

MINUTES OF THE SENATE COMMERCE COMMITTEE

The meeting was called to order by Chairperson Karin Brownlee at 8:30 A.M. on January 11, 2006 in Room 123-S of the Capitol.

All members were present.

Committee staff present:

Kathie Sparks, Kansas Legislative Research Department  
Helen Pedigo, Revisor of Statutes  
Jackie Lunn, Committee Secretary

Conferees appearing before the committee: Alan Conroy & Kathie Sparks, Legislative Research

Others attending:

See attached list.

Chairperson Brownlee welcomed everyone to the first Senate Commerce Committee meeting for the 2006 session. Chairperson Brownlee stated the Committee would get updates from Alan Conroy and Kathie Sparks both from Legislative Research. She then stated the Committee would have a discussion on the Senate Commerce Committee's Mission Statement and Committee goals to see if they need to be updated.

Chairperson Brownlee introduced Alan Conroy, Legislative Research Department to give an update on the financial condition of the state. In opening he stated he had very good news to share in regards to the state General fund; stating there had been a dramatic change from a couple of years ago. The general fund is reflecting the strength and growth in the Kansas economy. Mr. Conroy presented the committee with copies of the *Status of the State General Fund In-Brief (Attachment 1)*, *State General Fund Receipts fro FY 2006 (Revised) and FY 2007 (Attachment 2)*, *State General Fund (SGF) Receipts July through December, FY 2006 (Attachment 3)*, *State General Fund Receipts, Expenditures and Balances As Projected FY 2004-FY 2005 (Attachment 4)* and *State General Fund Receipts, Expenditures and Balances As Projected FY 2004-FY 2008 (Attachment 5)*. Mr. Conroy gave a brief review and update and in summing up, stated all numbers are very good with the only dark cloud hanging over future projections being energy and energy prices and what impact that will have on individuals and also at a corporate level. In closing he stated in the General Fund there is considerable strength and growth in the main areas of individual income tax, corporate income tax, and sales tax.

A discussion followed with the Committee and Mr. Conroy concerning the Governor's proposed budget and how that compared with the review he had just presented. There was also discussion on the sales tax results for December 2005. Senator Brownlee had concerns that the information the Committee had when the 2005 session ended changed dramatically and wanted to know if there was any way the Committee could have the information before the session ends. Mr. Conroy stated a large part of the change in projections was the individual income tax and how long it takes for those to be processed which puts that information available after the session ends. He also stated individual income tax is the largest single revenue source to the General Fund.

With no other questions or comments Chairperson Brownlee introduced Kathie Sparks from Legislative Research to review the Interim Report. Ms. Sparks offered the Committee a copy of the Reports of the Joint Committee on Economic Development to the 2006 Kansas Legislature. (Attachment 6) There was a discussion with the Committee involving the various topics of the report. Upon completion of the review, Chairperson Brownlee stated she felt the interim committee did a really good job this year.

Chairperson Brownlee turned the attention of the Committee to the Mission Statement for Senate Commerce Committee (Attachment 7), the Legislative committees on economic development; ststutes (Attachment 8), and the Original Mission Statement Synopsis (Attachment 9). Chairperson Brownlee stated she wanted the Committee to think through and decide if the Committee met their goals and if they needed to adjust them. The Committee discussed being more specific in where they were going in the goals by giving more support to the technical schools and workforce development in the state. The Committee discussed rewording some of the goals set last year. The discussion turned to the influx of new military to Manhattan and Ft. Riley and the impact that is going to have on the economy of Kansas.

CONTINUATION SHEET

MINUTES OF THE Senate Commerce Committee at 8:30 A.M. on January 11, 2006 in Room 123-S of the Capitol.

Chairperson Brownlee suggested rewording one of the goals regarding the military to better inform our Senate colleagues. Also there was discussion on changing the Mission Statement to add eliminating barriers to new employment or new businesses. The discussion continued on goal setting.

Upon on the conclusion of the discussion on goal setting, Chairperson Brownlee called the Committee's attention to a report entitled *State of Kansas 2005 Debt Affordability Report (Attachment 10)* given by Dr. W. Bartley Hildreth from Wichita State University.

Meeting adjourned at 9:30 a.m. with the next meeting scheduled on January 12, 2006 at 8:30 a.m. in room 123S.



**STATUS of the STATE GENERAL FUND IN-BRIEF**

- Actual FY 2005 State General Fund receipts and expenditures:
  - Receipts were \$47.5 million or 1.0 percent above the estimate for FY 2005 (including the “informal” estimate of June, 2005); Of the higher than estimated receipts - \$21.1 million was in corporation income; and \$10.6 million in individual income;
  - Corporate estimated only income tax payments in FY 2005 exceeded estimated payments in FY 2004 by \$57 million or 43 percent, while individual estimated income tax payments in FY 2005 were 10.1 percent above FY 2004 payments. FY 2005 individual income tax withholding payments grew at the rate of 6.1 percent above FY 2004. June, 2005 corporate income tax receipts were the strongest June since 2000. Estimated and withholding payments are key to an expanding state economy.
  - Expenditures were \$34.8 million less than the approved amount by the 2005 Legislature;
  - FY 2005 actual ending balance was \$478.7 million or 10.2 percent of expenditures. Highest previous ending balance was in FY 1999 at \$540.7 million.
- The Consensus Revenue Estimating Group met on November 3, 2005 and adjusted:
  - FY 2006 (current year) State General Fund estimated receipts were increased \$221.0 million or 4.5 percent; Largest positive fall current year revision upward since the Consensus Revenue Estimating Group began meeting in 1975 ;
  - Individual income tax estimate was increased \$100 million; corporate income tax was increased \$50 million; and sales and us tax estimates were increased \$15 million each;
  - FY 2007 estimate projected increased receipts of \$60.4 million or 1.2 percent; Small increase influenced by slower growth rate, sales tax receipts deposited directly to the State Highway Fund and increases in net transfers, in part, related to the Comprehensive Transportation Plan;
  - State General Fund receipts through the end of December were \$24.2 million or 1.0 percent above the estimate; State General Fund taxes only receipts were \$32.8 million or 1.3 percent above the estimate through December.
- FY 2006 profile expenditure adjustments:
  - Allowing for revised Aging and Social and Rehabilitation Services caseload estimates and school finance estimates are projecting savings (mainly due to less-than-anticipated military dependents and higher-than-anticipated valuation increases); Projected ending balance of \$488.8 million or 9.5 percent of expenditures.
- FY 2007 profile expenditure adjustments:
  - Allowing for previously authorized demands (KPERs, Comprehensive Transportation Plan, Aging and Social and Rehabilitation Services caseload estimates; annualization of FY 2006 State employee salary increase, etc.), but no Local Ad Valorem Tax Reduction Fund or County-City Revenue Sharing Fund payments; and
  - If you maintain 7.5 percent ending balance (\$396.4 million) then all other expenditures could be increased by **\$68.0 million**; or
  - If the 7.5 percent ending balance is **not** satisfied then the ending balance would be \$283.4 million or 5.2 percent of expenditures, which would be an additional spending of **\$181.0 million**, but your projected ending balance in FY 2008 would zero.

# KANSAS LEGISLATIVE RESEARCH DEPARTMENT

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November 9, 2005

**To:** Governor Kathleen Sebelius and Legislative Budget Committee  
**From:** Kansas Legislative Research Department  
Kansas Division of the Budget  
**Re:** State General Fund Receipts for FY 2006 (Revised) and FY 2007

Estimates for the State General Fund (SGF) are developed using a consensus process that involves the Legislative Research Department, Division of the Budget, Department of Revenue, and three consulting economists from state universities. This estimate is the base from which the Governor and the Legislature build the annual budget. The Consensus Group met on November 3, 2005, and significantly increased the FY 2006 estimate and developed the first estimate for FY 2007.

For FY 2006, the estimate was increased by \$221.0 million, or 4.5 percent, above the previous estimate (made in June and subsequently adjusted for legislation enacted during the special session). The overall revised estimate of \$5.158 billion represents a 6.5 percent growth forecast above actual FY 2005 SGF receipts.

The initial SGF estimate for FY 2007 is \$5.218 billion, which is \$60.4 million, or 1.2 percent, above the newly revised FY 2006 figure. A number of factors influence the reduced FY 2007 growth rate, including legislation enacted in 2004 that reduces the amount of sales and use tax receipts deposited directly into the SGF; and significant increases in net transfers as a result of loan repayments to the Kansas Department of Transportation and other agencies.

## Economic Forecast for Kansas

The Kansas economy is expected to continue to grow at a relatively robust rate for the balance of FY 2006 as the state continues to recover from the recession. Estimates of nominal Kansas Personal Income (KPI) growth for 2005 and 2006 (5.9 and 5.4 percent) are up substantially from the estimates used by the group in the spring (5.5 and 5.1 percent) for the same two calendar years. A healthy overall employment picture and a modest recovery in the aviation manufacturing sector are expected in the short term to continue to cause income tax withholding and consumer spending to grow at levels not seen since the late 1990s. Although economic growth is expected to continue throughout FY 2007 and beyond, the rate of growth will be declining. Estimates are that Kansas Gross State Product will grow by 5.8 percent in 2005, 5.2 percent in 2006, and 4.7 percent in 2007. The Consensus estimates contained herein are based on a number of such assumptions regarding a moderating rate of growth in the national and state economies.

