

MINUTES OF THE HOUSE ECONOMIC DEVELOPMENT COMMITTEE

The meeting was called to order by Chairperson Lana Gordon at 3:30 P.M. on February 3, 2005 in Room 526-S of the Capitol.

All members were present except:
Todd Novascone- excused

Committee staff present:
Kathie Sparks, Kansas Legislative Research Department
Susan Kannarr, Kansas Legislative Research Department
Renae Jefferies, Revisor of Statutes
Helen Pedigo, Revisor of Statutes
Carlene Maag, Committee Secretary

Conferees appearing before the committee:
Eric Sortorius, City of Overland Park
Matt Jordan, Department of Commerce
Tracy Taylor, KTEC

Others attending:
See attached list.

HB 2012 - Sales tax and revenue bonds; clarification of language

Staff gave background on **HB 2012**. **HB 2012** is the work of the Interim Joint Committee on Economic Development. The bill amends the feasibility study requirement to include: a statement of how the jobs and taxes obtained from the project will contribute significantly to the economic development of the region.

For a proposed major commercial entertainment and tourism area, the feasibility study must also include: visitation expectations, economic impact, the unique quality of the project; and the ability of the project to gain significant market share to remain profitable, past the term of repayment and maintain status as a significant factor for travel decisions. (Attachment 1)

The committee reorganized some of the statutes in an attempt to put them in a way so the cities would have an easier time dealing with the business places. This only applies to STAR bonds, not to TIF.

Eric Sartorius, representing the City of Overland Park, stated Overland Park wishes to remain neutral on **HB 2012**.

Their primary focus of concern is whether the expanded feasibility study requirements of **HB 2012** are intended to apply to all local projects that utilize tax increment financing (TIF). It was the City's understanding that only those TIF projects that were part of a STAR bonds project were to have expanded feasibility study requirements. The City would ask the Legislature to proceed cautiously as it considers changing the STAR bonds statute. (Attachment 2)

Matt Jordan of the Kansas Department of Commerce stated Commerce is neutral on **HB 2012**. The Legislature granted the Secretary of Commerce the authority to approve the use of STAR bonds for economic development projects that rise to regional or statewide significance. In particular, KSA 12-1770 outlines the intent to promote, stimulate, and develop the general and economic welfare of the state of Kansas and its communities. This tool is scheduled to sunset as of July 1, 2007.

Commerce wishes to request, if changes are deemed necessary to the STAR bonds statute, that your intent is clearly delineated and that the Secretary of Commerce is empowered to carry out responsibilities directed to the agency. The Secretary of Commerce welcomes any action the Legislature may take to clarify and improve the use of STAR bonds. (Attachment 3)

Tracy Taylor of Kansas Technology Enterprise Corporation (KTEC) gave an update on the Bioscience initiative. He presented the Committee with a handout that talks about Legislation that was passed last year.

CONTINUATION SHEET

MINUTES OF THE House Economic Development Committee at 3:30 P.M. on February 3, 2005 in Room 526-S of the Capitol.

(Attachment 4)

The bioscience legislation has received a number of national awards. It was named one of the top ten pieces of legislation in the country last year. When talking about biosciences, people quite often think in terms of drug delivery and pharmaceutical, but in Kansas, one needs to focus on animal health, plant science and bio fuels.

The Bioscience Board has met twice and the Executive Committee has met once. Ground work to move forward has been laid. KTEC is working closely with the Kansas Department of Revenue on a number of issues that impact the Bioscience Authority. The Authority has begun work with the Department of Commerce on a number of business attraction opportunities. KTEC is working with bioscience companies they think might be attracted to locate in Kansas.

Two highlights that have come out of the business planning process is: 1) focus on the top 20 bioscience companies we have in the state to insure that we retain them and determine if they are interested in leaving, and if so, what it would take to retain them, and 2) attracting new businesses, getting in place this strategic business plan and the roadmap strategy that will be provided by the bioscience authority. The strategy is, to look at various alternatives and allocate resources.

Chairperson Gordon thanked Mr. Taylor for updating us on the Bioscience Authority Act. The meeting adjourned at 4:55 p.m. The next meeting is scheduled for February 8, 2005.

HOUSE ECONOMIC DEVELOPMENT COMMITTEE GUEST LIST

DATE: 2-3-05

NAME	REPRESENTING
DICK CARTER	Manhattan chamber
Matt Jordan	Commerce
John Yerry	"
Erik Sartorius	City of Overland Park
Al Pymoth	PSY
James Bartle	Dept of Revenue
Scott Frank	Leg. Post Audit
Amy Thompson	Leg. Post Audit
Ivan Williams	Leg. Post Audit
Janelle Nussen	Hein Law Firm
Stephanie Buchanan	DOB

KANSAS LEGISLATIVE RESEARCH DEPARTMENT

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<http://www.kslegislature.org/klrd>

January 31, 2005

To: House Committee on Economic Development

From: Kathie Sparks, Principal Analyst

Re: HB 2012

HB 2012 is the work of the Joint Committee on Economic Development and a copy of the Committee's report is attached. The bill amends the feasibility study requirement to include:

- A statement of how the jobs and taxes obtained from the project will contribute significantly to the economic development of the state and region;
- A statement concerning whether a portion of the sales tax to be collected is committed to other uses and unavailable as revenue for the project, and the details about the committed funds;
- The anticipated principal and interest payment schedule for the bonds;
- A copy of the minutes of the governing body meeting or meetings of any city whose bonding authority will be utilized in the project to provide evidence that a redevelopment plan has been created, discussed, and adopted by the city in a regularly scheduled open public meeting;
- For a proposed major commercial entertainment and tourism area, the feasibility study must also include:
 - visitation expectations;
 - economic impact;
 - the unique quality of the project; and
 - the ability of the project to gain sufficient market share to remain profitable past the term of repayment and maintain status as a significant factor for travel decisions.
- An explanation of the integration and collaboration with other resources or businesses; and
- An explanation of the quality of service and experience provided, as measured against national consumer standards for the specific target market and project accountability, measured according to best industry practices.

The bill also reorganizes the existing statutes for ease of use by cities, as requested by the interim committee.

