

MINUTES OF THE HOUSE ECONOMIC DEVELOPMENT COMMITTEE

The meeting was called to order by Chairperson Lana Gordon at 3:30 P.M. on February 9, 2006 in Room 526-S of the Capitol.

All members were present except:

John Grange- excused
Don Hill- excused
Valdenia Winn- excused

Committee staff present:

Kathie Sparks, Kansas Legislative Research Department
Renaë Jefferies, Revisor of Statutes
Helen Pedigo, Revisor of Statutes
Carlene Maag, Committee Secretary

Conferees appearing before the committee:

Steve Kelley, Kansas Department of Commerce
Wes Ashton, Overland Park Chamber of Commerce
Dr. Bart Hildreth, Regents Distinguished Professor of Public Finance

Others attending:

See attached list.

HB 2856 - Extension of IMPACT program

Kathie Sparks gave an overview of **HB 2856** which extends the life of the Investment in Major Projects and Comprehensive Training (IMPACT) Program. This bill will extend the sunset date from July 1, 2006 to July 1, 2008. The IMPACT Program is designed for new and expanding businesses that are creating a minimum of 100 new jobs at a higher-than-average wage. (Attachment 1)

Steve Kelly representing the Kansas Department of Commerce spoke as a proponent for **HB 2856**. The 2005 Legislature amended the IMPACT statute to allow enhanced use for non-training projects. The change made to the IMPACT law was made for a limited time with the understanding the Departments of Commerce and Revenue would work on analysis of various programs. Lack of data has hampered this program. The Department of Commerce would like favorable consideration of this bill. (Attachment 2)

Wes Ashton, Overland Park Chamber of Commerce spoke as a proponent for **HB 2856** which would extend the changes made last session and allow for greater flexibility in its use.

Since the amendments to the IMPACT program, there have been five projects in Johnson County that have utilized the program. Passage of this bill will give the Legislature more time to continue looking at options for improving our competitive position with neighboring states in economic development. (Attachment 3)

A motion was made by Representative Burroughs and seconded by Representative Huntington to pass out HB 2856 as favorable and be put on the consent calendar. A vote was taken, motion passed.

Dr. Bart Hildreth, Regents Distinguished Professor of Public Finance, Wichita State University, gave a report on the State of Kansas 2005 Debt Affordability Analysis.

The purpose of this report is to provide Kansas policy makers with information to set capital financing policies so that every bond issuance proposal is considered against total state debt affordability.

As of June 30, 2005, the state of Kansas had almost four billion dollars in principal outstanding. All of this debt is in the form of a revenue bond.

The buildup from 1992 to 2005 represents mainly the KDOT debt of the two large programs and the recent KPERS bond issue. The decline after 2005 is unrealistic. It is assumed there is no debt issued after June 30, 2005.

CONTINUATION SHEET

MINUTES OF THE House Economic Development Committee at 3:30 P.M. on February 9, 2006 in Room 526-S of the Capitol.

The rapid increases in the 90's, is mostly KDOT debt. Once the KDOT debt is removed, the largest segment is general government.

The second largest component is the KDHE's work pollution control revolving fund and the public works supply revolving fund.

Recommendations to control the state debt would be to adopt a set of debt policies to guide state debt issuance and management and require every debt issuance proposal to be evaluated against its impact on future debt affordability.

The conclusion of the debt affordability report is: by establishing affordable levels of debt burden, state leaders will be provided with the opportunity to link the issuance of new debt to the underlying economy, which supports such debt.

Kansas has matured as a debt issuer. Kansas can no longer present itself as a low debt state. Two Comprehensive Transportation Programs have fueled the debt appetite of citizens and public officials. (Attachment 4)

The full report can be found at http://hws.wichita.edu/KPF/reports_publications/

Discussion followed this presentation.

The meeting was adjourned at 4:35. The next meeting is scheduled for February 14.

HOUSE ECONOMIC DEVELOPMENT COMMITTEE GUEST LIST

DATE: 2-9-06

NAME	REPRESENTING
Philip A. Hursey	Pat Hursey & Co.
Jason Jensen	Commerce
Steve Kelly	Commerce
Jim MacMurray	KOFA
Nick Lehman	KOFA
Andy Shaw	Goodyear Tire & Rubber Co.
Dan Korber	Kansas, Inc.
Emily Mueller	KCCI
Kathleen Smith	KDOR

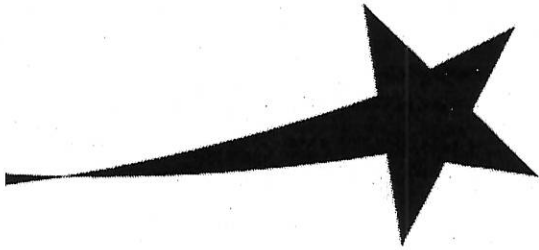
To: House Committee on Economic Development
From: Kathie Sparks, Principal Analyst
Subject: The Investment in Major Projects and Comprehensive Training (IMPACT) Program