Senate Commerce Committee

January 11, 2006

Attachment 2-1

## **Kansas Personal Income**

KPI in 2004 grew by 5.0 percent over the 2003 level. After estimated KPI growth of 5.9 percent for 2005, the growth rate is expected to decelerate to 5.4 percent for 2006; and to decrease again to 5.1 percent for 2007. Current estimates are that overall U.S. personal income growth will be 5.9 percent for 2005, 6.5 percent for 2006, and 5.7 percent for 2007.

## **Employment**

The employment outlook for Kansas remains healthy. The overall Kansas unemployment rate, which was 5.4 percent in FY 2005, is expected to be 5.2 percent in FY 2006 before dropping to 5.1 percent in FY 2007. Year-over-year job growth continued in September, 2005, for the 19<sup>th</sup> consecutive month, and the average annual number of Kansans employed in FY 2006 is expected to exceed 1.4 million for the first time in state history.

## **Agriculture**

The All Farm Products Index of Prices received by Kansas farmers was 107 in September, compared with 104 a year ago. Kansas' 2005 wheat crop, which was 380 million bushels, represents a 21 percent higher yield than the 2004 crop. High levels of corn, sorghum, and soybean production are expected to push the final 2005 total production of Kansas' four major grain crops to 1.09 billion bushels. Beef prices through September were running significantly ahead of the previous year, although fewer cattle had been marketed thus far in 2005. Higher energy costs remain of a major concern for the agricultural sector, as does export capacity following the summer and fall hurricanes.

## **Oil and Gas**

The average price per taxable barrel of Kansas crude oil is estimated to be \$55.00 for FY 2006 and \$50.00 for FY 2007. Gross oil production in Kansas, which generally had been declining steadily for more than a decade until FY 2000, appears to be stabilizing at around 34 million barrels per year. Half of all Kansas oil produced is not subject to severance taxation because of various exemptions in that law. The price of natural gas, which has been at historically high levels over the summer and fall because of hurricanes and other market forces, is expected to average \$7 per mcf for FY 2006 before declining to \$6.25 per mcf for FY 2007, based on an industry source's analysis of futures markets. Notwithstanding these high prices, production is expected to continue to decline for the foreseeable future as natural gas reserves, especially those in the Hugoton field, are depleted. Natural gas production in FY 2005 of 394 million cubic feet represented a continuing decrease from the recent peak of 730 million cubic feet in FY 1996. The current forecast is for 360 million cubic feet for FY 2006 and 335 million cubic feet for FY 2007.

## **Inflation Rate**

The Consumer Price Index for all Urban consumers (CPI-U) is expected to increase by 3.5 percent in 2005. Unexpected energy price increases attributable to hurricanes and their disruption of energy supplies have caused this figure to be revised upward from the 2.4 percent estimate used last spring. The national forecasts for both 2006 and 2007 call for inflation to return to more moderate levels, 2.8 percent and 2.5 percent, respectively, once the energy supply disruptions have ended.

**Interest Rates**

The Pooled Money Investment Board is authorized to make investments in U.S. Treasury and Agency securities, highly rated commercial paper, repurchase agreements, and certificates of deposit of Kansas banks. In FY 2005, the state earned 2.27 percent on its SGF portfolio. The average rate of return forecasted for FY 2006 is 3.57 percent. For FY 2007, the forecasted rate is expected to continue to increase to 4.53 percent.

**Economic Forecasts**

	CY 04	CY 05*	CY 06*	CY 07*
KPI Growth	5.0%	5.9%	5.4%	5.1%
Inflation (CPI-U)	2.7%	3.5%	2.8%	2.5%
		FY 05	FY 06*	FY 07*
SGF Interest		2.27%	3.57%	4.53%
Oil and Gas				
Oil Price per bbl	\$	44.46 \$	55.00 \$	50.00
Gross Prod. (000)		33,485	34,000	34,000
Gas Price per mcf	\$	5.13 \$	7.00 \$	6.25
Gas Taxable Value		1,863,574	2,318,400	1,926,250

\* Estimated

**Attached Tables**

Table 1 compares the revised FY 2006 and new FY 2007 estimates with actual receipts from FY 2005. Table 2 shows the changes in the FY 2006 estimates relative to the June 14 estimates as subsequently adjusted for legislation enacted during the special session.

**State General Fund Receipts Estimates**

**FY 2006.** The revised estimate of SGF receipts for FY 2006 is \$5.158 billion, an increase of \$221.0 million from the previous estimate. It should be noted that the June informal revision for FY 2006 had added \$86 million to the previous estimate made in April. Thus, the new estimate – which factors in all legislation approved during the veto and special sessions – is \$307.0 million more than the April estimate. As noted previously, the overall revised SGF estimate represents a 6.5 percent growth forecast above final FY 2005 receipts. Details of the revised estimate are reflected in Tables 1 and 2.

Each individual SGF source was reevaluated independently and consideration was given to revised and updated economic forecasts, collection information from the Departments of Revenue and Insurance, and year-to-date receipts.

The estimate of total taxes was increased by \$214.7 million, while the estimate of "other revenue" was increased by \$6.3 million. Five tax sources – individual income, corporation income, sales, compensating use, and severance – accounted for \$208.9 million of the increase.

The estimate for individual income taxes was increased by \$100 million. A number of factors contributed to this upward revision, including the increased KPI growth projection, significant growth in withholding tax receipts, and the fact that receipts through October were running \$46 million above the prior fiscal-year-to-date estimate. Final FY 2005 receipts for this source grew by 8.6 percent over the previous year and finished \$10.6 million above the final (June) estimate and \$53.9 million ahead of the April estimate. The revised FY 2006 forecast represents 8.8 percent growth above the actual FY 2005 figure.

The estimate for corporation income taxes, which were running almost \$29 million ahead of the prior fiscal-year-to-date estimate through October, was increased by \$50 million. Continued strong corporate profit forecasts for the balance of 2005, coupled with the overall rebound in the Kansas economy and employment, are among the factors contributing to the recovery in receipts from this source -- now estimated to be \$260 million for FY 2006. Corporation income tax receipts were less than \$94 million as recently as FY 2002.

The sales and use tax estimates were each increased by \$15.0 million, based on strong fiscal-year-to-date receipts. The Department of Revenue reported that more than 80 retailers have voluntarily registered to collect use taxes since October 1, a fact that also contributed to the increase in that estimate. The sales tax growth rate is expected to moderate over the winter relative to the early months of this fiscal year because of the energy price increases and the fact that purchases of motor fuel and residential utility services are exempt from the sales tax.

The overall severance tax estimate was increased by \$28.9 million, with \$20.7 million from the revised natural gas estimate and \$8.2 million from the new oil tax estimate. As noted previously, the change is primarily attributable to the historically high prices for both of these commodities.

The insurance premiums tax estimate also was increased by \$6.0 million. Receipts from this source exceeded the final FY 2005 estimate by more than \$4.8 million.

The aforementioned higher SGF interest rate and increased balances led to an increase of \$8.8 million in interest earnings.

On the negative side, the estimate for agency earnings was decreased by about \$6.2 million; and the estimates for the motor carrier property tax, the estate tax, and the corporation franchise tax were decreased by a combined \$4.0 million.

**FY 2007.** SGF receipts are estimated to be \$5.218 billion in FY 2007, an increase of \$60.4 million or 1.2 percent when compared to the newly revised FY 2006 figure. The growth would have been \$52.7 million more if not for legislation enacted in 2004 that reduced the share of sales and use taxes earmarked for the SGF. The aforementioned loan repayments accounted for \$32.5 million of the increase in transfers out of the SGF. In fact, the reduced growth rate in overall SGF receipts from FY 2006 to FY 2007 is heavily influenced by the more than \$100 million negative change in the net transfers forecast. Severance tax receipts also are expected to decline by almost \$20 million because of slightly lower than expected prices of both oil and gas and decreased production of gas. The individual income tax forecast takes into consideration more modest growth in the economy and in KPI. Corporation income tax receipts are expected to remain at the same level as the previous year, based in part on estimates of little or no growth in corporate profits during 2006. Details of the FY 2007 estimate are shown in Table 1.



**FY 2008 and thereafter.** Although the Consensus Group will not make its initial estimate for FY 2008 until next fall, worthy of note is the fact that a number of provisions in previously enacted legislation will reduce SGF receipts beginning in FY 2008. The 2004 legislation relating to the amount of sales and use taxes deposited in the SGF will be expected to reduce FY 2008 receipts from these sources by a combined \$43.5 million below FY 2007 receipts. Given a 3.5 percent growth assumption, FY 2008 SGF receipts will be \$168.0 million less than they would have been if the 2004 legislation had not been enacted. Legislation enacted in 2002 that conforms the Kansas estate tax exemption threshold with the federal exemption threshold is expected to reduce receipts by \$8.5 million in FY 2008; \$11.2 million in FY 2009; and \$14.7 million in FY 2010. Legislation enacted in 2002 that also increased the tax credit for property taxes paid on commercial and industrial machinery and equipment is expected to reduce receipts by \$5.0 million in FY 2008; \$5.8 million in FY 2009; and \$6.7 million in FY 2010. Legislation enacted in 2005 will reduce the amount of water tax receipts deposited in the SGF by \$2.6 million in both FY 2008 and FY 2009; and by \$2.7 million in FY 2010. Additional legislation enacted in 2005 will reduce severance tax receipts to the SGF by \$5.2 million in FY 2009 and \$7.5 million in FY 2010.

