

MINUTES OF THE SENATE COMMITTEE ON COMMERCE.

The meeting was called to order by Chairperson Senator Karin Brownlee at 8:30 a.m. on March 06, 2002 in Room 123-S of the Capitol.

All members were present except:

Committee staff present:

Norman Furse, Revisor of Statutes
Sherman Parks, Revisor of Statutes
April Holman, Legislative Research
Debra Hollon, Legislative Research
Lea Gerard, Committee Secretary

Conferees appearing before the committee:

Debra Hollon, Legislative Research
Lt. Governor Sherrer
Kevin Carr, Vice President, KTEC Board

Others attending:

See attached list.

In accordance with KSA 75-3715a, the fiscal note for **SB 615** was submitted to committee members.

Debra Hollon, Legislative Research briefed the committee **SB 615** as introduced will repeal the governing statutes for Kansas Inc. effectively abolishing the agency and transferring its duties and responsibilities to the Department of Commerce & Housing. The bill would also create an advisory board within the Department of Commerce & Housing. The fiscal note on the original bill indicates there will be a reduction of \$194,500. in expenditures from the EDIF each year. The potential changes for **SB 615** will leave Kansas Inc. as a separate agency but under KDOC and would amend the statutes so the President of KTEC and the President of Kansas Inc. would be appointed by and serve at the pleasure of the Secretary of Commerce & Housing rather than the respective boards. The bill would change the dates on which the three agencies annual reports are due. Kansas Inc. and KTEC would submit reports to the Department of Commerce & Housing by September 15 and KDOC would incorporate all the reports into its annual report which is submitted to the Senate Commerce Committee, House New Economy and the Joint Committee on Economic Development by November 15. The effective date of the substitute bill will be January, 2003 to coincide with the new administration.

Chairperson Brownlee explained this is a topic that we have heard about and have discussed some last year. The strategic report commissioned by Kansas Inc also addressed the increased need for coordination. The intention of this bill is to consider and debate the topic in the Senate Commerce Committee.

Senator Barone explained that he has requested this bill ever since the Governor's Vision 21st Century Task Force. The task force was made up of citizens who volunteered their time to make the recommendations. When we ask people to do this type of work we owe them the consideration to review their ideas and make improvements.

Informational Hearings on **SB 615**—Reorganization of Economic Development:

Lt. Governor Sherrer testified in support of **SB 615** stating that he supports the concepts of the bill. The bill addresses a critical need in Kansas economic development and that is a need for greater unity and purpose, policy and implementation of programs that are enacted and funded by the State of Kansas. In the Governor's Vision 21st Century Task this was one of the primary recommendations to better coordinate and direct activities. By statute, Kansas Inc. is an independent entity and their direction comes from their boards and they follow the direction and policies set by those boards. The problem is about structure and not about people. A decision must be made whether the state is better off with three independent agencies all driven with the same overall vision or better coordination. The purpose of **SB 615** is better use of state dollars, efficient and effective economic development with more accountability.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON COMMERCE at on March 06, 2002 in Room 123-S of the Capitol.

The committee asked Lt. Governor Sherrer should strategic planning for economic development be done by the Governor and his cabinet, citizen input and cabinet people or is there some better structure that actually results in a strategic plan for economic development; or the alternative, is there really a need for strategic planning? Lt. Governor Sherrer stated there is a need for strategic planning to give direction. If strategic planning is done by a separate academic consulting setting and another separate entity has the responsibility to administer the plan there is no real support or connect. The group ultimately responsible for administering the program cannot be effective with total disconnect of structure and authority.

Kevin Carr, Vice President for Commercialization, KTEC, testified in opposition to **SB 615** (Attachment 1). The bill would reduce the overall effectiveness of KTEC's program. The current structure affords the opportunity to make the economic development effort work and is incumbent upon all those in the process to take advantage of the opportunity. KTEC's effectiveness is greatly enhanced by it's arms-length relationship with state government. KTEC is a catalyst among academia, government and the private companies in matters with entrepreneur investors. The current economic development structure has worked well and KTEC has been a valuable resource with results.

Richard Cram, Department of Revenue, submitted amendments to Section 7 of **SB 615** (Attachment 2).

Jim Edwards, Kansas Chamber of Commerce and Industry, submitted testimony in response to the findings of the Post Audit Report of January 2001 dealing with the financing and functioning of current economic development programs in Kansas (Attachment 3).

Meeting adjourned at 9:30 a.m.

The next meeting is scheduled for March 07, 2002 at 8:15 a.m.

**SENATE COMMERCE COMMITTEE
GUEST LIST**

DATE: March 06, 2002

NAME	REPRESENTING
Scott Anglemyer	KDOCH
Ted Haggart	KTEC
BOB KRAWE	KTEC
Jim Edwards	KCCT
Rae Anne Davis	KDOCH
Bud Burke	Olathe Chamber
Kevin Beron	Hein law firm

Senate Commerce Committee

March 6, 2002

Testimony on S.B. 615

Kevin Carr, VP for Commercialization
Kansas Technology Enterprise Corporation

Introduction

Thank you, Chairman Brownlee and members of the committee, for the opportunity to testify as an opponent of Senate Bill 615. Also testifying today are two members of our board of directors, Bob Krause and Ted Haggart.

I strongly feel the bill would reduce the ability of the state to execute an innovative and effective economic development strategy. KTEC's effectiveness is greatly enhanced by its arms-length relationship with state government. We are a catalyst among academia, government, and the private sector, mobilizing each to leverage the resources of the others toward a common set of goals. We are active partners with entities in each of these sectors and must maintain a high level of credibility to stay in position to partner and attract leverage. The arms-length status is an important source of such credibility.

The fruits of success are typically measured over the long haul. In order to truly enhance the make-up of our economy, staying power, adaptability, and continuity of focus are essential. We must focus on targeted research and coordinated commercialization. We must also be able to stomach the risk inherent in high tech start-ups, and be bold but intelligent in calculating the risks. The arms-length status of KTEC improves our ability to execute in this arena, while requiring accountability on par with any state agency.

I agree with the observations that the annual proposals for limited funds has placed the agencies in competition with each other. However, it has also been observed that cooperation between agencies at the working level is reasonable.

Different Clientele

The clientele served by the various agencies are for the most part unique. KTEC supports targeted R&D at the universities and serves primarily very early stage technology companies seeking to complete new products and take them to market. (See attached diagram.) These start-ups typically lack a full management team and collateral. Their value is in their intellectual property. KTEC provides not only technology resources and early stage risk financing, but at least as importantly, hands-on business strategy and execution.

Our clientele also include university faculty seeking to spin-off their research into a commercial setting, and in the case of our MAMTC operation, small manufacturers seeking help in production technology and related issues.

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Technology start-up companies have no unified voice of advocacy, no staff tracking what government might do to affect them, and little knowledge of the resources that might be able to help them. Their world is one of hammering out the technology, developing the right business model, and raising risk capital. KTEC's board of directors, working committees, staff, and network personnel are essentially the advocates and mentoring source for many of these start-up companies.

Field service delivery

Duplication of field services has been cited as a justification for consolidation. It is important to distinguish between delivery of state financing programs versus hands-on mentoring of the business. Both centrally-located and regional field staff may be primarily devoted to either providing access to state-funded services OR devoted to hands-on assistance to the client. The provision of hands-on, bottom-line help in the field is paramount to successful economic development. The vast majority of our network's time and energy is spent providing value-added professional mentoring as opposed to processing applications for funding per se.