40921~(1/31/5(11:32AM))

House Economic Development
Attachment 1
2-3-05

Joint Committee on Economic Development

SALES TAX AND REVENUE (STAR) BONDS

CONCLUSIONS AND RECOMMENDATIONS

The Committee recommends a bill draft be prepared that clarifies the current STAR Bond statutes and that the feasibility study also is required to provide the following information:

- the return on investment for the State of Kansas;
- the projected payback in tax dollars for the local community; and
- an explanation of whether or not the project will provide unfair competition to existing businesses in the community.

Proposed Legislation: The Committee recommends one bill on this topic.

BACKGROUND

The Joint Committee on Economic Development is a statutorily authorized committee charged with maintaining and promoting economic development in Kansas. The Committee also is charged with receiving annual reports from the Department of Commerce and Kansas, Inc. During the 2004 interim, the Legislative Coordinating Council (LCC) charged the Committee with reviewing the use of sales tax and revenue (STAR) bonds by local units of government to ensure that the original legislative purpose for this economic development tool is being utilized appropriately.

COMMITTEE ACTIVITIES

Current Projects and Proposed Projects

In compliance with the LCC directive, the Committee heard testimony from representatives of the Wyandotte County project, the only approved project as of this date, and from representatives of the following proposed projects in Olathe and Wichita.

The Committee was fully informed about the expansion of the racetrack and the construction of the Legends Shopping Center including the tenants who have committed for space in the Center or free-standing buildings within the 400 acres of the racetrack STAR bond project. The total project, when completed, is projected to generate the following:

- Ten million visitors annually;
- Two million square feet of development;
- \$870 million in combined public and private investment;
- \$450 million in annual sales;
- \$53 million in annual tax revenue;
- \$7 million in new property taxes; and
- 4,000 new jobs (1,100 construction jobs).

In addition, during 2003, the Kansas Speedway accounted for \$114 million in new housing construction in Wyandotte County.

The City of Olathe has submitted a proposal to the Lt. Governor's Office for tentative approval of a 9,000 seat, community-owned arena. The arena project is estimated to create 650,000 square feet of new retail stores, jobs,

and a regional destination for those seeking shopping and entertainment opportunities. The City hopes to use STAR bonds to finance site preparation, infrastructure, land acquisition, and relocation costs.

The City of Wichita project, known as the downtown WaterWalk, is described as a public-private partnership that will combine public improvements including a waterway, parking facilities, street improvements, plaza areas, an outdoor amphitheater, and riverbank improvements with the private development of shopping, restaurants, offices, apartments, and condominiums. The project area is located in a deteriorated area immediately south of the City's Century II Convention Complex and is to be financed with tax increment financing, general obligation bonds, and private sector financing. The conferee explained that STAR Bonds will not be used to finance any buildings or structures that will be owned by or leased to any private business entity, but the bonds will be used for infrastructure and other costs specifically authorized in the statutes. The conferee also requested that no change in the legislation be made except that the "marketing study" requirement could use refinement.

State Approval Process

Representatives of the Kansas Department of Commerce explained that the Secretary had established a review committee to assist in the evaluation of STAR Bond applications. In addition to the Secretary, members of the evaluation committee include the Secretary of Revenue; President of Kansas Technology Enterprise Corporation; President of Kansas, Inc.; President, Executive Vice President, and General Counsel of Kansas Development

Finance Authority; and Deputy Secretary and Director of Business Development for Kansas Department of Commerce. The Department of Commerce has received applications from Edwardsville, Wichita, and Olathe; a draft feasibility study from Abilene; and a letter referencing a proposal by Overland Park; however, no proposal has yet been approved.

The Secretary of Commerce has suggested that a minimum of 20 percent of the annual visitations to any major entertainment and tourism area be multi-state visitors and 30 percent come from more than 100 miles from the project site as a guideline for units of government. In addition, the rules and regulations are awaiting approval from the Kansas Department of Administration and the Attorney General's Office. The intent of the Department of Commerce is to appear before the Joint Committee on Administrative Rules and Regulations for approval of the rules and regulations by the end of 2004.

CONCLUSIONS AND RECOMMENDATIONS

The Committee recommends a bill draft be prepared that clarifies the current STAR Bond statutes and that the feasibility study also is required to provide the following information:

- the return on investment for the State of Kansas;
- the projected payback in tax dollars for the local community; and
- an explanation of whether or not the project will provide unfair competition to existing businesses in the community.



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www.opkansas.org

Testimony
Before The House Economic Development Committee
Regarding
House Bill 2012

February 3, 2005

The City of Overland Park appreciates the opportunity to appear before the committee on House Bill 2012.

Originally, we were going to appear before the committee with a neutral position on the bill. While we wish to retain that position, recent reviews of the bill by a number of individuals have raised concerns as to whether HB 2012 does indeed reflect the committee's intent.

The primary focus of our concern is whether the expanded feasibility study requirements of HB 2012, as seen on page three of the bill (A through G), are intended to apply to all local projects that utilize tax increment financing (TIF). It was the City's understanding that only those TIF projects that were part of a STAR bonds project were to have expanded feasibility study requirements. The report of the Joint Committee on Economic Development to the 2005 Legislature does recommend the changes encapsulated in House Bill 2012; however, the suggested changes are all discussed in the context of STAR bond projects.

The issue raised above lends itself to a broader point the City wished to make regarding House Bill 2012. Namely, the City would ask the legislature to proceed cautiously as it considers changing the STAR bonds statute. While legislation is certainly the legislature's prerogative, we believe that the Secretary of Commerce, via rules and regulations, has been able to be responsive to direction from the legislature. Given the delicate nature of STAR bonds projects, we would hate to see our project, or any project, jeopardized by changes to the statute that caused unintended consequences.

Thank you for providing the City an opportunity to share our concerns regarding House Bill 2012. We look forward to working with the committee to ensure that legislation regarding STAR bonds does indeed address the legislature's concerns as intended.

House Economic Development
Attachment 2
2-3-05



KANSAS

DEPARTMENT OF COMMERCE
HOWARD R. FRICKE, SECRETARY

KATHLEEN SEBELIUS, GOVERNOR

February 3, 2005

Testimony to the House Committee on Economic Development
Matt Jordan, Director of Operations

House Bill 2012

Chairperson Gordon and members of the committee, the Department of Commerce appreciates the opportunity to share its views regarding HB 2012 and potential changes to the STAR Bonds statutes. Commerce is neutral with respect to this bill in its current form and simply wishes to offer thoughts for the committee to consider.