### **Accuracy of Consensus Revenue Estimates**

For 31 years, SGF revenue estimates for Kansas have been developed using the consensus revenue estimating process. Besides the three state agencies identified on the first page, the economists currently involved in the process are Joe Sicilian from the University of Kansas, Ed Olson from Kansas State University, and John Wong from Wichita State University. Each of the entities and individuals involved in the process prepared independent estimates and met on November 3, 2005, to discuss estimates and come to a consensus for each fiscal year.

### STATE GENERAL FUND ESTIMATES

Fiscal Year	Adjusted Original Estimate*	Adjusted Final Estimate**	Actual Receipts	Difference from Original Estimate*		Difference from Final Estimate**	
				Amount	Percent	Amount	Percent
1975	--	\$614.9	\$627.6	--	--	\$12.7	2.1%
1976	\$676.3	699.7	701.2	\$24.9	3.7%	1.4	0.2
1977	760.2	760.7	776.5	16.3	2.1	15.8	2.1
1978	830.1	861.2	854.6	24.5	3.0	(6.5)	(0.8)
1979	945.2	1,019.3	1,006.8	61.6	6.5	(12.5)	(1.2)
1980	1,019.3	1,095.9	1,097.8	78.5	7.7	1.9	0.2
1981	1,197.1	1,226.4	1,226.5	29.4	2.5	0.1	0.0
1982	1,351.3	1,320.0	1,273.0	(78.3)	(5.8)	(47.0)	(3.6)
1983	1,599.2	1,366.9	1,363.6	(235.6)	(14.7)	(3.2)	(0.2)
1984	1,596.7	1,539.0	1,546.9	(49.8)	(3.1)	7.9	0.5
1985	1,697.7	1,679.7	1,658.5	(39.2)	(2.3)	(21.3)	(1.3)
1986	1,731.2	1,666.4	1,641.4	(89.8)	(5.2)	(25.0)	(1.5)
1987	1,903.1	1,764.7	1,778.5	(124.6)	(6.5)	13.8	0.8
1988	1,960.0	2,031.5	2,113.1	153.1	7.8	81.6	4.0
1989	2,007.8	2,206.9	2,228.3	220.5	11.0	21.4	1.0
1990	2,241.2	2,283.3	2,300.5	59.3	2.6	17.2	0.8
1991	2,338.8	2,360.6	2,382.3	43.5	1.9	21.7	0.9
1992	2,478.7	2,454.5	2,465.8	(12.9)	(0.5)	11.3	0.5
1993	2,913.4	2,929.6	2,932.0	18.6	0.6	2.4	0.1
1994	3,040.1	3,126.8	3,175.7	135.6	4.5	48.9	1.6
1995	3,174.4	3,243.9	3,218.8	44.4	1.4	(25.1)	(0.8)
1996	3,428.0	3,409.2	3,448.3	20.3	0.6	39.0	1.1
1997	3,524.8	3,642.4	3,683.8	159.0	4.5	41.4	1.1
1998	3,714.4	3,971.0	4,023.7	309.3	8.3	52.7	1.3
1999	3,844.7	4,051.9	3,978.4	133.7	3.5	(73.4)	(1.8)
2000	4,204.1	4,161.0	4,203.1	(1.0)	0.0	42.1	1.0
2001	4,420.7	4,408.7	4,415.0	(5.7)	(0.1)	6.4	0.1
2002	4,674.5	4,320.6	4,108.9	(565.6)	(12.1)	(211.7)	(4.9)
2003	4,641.0	4,235.6	4,245.6	(395.4)	(9.3)	9.9	0.2
2004	4,605.5	4,450.5	4,518.7	(86.8)	(1.9)	68.2	1.5
2005	4,490.5	4,793.8	4,841.3	350.8	7.8	47.5	1.0

\* The adjusted original estimate is the estimate made in November or December prior to the start of the next fiscal year in July and adjusted to account for legislation enacted, if any, which affected receipts to the SGF.

\*\* The final estimate made in March, April or June is the adjusted original estimate plus or minus changes subsequently made by the Consensus Estimating Group. It also includes the estimated impact of legislation on receipts.

The table (above) presents estimates compared to actual receipts since FY 1975, the fiscal year for which the current process was initiated. First, the adjusted original estimate is compared to actual collections and then the final estimate is compared to actual receipts.

As might be expected, there has usually been a smaller difference between actual receipts and the final estimate because only three months remained in the fiscal year when the final estimate was made. In the last 15 fiscal years, the most significant shortfall in receipts relative to the final estimate was FY 2002 (4.9 percent); while the largest percentage underestimate occurred in FY 1994 (1.6 percent).

### **Concluding Comments**

Consensus revenue estimates are based on current federal and state laws and their current interpretation. The Consensus Group will meet again in April to revise these estimates. Developments which occur between the November and April meeting will be taken into account at that time.

**Table 1**  
**State General Fund Receipts**  
*(Dollars In Thousands)*

	Consensus Estimates, November 3, 2005					
	FY 2005 (Actual)		FY 2006 (Revised)		FY 2007	
	Amount	Percent Change	Amount	Percent Change	Amount	Percent Change
<b>Property Tax:</b>						
Motor Carrier	\$20,454	4.9 %	\$22,000	7.6 %	\$23,000	4.5 %
Motor Vehicle	1,801	(96.1)	25	--	--	--
Ad Valorem	538	16.9	775	--	--	--
Total	<u>\$22,793</u>	<u>(34.4) %</u>	<u>\$22,800</u>	<u>0.0 %</u>	<u>\$23,000</u>	<u>0.9 %</u>
<b>Income Taxes:</b>						
Individual	\$2,050,562	8.6 %	\$2,230,000	8.8 %	\$2,360,000	5.8 %
Corporation	226,072	60.1	260,000	15.0	260,000	--
Financial Inst.	22,063	(13.3)	23,000	4.2	24,000	4.3
Total	<u>\$2,298,697</u>	<u>11.9 %</u>	<u>\$2,513,000</u>	<u>9.3 %</u>	<u>\$2,644,000</u>	<u>5.2 %</u>
Estate Tax	\$51,853	7.9 %	\$51,000	(1.6) %	\$52,000	2.0 %
<b>Excise Taxes:</b>						
Retail Sales	\$1,647,663	2.2 %	\$1,715,000	4.1 %	\$1,729,000	0.8 %
Compensating Use	244,755	14.1	265,000	8.3	268,000	1.1
Cigarette	118,979	(0.7)	118,000	(0.8)	117,000	(0.8)
Tobacco Products	5,039	5.0	5,000	(0.8)	5,000	--
Cereal Malt Bev.	2,077	(4.1)	2,000	(3.7)	2,000	--
Liquor Gallonage	15,736	(0.7)	16,000	1.7	16,000	--
Liquor Enforcement	41,904	4.1	44,000	5.0	45,500	3.4
Liquor Drink	7,444	4.1	7,700	3.4	7,900	2.6
Corp. Franchise	47,095	28.0	45,000	(4.4)	46,000	2.2
Severance	103,390	22.2	131,100	26.8	111,800	(14.7)
Gas	75,415	14.2	93,400	23.8	77,600	(16.9)
Oil	27,975	50.5	37,700	34.8	34,200	(9.3)
Total	<u>\$2,234,082</u>	<u>4.5 %</u>	<u>\$2,348,800</u>	<u>5.1 %</u>	<u>\$2,348,200</u>	<u>-- %</u>
<b>Other Taxes:</b>						
Insurance Prem.	\$106,828	-- %	\$110,000	3.0 %	\$112,000	1.8 %
Miscellaneous	4,291	(2.2)	4,300	0.2	4,300	--
Total	<u>\$111,119</u>	<u>(0.1) %</u>	<u>\$114,300</u>	<u>2.9</u>	<u>\$116,300</u>	<u>1.7 %</u>
Total Taxes	\$4,718,544	7.6 %	\$5,049,900	7.0 %	\$5,183,500	2.6 %
<b>Other Revenues:</b>						
Interest	\$23,257	67.7 %	\$62,800	170.0 %	\$87,300	39.0 %
Net Transfers	23,562	40.9	(14,800)	--	(115,000)	--
Agency Earnings	75,908	(24.8)	60,000	(21.0)	62,500	4.2
Total	<u>\$122,727</u>	<u>(6.7) %</u>	<u>\$108,000</u>	<u>(12.0) %</u>	<u>\$34,800</u>	<u>42.0 %</u>
Total Receipts	<u>\$4,841,271</u>	<u>7.1 %</u>	<u>\$5,157,900</u>	<u>6.5 %</u>	<u>\$5,218,300</u>	<u>1.2 %</u>

Table 2

**State General Fund Receipts – Comparison of Estimates for FY 2006**  
**Made on June 14, 2005, as adjusted, with those made on November 3, 2005**  
*(Dollars in Thousands)*