- The IMPACT Program is designed for new and expanding businesses that are creating a minimum of 100 new jobs at a higher-than-average wage.
- The IMPACT Program may also be used for job retention projects that have compelling economic benefit for Kansas.
 - Qualifying businesses must retrain a minimum of 250 existing employees and incur at least \$50 million in capital investment costs associated with the proposed project.
- There are two components to the IMPACT Program:
 - State of Kansas Investment in Lifelong Learning (SKILLS) funds which can be used to pay training-related costs, including instructors' salaries, curriculum planning and development, travel, materials, supplies, textbooks, manuals, videotape development, certain training facility costs and training equipment.
 - Major Project Investment funds can be used for equipment relocation, building and equipment purchases, and labor recruitment, as well as other items.
- Once an IMPACT project is approved, the company submits documentation of eligible expenses on a quarterly basis to the Department of Commerce for reimbursement.



KANSAS
DEPARTMENT OF COMMERCE

Howard R. Fricke, Secretary

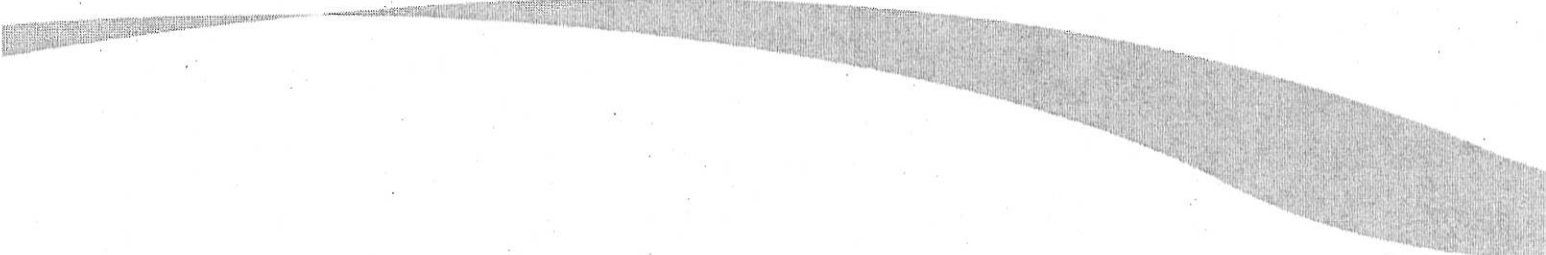


HB 2856

Testimony Presented by Steve Kelly

House Committee on Economic Development

February 9, 2006



For more information on this topic contact:

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House Economic Development

Attachment 2

2-09-06

Good afternoon Chairperson Gordon and members of the Committee. I am Steve Kelly with the Kansas Department of Commerce and we appreciate the opportunity to express our support for HB 2856.

The 2005 Legislature amended the IMPACT statute to allow enhanced use for non-training projects. This change was made at the request of the Department of Commerce in consort with a number of Chambers of Commerce. It allowed Kansas to improve our competitiveness in the face of aggressive new economic development measures that were passed by the Missouri legislature. The change to the IMPACT law was made for a limited time only with the understanding that the Departments of Commerce and Revenue would work on analysis of our various programs and come to the 2006 Legislature with the information necessary to modify programs and approaches to be effective in the future. As you were told by Secretary Wagnon last week, the work has been hampered by a lack of data. While that is being addressed, Kansas should not lose the tool we've had in place for the past year. We have been able to use the financing available through this change to successfully incent projects such as the retention of the Applebees headquarters in Lenexa and the expansion of the Farmers Insurance customer service operation in Olathe.

We would appreciate your favorable consideration of this bill. I am happy to answer any questions you may have.



LEGISLATIVE TESTIMONY

February 9, 2006

TO: Lana Gordon, Chair

Members, House Economic Development Committee

FROM: Wes Ashton, Overland Park Chamber of Commerce

RE: HB 2856- IMPACT Program Provisions

Chairperson Gordon and members of the committee, thank you for the opportunity to testify today in support of HB 2856, which would extend the changes made last session to the IMPACT program and allow for greater flexibility in its use.

Last session when the Chamber supported this concept, it was in response to the fact that in Kansas, we were often at a competitive disadvantage in the economic development arena, particularly when it came to retaining high quality jobs. Other states' offers were significantly higher than what was available in Kansas for retention and recruitment incentives.

