program in ten years of operation. Currently, it is only at approximately .5 percent. If the statutory cap were increased from 1.0 percent to 2.0 percent in FY 2003, a maximum of \$30.4 million would be credited to the IMPACT Repayment Fund. Consequently, SB 565 would have a net effect of reducing State General Fund revenue from FYU 2002 to FY 2003 by \$23.2 million. However, the agency believes, based on previous years, that program costs would not likely reach the maximum \$30.4 million in FY 2003, unless sufficient new participating projects materialized, as mentioned above.

The Department of Revenue's fiscal note for the amended bill assumes increased program costs of \$1.8 million in FY 2004 (or 25%, as estimated in the note) and \$2.9 million in FY 2005 and thereafter (estimated as a 40% increase). The Department of Revenue does not predict a fiscal impact in FY 2003. The Department of Revenue's fiscal note does not consider the increase in revenue that would result from these projections. The Department of Commerce and Housing, using the projected program increase assumed in the Department of Revenue's fiscal note, projects the following increases in revenue:

Based on the past performance of the IMPACT program of 35,542 total jobs created to date with an average wage of \$33,280. Jobs paying \$33,280 would have an annual Kansas withholding liability of \$865, using the Department of Revenue's "Average Withholding Rates By Income Strata" formula.

*Although the Department of Commerce and Housing does not believe that the Department of Revenue's estimates are realistic, using those we can assume the following **increased withholding revenues** using the Department of Revenue's projections of increased program costs:*

25% increase in net new jobs = 8,886 (.25 X 35,542)

40% increase in net new jobs = 14,217 (.40 X 35,542).

Net new withholding revenue from these additional jobs is calculated as follows:

25% increase in program costs:

\$865 (withholding taxes for a job paying \$33,280) X 8,886 = \$7,685,390

40% increase in program costs:

$\$865 \times 14,217 = \$12,297,705$

Net Revenue Gain

*Using Department of Revenue's figures
of FY 2002 costs of \$7.2 million*

*Using KDFA's figures of FY
2002 costs of \$10.04 million*

25% increase in program costs:

| | | |
|--|---------------------------|---------------------------|
| <i>Additional withholding taxes from new jobs</i> | <i>\$7,685,390</i> | <i>\$7,685,390</i> |
| <i>Revenue's estimate of increased program costs</i> | <i>(1,800,000)</i> | <i>(2,510,000)</i> |
| <i>Increased State General Fund Receipts</i> | <i>\$5,885,390</i> | <i>\$5,175,390</i> |

40% increase in program costs:

| | | |
|--|---------------------------|---------------------------|
| <i>Additional withholding taxes from new jobs</i> | <i>\$12,297,705</i> | <i>\$12,297,705</i> |
| <i>Revenue's estimate of increased program costs</i> | <i>(2,900,000)</i> | <i>(4,160,000)</i> |
| <i>Increased State General Fund Receipts</i> | <i>\$9,397,705</i> | <i>\$8,137,705</i> |