	Estimate* 6/14/05	Revised Estimate 11/3/05	Difference	
			Amount	Percent Change
<b>Property Tax:</b>				
Motor Carrier	\$24,000	\$22,000	\$(2,000)	(8.3) %
Motor Vehicle	--	25	25	--
Ad Valorem	--	775	775	--
<b>Total</b>	<b>\$24,000</b>	<b>\$22,800</b>	<b>\$(1,200)</b>	<b>(5.0) %</b>
<b>Income Taxes:</b>				
Individual	\$2,130,000	\$2,230,000	\$100,000	4.7 %
Corporation	210,000	260,000	50,000	23.8
Financial Inst.	22,000	23,000	1,000	4.5
<b>Total</b>	<b>\$2,362,000</b>	<b>\$2,513,000</b>	<b>\$151,000</b>	<b>6.4 %</b>
Estate Tax	\$52,000	\$51,000	\$(1,000)	(1.9) %
<b>Excise Taxes:</b>				
Retail Sales	\$1,700,000	\$1,715,000	\$15,000	0.9 %
Compensating Use	250,000	265,000	15,000	6.0
Cigarette	116,500	118,000	1,500	1.3
Tobacco Products	5,000	5,000	--	--
Cereal Malt Beverage	2,000	2,000	--	--
Liquor Gallonage	15,500	16,000	500	3.2
Liquor Enforcement	44,000	44,000	--	--
Liquor Drink	7,700	7,700	--	--
Corp. Franchise	46,000	45,000	(1,000)	(2.2)
Severance	102,200	131,100	28,900	28.3
Gas	72,700	93,400	20,700	28.5
Oil	29,500	37,700	8,200	27.8
<b>Total</b>	<b>\$2,288,900</b>	<b>\$2,348,800</b>	<b>\$59,900</b>	<b>2.6 %</b>
<b>Other Taxes:</b>				
Insurance Premium	\$104,000	\$110,000	\$6,000	5.8 %
Miscellaneous	4,300	4,300	--	--
<b>Total</b>	<b>\$108,300</b>	<b>\$114,300</b>	<b>\$6,000</b>	<b>5.5 %</b>
<b>Total Taxes</b>	<b>\$4,835,200</b>	<b>\$5,049,900</b>	<b>\$214,700</b>	<b>4.4 %</b>
<b>Other Revenues:</b>				
Interest	\$54,000	\$62,800	\$8,800	16.3 %
Net Transfers	(18,432)	(14,800)	3,632	--
Agency Earnings	66,152	60,000	(6,152)	(9.3)
<b>Total Other Revenue</b>	<b>\$101,720</b>	<b>\$108,000</b>	<b>\$6,280</b>	<b>6.2 %</b>
<b>Total Receipts</b>	<b>\$4,936,920</b>	<b>\$5,157,900</b>	<b>\$220,980</b>	<b>4.5 %</b>

\* As adjusted for legislation enacted during the 2005 Special Session.

# KANSAS LEGISLATIVE RESEARCH DEPARTMENT

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January 6, 2006

To: Legislative Budget Committee

## STATE GENERAL FUND (SGF) RECEIPTS July through December, FY 2006

This is the second monthly report based on the revised estimate of SGF receipts in FY 2006 made by the Consensus Revenue Estimating Group on November 3, 2005. The figures in both the "Estimate" and "Actual" columns under FY 2006 on the following table include actual amounts received in July-October. Thus, the report essentially deals with the difference between the estimated and actual receipts in November and December.

**Total receipts through December of FY 2006 were \$24.2 million, or 1.0 percent, above the estimate.** The component of SGF receipts from taxes only was \$31.8 million, 1.3 percent, above the estimate. Total receipts through November of FY 2006 were \$6.9 million, or 0.3 percent, above the estimate and taxes only were \$0.5 million, or 0.0 percent, above the estimate.

Generally, a comparison of only two months is of little value in identifying a trend for the remainder of the year, as the timing and processing of receipts substantially can affect comparisons of the estimate with actual receipts over such a short period of time. In addition, receipts through the end of January will include sales tax receipts on Christmas business and individual income tax estimated payments due in January. Both of these factors will make the January report more helpful in ascertaining a picture of SGF receipts.

Taxes that **exceeded** the estimate by more than \$1.0 million were: corporate income (\$29.4 million, or 25.6 percent); insurance premiums (\$2.8 million, or 6.6 percent); estate (\$2.0 million, or 8.4 percent); and severance (\$1.6 million, or 2.5 percent). December is an estimated corporate income tax payment month, and the amount of such payments last month represented the highest December amount in over 20 years. The estate tax receipts were influenced by one payment in excess of \$1.5 million.

Taxes that fell **below** the estimate by more than \$1.0 million were individual income (\$1.9 million, or 0.2 percent) and retail sales (\$1.6 million, or 0.2 percent).

Interest earnings and agency earnings both fell below the estimate by \$1.4 million and \$7.5 million, respectively. Net receipts from unclaimed property, part of agency earnings, were less than anticipated. Net transfers were \$1.4 million greater than expected.

**Total SGF receipts through December of FY 2006 were \$215.0 million, or 9.5 percent, above FY 2005 for the same period. Tax receipts only for the same period exceeded FY 2005 by \$214.4 million, or 9.7 percent.** Individual income and corporate income taxes increased by

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Senate Commerce Committee

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\$90.4 million (9.7 percent) and \$53.2 million (58.4 percent), respectively, when comparing this period to the same period in FY 2005. Retail sales taxes increased by \$38.2 million (4.6 percent), again, when comparing the July through December receipts of FY 2006 to FY 2005.

This report excludes the July 1 deposit to the SGF of \$450 million pursuant to issuance of a certificate of indebtedness. That certificate will be discharged prior to the end of the fiscal year.

**STATE GENERAL FUND RECEIPTS**  
**July-December, FY 2006**  
 (dollar amounts in thousands)

	Actual FY 2005	FY 2006			Percent increase relative to:	
		Estimate*	Actual	Difference	FY 2005	Estimate
<b>Property Tax:</b>						
Motor Carriers	\$ 12,350	\$ 13,000	\$ 13,283	\$ 283	7.6%	2.2%
General Property	438	25	24	( 1 )	( 94.6 )	( 5.1 )
Motor Vehicle	924	775	983	208	6.3	26.8
<b>Total</b>	<b>\$ 13,712</b>	<b>\$ 13,800</b>	<b>\$ 14,289</b>	<b>\$ 489</b>	<b>4.2%</b>	<b>3.5%</b>
<b>Income Taxes:</b>						
Individual	\$ 928,678	\$ 1,021,000	\$ 1,019,070	\$ ( 1,930 )	9.7%	( 0.2 )%
Corporation	91,001	114,800	144,225	29,425	58.5	25.6
Financial Inst.	7,996	11,800	11,922	122	49.1	1.0
<b>Total</b>	<b>\$ 1,027,676</b>	<b>\$ 1,147,600</b>	<b>\$ 1,175,216</b>	<b>\$ 27,616</b>	<b>14.4%</b>	<b>2.4%</b>
Estate Tax	\$ 32,535	\$ 24,000	\$ 26,020	\$ 2,020	( 20.0 )%	8.4%
<b>Excise Taxes:</b>						
Retail Sales	\$ 827,253	\$ 867,000	\$ 865,428	\$ ( 1,572 )	4.6%	( 0.2 )%
Comp. Use	117,896	135,000	134,048	( 952 )	13.7	( 0.7 )
Cigarette	59,192	60,000	59,342	( 658 )	0.3	( 1.1 )
Tobacco Prod.	2,599	2,550	2,519	( 31 )	( 3.1 )	( 1.2 )
Cereal Malt Bev.	1,108	1,085	1,083	( 2 )	( 2.3 )	( 0.2 )
Liquor Gallonage	8,103	8,350	8,710	360	7.5	4.3
Liquor Enforce.	20,997	22,100	21,687	( 413 )	3.3	( 1.9 )
Liquor Drink	3,626	3,850	3,859	9	6.4	0.2
Corp. Franchise	12,930	10,000	10,150	150	( 21.5 )	1.5
Severance	49,650	62,700	64,290	1,590	29.5	2.5
Gas	36,273	44,500	46,930	2,430	29.4	5.5
Oil	13,377	18,200	17,360	( 840 )	29.8	( 4.6 )
<b>Total</b>	<b>\$ 1,103,356</b>	<b>\$ 1,172,635</b>	<b>\$ 1,171,117</b>	<b>\$ ( 1,518 )</b>	<b>6.1%</b>	<b>( 0.1 )%</b>
<b>Other Taxes:</b>						
Insurance Prem.	\$ 41,626	\$ 43,300	\$ 46,145	\$ 2,845	10.9%	6.6%
Miscellaneous	1,858	2,000	2,330	330	25.4	16.5
<b>Total</b>	<b>\$ 43,483</b>	<b>\$ 45,300</b>	<b>\$ 48,475</b>	<b>\$ 3,175</b>	<b>11.5%</b>	<b>7.0%</b>
<b>Total Taxes</b>	<b>\$ 2,220,762</b>	<b>\$ 2,403,335</b>	<b>\$ 2,435,118</b>	<b>\$ 31,783</b>	<b>9.7%</b>	<b>1.3%</b>
<b>Other Revenue:</b>						
Interest	\$ 9,914	\$ 27,700	\$ 26,254	\$ ( 1,446 )	164.8%	( 5.2 )%
Transfers (net)	\$ ( 17,491 )	\$ ( 13,940 )	\$ ( 12,587 )	\$ 1,353	( 28.0 )	--
Agency Earnings and Misc.	\$ 51,063	\$ 38,000	\$ 30,484	\$ ( 7,516 )	( 40.3 )	( 19.8 )
<b>Total</b>	<b>\$ 43,486</b>	<b>\$ 51,760</b>	<b>\$ 44,151</b>	<b>\$ ( 7,609 )</b>	<b>1.5%</b>	<b>( 14.7 )%</b>
<b>TOTAL RECEIPTS</b>	<b>\$ 2,264,248</b>	<b>\$ 2,455,095</b>	<b>\$ 2,479,269</b>	<b>\$ 24,174</b>	<b>9.5%</b>	<b>1.0%</b>

\* Consensus estimate as of November 3, 2005.