Governance / Role of KTEC Board

Given both the long term nature of public investments in technology and the need to involve public, private and academic partners, it is advantageous to have a quasi-public structure. The KTEC Board is a unique combination of these three sectors and involves the vision of the private sector while accommodating public accountability. The organizations with which we partner respect this structure. S.B. 615 would at the minimum deal a serious blow to the credibility of the state's program by diminishing the involvement of various partners and the ability to enter into creative partnerships for the benefit of the state.

There certainly is a need for a comprehensive blueprint from which all agencies work. The updated strategic plan addresses that need with the creation of the Economic Development Cabinet and the reinforcement of Kansas, Inc. as the strategic research arm for economic development.

In light of the strategic plan and our experiences over the past few years, we are examining ways to strengthen the interface between commercialization resources and university science and technology programs. Kansas has an opportunity to strengthen HB2690 and strengthen the overall ability to attract strategic research programs and capitalize upon them for commercial development.

Kansas, Inc. Role

The bill would remove the independent strategic planning function from Kansas Inc., which would be a critical loss to the state. The Economic Development Cabinet recommended in the state strategic plan should serve to facilitate a rational planning process, adding more buy-in and clout to the state's economic development efforts.

Technology Development & Commercialization

Kansas must chart a focused course in targeted areas of innovation in order to compete in the global economy. High quality research centers, focused on commercial applications that make the most sense for Kansas, are paramount to stimulating innovation. KTEC has identified strategic technology areas of Ag Biotechnology, Aviation Research, Human Biosciences, Information Technology, Polymers and Nanoscience as the greatest technology opportunities based on our inherent capabilities, research strengths, and potential of our economy.

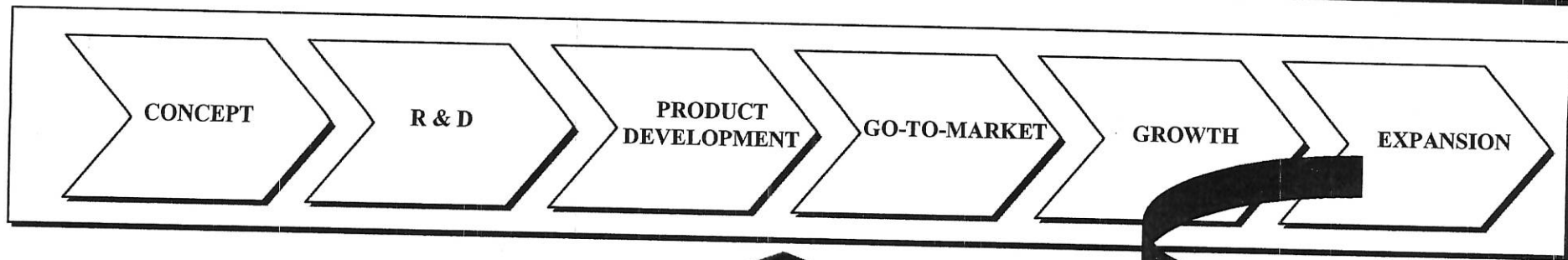
Conclusion

The current economic development structure has worked well. KTEC has been a valuable resource with consistent results. It is continually improving Kansas' position in the innovation economy. The agency's continued effectiveness hinges on its network and its independence as an entity. It is incumbent upon KTEC to provide:

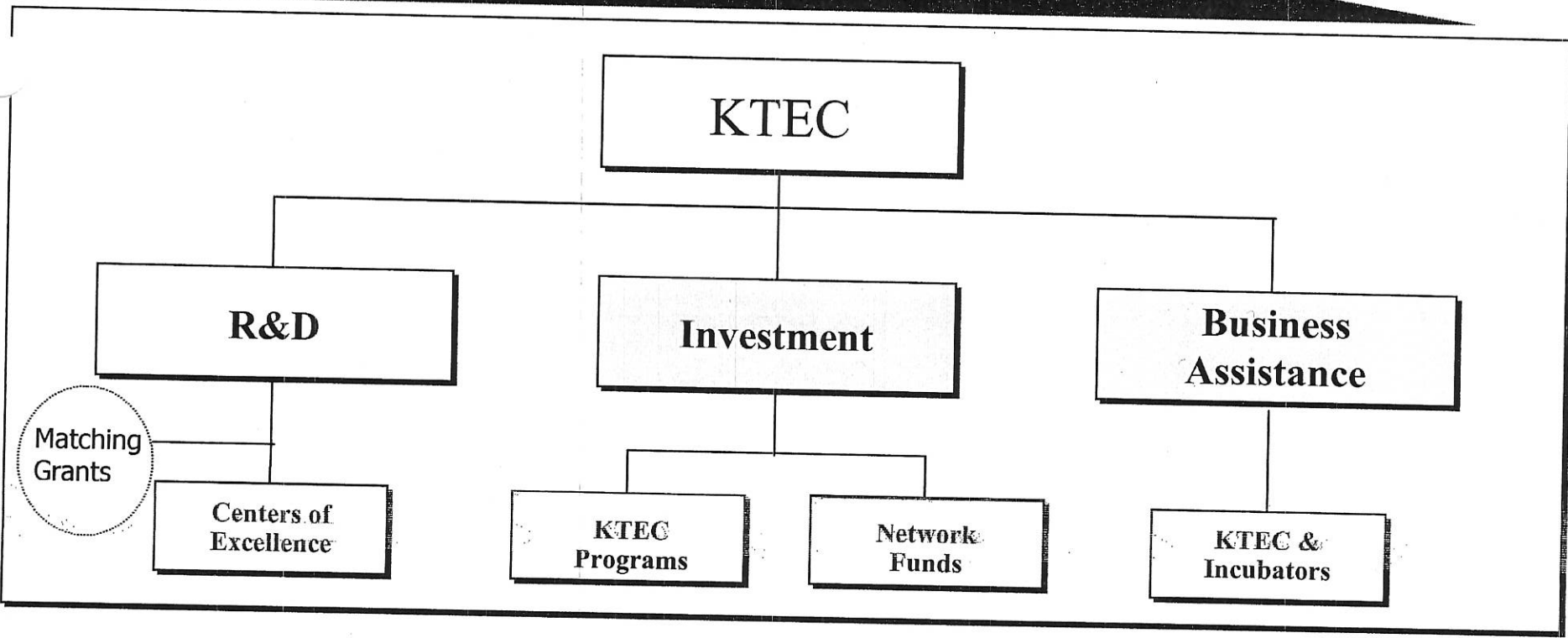
- a consistent competitive strategy statewide;
- sustained capacity with all its investments; and
- the level of business expertise, flexibility and responsiveness required by the very nature of emerging technologies.

Such a level of support for an entrepreneurial culture in Kansas can only happen when KTEC is not subject to changes in the political environment. Moreover, the diversified expertise of the KTEC board and committees offers an integrated perspective that is also attuned to regional and local community interests. We recommend that the present structure remain.