The changes made in the 2005 Legislature had an extremely positive and immediate effect on economic development projects in Overland Park, as well as the state. This was an improved economic development tool for Kansas, and helped to make our offers more competitive with neighboring states. The benefits of this bill apply statewide; helping create and retain jobs across Kansas.

Since the amendments to the IMPACT program last year, there have been five projects in Johnson County alone that have utilized the program. These successes for Kansas occurred because of the flexibility this legislation provides. Some of the projects would simply not have been able to use our previous traditional incentives which were restricted primarily to training.

In Overland Park this year, IMPACT improvements have allowed us to create incentives in conjunction with the Department of Commerce and the City of Overland Park for two significant projects, one for attraction of new jobs, and the other for retention of a rapidly growing company. Just last month, Prescription Solutions began operations in Overland Park, bringing \$34 million in investment, and an eventual employment of 1300. IMPACT assisted us in retaining Capital One Home Loans, keeping 149 high paying jobs in OP, and eventual employment growth of an additional 751 jobs and \$49 million investment. The provisions included in HB 2856 would continue the positive impact of the last year through 2008.



There are three other examples in Johnson County of the success of IMPACT this past year. All three were courted by another state as well as by other cities in Kansas. Each of these ultimately made the decision to stay in Kansas, and our flexibility with IMPACT provisions was critical to each project. These projects were:

Applebee's - 543 jobs retained; \$45 million capital investment

Farmer's Insurance - 280 jobs retained; 483 new; \$24 million capital investment

Freightquote.com - 408 jobs retained; 267 new; \$18 million capital investment

These successes are why the Chamber is so supportive of HB 2856, which will extend our ability to be competitive in retention and attraction for the next two years.

Passage of this bill will give the Legislature more time to continue looking at options for improving our competitive position with neighboring states in economic development. This bill gives the State and local units of government the needed flexibility to work out appropriate agreements with companies considering relocation and expansion in Kansas.

Thank you for your consideration of this important issue and the opportunity to offer testimony in support of HB 2856.



Kansas Public Finance Center
Hugo Wall School of Urban and Public Affairs
Wichita State University

State of Kansas
2005 Debt Affordability Report
September 1, 2005

Project Leader:

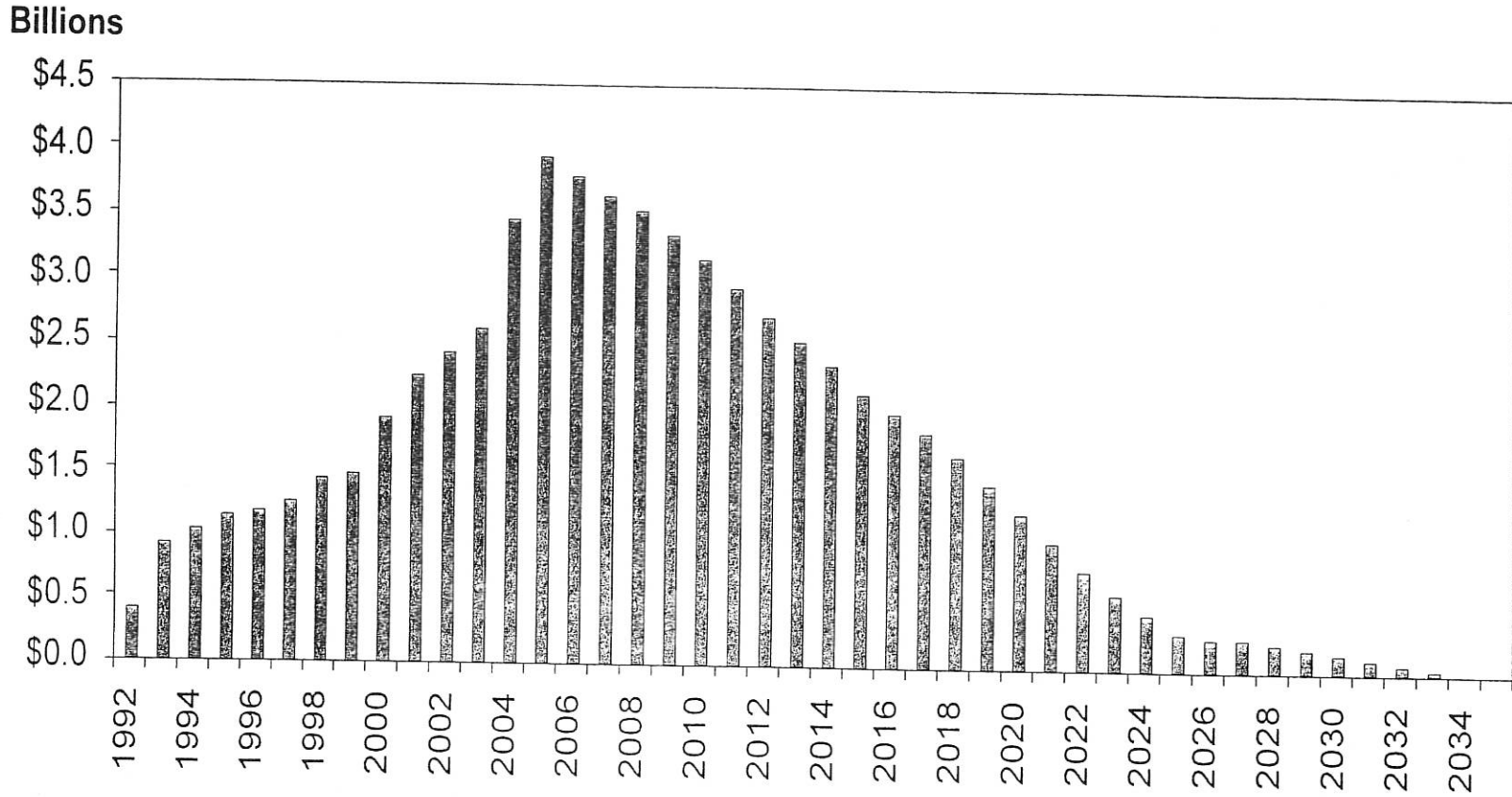
Dr. W. Bartley Hildreth
Regents Distinguished Professor of Public Finance
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Purpose of Debt Affordability Analysis