Excludes \$450 million to State General Fund due to issuance of a certificate of indebtedness.

NOTES: Details may not add to totals due to rounding.



Senate Commerce Committee  
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**FY 2007 - \$68 million Increase**

**STATE GENERAL FUND RECEIPTS, EXPENDITURES AND BALANCES  
AS PROJECTED FY 2004-FY 2008**

**In Millions**

**(Reflects the Estimates of the Consensus Revenue Estimating Group as of November 3, 2005)**

	Actual FY 2004	Actual FY 2005	Revised FY 2006	Projected FY 2007	Projected FY 2008
Beginning Balance	\$ 122.7	\$ 327.4	\$ 481.0	\$ 488.8	\$ 396.4
Released Encumbrances	2.4	2.4	0.0	0.0	0.0
Receipts (November 2005 Consensus)	4,518.9	4,841.3	5,157.9	5,218.3	5,279.9
Adjusted Receipts	4,518.9	4,841.3	5,157.9	5,218.3	5,279.9
Total Available	\$ 4,644.0	\$ 5,171.1	\$ 5,638.9	\$ 5,707.1	\$ 5,676.3
Reserve for Additional Expenditures or Revenue Reduction	-	-	-	68.0	68.0
Less All Other Expenditures	4,316.6	4,690.1	5,150.1	5,242.7	5,382.3
Total Expenditures	4,316.6	4,690.1	5,150.1	5,310.7	5,450.3
Ending Balance	\$ 327.4	\$ 481.0	\$ 488.8	\$ 396.4	\$ 226.0
Ending Balance as a Percentage of Expenditures	7.6%	10.3%	9.5%	7.5%	4.1%

1) Actual FY 2005 and FY 2006 expenditures as approved by the 2005 Legislature, including \$31.6 million in expenditures shifted forward from FY 2005 to FY 2006. FY 2006 and FY 2007 estimated expenditures also reflect the SRS, Aging and Department of Administration consensus caseload adjustments of October 28, 2005 and the latest school finance estimates of November 16, 2005.

2) FY 2006 revised receipts and FY 2007 projected receipts reflect the estimates of the Consensus Revenue Estimating Group as of November 3, 2005.

3) FY 2008 base receipts assume a four percent growth; and expenditures include out-year significant obligations (i.e., SRS and Aging caseloads).

4) Additional school finance expenditures as authorized by the 2005 Session of the Legislature and the 2005 Special Session of the Legislature.

FY 2007 - \$181 million Increase

**STATE GENERAL FUND RECEIPTS, EXPENDITURES AND BALANCES  
AS PROJECTED FY 2004-FY 2008  
In Millions  
(Reflects the Estimates of the Consensus Revenue Estimating Group as of November 3, 2005)**

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	Actual FY 2004	Actual FY 2005	Revised FY 2006	Projected FY 2007	Projected FY 2008
Beginning Balance	\$ 122.7	\$ 327.4	\$ 481.0	\$ 488.8	\$ 283.4
Released Encumbrances	2.4	2.4	0.0	0.0	0.0
Receipts (November 2005 Consensus)	4,518.9	4,841.3	5,157.9	5,218.3	5,279.9
Adjusted Receipts	4,518.9	4,841.3	5,157.9	5,218.3	5,279.9
Total Available	\$ 4,644.0	\$ 5,171.1	\$ 5,638.9	\$ 5,707.1	\$ 5,563.3
Reserve for Additional Expenditures or Revenue Reduction	-	-	-	181.0	181.0
Less All Other Expenditures	4,316.6	4,690.1	5,150.1	5,242.7	5,382.3
Total Expenditures	4,316.6	4,690.1	5,150.1	5,423.7	5,563.3
Ending Balance	\$ 327.4	\$ 481.0	\$ 488.8	\$ 283.4	\$ 0.0
Ending Balance as a Percentage of Expenditures	7.6%	10.3%	9.5%	5.2%	0.0%

1) Actual FY 2005 and FY 2006 expenditures as approved by the 2005 Legislature, including \$31.6 million in expenditures shifted forward from FY 2005 to FY 2006. FY 2006 and FY 2007 estimated expenditures also reflect the SRS, Aging and Department of Administration consensus caseload adjustments of October 28, 2005 and the latest school finance estimates of November 16, 2005.

2) FY 2006 revised receipts and FY 2007 projected receipts reflect the estimates of the Consensus Revenue Estimating Group as of November 3, 2005.

3) FY 2008 base receipts assume a four percent growth; and expenditures include out-year significant obligations (i.e., SRS and Aging caseloads).

4) Additional school finance expenditures as authorized by the 2005 Session of the Legislature and the 2005 Special Session of the Legislature.

Reports of the  
Joint Committee on Economic Development  
to the  
2006 Kansas Legislature

**CHAIRPERSON:** Representative Lana Gordon

**VICE-CHAIRPERSON:** Senator Nick Jordan

**RANKING MINORITY MEMBER:** Representative Valdenia Winn

**OTHER MEMBERS:** Senators Jim Barone, Karin Brownlee, Laura Kelly, and David Wysong; and Representatives Sydney Carlin, Donald Dahl, Terrie Huntington, Todd Novascone, Kenny Wilk, and Jerry Williams

**STUDY TOPICS**

Utilizing the Film Industry as an Economic Development Tool

Workers Compensation Fund Oversight Committee

Miscellaneous Topics: Rural Economic Development; Housing; Kansas, Inc.; Sales Tax Exemptions and Tax Credit Report; Eminent Domain; and Workforce Development

*December 2005*

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Senate Commerce Committee

January 11, 2006

Attachment 6-1

# Joint Committee on Economic Development

## UTILIZING THE FILM INDUSTRY AS AN ECONOMIC DEVELOPMENT TOOL

### CONCLUSIONS AND RECOMMENDATIONS

The Committee recommends legislation that will facilitate the availability of equity investment in film production businesses in the early stages of commercial development. In addition, the legislation is designed to assist in the creation and expansion of Kansas film production businesses as a job and wealth creating enterprise by granting tax credits against the Kansas Income Tax Liability of those investing in film production businesses.

**Proposed Legislation:** The Committee recommends the introduction of four bills.

### BACKGROUND

The Joint Committee on Economic Development is statutorily authorized to set its own agenda. The Committee recognized that the film industry could be an important tool to the discussion of economic development in Kansas.

### COMMITTEE ACTIVITIES

During the October meeting the Committee viewed Clark Balderson's movie "Wamego: Making Movies Anywhere," Mike Wunsch's Outpost Pictures movie about a Spanish television series his company filmed in Dallas, and a University of Kansas student film, "The Lord of the Libraries." Mr. Balderson stated that state incentives in the form of tax credits or tax refunds would be helpful to independent film makers. In addition, free access to government buildings for filming also would be helpful.

Mr. Balderson believes that there are innovative ways for the business community and government to attract film makers by helping students and the educational community, will create an inspiring atmosphere where people will want to stay.

Mr. Wunsch made the point that the competition for film industry dollars needs to be viewed as Kansas against the world, not Kansas against itself. Howard Fricke, Secretary, Kansas Department of Commerce, spoke to the Committee about the activities of the Kansas Film Industry Taskforce. According to the Secretary, the Taskforce was asked to provide a variety of options using the state's existing resources for film in Kansas. In addition, the Taskforce was asked to develop a model that film industry professionals view as specifically designed to suit Kansas' strengths and challenges, instead of duplicating a model that has proven successful in Texas, New Mexico, and North Carolina. The Taskforce created two subcommittees; one that will make recommendations on the role of Kansas educational institutions, specifically focusing on the lead role that the University of Kansas existing film school and the second subcommittee would provide recommendations on film as a business in Kansas.

Mr. Ben Meade, a film professor and film maker, spoke on film development and film making in Kansas. It is more important to have film companies in Kansas than film projects and if film companies and film makers stay in Kansas, the money will also stay in the State. Mr. Meade said the

following would promote Kansas as a place to make independent films:

- Tax incentives for small independent film makers dealing with the deductibility of production cost on a state level and on a case-by-case basis.
- Small loans for three to five years for production costs, which would allow the film maker to produce and distribute the film prior to being required to reimburse the loan.