As you are aware, in 2003, the Legislature granted the Secretary of Commerce the authority to approve the use of STAR Bonds for economic development projects that rise to regional or statewide significance. In particular, KSA 12-1770 outlines the intent to promote, stimulate, and develop the general and economic welfare of the state of Kansas and its communities. This tool is scheduled to sunset as of July 1, 2007.

As you know, the agency is working through the process to create rules and regulations to help guide the application of STAR Bonds statutes. Commerce appreciated the opportunity to review and discuss those regulations with this committee. Please note that additional input and advice are certainly welcome as discussions of this subject move forward throughout the session.

Commerce wishes to note that communities considering or actively pursuing use of this financing tool consistently have requested that the rules be clearly defined and fairly enforced. Furthermore, they have increasingly resisted changes to the statute as such actions create uncertainty, cause delays, and increase costs for projects actively in the planning phases.

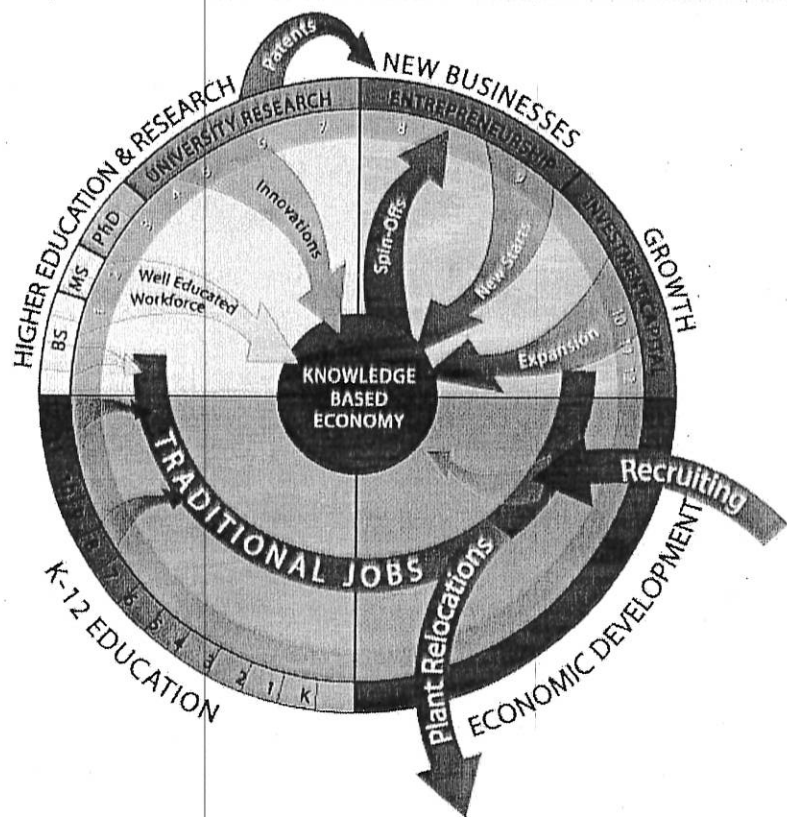
As you are aware, Commerce has received formal applications from six communities. A number of other communities are in the pre-application phase. This point is raised to serve as a reminder that changes to the statutes will have a ripple effect across the state in ways that are probably not known at this time.

Commerce wishes to request, if changes are deemed necessary to the STAR Bonds statute, that your intent is clearly delineated and that the Secretary of Commerce is empowered to carryout responsibilities directed to the agency.

Commerce believes STAR Bonds offer an important tool to help finance major economic development projects in our state. Therefore, the Secretary of Commerce welcomes any actions this body may take to clarify and improve their use.

I wish to thank the committee for its time and would now stand for questions.

Kansas Economic Growth Act



1. Discovery of Intellectual Property (IP)

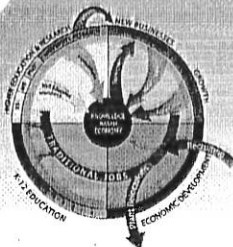
“grow our own strategy” instead of
“rob thy neighbor”

2. Capital Formation

Incentives for “angel investors” instead of
venture capital funds

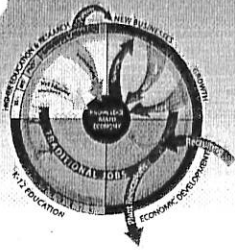
3. Entrepreneurial Leadership

Center for Entrepreneurship



KTEC is ...

- ... an outcome of the Redwood-Krider report, a study conducted in 1986 that emphasized the need to strengthen the Kansas economy by focusing on entrepreneurship and technology-based economic development.
- ... governed by a 20-member, industry-led board of directors comprised of stakeholders representing the legislature, government, universities and the private sector.
- ... funded by the Economic Development Initiatives Fund, which consists of revenues from the Kansas Lottery & Gaming Commission.



KTEC Areas of Focus

Research

Centers of Excellence

- HBC, *Univ. of Kansas*
- ITTC, *Univ. of Kansas*
- NIAR, *Wichita St. Univ.*
- AMI, *Kansas St. Univ.*
- KPRC, *Pittsburg St. Univ.*

Experimental Program to Stimulate Competitive Research (EPSCoR)

Small Business Innovation Research (SBIR) assistance

Business Assistance

Incubators

- NISTAC, *Manhattan*
- LRTC, *Lawrence*
- ECJC, *Lenexa*
- KUMCRI, *Kansas City*
- ATC, *Pittsburg*
- WTC, *Wichita*
- WKTC, *Great Bend*
- Quest, *Hutchinson*

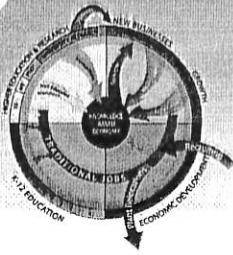
Mid-America Manufacturing Technology Center (MAMTC)