Investment & Business Assistance



KDOC&H



7-1

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Richard L. Cram, Director
915 SW Harrison St.
Topeka, KS 66625



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Internet Address: www.ksrevenue.org

Office of Policy & Research

To: Senator Karin Brownlee, Chair
Senate Commerce Committee

From: Richard Cram

Date: March 6, 2002

Re: Request for Amendment to SB 615

The Department of Revenue respectfully requests amendments to Section 7 of Senate Bill 615, as set forth in the attachment. These amendments are intended to address the requirement in 2001 House Bill 2591 enacted last year (now K.S.A. 2001 Supp. 74-8017[b]), that Kansas, Inc. and the Department of Revenue propose to the legislature at the commencement of this session modifications to the procedures for disclosure of corporate and individual taxpayer information to be used in development of the annual report prepared by Kansas, Inc. evaluating the cost effectiveness of various income tax credits and sales tax exemptions enacted to encourage economic development in Kansas.

Background

K.S.A. 2000 Supp. 74-8017 required Kansas, Inc. to prepare an annual report evaluating the cost effectiveness of various income tax credits and sales tax exemptions enacted to encourage economic development in Kansas, and to submit the report at the beginning of the legislative session to the standing committees on taxation and economic development of the house, and assessment and taxation and commerce of the senate. This statute also required the Department to develop a questionnaire on utilization of state income tax credits and sales tax exemptions, to be completed by all corporate income taxpayers and submitted concurrently with the filing of tax returns. A copy of this questionnaire is attached.

During the 2001 session, House Bill 2591 amended the above statute to suspend the annual report requirement until on or after January 1, 2003. This enactment further requires Kansas, Inc. and the Department to "agree upon procedures for the purpose of disclosure of corporate and individual taxpayer information to fulfill the purposes of this section and protect sensitive taxpayer information to the extent possible consistent with this section." The procedures are to be submitted to the appropriate committee of the legislature at the commencement of the 2002 session in the form of a proposed bill.

Both Kansas, Inc. and the Department of Revenue are aware of problems with the information-gathering process involving the questionnaires. The Kansas economic development

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incentive questionnaire is included in all Kansas corporate income tax booklets, along with other necessary tax forms. As the questionnaire itself indicates, the Department's instructions direct all Kansas corporate income taxpayers to prepare and file the Kansas economic development incentive questionnaire with their tax returns. The instructions advise taxpayers that the completed questionnaires will be forwarded to Kansas, Inc. for use in conducting surveys. Once the Department of Revenue receives the corporate income tax returns, personnel must manually search the returns, identify the questionnaires and separate them from the returns. The Department then sends the collected questionnaires to Kansas, Inc. If the questionnaire is properly completed, it provides the name and address of the corporate income taxpayer and identifies which economic development incentive tax credits or sales tax exemptions the taxpayer had claimed. However, information from the questionnaires will be incomplete as to those corporate taxpayers failing to file the questionnaire with their tax return. In addition, there is the opportunity for error, if Department personnel inadvertently fail to identify and pull the questionnaire from the filed return.

K.S.A. 2000 Supp. 74-8017 only required corporate income taxpayers to complete the questionnaire. Individuals and entities other than corporations claiming the various economic development incentives are not required to complete the questionnaire. Corporations are not the only taxpayers claiming those tax incentives. In addition, past experience has shown that very few taxpayers claiming the tax incentives actually comply with the requirement to complete and return to the Department the questionnaires. Although there are approximately 35,000 Kansas C-corporation taxpayers, and although approximately 5,000 taxpayers claim the various economic development tax incentives at issue, during recent years the Department has collected and forwarded to Kansas, Inc. less than 300 completed questionnaires per year.

The questionnaire itself does not require the corporate income taxpayer to disclose the dollar amount of tax credits or sales tax exemptions claimed, or the investment or additional employees hired as a result of the economic incentive. The questionnaire only requires that the corporate income taxpayer disclose whether any of the tax incentives were claimed. Kansas, Inc. would then need to follow up directly with the taxpayer to obtain any further information.

Proposed Modifications to Procedures Concerning the Questionnaire

The proposed amendments to Section 7 provide that Department of Revenue would identify from the filed income or privilege tax returns and K.S.A. 79-3606(cc) project exemption certificate applications all taxpayers (individual and corporate) claiming the subject economic development tax credits and 79-3606(cc) sales tax exemption. Then, by separate mailing after the returns are filed, the Department of Revenue would mail to taxpayers claiming the subject tax credits the questionnaire developed by the Department Housing and Commerce. The questionnaire would be accompanied by directions that each taxpayer complete the questionnaire and return it to the Department of Revenue, and that the completed questionnaire would be forwarded to the Department of Housing and Commerce for use in preparing the statutory report. The new questionnaire would require the taxpayer to provide more information than the current questionnaire, such as:

(1) the taxpayer's name, mailing address, federal employer identification number; (2) total amount claimed for each tax credit named above; (3) total investment made in association with each tax credit; (4) total wages created in association with each tax credit; (5) total number of jobs created in association with each tax credit; (6) for any project in which any tax credit was used, whether the project involved starting a new business, expanding an existing business, relocating to another city from an existing Kansas location, expanding into Kansas from an out-of-state location, or relocating to Kansas from an out-of-state location; (7) reasons why any

project in which any tax credit was used, was undertaken in Kansas; (8) indicate the extent to which any tax credit used was a factor in deciding to proceed with the project; (9) indicate the total number of full-time employees of the taxpayer, and total number of full-time employees in Kansas; (10) if the taxpayer has claimed any sales tax exemptions for property or services purchased for the purpose of and in conjunction with constructing, reconstructing, enlarging or remodeling a business, or retail business meeting the requirements of K.S.A. 74-50,115, and amendments thereto, and machinery and equipment for installation at such business or retail business authorized by subsection (cc) of K.S.A. 2001 Supp. 79-3606, and amendments thereto, or for the purchase of manufacturing machinery and equipment or labor services under K.S.A. 2001 Supp. 79-3606(kk), the amount of such sales tax exemptions claimed in the tax year at issue, the investment(s) made in association with such exemption, the wages created in association with such exemption, and the total number of jobs created in association with such exemption.

Taxpayer responses to the questionnaires would be considered confidential taxpayer information, subject to protection from disclosure under K.S.A. 79-3614 and 79-3234.

Administrative Costs

The Department of Revenue will incur additional administrative costs, were this proposal to be adopted. These costs would be incurred in identifying the specific taxpayers claiming the economic development tax credits, printing the new questionnaire, mailing the questionnaire to those taxpayers, collecting the returned questionnaires and forwarding them to the Department of Housing and Commerce. Those administrative costs are estimated to be:

Estimate of 5,000 taxpayers to receive questionnaire mailing	
Tagging of credit schedules indicating filed with the Department:	\$31,500
Printing of four-page questionnaire:	\$1,700
#10 envelope for mailing questionnaire:	\$120
Postage for mailing questionnaire:	\$1,400
#9 envelope for return response (optional):	\$100
Prepaid postage for mailing questionnaire back to KDOR (optional):	<u>\$1,700</u>
Total	\$36,520

The Department of Revenue requests that the additional administrative costs incurred in carrying out this proposal either be paid out of the budget of the Department of Commerce and Housing, or additional funding be added to the budget of the Department of Revenue to cover such costs.

STATE OF KANSAS ECONOMIC DEVELOPMENT INCENTIVE QUESTIONNAIRE

All Kansas corporate income taxpayers and/or their tax preparers are **required, pursuant to K.S.A. 74-8017, to complete the following questionnaire** regarding claims for income tax credits and sales tax exemptions. The information requested by the questionnaire is required to evaluate the utilization and effectiveness of these economic development and business tax credits and incentives provided by the state of Kansas.