## CONCLUSIONS AND RECOMMENDATIONS

The Committee recommends legislation that will facilitate the availability of equity investment in film production businesses in the early stages of commercial development. In addition, the legislation would be designed to assist in the creation and expansion of Kansas film production businesses as a job and wealth creating enterprise, by granting tax credits against the Kansas Income Tax Liability of those investing in film production businesses.

# Joint Committee on Economic Development

## WORKERS COMPENSATION FUND OVERSIGHT COMMITTEE

### CONCLUSIONS AND RECOMMENDATIONS

The Joint Committee on Economic Development recommends the repeal of the Workers Compensation Fund Oversight Committee and recommends the Kansas Insurance Department assume the responsibilities for reporting the fund balance, working with contracted actuarial services and assigning other duties as appropriate. This recommendation comes after a review of the statutory requirements of the Workers Compensation Fund Oversight Committee, coupled with the fact that this Committee has not had a meeting since the fall of 1999.

**Proposed Legislation:** The Committee recommends the introduction of four bills.

### BACKGROUND

The Joint Committee on Economic Development is statutorily authorized to set its own agenda. During the 2005 interim, the Legislative Coordinating Council (LCC) charged the Committee with reviewing the activities of the statutory Workers Compensation Fund Oversight Committee and to study the need for its continued existence.

### COMMITTEE ACTIVITIES

In compliance with the LCC directive, the Committee heard testimony from a representative of the Kansas Insurance Department and the Director of the Division of Workers Compensation.

The representative of the Kansas Insurance Department explained that in 1993, legislation was passed that completely revised workers compensation in Kansas. The Second Injury Fund was dissolved and the Kansas Workers Compensation Fund was created. The Kansas Workers Compensation Fund continues to pay old claims that were established under the prior Second Injury Fund, and to pay new claims for employers who do not carry workers compensation insurance. However, the

Fund is brought into a case only after litigation has occurred. In addition, if the employers do not carry workers compensation insurance, the Division of Workers Compensation will pursue the employers through the criminal courts.

In 1993, part of the reform legislation provided for the Workers Compensation Fund Oversight Committee. However, this Committee has not met regularly since 1994, and the last time the Committee did meet was 1999, according to the representative of the Kansas Insurance Department. After stating these points, the representative did note that it is the position of the Kansas Insurance Commissioner that the Committee continue, however, as an unpaid Committee.

Outside of the Committee activities, the Kansas Insurance Department has issued annual reports on the Fund to the LCC. Each report includes all the information and statistics from the prior year activity of the Fund. In addition, the Department contracted for actuarial services of Milliman Consultants and Actuaries for a review of the Fund as of December 31, 2002.

The Committee heard testimony that the number of old cases continues to decline, however, new cases occur when an employer fails to secure workers

compensation insurance and an employee is injured.

The Director of Workers Compensation, a statutory member of the Oversight Committee, explained that the Kansas Department of Labor, Division of Workers Compensation has been implementing new technology to improve its work process and service to the citizens of Kansas. The Division is currently using Electronic Data Interchange, which allows the electronic transmission of claims or coverage information, and improves the timeliness and accuracy of reporting. It also has recently implemented a new alternative proof of coverage system, which improves the process of getting workers compensation coverage data and ensures employer

compliance. The Division also has added Coverage Verification Service, an online search engine for the general public to use to research proof of coverage issues.

## CONCLUSIONS AND RECOMMENDATIONS

After listening to testimony and exploring potential reasons to continue with the Workers Compensation Oversight Committee, the Joint Committee on Economic Development directed staff to draft legislation to abolish the Committee and give the appropriate duties and responsibilities to the Kansas Department of Insurance.

# Joint Committee on Economic Development

## MISCELLANEOUS TOPICS: RURAL ECONOMIC DEVELOPMENT; HOUSING; KANSAS, INC.; SALES TAX EXEMPTIONS AND TAX CREDIT REPORT; EMINENT DOMAIN; AND WORKFORCE DEVELOPMENT

### CONCLUSIONS AND RECOMMENDATIONS

- The Committee wishes to express its appreciation for the manner in which the U.S. Department of Agriculture Rural Development and the Kansas Housing Resources Corporation are working together to maximize resources in order to minimize the duplication of services. The need for improved rural infrastructures, as well as affordable housing, are major components of improving the economy in Kansas.
- The Committee, with the approval of the Legislative Coordinating Council, sent a letter to the Kansas Congressional Delegation supporting the efforts of the Kansas Housing Resources Corporation to address the current U.S. Department of Housing and Urban Development (HUD) program guidelines that unfairly discriminate against enlisted military personnel and their families who use the basic allowance for housing to obtain off-base housing in low-income counties within our state.
- The Committee wishes to acknowledge the growth and leadership in Kansas, Inc. during the past few months. Kansas, Inc. has shown remarkable progress in achieving many of its statutory responsibilities by completing several reports. However, the Committee wishes to convey its desire that Kansas, Inc. also undertake its responsibilities to provide to the Legislature and the Governor evaluation of economic development agencies. If this statutory responsibility is not assumed by Kansas, Inc., the agency is directed to return to the standing committees and the Joint Committee on Economic Development and explain the reasons why evaluation of state agencies is not occurring.
- The Committee is pleased with the efforts of Kansas Inc. In preparing the Indicators of the Kansas Economy (IKE) report. It is clear that the agency has convened a comprehensive group of talented individuals to prepare this report which will be of value to the Legislature.
- The Committee is pleased with the progress being made by the Kansas Department of Revenue and the Kansas Department of Commerce on the Sales Tax Exemptions and Tax Credit Report. The information, once generated by these agencies, will be very valuable to the Legislature in determining which incentives are effective in improving the economy of the State by retaining and attracting new jobs in Kansas.
- The Committee is hopeful that the Legislature will enact new eminent domain legislation during the 2006 Legislative Session that will provide a clear definition of a blighted area; allow for proper compensation for the property owner; and establish a threshold on local government that allows for the use of eminent domain.
- The Committee wishes to express its desire that once eminent domain legislation is enacted, a private or public entity disseminate the legislation to the public in the best means possible.



- The Committee is hopeful that Local Workforce Development Boards, as well as, the State Workforce Board will take into consideration the employment needs of senior citizens of the State. In addition, the Committee hopes that the needs of the senior citizens will be represented in some manner on the above-mentioned boards.
- The Committee was very impressed with the efforts of the Kansas Department of Corrections Offender Employment Program; the Wichita Public Schools' secondary career and technical education program and especially impressed with the Pottawatomie Consortium's requirement for a senior exit project and portfolios that incorporate academic, technical and performance standards; Kansas Legal Services employment training programs that work with Department of Social and Rehabilitation Service's clients with several barriers to successful employment; the Kansas Cisco Network Academy System which trains individuals to work with computers and software; and the three local workforce boards, Heartland Works, Barton County Community College and Local Area 5 Workforce Board, for their explanation of the operations of these diverse areas and the workforce training they are providing.
- The Committee believes that several programs are providing excellent workforce training; however, there is lack of communication between the Kansas Department of Commerce and other stakeholders. Also, the State of Kansas lacks a clear financial picture of what is being spent on workforce development. Therefore, the Committee makes the following recommendations and requests:
  - The Committee defines workforce development as a partnership between the State and business to develop employment opportunities with meaningful and sustainable income to Kansans and providing programs that assist business through specialized training. The goals established by the Committee for workforce development are to:
    - Increase employment;
    - Increase personal income through continuing education and training programs;
    - Work with business in developing programs to provide specialized education and training programs, including technical programs at post-secondary institutions;
    - Develop, through an executive team that includes all applicable stakeholders, strategies to address goals while linking programs to the best practices to be delivered effectively and efficiently; and
    - Provide statewide accountability standards and reporting for all workforce programs and their finances.
  - The Committee requests that the Department of Commerce provide to the House Committee on Commerce and Labor, the House Committee on Economic Development and the Senate Committee on Commerce the time table for the transition to Kansas 1st initiative and when it will be fully implemented during January 2006.
  - The Committee requests that the House Committee on Commerce and Labor, House Committee on Economic Development and the Senate Committee on Commerce continue the exploration and discussion of workforce development during the 2006 Legislative Session.
  - The Committee requests that the Chairperson of the Joint Committee on Economic Development send a letter to Secretary of Commerce Howard Fricke with copies to

Deputy Secretary Steve Kelly, President and CEO of the Kansas Board of Regents Reginald Robinson, and Dr. Blake Flanders, Director, Career and Technical Education. The letter is to express the frustration the Committee has experienced over a number of years in trying to receive accurate and complete data on the workforce efforts in Kansas. In addition, the Committee is requesting that Dr. Flanders revise his testimony and information provided to Kansas Legislative Research Department to accurately reflect the efforts of the Board of Regents with regard to workforce development. The testimony also should include technical schools and colleges and the community colleges which the Board of Regents represents.

- The Committee recommends legislation that will increase the rural business development tax credit and the Center for Entrepreneurship contribution tax credit from 50 percent to 75 percent. In addition, the bill will abolish the Community Entrepreneurship Fund in the state treasury and authorize the Center for Entrepreneurship to place money in an account or accounts established at local banks or savings and loans. The new accounts would be administered by the Center under guidelines developed and implemented by the Center and approved by the Secretary of Commerce.
- The Committee recommends legislation that will outline the procedure for transferring property back to a city when excess land for a redevelopment project has been taken. The bill also prescribes penalties for violation of the act.