- To provide Kansas policy makers with information to set capital financing policies so that every bond issuance proposal is considered against total State debt affordability.
- To safeguard the credit quality of the State's debt instruments and to ensure the sustainability of the State's financial position.

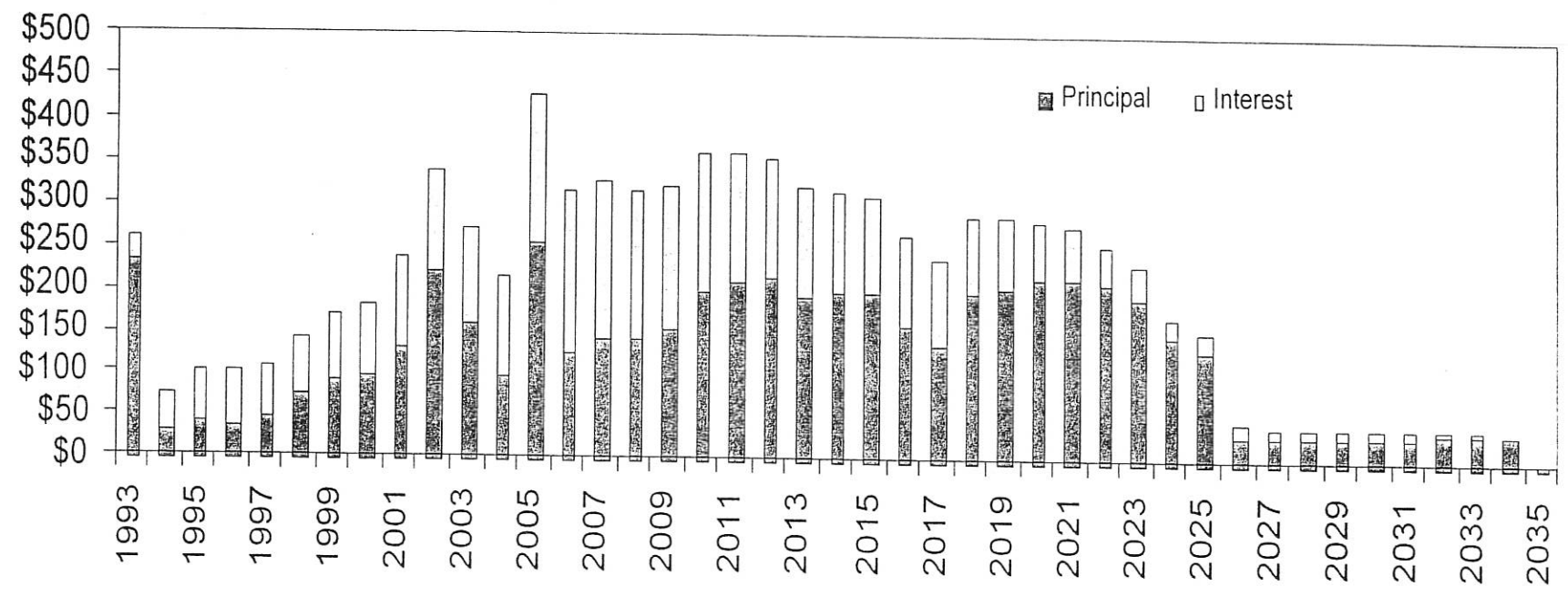
Figure 1: Total Debt Outstanding (in billions), FY 1992 to FY 2034



Source: Kansas Division of Budget Spreadsheets as of June 30, 2005-assuming no new debt.