Investments

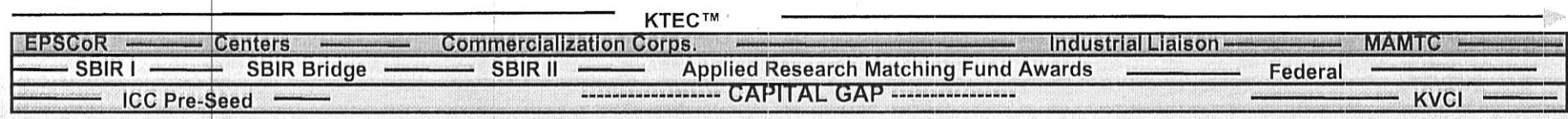
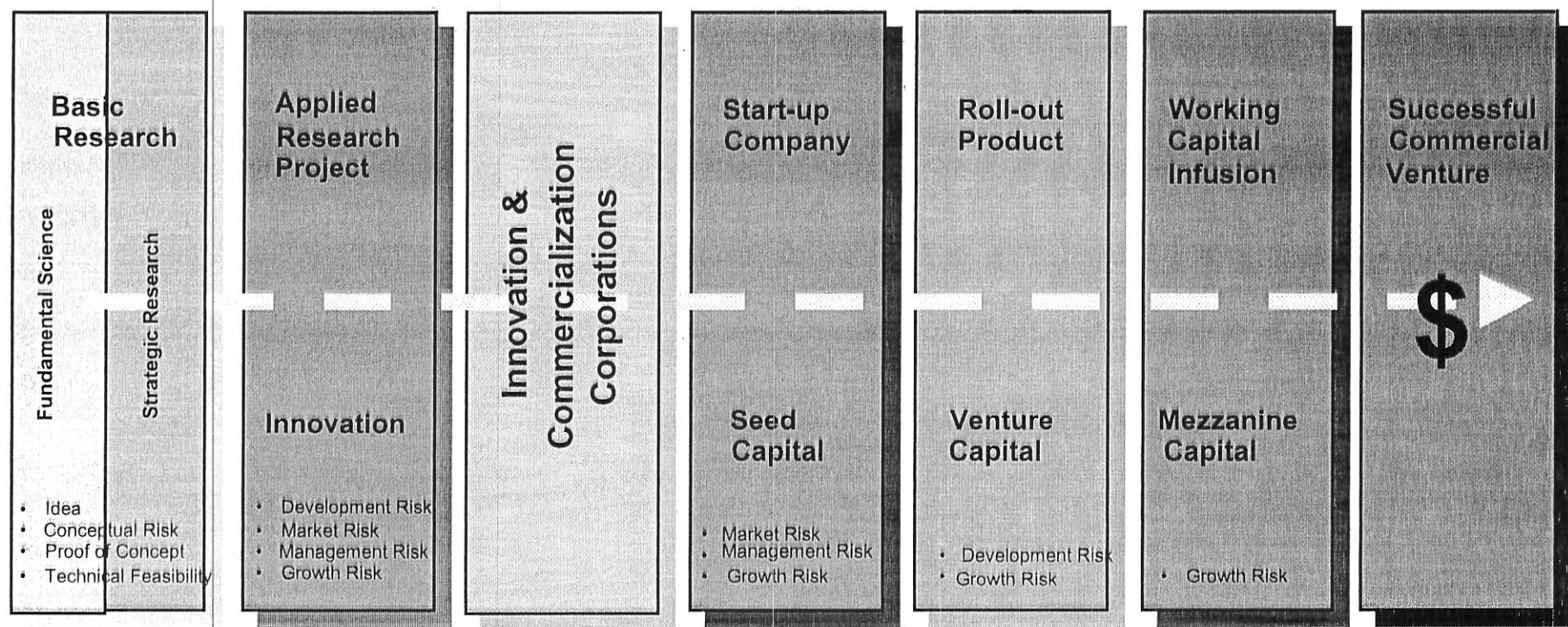
Applied Research Matching Fund (ARMF)

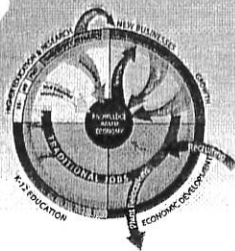
Technology Commercialization Seed Fund (TCSF)

Kansas Angel Investor Tax Credit Program



Technology Commercialization Life Cycle



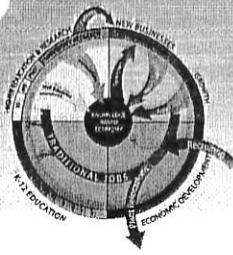


What is Bioscience?

- **Bioscience:** The use of compositions, methods and organisms in cellular and molecular research, development and manufacturing processes for such diverse areas as pharmaceuticals, medical therapeutics, medical diagnostics, medical devices, medical instruments, biochemistry, microbiology, veterinary medicine, plant biology, agriculture, and industrial, environmental, and homeland security applications of bioscience, and future developments in the biosciences. Bioscience includes Biotechnology and Life Sciences.

“Human ingenuity combines technical skill with the gifts of nature to improve the quality of life.”

Jesse Shaver



Definition: Biosciences

Pharmaceuticals

Life Sciences

Biotech Drugs
Pharmaceuticals

Plant Sciences

Human

Biosciences

Animal Plant

Industrial/Environmental

Nutrition

Bioscience
Devices,
Instruments,
Supplies, and
Diagnostics

Plant Sciences

Veterinary
Medicine

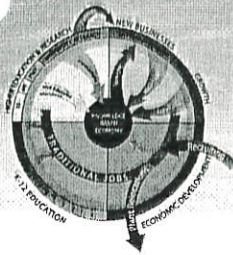
Agri-
biotechnology

Bio-fuels

Homeland Security

Bio-materials

Environmental Remediation



Why Biosciences ????