**Proposed Legislation:** The Committee recommends the introduction of four bills.

## BACKGROUND

The Joint Committee on Economic Development is statutorily authorized to set its own agenda. The Committee recognized the following topics as important to the discussion of economic development in Kansas.

Program funded 58 community and business projects totaling approximately \$71.8 million. Those projects included the areas of business development, water and sewer improvements, community facilities, value-added businesses, energy efficiency, technical assistance, along with related community and economic development projects.

## COMMITTEE ACTIVITIES

### Rural Economic Development

At the September 20, 2005 meeting, the Committee heard five presentations on several programs designed to improve the economy of rural Kansas. Chuck Banks, State Director of the U.S. Department of Agriculture (USDA) Rural Development Program outlined the agency's programs for business and community development; as well as housing programs for rural Kansas. For federal fiscal year (FFY) 2004, the

For FFY 2004, the Rural Housing Service encompassed two main areas: the Single Family Housing Division which provided loans and grants for very low, low and moderate income households; and the Multi-Family Housing Division which provided funds to build and rehabilitate apartment complexes. For all Single Family Programs, USDA Rural Development funded 1,120 loans for Kansas individuals and families with \$63.0 million in federal assistance. The Multi-Family Housing Program focused on two separate areas for funding: the rehabilitation of existing properties, and the construction of new properties. Through the

national office competitive funding pool, Kansas secured \$1.2 million in rehabilitation funds for four projects during the year.

Dr. Art Hall, Executive Director of the Center for Applied Economics at the University of Kansas, shared the Center's findings that Kansas has two economies, the east-central region and all other regions. In discussing the economic performance of Kansas relative to other states, Dr. Hall pointed out that it is important to understand that the east-central region almost wholly drives the relative competitiveness of Kansas, and Johnson County almost wholly drives the east-central region. Finally, The Center for Applied Economics and Kansas, Inc. have completed several reports about Economic Trends in Kansas which can be found at [www.kansasinc.org](http://www.kansasinc.org).

Steve Radley, Director, Kansas Center for Entrepreneurship, explained that the Center's focus was on expertise, education, and economic resources, and had three integrated product offerings. Each product area ties directly to expertise, education, or economic resources. NetWork Kansas is a statewide service that meets three basic challenges in providing a statewide service that enables entrepreneurs and existing small businesses to be connected with the organizations they need when they need them. In addition, the Center is undertaking a survey of what is being taught throughout the State in terms of entrepreneurship. Once the data is gathered, the Center plans to promote those offerings through the NetWork Kansas call center and website. Finally, the Center has named the Entrepreneurship Fund, StartUp Kansas. The mission of StartUp Kansas is to provide financial resources for prospective Kansas entrepreneurs in business startup.

Wally Kearns, State Director, Kansas Small Business Development, outlined the increased level of collaboration between the Kansas Small Business Development Centers (KSBCD) and the Kansas Department of

Commerce. The state's economic development strategies help define the role of the KSBCD. Business assistance and economic development strategies are to be developed and managed locally in concert with the Kansas Department of Commerce, the Small Business Administration office, and other key agencies and resources. The objectives are to assure a close fit between locally identified needs and strategies, to target appropriate local resources and capacities, and to respond to them in a timely and cost-effective manner.

Patty Clark, Director of the Ag Marketing and Community Development Divisions of the Kansas Department of Commerce, made the point that there is no single solution that can mitigate the challenges of population out-migration and economic decline in the rural areas. However, there are communities in Kansas that are thriving, enhancing their quality of life and undergoing economic development. There are entrepreneurs in the rural communities that are doing that, as well.

A vital and thriving downtown is a sign of a vibrant and thriving community and the Kansas Main Street Program focuses assistance on historical preservation, marketing, beautification, and entrepreneurship, Clark said. The Kansas Main Street Program has 23 Kansas communities participating and this past summer, Emporia received the Great American Main Street City award from the National Trust Main Street Center.

In addition, the agritourism initiative has really taken off in Kansas, according to Ms. Clark. A sound education platform has provided for agritourism operators to make very informed business decisions as they take their farm assets from production agriculture to tourism. For example, farm wineries represent a thriving industry, with such facilities' having recently grown from seven to 13 in Kansas. However, the thing that poses the greatest challenge to the rural communities is leadership. Rural

communities do not have full-time city managers, city mayors, or city councils. Many times, the application for grants or programs must come from the city clerk, because "such official" is the only full-time employee who works with fiscal operations or economic development in the cities and communities.

### **Kansas Housing Resources Corporation and Ft. Riley In-Migration**

One major issue for the Ft. Riley region is housing for the military personnel in-migration that is scheduled for the next two years. The region is looking to add 30,000 to 35,000 individuals over a five-year period, according to John Armbrust, Executive Director, Governor's Strategic Military Planning Commission. However, the Commission expects the majority will arrive in the next two to two and one-half years. The projected increase is 10,000 soldiers, and it is estimated the soldiers will be accompanied by 13,600 family members. In addition, the increase in military personnel will also require an additional 2,000 civilian positions on post. Post housing is full, therefore, it is projected that the new personnel and families will be living off post.

Mr. Armbrust stated that the area will require at least 7,000 new housing units over the next two years. In order to meet that need, the community will have to build between 4,500 and 5,000 housing units in the Ft. Riley area off post during the first year and by 2007, a total of 7,000 to 7,500 housing units will be required. In addition, Mr. Armbrust stated that a minimum of 16,000 new automobiles are expected in the Ft. Riley area over the five-year period. The Commission, in conjunction with the Kansas Department of Transportation, is providing \$44.0 million to repair Highway K-18 around the post and old Highway 77.

Steve Weatherford, President, Kansas Housing Resource Corporation, Inc. (KHRC),

detailed the two primary state resources that are being offered to help with the Ft. Riley area housing requirements. First, the KHRC has the ability to issue mortgage revenue bonds that lower the cost of the financing of multi-family property. These mortgage revenue bonds are called private activity bonds or multi-family mortgage revenue bonds. The federal government gives the KHRC authority to enter the capital markets through a bond sale and obtain tax exempt financing which will lower the cost to the developer in the form of lower interest rates on first mortgages.

The second resource is the Housing Tax Credit Program. The Housing Tax Credit Program addresses the equity side of the financing. Private developers negotiate their mortgage with a private lender. The bonds are used as a way to allow that lender to lower the rate on the first mortgage. The developer takes the housing tax credit and sells that to an investor and the investor takes the proceeds into the project in the form of equity to meet the demands of the underwriting requirements of that lender. The Housing Tax Credit Program was created by the federal Tax Reform Act of 1986 to promote development of affordable rental properties by private developers and has contributed to the production of more than 24,000 units of affordable housing in Kansas since the inception of the state's program in 1987.

Mr. Weatherford noted that a provision in HUD regulations which establishes income eligibility requires the Housing Tax Credit Program guidelines to unfairly discriminate against enlisted military personnel and their families who use the basic allowance for housing (BAH) to obtain off-base housing in low income counties within our state. The agency maintains that the BAH should not be considered income for purposes of qualifying enlisted military persons and their families for affordable housing financed with the Housing Tax Credits and/or tax exempt bonds. Mr. Weatherford pointed out that Section 8

rental assistance voucher for low income families (which is also administered by HUD), is not considered income for purposes of qualifying nonmilitary families for housing developed with the tax credits or tax-exempt bonds. The agency personnel believes that government assistance, whether it is the BAH or Section 8 rental assistance voucher, should be treated equally and not counted as qualifying income for enlisted military or nonmilitary families who desire to live in housing privately developed with Housing Tax Credits or tax-exempt bonds. If language is successfully inserted into a federal appropriations measure, HUD will have express congressional intent to make the needed federal regulatory changes. KHRC has been working with the Kansas congressional delegation to promote legislation that would allow the Secretary of HUD to issue a waiver that allows the KHRC to discontinue the BAH in the military family's calculation. Senator Brownback has offered the language as an amendment to an appropriation bill, and Senator Roberts is working with his fellow colleagues to build support for the language.

Patty Clark, Director of the Community Development and Ag Marketing Divisions of the Kansas Department of Commerce, made a presentation about the Community Development Block Grant (CDBG) Program which provides funds to rural communities to improve their housing quality and capacity. The CDBG is federally funded. The most significant criteria are that the funds serve the low-to-moderate income families in rural Kansas. Funds from this program can be used for rehabilitation of existing structures, as well as for demolition. The demolition is important to communities that wish to remove blighted areas to beautify their residential areas. The rehabilitation can include modernization and renovation. Also, a portion of the funding must be used for water and sewer projects. Water and sewer projects, when well planned, can result in better basic services for all residents, existing homes and

new homes in any rural community, according to Ms. Clark.