Figure 2: Total Annual Debt Service, FY 1993 to FY 2035

Millions

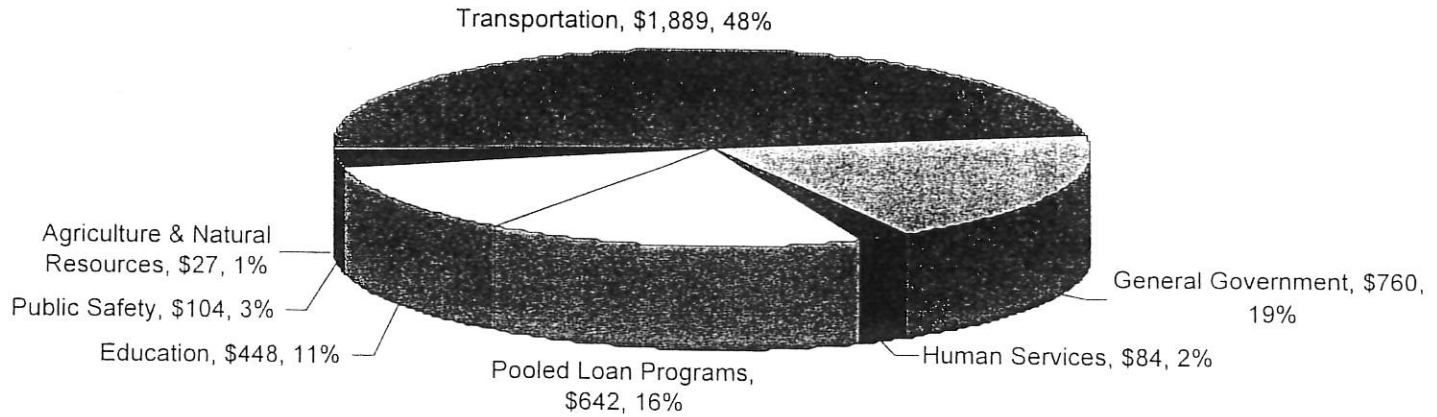


Source: Kansas Division of Budget spreadsheets as of June 30, 2005 – assuming no new debt.

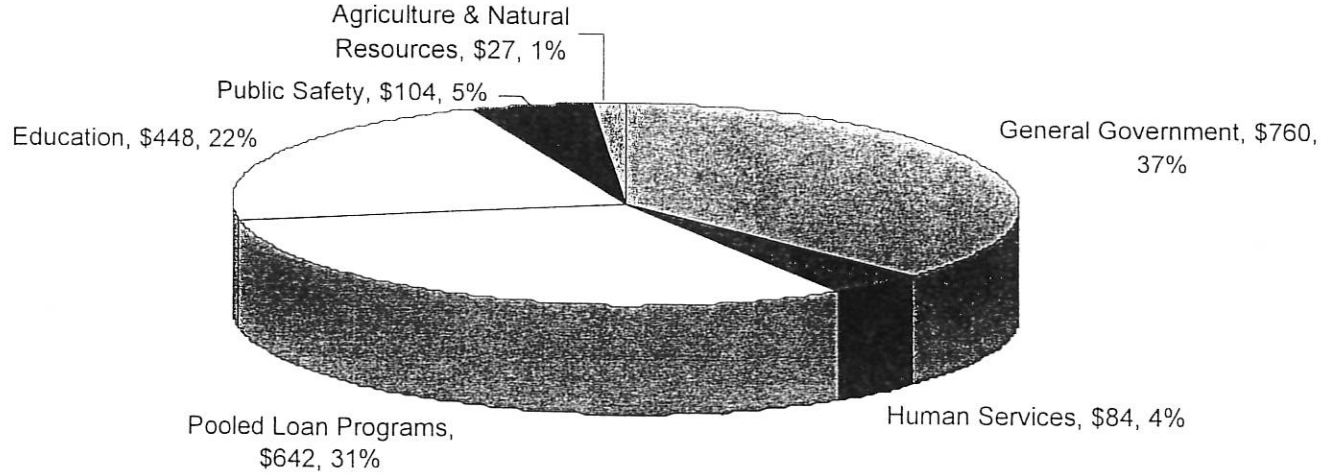


Figure 3: Outstanding Debt by Program for FY 2005 (in millions)