1. Existing Kansas Resources

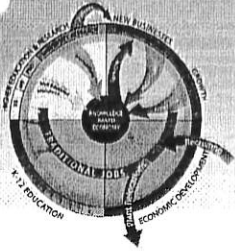
- Kansas University (human health)
- Kansas State University (plant & animal expertise)
- 160 existing KS bio companies, 20,000 employees

2. Stowers Institute

- Unprecedented Gift to the region
- Other private foundation support

3. Federal Reserve Economic Forecast

- Within 15 yrs. biosciences to account for 15% to 18% of GDP



10-Year Bioscience Roadmap

Wet Labs
Incubator

Executive
Entrepreneurs

R&D Vouchers

Corporate Patent
Donation

Matching Funds

Seed Fund

World-class
Scholars

Angel Investors

Lab Facilities

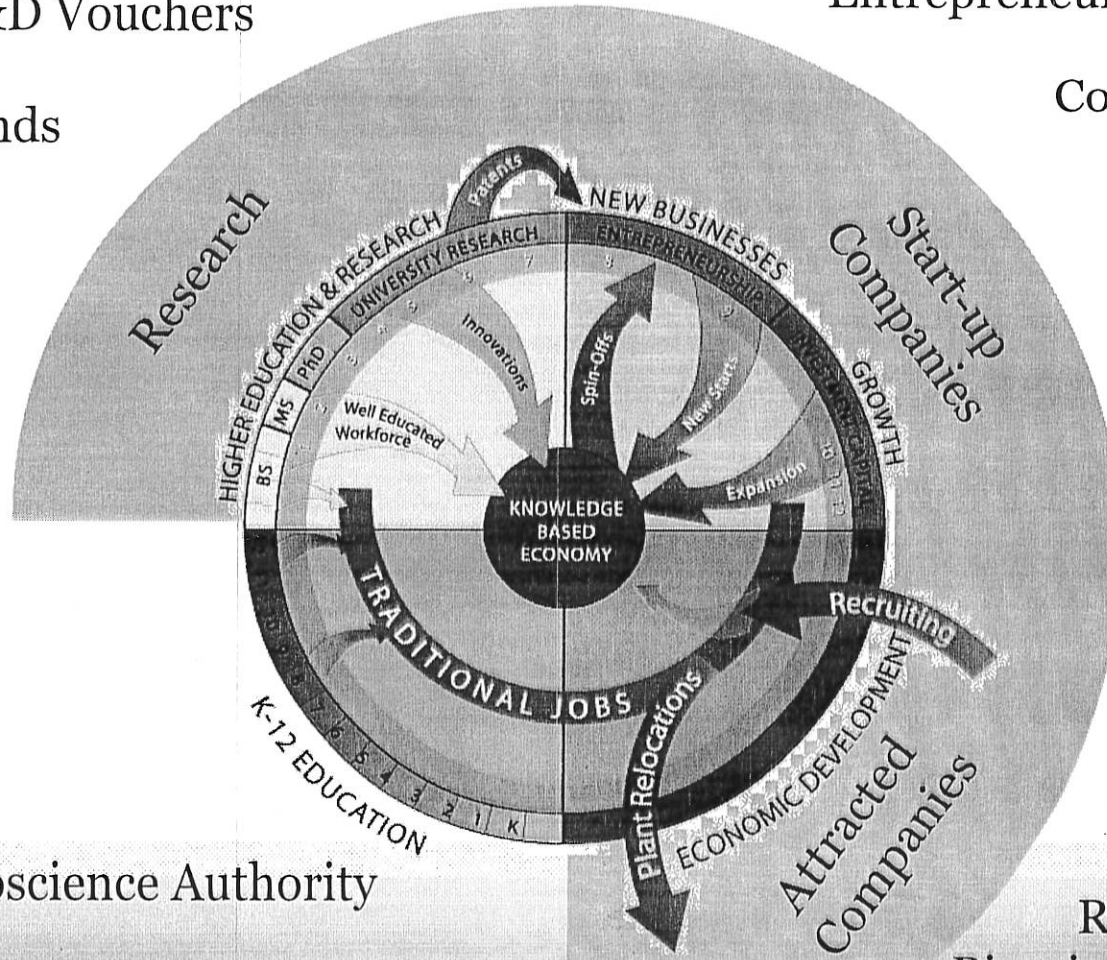
Bioscience
Development
Financing

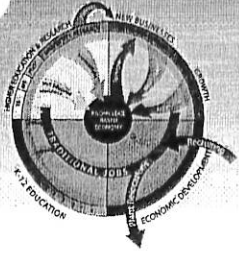
“Legislated”

Bioscience Tax
Incentives

Kansas Bioscience Authority

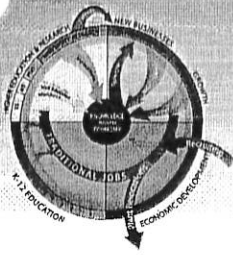
Relocating
Bioscience Companies





House Bill No. 2647 Overview

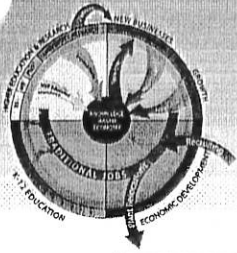
- 1. Bioscience Authority Act**
- 2. Emerging Industry Investment Act**
- 3. Bioscience Development Financing Act**
- 4. Bioscience Research and Development (R&D) Voucher Program Act**
- 5. Bioscience Research Matching Funds Act**
- 6. Center for Entrepreneurship**
- 7. Rural Development Initiatives**



Bioscience Authority Components

- Research
 - **Scholar Recruitment**
 - **R&D Vouchers**
 - **Research Facilities**
 - **Research Matching Funds**

- Commercialization
 - **Bioscience Development Districts**
 - **Bioscience Net Operating Loss Program**
 - **Technology Transfer & Business Assistance: KTEC**