The questionnaires will be collected by the Kansas Department of Revenue and submitted to Kansas, Inc., the economic development policy and planning agency created by the Kansas Legislature in 1986. Kansas, Inc. will conduct surveys of Kansas companies using the data provided on this form to evaluate state tax incentives. It reports its findings annually to the Kansas Legislature.

If you have any questions regarding the questionnaire, call Kansas, Inc., at (785) 296-1460. If you have questions regarding the tax credits and their definitions, call the Department of Revenue at (785) 368-8222 or toll-free if you are outside Topeka at 1-800-526-7738.

NOTE: The name and employer identification number of the corporate taxpayer will remain confidential. Results of this questionnaire will be reported to the legislature only in aggregate.

1.	Company Name		
2.	Federal Employer Identification Number	3.	SIC Code
4.	Mailing Address		
5.	City	State	Zip Code
6.	Name of Company Officer Filing this Questionnaire		

JOB EXPANSION AND INVESTMENT CREDIT ACT, K.S.A. 79-32,153, K.S.A. 79-32,160a

7. Will your tax year 2000 Kansas Corporate Income Tax return include a "new" claim for this credit? Yes No
If yes, please answer the question on line 8.
8. If this credit had not been available, which is the most likely? Your company would have:
 proceeded with the expansion/hiring as you did, proceeded on a smaller scale, postponed or canceled the project

RESEARCH AND DEVELOPMENT CREDIT, K.S.A. 79-32,182

9. Will your tax year 2000 Kansas Corporate Income Tax return include a "new" claim for this credit? Yes No
If yes, please answer the question on line 10.
10. If this credit had not been available, which is the most likely? Your company would have: conducted the R & D as you did,
 proceeded with the R & D on a smaller scale, postponed or not conducted the R & D at all

KANSAS VENTURE CAPITAL AND SEED CAPITAL CREDITS, K.S.A. 74-8205, 74-8206, 74-8304, 74-8304a, 74-8401

11. Will your tax year 2000 Kansas Corporate Income Tax return include a claim for these credits? Yes No
12. Please indicate the credit(s) your company is claiming. Credit for investment in stock of Kansas Venture Capital, Inc.
 Credit for investment in a certified Kansas venture capital company Credit for investment in certified local seed capital pool

WORKFORCE TRAINING AND FACILITY INVESTMENT CREDIT

HIGH PERFORMANCE FIRMS INCENTIVE PROGRAM (HPIP), K.S.A. 74-50,132, 79-32,160a(e)

13. Will your tax year 2000 Kansas Corporate Income Tax return include a claim for these credits? Yes No
If yes, please answer the questions on lines 14 and 15.
14. Please indicate the credit(s) your company is claiming. Credit for investment in training and education of employees
 Credit for investment in facilities and/or equipment
15. If this credit had not been available, which is the most likely? Your company would have: proceeded with the investment/training as you did, proceeded on a smaller scale, postponed or not proceeded at all

ENTERPRISE ZONE ACT SALES TAX EXEMPTION, K.S.A. 74-50,115

16. Did your company receive or use an enterprise zone sales tax exemption certificate during the state fiscal year 2000 (7/99-6/00)?
 Yes No If yes, please answer the question on line 17.
17. If sales tax exemption had not been available, which is the most likely? Your company would have: proceeded with the investment as you did, proceeded on a smaller scale, postponed or canceled project.

MANUFACTURING MACHINERY AND EQUIPMENT SALES TAX EXEMPTION, K.S.A. 79-3606(kk)

18. Did your company purchase any manufacturing machinery and equipment during the state fiscal year 2000 (7/99-6/00)?
 Yes No If yes, please answer the question on line 19.
19. If sales tax exemption had not been available, which is the most likely? Your company would have: proceeded with the investment as you did, proceeded on a smaller scale, postponed or canceled the investment.

1 portunity initiatives fund for the preceding month; and
2 (2) the net earnings rate for the pooled money investment portfolio
3 for the preceding month.

4 (g) A ~~five~~ *three* member panel consisting of the secretary of com-
5 merce and housing, ~~the president of Kansas, Inc.~~, the president of the
6 Kansas technology enterprise corporation, ~~the private sector chairperson~~
7 ~~of the board of Kansas, Inc.~~ and the private sector chairperson of the
8 Kansas technology enterprise corporation shall review annually the pro-
9 priety of projects funded under this section. The panel shall report its
10 findings in writing to the governor, the economic development committee
11 of the house of representatives, the senate commerce committee and the
12 joint committee on economic development.

13 Sec. 6. K.S.A. 74-8015 is hereby amended to read as follows: 74-
14 8015. (a) As used in this section "state agency" means any state office or
15 officer, department, board, commission, institution, bureau or any
16 agency, division or unit within any office, department, board, commission
17 or other state authority or any person requesting a state appropriation.

18 (b) On October 1, 1990, and annually thereafter, state agencies mak-
19 ing community and economic development grants or loans shall submit
20 to ~~Kansas, Inc.~~ *the department of commerce and housing* in a form pre-
21 scribed by ~~Kansas, Inc.~~ *the department of commerce and housing*, reports
22 detailing community and economic development grants or loans made by
23 such state agencies. Such reports shall include the identity of the recipient
24 of such loans or grants. ~~Kansas, Inc.~~ *The department of commerce and*
25 *housing*, shall provide annually, to the governor and the legislature, a
26 compilation of such reports.

27 Sec. 7. K.S.A. 2001 Supp. 74-8017 is hereby amended to read as
28 follows: 74-8017. (a) On and after January 1, ~~2003~~, it shall be the duty of
29 ~~Kansas, Inc.~~ *to prepare the department of commerce and housing to con-*
30 *tract for the preparation of* an annual report evaluating the cost effect-
31 iveness of the various income tax credits and sales tax exemptions enacted
32 to encourage economic development within this state and submit the
33 same to the standing committees on taxation and economic development
34 of the house and assessment and taxation and commerce of the senate at
35 the beginning of each regular session of the legislature. The secretary of
36 revenue shall ~~develop a questionnaire on the utilization of state income~~
37 ~~tax credits and sales tax exemptions that shall be completed by all cor-~~
38 ~~porate taxpayers subject to state income tax that shall be submitted to the~~
39 ~~department of revenue concurrently with the filing of an annual corporate~~
40 ~~income tax return. The questionnaire shall require respondents to indi-~~
41 ~~cate utilization of the following credits and exemptions.~~

42 (1) Income tax credits authorized under the provisions of the job
43 expansion and investment credit act of 1976 and acts amendatory thereof

2004

identify taxpayers, including individuals,
corporations, and financial institutions
privilege taxpayers claiming any of the
following credits on their annual income
tax or privilege tax returns, or applying
for project exemption certificates
for any of the following sales tax
exemptions:

- 1 and supplemental thereto;
- 2 (2) income tax credits for expenditures in research and development
- 3 activities authorized by K.S.A. 79-32,182, and amendments thereto;
- 4 (3) income and financial institutions privilege tax credits for cash in-
- 5 vestment in stock of Kansas Venture Capital, Inc. authorized by K.S.A.
- 6 74-8205 and 74-8206, and amendments thereto;
- 7 (4) income tax credits for cash investment in certified Kansas venture
- 8 capital companies authorized by K.S.A. 74-8304, and amendments
- 9 thereto;

10 (5) income tax credits for cash investment in certified local seed cap-
 11 ital pools authorized by K.S.A. 74-8401, and amendments thereto;