A. Including Transportation

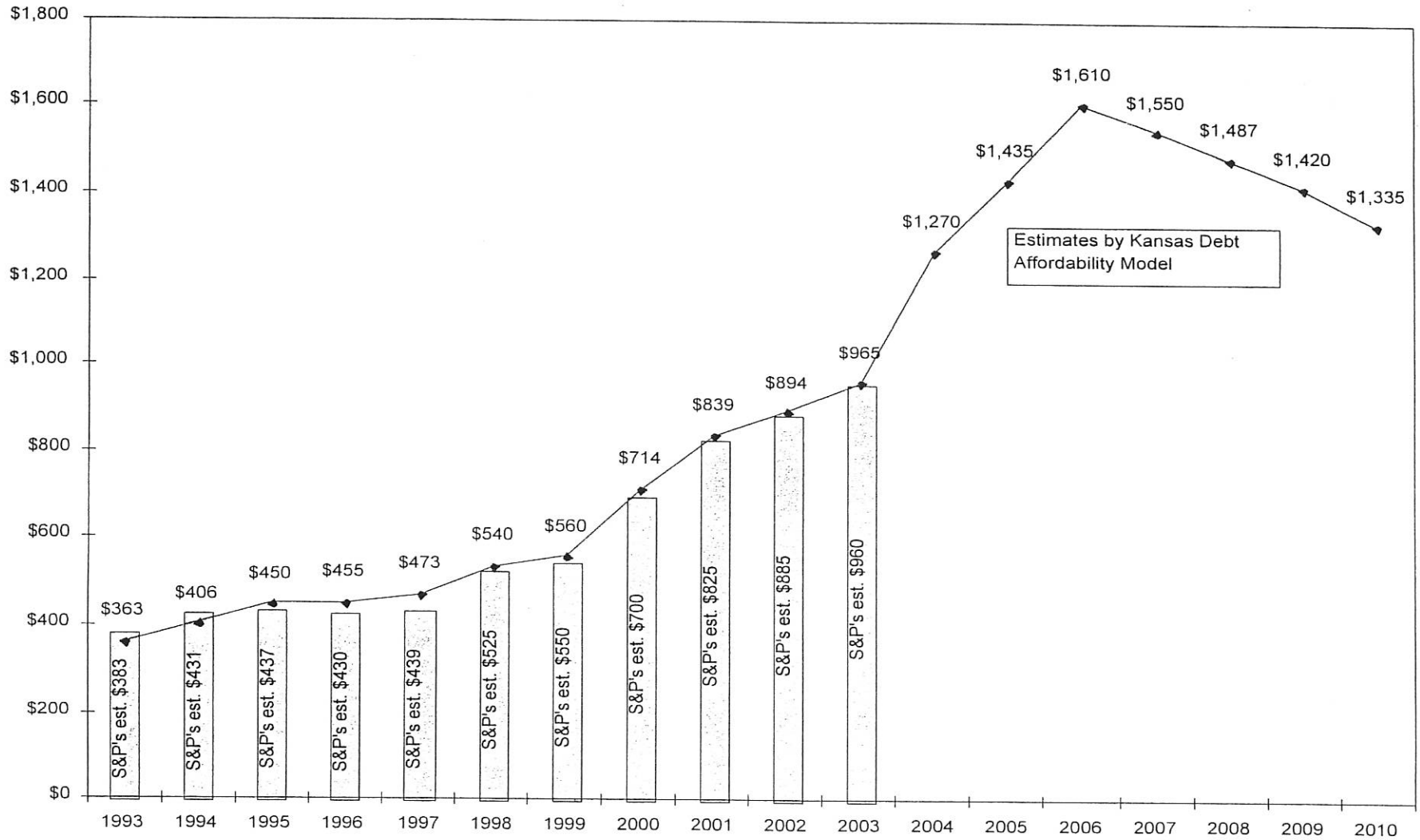


B. Excluding Transportation



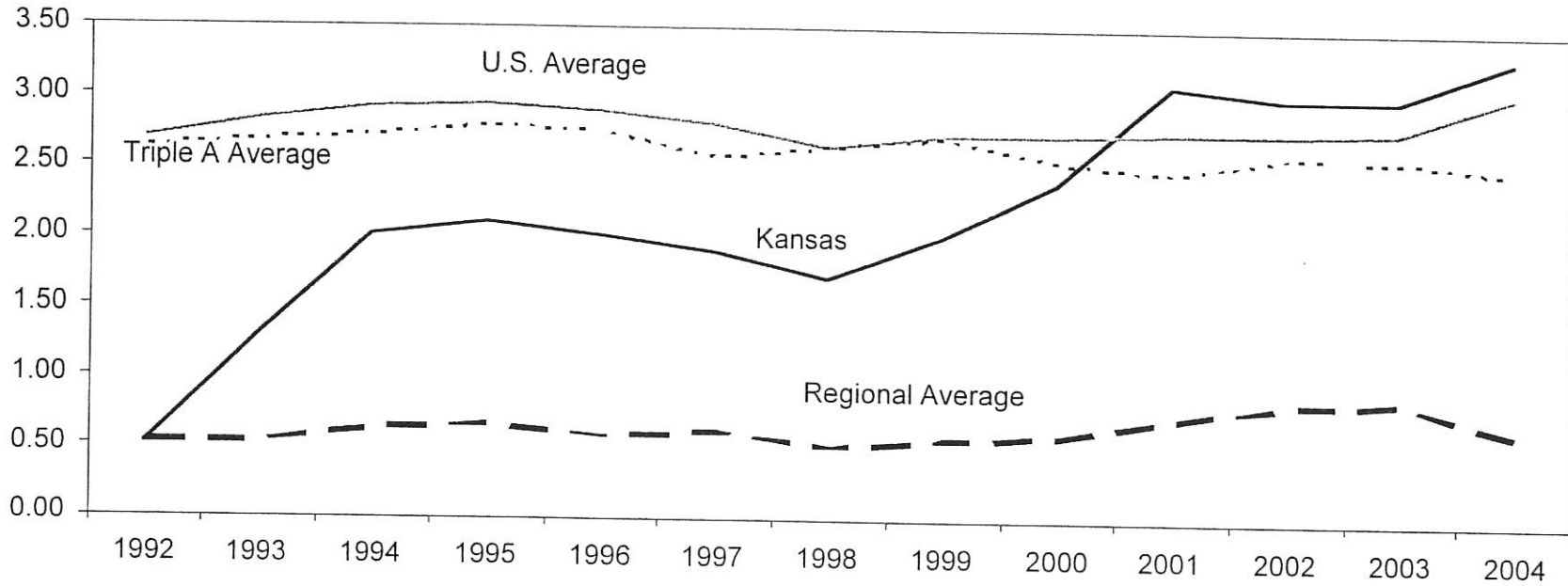
Source: Kansas Division of Budget spreadsheets as of June 30, 2005 assuming no new debt.

Figure 4: Comparing Standard and Poor's Total Tax-Supported Debt per