Bioscience Authority Act

Authority 11-Member Board

Appointments and Terms

3 yr 3 yr

House Speaker

4 yr 4 yr

Governor

3 yr 3 yr

Senate President

2 yr

House Minority Leader

1 yr

KTEC

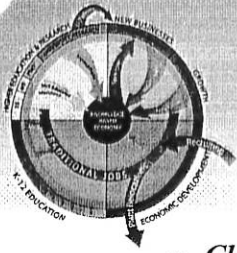
2 yr

Senate Minority Leader



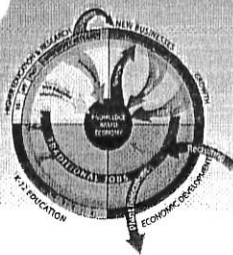
Ex-officio Non-Voting

KS Board of Regents



BioScience Authority Appointments

- *Clay Blair, D.Ed.*, entrepreneur and philanthropist in the Kansas City area
- *Jim Barone*, Kansas state senator and corporate executive from Frontenac, Kansas
- *David Franz, D.V.M., Ph.D.*, internationally recognized expert in bio-terrorism, professional appointments to Midwest Research Institute and Kansas State University, originally from Hutchinson, Kansas
- *Dan Glickman*, former U.S. Secretary of Agriculture during the Clinton Administration and former Kansas congressman from Wichita, Kansas
- *Victoria Franchetti Haynes, Ph.D.*, president and CEO of RTI International at the Research Triangle in Raleigh/Durham, North Carolina
- *Robert Hemenway*, Ph.D., chancellor of The University of Kansas.
- *Sandra Lawrence*, senior vice president and treasurer of Midwest Research Institute in Kansas City
- *Bill Sanford*, successful technology-based entrepreneur, founder of STERIS Corporation and current CEO of NanoScale Materials, Inc. in Manhattan, Kansas
- *Stephen O'Connor, Ph.D.*, nationally recognized innovator and technology-oriented entrepreneur, originally from Leavenworth, Kansas.
- *Dolph C. Simons, Jr.*, business and civic leader from Lawrence, Kansas
- *Jon Wefald*, Ph.D., president of Kansas State University



Emerging Industry Investment Act

How it Works...

Set Baseline Tax Revenue for
Bioscience Companies (SIC) and Research Institutions

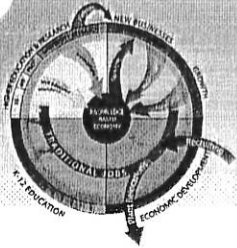
Measure Actual Incremental Growth
in State Bioscience Taxes