12 (6) income tax credits for investment in the training and education of
 13 qualified firms' employees authorized by K.S.A. 2001 Supp. 74-50,132,
 14 and amendments thereto;

and

15 (7) sales tax exemptions for property or services purchased for the
 16 purpose of and in conjunction with constructing, reconstructing, enlarg-
 17 ing or remodeling a business, or retail business meeting the requirements
 18 of K.S.A. 74-50,115, and amendments thereto, and machinery and equip-
 19 ment for installation at such business or retail business authorized by
 20 subsection (cc) of K.S.A. 79-3606, and amendments thereto, and

~~21 (8) sales tax exemptions for machinery and equipment used directly
 22 and primarily for the purposes of manufacturing, assembling, processing,
 23 finishing, storing, warehousing or distributing articles of tangible personal
 24 property in this state intended for resale by a manufacturing or processing
 25 plant or facility or a storage, warehousing or distribution facility. The
 26 secretary of revenue shall provide the completed questionnaires and cop-
 27 ies of sales tax exemption certificates to Kansas, Inc. for the preparation
 28 of such report.~~

29 (b) Prior to the commencement of the 2002 legislative session, Kan-
 30 sas, Inc. and the Kansas department of revenue shall agree upon proce-
 31 dures for the purpose of disclosure of corporate and individual taxpayer
 32 information to fulfill the purposes of this section and protect sensitive
 33 taxpayer information to the extent possible consistent with this section.
 34 Such procedures shall be submitted to an appropriate committee at the
 35 commencement of such session in the form of a proposed bill.

Insert & attached here

36 Sec. 8. K.S.A. 74-8102 is hereby amended to read as follows: 74-
 37 8102. (a) The purpose of the Kansas technology enterprise corporation is
 38 to foster innovation in existing and developing businesses, especially the
 39 creation, growth and expansion of Kansas enterprises in a diversified
 40 range of primary sectors, which develop value-added products, processes
 41 and services including, but not limited to:

- 42 (1) Existing resource-based industries of agriculture, oil, gas, coal and
- 43 helium;

INSERT 1

The secretary of revenue shall mail to each taxpayer identified at the address shown on the return or project exemption application a questionnaire developed and prepared by the department of commerce and housing, and such taxpayer shall answer the questionnaire and return it to the secretary of revenue, providing the following information for the tax year at issue: (1) the taxpayer's name, mailing address, federal employer identification number; (2) total amount claimed for each tax credit named above; (3) total investment made in association with each tax credit; (4) total wages created in association with each tax credit; (5) total number of jobs created in association with each tax credit; (6) for any project in which any tax credit was used, whether the project involved starting a new business, expanding an existing business, relocating to another city from an existing Kansas location, expanding into Kansas from an out-of-state location, or relocating to Kansas from an out-of-state location; (7) reasons why any project in which any tax credit was used, was undertaken in Kansas; (8) indicate the extent to which any tax credit used was a factor in deciding to proceed with the project; (9) indicate the total number of full-time employees of the taxpayer, and total number of full-time employees in Kansas; (10) if the taxpayer has claimed any sales tax exemptions for property or services purchased for the purpose of and in conjunction with constructing, reconstructing, enlarging or remodeling a business, or retail business meeting the requirements of K.S.A. 74-50,115, and amendments thereto, and machinery and equipment for installation at such business or retail business authorized by subsection (cc) of K.S.A. 2001 Supp. 79-3606, and amendments thereto, or for the purchase of manufacturing machinery and equipment or labor services under K.S.A. 2001 Supp. 79-3606(kk), the amount of such sales tax exemptions claimed in the tax year at issue, the investment(s) made in association with such exemption, the wages created in association with such exemption, and the total number of jobs created in association with such exemption. The secretary of revenue shall provide the completed questionnaires to the department of commerce and housing for use in preparing the annual report. The completed questionnaires shall be considered as confidential taxpayer information, subject to K.S.A. 79-3614 and K.S.A. 79-3234.

The costs incurred by the department of revenue in mailing the questionnaires, receiving the completed questionnaires and transmitting them to the department of commerce and housing shall paid by the department of commerce and housing and included in its budget.

LEGISLATIVE TESTIMONY



The Unified Voice of Business

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Economic Development Structure

March 6, 2002

KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony Before the
Senate Commerce Committee

by

Jim Edwards
Senior Vice President

Chairwoman Brownlee and members of the Committee:

I appear before you today also representing the Kansas Economic Development Alliance (KEDA). We are pleased to have been asked to address your committee on the findings of the Post Audit report of January 2001 dealing with the financing and functioning of current economic development programs in Kansas.

The Kansas Chamber of Commerce and Industry (KCCI) is a statewide organization dedicated to the promotion of economic growth and job creation within Kansas, and to the protection and support of the private competitive enterprise system.

KCCI is comprised of more than 2,000 businesses which includes 200 local and regional chambers of commerce and trade organizations which represent over 161,000 business men and women. The organization represents both large and small employers in Kansas, with 48% of KCCI's members having less than 25 employees, and 78% having less than 100 employees. KCCI receives no government funding.

The KCCI Board of Directors establishes policies through the work of hundreds of the organization's members who make up its various committees. These policies are the guiding principles of the organization and translate into views such as those expressed here.

To do this fairly, I feel it only appropriate that we reflect back to the mid 1980's when a vast majority of the current economic development legislation passed this body and in the case of the constitutional changes, the state's voters also.

Senate Commerce Committee
March 6, 2002
Attachment 3-1

The mid 1980's saw the then three key legs, Kansas' economic stool, oil and gas, manufacturing and farming, all in various states of crisis. It also saw a period when there just were not sufficient resources to properly fund economic development efforts. A group started meeting and formulating a plan that would help address the economic future of Kansas. This group commissioned the study that would later be known as the Redwood Krider Report did. This visioning for Kansas left no stone unturned. It not only provided the springboard to help launch many successful programs but also identified means of helping pay for them. The years of 1985 and 1986 were banner years for job creating programs for Kansas.

Listed below are just a few of the issues which were started during that period of time:

- ◆ Creation of the State Gaming Revenue Fund
- ◆ Passage of the constitutional change which would provide for a state owned and operated lottery
- ◆ Passage of the constitutional change which would permit parimutuel wagering on horse and dog races in Kansas
- ◆ Passage of the constitutional change which would permit the sale of liquor by the drink in Kansas
- ◆ Passage of the Kansas Venture Capital Company Act
- ◆ Creation of Kansas Venture Capital Inc.
- ◆ Certified Development Companies Performance Grants
- ◆ Creation of The Economic Development Initiatives Fund (EDIF)
- ◆ Elimination of the Internal Improvements Prohibition
- ◆ Reorganization of The Kansas Department of Economic Development (KDOC)
- ◆ Creation of Kansas, Inc.
- ◆ Creation of the Kansas Technology Enterprise Corporation (KTEC)
- ◆ Authority for county enterprise zones
- ◆ Research and Development Tax Credits
- ◆ Commission on Travel and Tourism created (1987)

This is not a complete list, but instead a partial list of efforts that were born out of the intense scrutiny of the Kansas economy and the visioning for the future by the 1985, 1986 and 1987 legislatures. A list of efforts which have created jobs and expanded the tax base in Kansas, even during times when that was not the case nation or region wide.

What has happened on the positive side since then?