Capita Calculations with Estimates to 2010



Source: Standard & Poor's (State Review: Kansas – November 2000, August 2002, November 2004) and Kansas Debt Affordability Model.

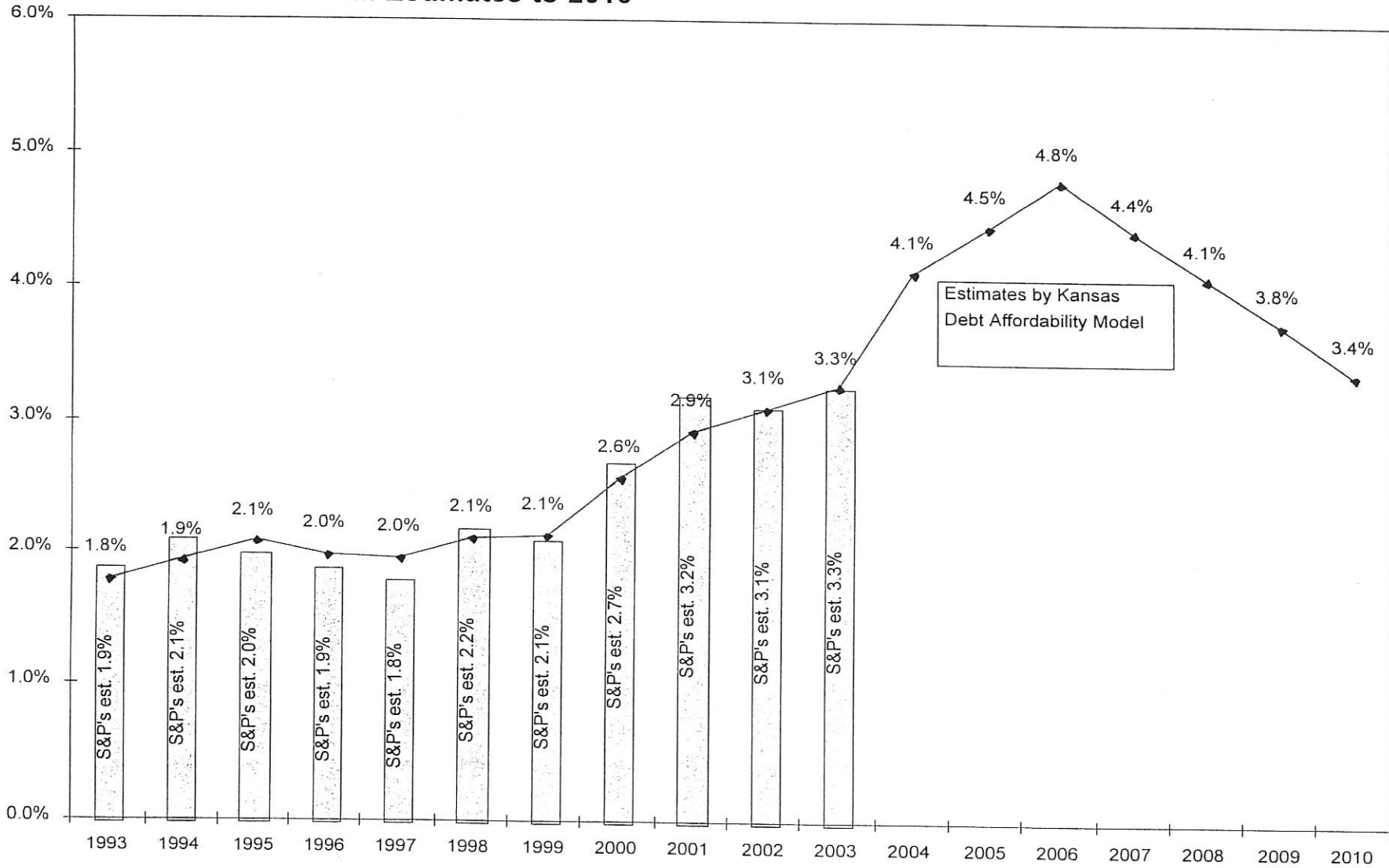
Figure 5: Tax-Supported Debt as a Percent of Personal Income, Years 1992 to 2004