*Repeat
annually
for 15 years*

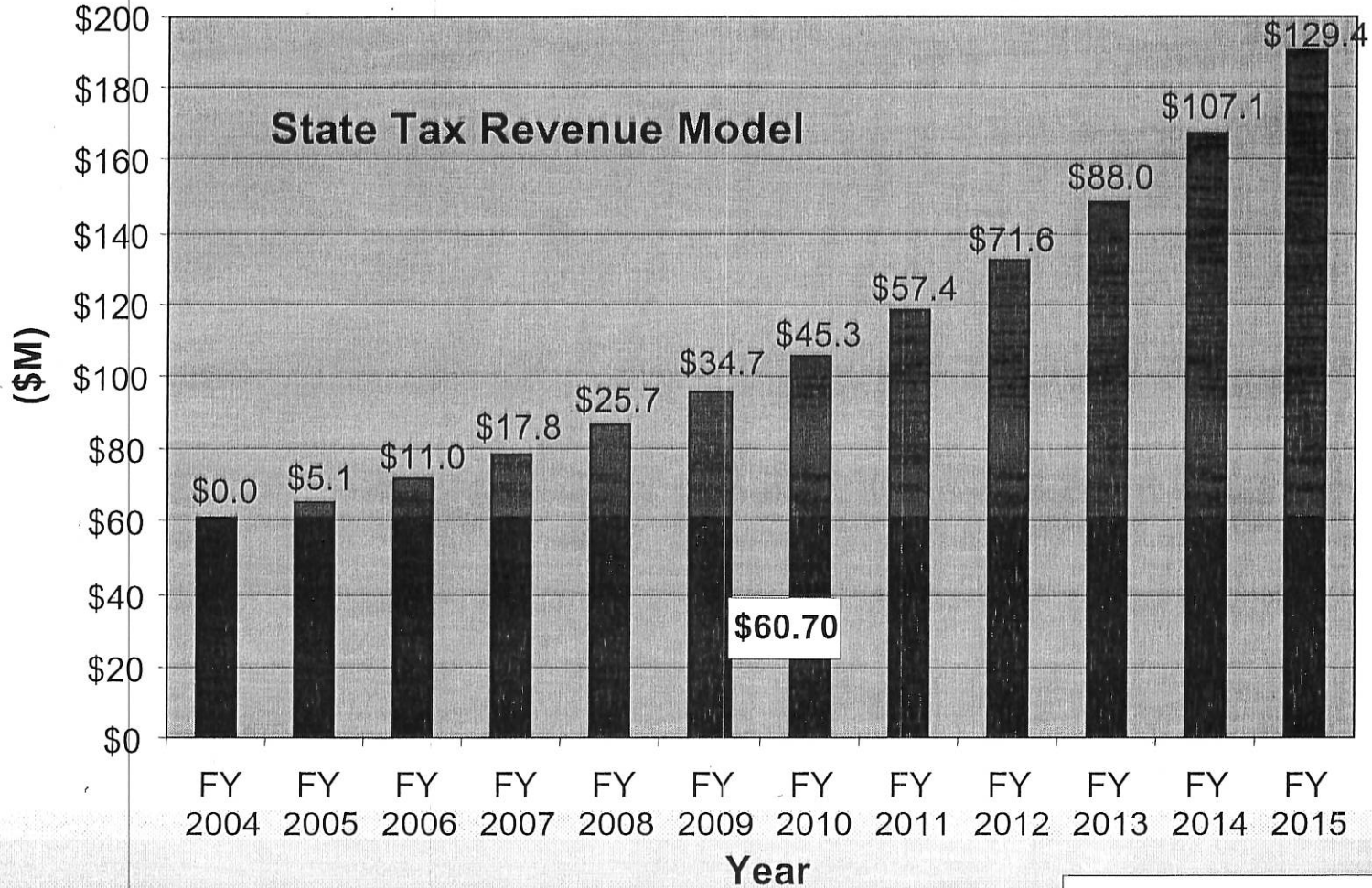
Baseline
to
State General Fund

Increment of Growth
to
Bioscience Fund



Kansas Bioscience Authority
Fund Programs & Repay Bonds

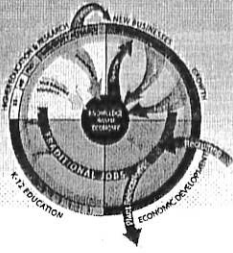


Emerging Industry Investment Act

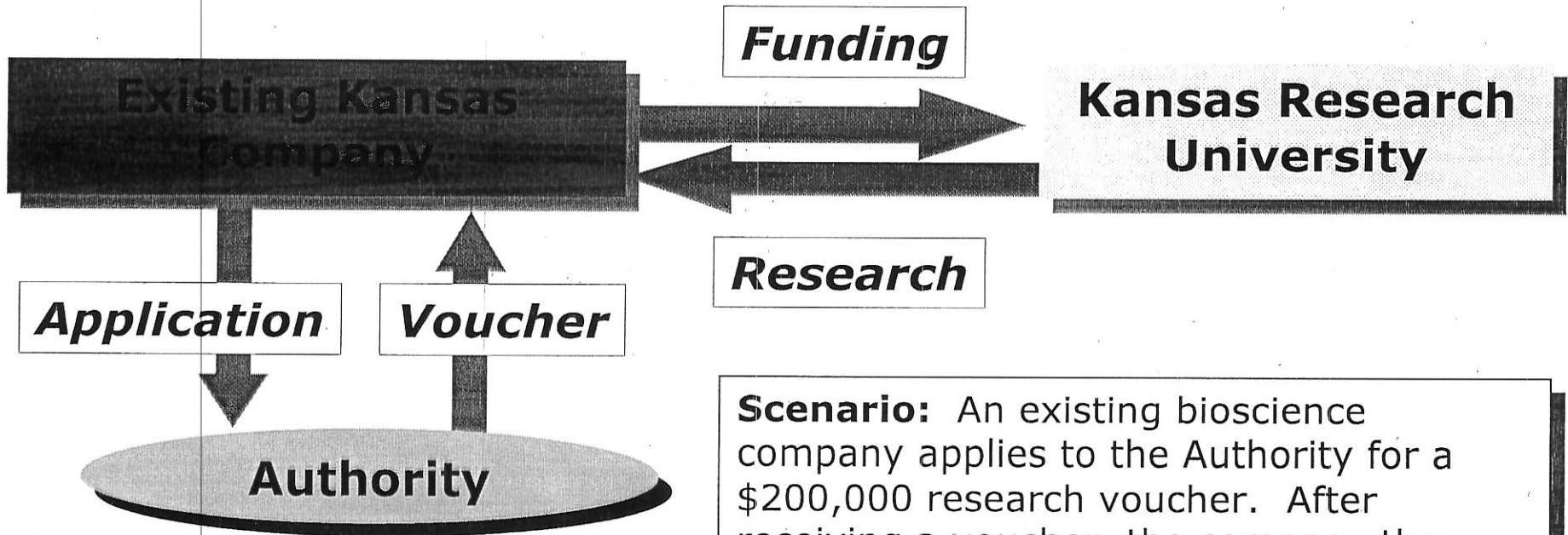


Model assumes a 8.45% annual growth rate for bioscience industry and research institutions

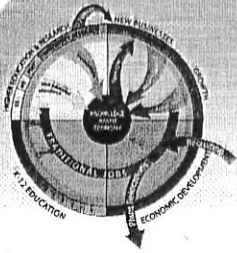
-  Bioscience Fund
-  State General Fund



Bioscience R&D Voucher Program Act



Scenario: An existing bioscience company applies to the Authority for a \$200,000 research voucher. After receiving a voucher, the company then locates a researcher at a Kansas university to conduct a directed research project. After locating a researcher, the Authority then commits the \$200,000 for the cost of the research.

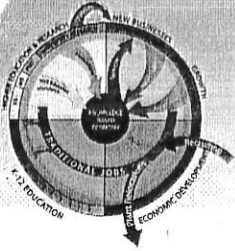


10-Year Bioscience Roadmap: Potential Budget

- **Approximately \$500M over 10 years**

Program Areas	Estimated Budget (\$M)
Research*	\$184.5
Research Facilities	\$199.9
Commercialization	\$86.1
Investment	\$27.0
Totals	\$497.5

*Depending on the timing of the scholar recruitment, some expenditures could extend beyond the planned 10-year time frame

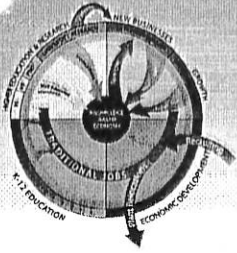


Bioscience Economic Modeling: Potential Outcomes

- **Outcomes Modeling**

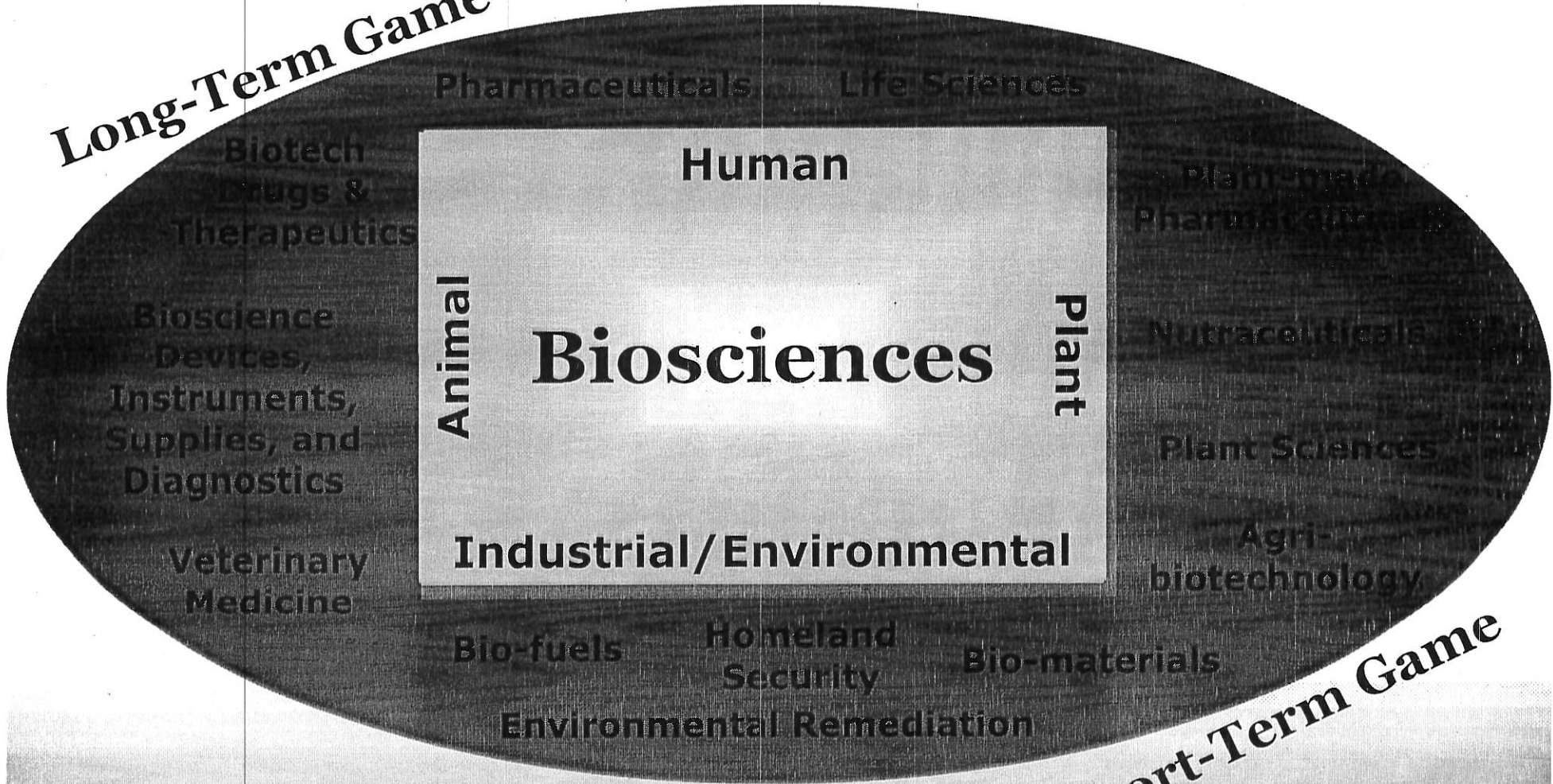
- Based on Association of University Technology Managers (AUTM) data; Ernst & Young estimates

