

MINUTES OF THE SENATE COMMERCE COMMITTEE

The meeting was called to order by Chairperson Karin Brownlee at 8:30 a.m. on February 6, 2004 in Room 123-S of the Capitol.

All members were present except:

Senator Chris Steineger- excused
Senator Pete Brungardt- excused
Senator Susan Wagle- excused

Committee staff present:

Kathie Sparks, Legislative Research
Susan Kannarr, Legislative Research
Helen Pedigo, Revisor of Statutes
Nikki Kraus, Committee Secretary

Conferees appearing before the committee:

Steve Kelly, Deputy Secretary, Department of Commerce
Pete Gustaf, Kansas Technical Training Initiative (KTTI), Wichita
Bob Masters, Kansas Board of Regents
Dave Cleveland, Department of Commerce

Others attending:

See Attached List.

Chairperson Brownlee opened the meeting and asked the committee to look over minutes.

Senator Barone moved to approve the minutes. Senator Emler seconded. The motion passed.

Chairperson Brownlee opened the public hearing on:

SB 394-IMPACT; increased cap on major product investment; authorizes direct investment to educational institutions

Mr. Kelly presented testimony in favor of the bill. (Attachment 1) Following discussion, Mr. Kelly stated that the intention of the Center for Excellence would be instead of forming a program specifically, just have a nationally recognized programs for expertise. He stated that workforce development people need to be more proactive in identifying the programs we will need, and that it would not be cost effective or prudent to build a program around a particular business. Mr. Cleveland replied to a question from Senator Bunten by stating that the vast majority of training is focused on soft skills like team building and computer training. Mr. Kelly stated that the bill would simplify monitoring and keeping track of outcomes also by moving them in-house, which would also leave a better audit trail. He stated that the money not needed for administration can go back into the trust fund to increase and improve curricula.

Mr. Gustaf presented testimony in favor of the bill. (Attachment 2)

Dr. Masters presented testimony in favor of the bill. (Attachment 3)

Senator Barone stated that he saw the bill as reactive, but the testimony made it sound as though it were proactive. Lt. Governor John Moore replied that everything has to be market-driven. He stated that if there was no need for training, then don't create it; this is reactive. Mr. Kelly stated that it was also somewhat predictive of what will come in demand.

Chairperson Brownlee adjourned the meeting at 9:27 a.m. The next meeting will be at 8:30 a.m. on February 9, 2004 in Room 313-S of the Capitol.

**Testimony before the
Senate Commerce Committee
Senate Bill 394
Deputy Secretary Steve Kelly, Kansas Department of Commerce
February 6, 2004**

Senator Brownlee and Members of the Committee:

Thank you for the opportunity to appear today and testify in support of SB 394. This bill amends the IMPACT law to allow the Secretary of Commerce to make direct investments in the human capital, training expertise, and physical infrastructure of our schools, and limits such expenditures to 10% of the total program costs of the project. This bill also raises the cap on the Major Project Investment component of the IMPACT program from 10% to 20%.

Background on the IMPACT program

The IMPACT program was originally established as the State of Kansas Investments in Lifelong Learning (SKILL) act in 1991. The SKILL program is designed to help companies offset the costs of training workers for new jobs. In 1996, the SKILL program was given its current name: Investments in Major Projects And Comprehensive Training (IMPACT). The IMPACT program has two components; SKILL and Major Project Investments (MPI). SKILL is the major workforce-training component of IMPACT. The MPI component is used offset some of the capital costs associated with a company expansion project.

In addition to fulfilling its role as a major workforce-training tool and business attraction tool, IMPACT was also intended to help our schools become an increasingly relevant training partner of Kansas employers. This objective would be accomplished by requiring employers to submit a joint training proposal with a Kansas public educational institution to the Department of Commerce. By requiring schools and companies to sit down together to develop a proposal, it was hoped that that the training needs of the employer would be matched with the training expertise of the schools, thereby creating a prime opportunity for the school to meet that need and get paid for it. As the Lt. Governor mentioned in his testimony before this committee on Wednesday, this objective has not been realized. Only 5.25% of all IMPACT dollars are

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currently used to purchase training expertise from our schools. There are at least two reasons for this. First, while we encourage companies to use Kansas training institutions, the programs are flexible and do not require the companies to do so. Secondly, our schools generally speaking are simply not equipped to respond to many of the training needs of Kansas companies.

Why the proposed amendments are needed

Quite frankly, our schools need help to become more relevant to the needs of Kansas companies, especially if they are to successfully fulfill the new role envisioned for them under the Lt. Governor's new "KansasFirst" plan. KansasFirst will be the single point of contact for all employers that seek to access state workforce development programs and services. KansasFirst will re-engineer how we deliver training services to employers. Instead of paying companies to train their employees, we will pay our community colleges and technical schools to develop curriculum and deliver training services to employers.