- ◆ Kansas has created another leg, a very strong one, for the state's economic chair...the service industry.

World markets have become just as important, if not more so in some cases, as regional markets.

- ◆ The state's development efforts have been enhanced tremendously and you have seen those results through the annual reports.
- ◆ The business tax climate has continually improved.

What has happened on the negative side since then?

- ◆ The legislature has continually looked to the EDIF as a substitute for General Fund expenditures. At the same time no new dollars have been put in the system.
- ◆ Significant rifts sometimes pop up between the three development agencies.
- ◆ While everything else is changing, the process to make changes in the overall structure is thwarted because of internal structures.
- ◆ Kansas, at the present, has all four legs of its economic chair wobbling.
- ◆ Kansas has a drastic shortage of skilled workers needed for future expansion of existing Kansas businesses

I always hate to try to summarize complex issues but the items listed above could have almost come directly from the performance audit review of economic development in Kansas, a report that was distributed to you in January of 2001.

With that, most of you are asking what can be done to once again help in the development efforts and job creation efforts in Kansas? We at KCCI and KEDA have several thoughts on this subject.

- ◆ First, the money available for development efforts must be increased and targeted.
- ◆ Working relationships between the three entities must be enhanced.
- ◆ The local development community must be used by all three entities in their efforts.
- ◆ The legislature must look at whether the structure established almost 20 years ago is the best for Kansas today and in the future.

Thank you for the opportunity to visit with you on this issue. I would be pleased to answer any questions you might have for me.

HISTORY OF THE KANSAS LOTTERY and THE ECONOMIC DEVELOPMENT INITIATIVES FUND

WHERE IT ALL BEGAN

The State Gaming Revenue Fund (SGRF) was created by the Kansas Legislature (HB 2789) in 1986. It was created in order to provide the means necessary to distribute the revenues that would be generated if the Kansas voters approved either or both of the constitutional gaming amendments on the November 1986 General Election ballot. One of the amendments authorized a state-owned and operated lottery while the other permitted pari-mutuel wagering on horse and dog racing. The law created by HB 2789 was provisional in that it would only be used if the voters approved both, or either of the amendments.

The bill (HB 2789) as passed, provided that 60% of the funds in the SGRF would be transferred to a newly created fund, the Economic Development Initiatives Fund (EDIF). Additionally, 30% of the SGRF would be transferred to a County Reappraisal Fund and the remaining 10% to a Juvenile Detention Facilities Fund and Correctional Institutions Building Fund. Since that time the percentages have been changed several times. The latest change was in 1994, when the amount placed in the EDIF was set at 85%, with 15% placed in the Juvenile Detention Facilities Fund.

LEGISLATIVE INTENT FOR USE OF FUNDS

In addition to the actions taken by the 1986 Legislature prior to the passage of the lottery and pari-mutuel wagering amendments, a concurrent resolution was also passed by the 1988 Legislature (HCR 5033) to once again reiterate the fact that the funds generated should be used only for job creation and business expansion.

The resolution stated specifically that *"In the past, Kansas has lacked the resources to compete equally with other states in encouraging the birth, expansion, retention, and recruitment of industries which enhance economic development; but the state economic development initiatives fund offers a unique opportunity to materially improve the state's competitive position with respect to industrial and economic growth."*

ACTUAL EDIF EXPENDITURES

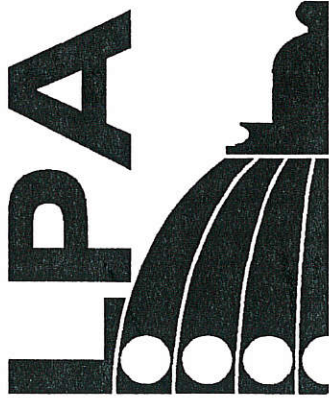
In FY 1988, expenditures were first made from the EDIF. They were used primarily for Kansas Technology Enterprise Corporation (KTEC) related activities and select programs within the Kansas Department of Commerce. At that time, the Legislature's intent for EDIF truly was to fund new and innovative programs and not use it as a replacement for general fund expenditures.

Over the years, the list of beneficiaries has grown and the main purpose has been broadened by the Legislature. In fact, in a recent report released by the Legislative Research Department, 46.7% of EDIF funds in the current fiscal year were "allocated to programs which may be viewed as supporting education." Approximate appropriations from FY 1988 to 1999 are listed below.

KDOCH-----	\$137,396,707
KTEC -----	\$118,420,871
Dept. of Education -----	\$55,305,000
Dept. of Revenue -----	\$20,000,000
Board of Regents -----	\$19,296,494
State Water Plan -----	\$18,000,000
Wildlife and Parks-----	\$6,200,000
Kansas Arts Commission-----	\$5,500,000
Kansas Inc. -----	\$4,776,863
State Library -----	\$3,100,000
KS Social and Rehab Services -----	\$2,500,000
Dept. of Agriculture-----	\$2,300,000
Historical Society-----	\$2,284,034
Dept. of Administration -----	\$1,691,800
Regents Institutions Construction-----	\$1,650,000
KS Development Finance Authority -----	\$990,000
Dept. of Human Resources-----	\$850,000
State Fair-----	\$723,000
School for the Blind-----	\$390,000
Other-----	\$240,000

TOTAL -----approx. \$402,000,000

It is very important as we look to the future that the primary focus of the EDIF be, as the 1988 Legislature said, with programs *"encouraging the birth, expansion, retention, and recruitment of industries which enhance economic development."*



PERFORMANCE AUDIT REPORT

**Economic Development in Kansas:
A K-GOAL Audit Reviewing Coordination and
Effectiveness of Programs**

Executive Summary ***with Conclusions and Recommendations***

**A Report to the Legislative Post Audit Committee
By the Legislative Division of Post Audit
State of Kansas
January 2001**



Legislative Post Audit Committee

Legislative Division of Post Audit

THE LEGISLATIVE POST Audit Committee and its audit agency, the Legislative Division of Post Audit, are the audit arm of Kansas government. The programs and activities of State government now cost about \$8 billion a year. As legislators and administrators try increasingly to allocate tax dollars effectively and make government work more efficiently, they need information to evaluate the work of governmental agencies. The audit work performed by Legislative Post Audit helps provide that information.

We conduct our audit work in accordance with applicable government auditing standards set forth by the U.S. General Accounting Office. These standards pertain to the auditor's professional qualifications, the quality of the audit work, and the characteristics of professional and meaningful reports. The standards also have been endorsed by the American Institute of Certified Public Accountants and adopted by the Legislative Post Audit Committee.

The Legislative Post Audit Committee is a bipartisan committee comprising five senators and five representatives. Of the Senate members, three are appointed by the President of the Senate and two are appointed by the Senate Minority Leader. Of the Representatives, three are appointed by the Speaker of the House and two are appointed by the Minority Leader.

Audits are performed at the direction of the Legislative Post Audit Committee. Legisla-

tors or committees should make their requests for performance audits through the Chairman or any other member of the Committee. Copies of all completed performance audits are available from the Division's office.

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January 3, 2001

To: Members of the Kansas Legislature

This executive summary contains the findings and conclusions, together with a summary of our recommendations and the agency responses, from our completed performance audit, *Economic Development in Kansas: A K-GOAL Audit Reviewing Coordination and Effectiveness of Programs*.

The report also contains appendices showing the State's return on its venture capital investments and what the Department of Commerce and Housing and KTEC report as program results.