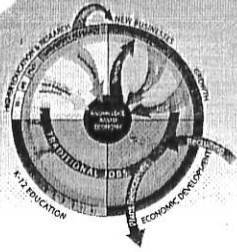
Potential Outcomes	Cumulative After 10 Years
Research Expenditures	More than \$1B
Potential New Start-up Companies	More than 100
Anticipated New Bioscience Jobs	More than 23,000
Projected New Non-Bioscience Industry Jobs (Indirect)	More than 20,000



Biosciences: Diversified Asset Portfolio

Long-Term Game



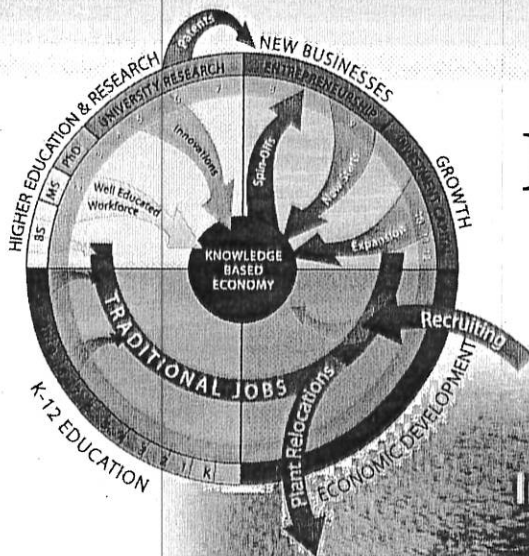


Other Components:

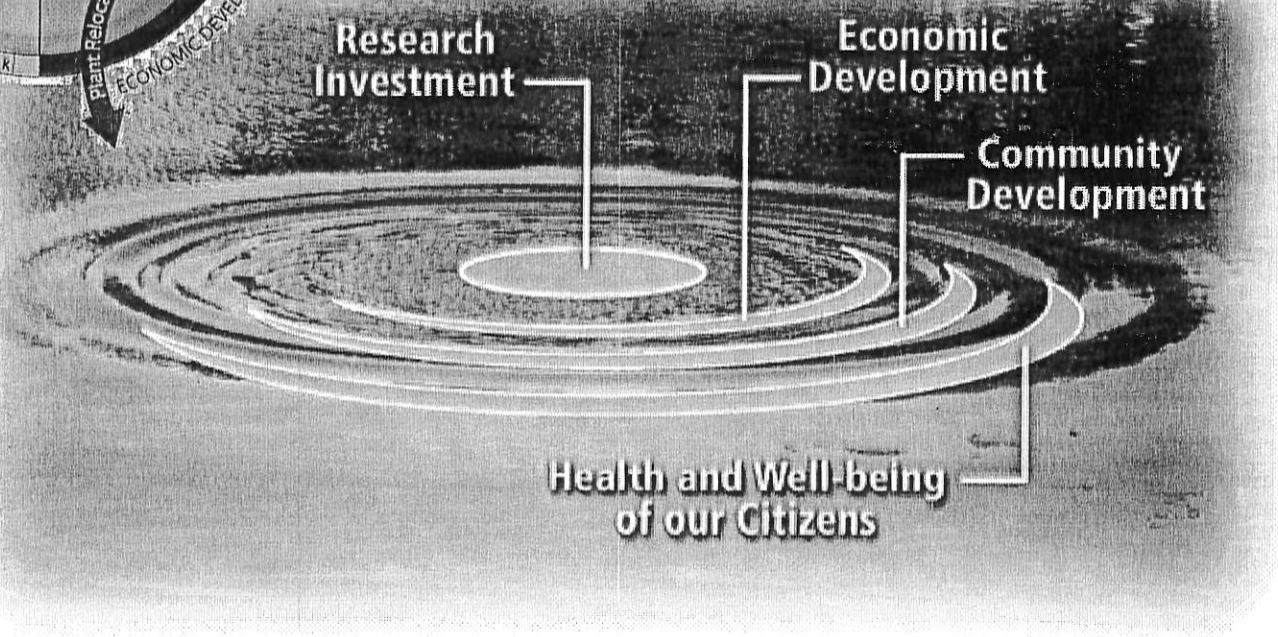
- Capital Formation
 - Angel Investor Act

- Center for Entrepreneurship
 1. Traditional Entrepreneur
 2. Intrapreneurship
 3. Non-profit entrepreneurship
 4. University Entrepreneurship
 5. Government Entrepreneurship

- Rural Development



Bioscience Initiative Questions



Research Investment

Economic Development

Community Development

Health and Well-being of our Citizens