Unfortunately, as mentioned above, our schools are not fully prepared to accept this new challenge. If we want our schools to become the training provider of choice of Kansas businesses, we must be willing to provide them with the resources they need to meet this new challenge. As most in this room would probably agree, the state's current budget situation does not leave much room if any, for new programs. The question then becomes how do we upgrade the training expertise, human capital, and infrastructure of our schools within existing resources? SB394 provides an answer to that question. Once enacted, this bill will allow the Secretary of Commerce to apply a fee of no more than 10% on every workforce-training project we fund, and deposit those funds into a workforce development trust fund for direct re-investment in our schools.

This proposed amendment is not another fee that will be added on top of other project expenses. The amendment simply redirects existing administrative expenses. Commerce currently assigns a fee of up to 10 percent of every project to cover the administrative expenses of the educational institution that is party to the agreement. Under KansasFirst, the administrative function currently fulfilled by the schools will be brought in house. This action will strengthen the audit

position of the Secretary and eliminate unnecessary overhead. These funds will then be redirected to the workforce development trust fund. Simply put, this is an attempt to capture existing dollars that are being used in what we feel is an inefficient and ineffective manner and re-invest those funds into the transformation of our schools into a long-term economic asset for Kansas.

The second amendment raises the Major Project Investment (MPI) cap from 10% of the total revenue available to the IMPACT program to 20%. The MPI component of IMPACT allows the Secretary to offer some of the funds available for an individual project to offset a portion of the capital expenses related to that expansion project. Examples of eligible MPI expenses include building construction, production equipment, and company relocation costs. The MPI component is most often used as a “deal closer” when Kansas is in direct competition with another state for a new business location. Our experience for blue chip prospects (those firms that pay extraordinarily high wages and create 150 or more jobs) in recent years indicates that they often have more capital and relocation costs than training costs. The adjustment of the MPI cap will allow the Secretary more capacity to compete effectively for these high wage, high yield prospects, while still maintaining the primary focus of the program on employee training.

Conclusion

In summary, by endorsing this bill, you will help the Department of Commerce fully honor one of the original legislative objectives behind the IMPACT program---equipping our schools to become meaningful training partners for Kansas businesses. You will also give the Department a tool that will allow Kansas to be first in line for recently announced federal matching funds that are aimed at transforming our schools. Finally, you will enhance the Secretary’s ability to compete for more high value projects.

Thank you for the opportunity to testify before you this morning on a bill that is important to the launch of KansasFirst and the reform of workforce development in Kansas. I would be happy to respond to any questions you may have.

Peter Gustaf

Senate Commerce & Labor Committee
February 6, 2003
SB394
Proponent

Senator Brownlee and members of the Committee:

Thank you for the opportunity to speak to you today in support of SB394. My name is Peter Gustaf and I am the Executive Director of the Kansas Technical Training Initiative in Wichita.

The current system of workforce training in Kansas does not utilize **all** of the resources available. By making the previous statement I am not suggesting there is not quality workforce training being delivered. However, there are limiting factors related to the ability of each region to access this quality training. These factors may be attributed to territorial or bureaucratic restrictions, which were put in place decades ago, or it is simply an unawareness of the availability of training resources or an inability to interact with the employer customer.

Let me demonstrate with one example. Assessment. There are seven assessment centers in the Sedgwick County area. Each assessment center offers an assessment product called "Work Keys". Each center pays an annual administrative fee to the company. This fee is in the thousands of dollars. If these seven centers could work together and designate one center to hold the license and each center contributes to pay the administrative fee, the savings would be in the thousands of dollars. Imagine what a region can do with cooperation among the technical training providers. It is always the case; the whole is stronger than the sum of its parts.

Let us take a look at the landscape. The current and more importantly the future demands on our workforce are tremendous. These demands include the demand for skill training, outsourcing, global competition, and shifting demographics.

In 1950, 60% of the available jobs in the U.S. were unskilled labor, 20% required a college degree and another 20% were in the skilled and technical trades. In other words, if you had nothing but a strong back, you were surely able to feed your family, regardless of literacy. By 2000, the numbers had changed dramatically: only 15% of the jobs were for unskilled labor, 20% still required a bachelor's degree, but 65% fell into the skilled/technical occupations.

We all have read the reports and seen statistics on the continuing number of jobs moving to other countries. Whether we agree with this philosophy or not, the market is being driven by intense cost pressures, from global competition, for companies to lower costs. In order for Kansas to be able to assist our companies' ability to compete, we need to

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look at what the competition is saying. Azim H. Premji, chairman of IT supplier Wipro Ltd, the largest IT outsourcing company in India states, "the U.S. (technical) education system is broken, and it must reengineer and retool itself to meet the future demands."