This report includes several recommendations for each of the 3 main economic development agencies and the legislature. We would be happy to discuss these recommendations or any other items in the report with you at your convenience.

If you would like a copy of the full audit report, please call our office and we will send you one right away.


Barbara J. Hinton
Legislative Post Auditor

**Question 1: Are Kansas' Economic Development Agencies
Fulfilling the Roles for Which They Were Created, and Are They
Coordinating Their Economic Development Efforts?**

Kansas, Inc. hasn't emerged as the strong coordinator and evaluator of economic development programs that the statutes seem to envision.page 12
Although Kansas, Inc. has produced a number of economic studies and has updated the State's economic development strategic plan several times since 1986, it hasn't been the key coordinating agency for economic development that was originally envisioned. Likely reasons include, the lack of statutory authority to direct the other agencies, a small staff and budget that limits the amount of evaluation work it can do, and a potential for conflict between its roles as evaluator and coordinator.

The Department of Commerce and Housing appears to be fulfilling its main role of recruiting new business to the State and fostering growth and innovation in existing industry.page 14
The Department has more than 30 programs in 5 divisions that relate to economic development. We didn't have time to review each program in depth, but we did select a sample of statutory requirements and found the Department met 23 out of 26 of those, with only minor points not be adequately addressed.

Kansas Technology Enterprise Corporation's programs fulfill its main role of fostering innovation and the development of technology.page 15
KTEC has established numerous programs to fulfill these major roles. Although KTEC generally complied with the statutory requirements we reviewed, we found that the way its research funds currently are set up isn't consistent with the statutes. The complex system of for-profit and not-for-profit corporations within the KTEC network is allowed by law.

In reviewing the laws governing economic development agencies, we noted several areas where roles are unclear or requirements were imposed that can't be met.page 17
Kansas, Inc. is supposed to evaluate the programs of the Department and KTEC, but there's no guidance on how often those programs should be evaluated. The statutes also call for the Department to cooperate with legislative committees and Kansas, Inc. on an independent performance review of the Department. It's not clear who's actually responsible for conducting the review. In addition, the statutes call

for the Department and KTEC to issue their annual reports by dates that can't be met if the most recent fiscal year's information is to be included in the report.

There's no significant coordination among the three entities in planning and funding the state's economic development efforts. *State economic development officials told us there's little coordination of economic development efforts among agency heads. Several reasons for this include: the tensions created because the agencies compete for funding, none of the agencies has the authority to take the lead in coordination, and the agencies have different philosophies on economic development. Despite this, better communication and working relationships exist among the agencies' program staff, such as between the Department's Trade Development Division and KTEC. Nevertheless, there are few formal mechanisms to ensure that communication occurs and that clients are referred to the most appropriate agency.*

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Question 1 Conclusion: *The system for coordinating, overseeing and evaluating the State's economic development activities has inherent problems that prevent it from working as the Legislature intended. The law envisions that Kansas, Inc. will coordinate the State's economic development priorities and help target its resources, but doesn't give the agency the authority it needs to effectively carry out that role. Kansas, Inc.'s ability to act as a coordinator is limited because the Department of Commerce and Housing and KTEC are independent agencies that report to their own authorities and can set their own priorities, agendas, and budgets. Kansas, Inc.'s dual role as coordinator and evaluator of economic development priorities and programs has at times put the agency in conflict with the Department and KTEC.*

.....page 20

There needs to be effective coordination and independent, non-partisan oversight and evaluation of the State's economic development activities to provide adequate accountability for the use of public funds. As the system currently exists, however, these needs can never be fully met. To address this problem, the Legislature will need to re-examine the existing structure and consider whether a single agency should take the lead role, what authority that agency should have, and what impact any changes would have on the other two agencies' ability to effectively carry out their respective missions. Given the scope of the strategic plan that's scheduled to be completed in June 2001, the Legislature likely will want to review the findings from that study before making any major policy decisions in this area.

Question 1 Recommendations:

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Recommendations to the Kansas Legislature

The report recommended that to ensure that there's effective coordination, oversight, and evaluation of the State's economic development activities,

the Legislature should consider re-examining the structure of the State's economic development system, potentially during the 2001 interim session. To ensure that the Legislature receives timely and useful information in the Department of Commerce and Housing's and KTEC's annual reports, the Legislature should amend K.S.A. 74-5049(b) and K.S.A. 74-8111 (a) to change the deadlines for these reports. To ensure that KTEC's research funds are structured in a manner that's reasonable and consistent with the law, the Legislature should amend K.S.A. 74-8106 to allow KTEC to fund all research from one fund and track the funding to individual Centers of Excellence through separate sub-accounts. To ensure that an independent evaluation of the Department of Commerce and Housing is conducted every 3 years, as is required by statute, the Legislature should amend K.S.A. 74-5049(a) to clarify who is supposed to conduct that evaluation, and to establish reasonable criteria for that evaluation. To help ensure that State law is consistent with the current economic development system, all references to Kansas Venture Capital Inc. should be removed from the statutes.

Recommendations for the Department of Commerce and Housing

To ensure that it is in compliance with State law, the Department should follow-through on its plans to conduct the required review of the appropriateness of projects funded by the Kansas Economic Opportunity Initiatives Fund, and report on the number of discontinued jobs related to the IMPACT program.

The Department concurred with this recommendation and is addressing the issue related to the Economic Opportunity Initiatives Fund and will include the IMPACT data in future reports.

Question 2: What Benefit Has the State Received as a Result of Loans, Grants, and Investments Made Under Economic Development Programs, and Is There Sufficient Accountability Over These Moneys?

Measuring the results of economic development programs is difficult at best. *Although governmental entities have implemented a variety of economic development programs for many years, there still isn't a proven way to show a direct cause and effect relationship between the money invested and the results.*

.....page 23

In more than a decade, \$9.3 million in KTEC investments has generated more than \$1 million in cash returns and helped finance companies that employ about 600 people. *These investments currently are valued at around \$5.6 million, which is less than originally invested because investments in early stage technology companies tend to lose value before they become profitable, and because some companies have gone out of business. The report contains a table and appendix that have more detailed information about KTEC's investments.*

.....page 24

KTEC reports that all its programs increased sales of Kansas companies by \$125 million, and impacted 385 jobs during fiscal year 2000. *KTEC conducts an annual survey of its clients from the past 5 years to determine the economic impact of its programs. More detailed information about these survey results are in a table and appendix in the report.*

.....page 26

KTEC and its affiliates generally are accountable for where money are invested, but the information that can be reported on investment funds is limited. *We found a number of specific things that exist to help ensure KTEC is accountable for the use of those funds, including accounting systems that allow moneys to be tracked, a review process to evaluate investments that includes internal staff and the Board of Directors, and various conflict-of interest policies and contractual provisions that restrict the kinds of investments that can be made. However, there are limits on the amount of information regarding investments that can be reported to the Legislature and the public. In order to make "for-profit" investments with public funds, KTEC has various business entity structures in which KTEC can invest State moneys with private co-investors. In 1997 the Attorney General concluded that the Ad Astra Funds were private entities and consequently not subject to the Kansas Open Records Act, which limits the amount of information that can be reported on those Funds. KTEC contends that information from the commercialization corporations (like amounts invested in individual companies) should not be disclosed because the commercialization corporations are private corporations not subject to the Kansas Open Records Act. An Attorney General's opinion on this issue is pending.*