	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Kansas	0.50	1.30	2.00	2.10	2.00	1.90	1.70	2.00	2.40	3.10	3.00	3.00	3.30
U.S. Average	2.69	2.83	2.91	2.94	2.88	2.80	2.65	2.73	2.73	2.75	2.75	2.78	3.05
Regional Average	0.55	0.55	0.65	0.68	0.60	0.64	0.53	0.58	0.61	0.75	0.85	0.88	0.65
Triple-A Average	2.64	2.69	2.73	2.80	2.76	2.58	2.66	2.73	2.56	2.49	2.61	2.60	2.51

Source: Moody's Investors Service; Triple-A States vary by year.

Figure 6: Comparing Standard & Poor's Total Tax-Supported Debt as a Percent of Personal Income Calculations with Estimates to 2010



Source: Standard & Poor's (State Review: Kansas – November 2000, August 2002, November 2004) and Kansas Debt Affordability Model.

Figure 7: Summary of Findings

Debt Burden Ratio	Findings	Kansas' Compound Annual Growth Rate: FY 1996 to FY 2006
1. Debt per capita	Higher than national medians; Estimate of \$1,610 in FY 2006	13.47%
2. Debt per capita as % of personal income	Higher than national medians, top ranked states, and the 4 surrounding states; Estimate of 4.8% in FY 2006	9.15%
3. Debt service per capita	Peak of \$156 in FY 2005 compares to \$31 in FY 1994	12.51%
4. Debt service per capita as % of personal income	Doubling since FY 1994	7.49%
5. Debt service as % of General Fund revenues	Near top range of benchmark (within range if remove KDOT debt service)	8.24%
6. Debt service as % of General Fund expenditures	Near top range of benchmark (within range if remove KDOT debt service)	8.44%
7. Debt service coverage	Decline in coverage from State Highway Fund, but 4.5x in FY 2010 still above the 3x required coverage ratio	-7.45%

Recommendations

- Adopt a set of debt policies to guide state debt issuance and management.
- Prepare and publish a multi-year capital improvements plan as a way to manage capital asset construction and acquisition with scarce resources.
- Monitor the State's debt using all the listed debt affordability ratios.
- Prepare an annual debt affordability study prior to the legislative session.
- Require every debt issuance proposal to be evaluated against its impact on future debt affordability.

- Reduce the State's level of debt per capita and debt per capita as a percentage of personal income to the level of the benchmark average set by Moody's and Standard and Poor's in order to safeguard the State's ratings.
- Use General Obligation bonds in addition to Revenue bonds to obtain the lowest cost of capital.
- Maintain the Kansas Development Finance Authority (KDFA) as the central professional office for state-supported debt financing.
- Avoid creating any other financing authorities unless they are subsidiaries of KDFA.

Conclusion

- By establishing affordable levels of debt burden, state leaders will be provided with the opportunity to link the issuance of new debt to the underlying economy, which supports such debt.
- Kansas should extend its debt planning horizon to ensure an efficient and effective balancing of needs and resources
- http://hws.wichita.edu/KPF/reports_publications/