The relationship between education and job requirements will become convoluted by the changing demographics. The most important hurdle the workforce will be facing will be the retirement of the baby boomers. In 2000 the youngest baby boomer was 37 years of age and oldest was 54. The US Department of Labor statistics has projected a shortfall of some 10 million workers by 2010. The Society of Human Resource Management (SHRM) reported in a recently released a survey the number of workers over 55 will increase by 47 percent.

In the Midwest we have a demographic challenge that does not confront a number of other states, worker out migration. Change in the worker population in the Midwest – in the form of workers moving away from the Midwest states – has been profound. The loss is exacerbated by demographic shifts that will produce substantial shortfalls of available skilled workers for the future.

Many who were most affected by this downturn in the Midwest were faced with the need to relocate. Those who did leave most likely headed South and West. The largest population increases over the last 5 years have primarily occurred in cities in the Southwest and the Southeast. Additionally, this is projected to remain relatively constant over the next 10 years with both job growth and population growth centering in the Southwest. The Bureau of Census statistics show that the Midwest had a net loss of over 540,000 people from 1995-2000, with the vast majority heading to the Southwest and the Southeast. The most startling fact regarding these out-migration numbers is that almost 200,000, or over 36%, were people aged 20-29. We are losing our young workforce.

With all of these challenges I previously mentioned, it might seem our task is impossible, it is not. Quite the contrary, I see many opportunities for Kansas. Kansas and the Midwest have a strong record regarding its high school graduation rates. In fact, of those over 25 years of age living in the Midwest, 83.5 percent have graduated from high school. This is above the national average of 80.4 percent and tops among the four regions of the country. We have the best human capital seeds in the country. It is our job to insure that these seeds grow in to high-yielding grain.

SB394 is the first step. With the passage of this legislation you will allow Kansas to take the first steps toward building a high-performance technical and skill training system. As we know, over 90% of the IMPACT program training funds goes directly to the companies. Consequently, we lose the ability for future capacity building of our technical education system or institutions. Businesses who are located here do not see the fruits of an improved educational system as a result of a company expanding to their community. Also, a company moving into our state only receives and expends training dollars for their workforce without building the capacity for the future. We must find a way to provide for capacity, capability, and expertise building in order to perpetuate a high performance delivery system for employers that is nationally recognized.

In addition SB394 will allow Kansas operate to its workforce training system in a fashion that takes advantage of all of the resources available by bringing the best available training in the state to any location in the state regardless of boundaries.

SB394 will provide the mechanism to create a system that provides for employers project management staff for the duration of the training project. These managers will observe the companies' processes, review documentation, equipment and analyze skill levels as a part of a program development process to insure that the employers are provided the specific training they need. The hallmarks of this bill are giving Kansas the ability to customize and deliver the highest quality training available regardless of the location of the employer, build infrastructure for the future, and eliminate bureaucracy and duplication.

Everyone wins with this legislation and I strongly urge its passage.

Thank you. I would be happy to entertain any questions.



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Testimony on SB 394 Senate Commerce Committee

February 6, 2004

Dr. Robert Masters Interim Vice President of Academic Affairs

Good morning Madame Chair and members of the committee. My name is Robert Masters and I am the Interim Vice President of Academic Affairs for the Kansas Board of Regents. I am here on behalf of the Kansas Board of Regents to comment on SB 394.

General Overview

For years, the Kansas Board of Regents has maintained a viable partnership with the Department of Commerce in serving the economic and workforce development needs of Kansas. Board of Regents' staff work with Commerce staff on workforce training programs such as Kansas Industrial Training (KIT), Kansas Industrial Retraining (KIR), and Investments in Major Projects and Comprehensive Training (IMPACT). The Kansas training institutions have strong partnerships with businesses throughout the state. Community colleges and technical schools and colleges serve over 100,000 business employees annually. Course variety and accessibility to the state's 16 area technical schools and colleges, 19 community colleges, and seven universities help Kansas business and industry remain competitive.

In the past, the IMPACT program brought businesses and the Kansas public educational institutions together to jointly submit proposals for the creation of new jobs and meet training needs of the workforce. These partnerships have been focused on the improvement of Kansas basic industry and creation of jobs in Kansas.

SB 394 authorizes the Secretary of Commerce to make direct investments in educational and related workforce development institutions for the purpose of promoting improvements in workforce development, human capital, training expertise and infrastructure. SB 394 also provides a mechanism for funding these initiatives. These two additions to the IMPACT program should result in a more efficient and effective program with measurable outcomes. Technical education and training available at the technical schools and colleges and community colleges is frequently driven by the availability of human capital, training expertise, and infrastructure. SB 394 offers a visionary approach and mechanism to enhance human capital, training expertise, and infrastructure while at the same time focus on meeting the needs of business and industry.

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In summary, the Kansas Board of Regents supports the goals and objectives of SB 394. Authorizing the Secretary of Commerce to make direct investments in educational and related workforce development institutions enhances the overall stewardship of the funds.

Thank you for the opportunity to comment. I will be happy to answer any questions.