.....page 26

Department of Commerce and Housing records show that about \$1.2 billion in economic benefits and about 9,200 jobs have been created as a result of its programs. *The Department's 5 economic development divisions operate more than 30 programs and spent about \$61 million in fiscal year 2000. The Department has made reasonable efforts to document the impact of its programs and has improved significantly in this area over what we've found in past audits. We did find a few problems, such as the Department not distinguishing between projected and actual results in its annual report and budget documents, and incomplete verification of beginning employment levels in companies receiving money through the Kansas Industrial Training Program.*

.....page 30

The Department is reasonably accountable for its economic development funds. *For example, the Department holds the recipients of its financial assistance accountable for accomplishing specified outcomes with the funds they receive, and when possible take steps to secure the loans it makes to companies and local governments.*page 33

Overall accountability over money going into and out of the Economic Development Initiative Fund (EDIF) is weak. *The EDIF isn't accounted for as a single fund, but rather through many small funds which are divided into sub-accounts. Sometimes unspent money from these sub-accounts remains in an account for months or years before it's discovered and transferred to the main fund. This makes it extremely difficult to accurately track the money that comes into and out of the Fund, and to establish a current fund balance that's reliable.*page 34

Question 2 Conclusion: *The State operates economic development programs that fund technological research, help companies obtain investment capital, provide expertise to companies and communities, and offer companies incentives to expand or relocate. These programs are designed to create wealth and jobs in the near term, and to place the Kansas economy in a stronger economic position for the long term. Kansas' economic development programs do appear to be instrumental in creating some jobs, opening markets, and increasing the sales of Kansas companies. While there may be cases where the agencies could do more to improve the accuracy of the information they obtain, the bottom line is that nobody has developed a reliable way to show what specific outcomes occurred as a result of economic development programs, and funding them is a legislative policy decision.*page 34

Until recently, we've been able to report—and the Legislature and the public have been able to review—basic information about specific economic development investments made with public moneys, including company names, amounts invested, and results achieved. However, the Attorney General has ruled that Ad Astra funds are private entities not subject to the Open Records Act, which limits what can be reported. We've requested an opinion on whether the same situation exists for investments made through the commercialization corporations, as they contend. If so, a significant portion of the funds invested through KTEC's affiliates or fund managers will no longer be subject to the same level of accountability as they were in the past. We think there are strong accountability and public policy arguments for ensuring that basic information about which companies the State has invested in, how much was invested, what the status of that investment is, and what results have been achieved, can be reported. Through the Legislative Post Audit Committee, we'll keep the Legislature informed about the Attorney General's ruling on our request.

Recommendation for KTEC

The report recommended that to better ensure that the information it collects in its economic impact surveys is accurate, KTEC should systematically verify a reasonable sample of the information it collects from its clients in those surveys, such as number of jobs created.

KTEC responded that they were willing to implement this recommendation.

Recommendations for the Department Commerce and Housing

To ensure that the results reported in its annual report and budget documents are clear, the Department should clearly note when it reports projected program results instead of actual program results.

To ensure that the information it obtains to evaluate the Kansas Industrial Training Program (KIT) is accurate, the Department should verify both the beginning and ending employment levels of companies that receive grants through the program.

The Department generally concurred with these recommendations.

Other Recommendations

To ensure that moneys coming into and out of the Economic Development Initiatives Fund can be traced and adequately accounted for, the Division of Accounts and Reports and the Division of the Budget should seek any legislative changes needed to bring all of the sub-accounts into a single fund.

The Division of Account and Reports concurred with this recommendation.

Question 3: How Do Funding for Economic Development Activities and Salaries for Economic Development Officials in Kansas Compare to Other States?

Kansas is one of only 3 states that fund economic development programs with gaming revenues. *Arizona and Oregon are the only two other states that use gaming proceeds to fund economic development programs. Out of 27 other states we surveyed, 12 reported that they finance 50% or more of the cost of their economic development programs with general fund moneys.*

.....page 37

Compared to 27 other states, Kansas ranked 10th in per-capita spending on economic development and 8th in the percent of state budget

.....page 39

spent on economic development. *We found that, including federal funds, the states we contacted spent from .2% to 3.5% of their state budgets on economic development, with Kansas spending just under 1%. That translated to spending of less than \$5 to more than \$103 per resident in those states, with Kansas at about \$31 per resident.*

State law has capped the amount of money going into the Economic Development Initiatives Fund, which means economic development programs can't grow unless other sources of funding are found. *There's a fixed pool of \$40.5 million each year to finance economic development activities. As the Fund currently stands, growth in any given agency's funding will result in money being taken away from one or more of the other agencies. For FY 2001 nearly all General Fund money was removed from the Department of Commerce and Housing's Kansas, Inc.'s budget. Over the past few years, an increasing number of agencies have been funded from the Economic Development Initiatives Fund, which diminishes the amount of money available to the 3 main economic development agencies.*

.....page 39

The salaries of the heads of economic development entities in Kansas are mostly in line with the salaries of similar officials in other states. *Compared to 2 other agencies, the head of Kansas, Inc. had the second highest salary, while the Secretary of Commerce and Housing ranked next to the last out of 4. The president of KTEC was the second highest out of 4 similar agencies. Most economic development officials in Kansas have received average salary increases over the past 5 years, but several, directors of Centers of Excellence and commercialization corporations, have significantly exceeded the average with increases as high as 90%. State employees received an average pay increase of just over 18% between 1996 and 2000, while the average salary increase for economic development agency heads was just under 30%.*

.....page 43

Question 3 Conclusion: *Because of the current funding structure for economic development, the State can't increase its current financial commitment to its three primary economic development agencies. The money available for economic development programs is eroding because additional programs are being funded through the Economic Development Initiative Fund (EDIF), the State General Fund moneys that were used by the agencies to supplement the EDIF have been taken away, and the EDIF hasn't grown with inflation. As we have noted throughout this report, agencies that should have a cooperative relationship are instead pitted against each other in an effort to secure money. The funding structure for economic development in Kansas is dysfunctional and the Legislature should consider other alternatives.*

.....page 45

Question 3 Recommendation: *In order to ensure that the State has an appropriate commitment to economic development and to reduce the competition and rivalry among the economic development agencies, during the 2001 interim session, the Legislature should review the funding struc-*

.....page 46

ture and consider alternatives, including the use of the State General Fund moneys for economic development programs. The Legislature should consider any findings and recommendations from the strategic plan that is due in June 2001 before making any decisions.

APPENDIX A: <i>Scope Statement</i>page 47
APPENDIX B: <i>Kansas' Return on its Seed Capital Investments</i>page 51
APPENDIX C: <i>Reported Economic Impact of KTEC Programs in FY 2000</i>page 55
APPENDIX D: <i>Reported Program Results for the Department of Commerce and Housing</i>page 58
APPENDIX E: <i>Other States' Economic Development Agency Head Salaries Survey Results</i>page 63
APPENDIX F: <i>Agency Responses</i>page 66

This audit was conducted by LeAnn Schmitt, Scott Frank, Gretchen Heasty, and Steve Ballantyne. Leo Hafner was the audit manager. If you need any additional information about the audit's findings, please contact Ms. Schmitt at the Division's offices. Our address is: Legislative Division of Post Audit, 800 SW Jackson Street, Suite 1200, Topeka, Kansas 66612. You also may call us at (785) 296-3792, or contact us via the Internet at LPA@lpa.state.ks.us