### **Overview of Kansas, Inc.**

Stan Ahlerich, Interim Director, Kansas, Inc. made a presentation on the operations and current reports produced or contracted by the agency. Mr. Ahlerich explained the agency's yearly time cycle and provided detailed information about two industry reports completed recently by Kansas, Inc.: The New Cotton Frontier and The New Oil Refinery Possibilities in Kansas. According to the findings in the working paper, "the growth of the cotton industry in Kansas has been mostly due to the initiative of farmers and market forces. But because this could prove to be such a lucrative industry for many Kansans we believe the state should begin to support the continued development of the industry." The report on new oil refinery possibilities provides the reader with technological information about the industry and comes to the conclusion that Kansas might be an excellent place for a new refinery.

Mr. Ahlerich also made a presentation about a new initiative of Kansas, Inc. entitled the Indicators of the Kansas Economy (IKE). The IKE report is designed to identify critical variables that would explain the current condition of the state economy relative to the United States and states within a six-state region surrounding Kansas. A set of 26 variables has been identified and reviewed for their comprehensiveness and ability to depict key elements of the Kansas economy by a group of professional researchers, university professors, state program staff and the members of the Kansas, Inc. Board of Directors. A planned component of the IKE project is quarterly bulletins to highlight key aspects of the Kansas economy and provide a more in-depth understanding of the variables and economic issues impacting Kansas.

Kansas, Inc. has outsourced several research reports and has several proposals for study during the next fiscal year. The reports produced or commissioned by Kansas, Inc. can be found on the agency's web page at <http://www.kansasinc.org>.

### **Sales Tax Exemptions And Tax Credit Report**

The Legislature directed the Kansas Department of Revenue in conjunction with the Kansas Department of Revenue to produce an annual report evaluating the cost effectiveness of the economic development tax incentive programs. Howard Fricke, Secretary of the Kansas Department of Commerce, explained that an Incentive Advisory Group has been established by Secretary Wagnon of the Kansas Department of Revenue. The group, at its first meeting, established a format for the cost/benefit report and return-on-investment analysis. The format is based on the following key performance indicators: jobs created; jobs retained; capital investment generated; revenue or sales generated; and payrolls generated. Secretary Fricke also indicated that the group discussed various policy issues related to the need to evaluate programs and ways in which that evaluation should take place. The group has decided that the indicators will be reported by incentive program for each fiscal year beginning with FY 2001.

### **Eminent Domain**

At the October 11, 2005 meeting, the Committee heard seven presentations about the issue of eminent domain. Staff explained that eminent domain is the inherent power of a governmental entity to take private property and convert it to public use. The power of eminent domain belongs exclusively to the legislative branch of government and to those entities or individuals authorized by statute to exercise the power. The government's exercise of the power of eminent domain is subject to several important constitutional limits,

including the requirement for payment of just compensation and the requirement that the property owner be granted due process of law, including notice and an opportunity for a hearing. In Kansas, the Legislature has granted the power of eminent domain to several state agencies and local units of government or where the local government has home rule power. In addition, KSA 26-501 to 517 is the single, uniform procedure for all eminent domain actions in Kansas.

Bill Rich, Professor of Law at Washburn University School of Law, explained that the Fifth Amendment to the United States Constitution provides: "nor shall private property be taken for public use, without just compensation." In the case of *Kelo v. City of new London*, 125S. Ct. 2655 (2005), the United States Supreme Court was asked to decide whether that language prevented a city from using its power of eminent domain to take private property for purposes of economic development. Five of the nine justices concluded that elected branches of government should remain responsible for determining what constitutes a "public use", and judges should generally defer to those judgments. Robert Glicksman, Professor of Law at the University of Kansas pointed out that the Kansas Supreme Court also has held that the state has inherent power to take private property for a public use. Professor Glicksman also stated that if the government at any level chooses to exercise its implicit power of eminent domain, it must abide by the two limitations set forth in the U. S. Constitution: (1) it must take the property for a "public use"; and (2) it must provide just compensation to the owner of the condemned property. However, the constitution does not define what it means when it refers to a "public use."

Representatives of the Topeka Chamber and Kansas Association of Counties testified in favor of the use of eminent domain, as taking property for economic development is indeed for the good of the citizens; however, they also said they understood that taking private property through eminent domain

was a very serious issue, and said they tried to avoid it until it was the only option available. Representatives of Kansas Farm Bureau, Kansas Livestock Association and an individual citizen testified as opponents to the use of eminent domain by government. The representative of the Kansas Farm Bureau believes that eminent domain is an intrusion into private property rights by government, especially when that action results in land being taken from one owner and subsequently conveyed to another under the auspices of economic development. The Bureau's policy states clearly that eminent domain procedures should be used only for legitimate governmental purposes and that these practices are not legitimate uses of the power. The representative of the Kansas Livestock Association stated that it favored a straightforward ban on the practice of government taking property from one with the intent to transfer that ownership or control to a private entity. However, the Association does recognize that there are legitimate exercises of eminent domain, such as for roads, sewers, utilities and hospitals.

### **Workforce Development in Kansas**

Three representatives of the Kansas Department of Commerce outlined the Workforce Investment Act of 1998 which provides the framework for workforce preparation and employment system designed to meet both the needs of businesses and the needs of job seekers and those who want to further their careers. Title I of the legislation is based on the following elements:

- Training and employment programs must be designed and managed at the local level where the needs of businesses and individuals are best understood.
- Customers must be able to conveniently access the employment, education, training, and information services they need at a single location in their neighborhoods.

- Customers should have choices in deciding the training program that best fits their needs and the organizations that will provide that service. They should have control over their own career development.
- Customers have a right to information about how well training providers succeed in preparing people for jobs. Training providers will provide information on their success rates.
- Businesses will provide information, leadership, and play an active role in ensuring that the system prepares people for current and future jobs.

The system is based on the "One-Stop" concept where information about and access to a wide array of job training, education, and employment services is available for customers at a single neighborhood location. Customers will be able to easily:

- Receive a preliminary assessment of their skill levels, aptitudes, abilities, and support service needs;
- Obtain information on a full array of employment-related services, including information about local education and training service providers;
- Receive help filing claims for unemployment insurance and evaluating eligibility for job training and education programs or student financial aid;
- Obtain job search and placement assistance, and receive career counseling; and
- Have access to up-to-date labor market information which identifies job vacancies, skills necessary for in-demand jobs, and provides information about local, regional and national employment trends.

Through the "One-Stop" system, employers will have a single point of contact to provide information about current and future skills needed by their workers and to list job openings. They will benefit from a single system for finding job-ready skilled workers who meet their needs.

The Act specifies three funding streams to the States and local areas: adults, dislocated workers, and youth. Most services for adults and dislocated workers are provided through the "One-Stop" system and most customers will use their individual training accounts to determine which training program and training providers fit their needs.

The Act authorizes "core" services (which will be available to all adults with no eligibility requirements), and "intensive" services for unemployed individuals who are not able to find jobs through core services alone. In some cases the intensive services also will be available to employed workers who need more help to find or keep a job.

Core services include job search and placement assistance (including career counseling); labor market information (which identifies job vacancies; skills needed for in-demand jobs; and local, regional and national employment trends); initial assessment of skills and needs; information about available services; and some follow-up services to help customers keep their jobs once they are placed.

Intensive services include more comprehensive assessments, development of individual employment plans, group and individual counseling, case management, and short-term pre-vocational services.

In cases where qualified customers receive intensive services and are still not able to find jobs, they may receive training services which are directly linked to job opportunities in their local area. These services may include occupational skills

training, on-the-job training, entrepreneurial training, skill upgrading, job readiness training, and adult education and literacy activities in conjunction with other training.

Eligible youth are low-income, ages 14 through 21 (although up to five percent who are not low-income may receive services if they face certain barriers to school completion or employment). Young customers also must face one or more of the following challenges to successful workforce entry: (1) school dropout; (2) basic literacy skills deficiency; (3) homeless, runaway, or foster child; (4) pregnant or a parent; (5) an offender; or (6) need help completing an educational program or securing and holding a job. At least 30 percent of local youth funds must help those who are not in school.

Youth will be prepared for postsecondary educational opportunities or employment. Programs will link academic and occupational learning. Service providers will have strong ties to employers. Programs must also include tutoring, study skills training and instruction leading to completion of secondary school (including dropout prevention); alternative school services; mentoring by appropriate adults; paid and unpaid work experience (such as internships and job shadowing); occupational skills training; leadership development; and appropriate supportive services. Youth participants will also receive guidance and counseling, and follow-up services for at least one year, as appropriate.

During the December meeting, the Committee took testimony from representatives of the Board of Regents, Kansas Department of Corrections, Kansas Department of Education, Kansas Department of Social and Rehabilitation Services; Kansas Department of Commerce, Kansas Chamber of Commerce and Industry, Kansas Legal Services Corporation, Heartland Works (Local Workforce Area II), Kansas Cisco network Academy system, Barton County Community College (Local



Workforce Area I) and Local Area V Workforce Board. Of specific note, the following programs were outlined for the Committee:

**The Kansas Department of Corrections Offender Employment Programs:** The Department of Corrections has provided employment through a variety of industries for approximately 1,100 inmates during FY 2005. In addition, it provides approximately 250 vocational education program slots. The slots include barbering, building maintenance, construction, drafting, food service, horticulture, masonry welding and woodworking just to name a few. Finally, the Department has found that sustained employment is a major factor in an individual's ability to remain outside of prison once they are released.

**The Kansas Department of Education Programs:** The representatives of the Department of Education explained the State Board's overview mission for career and technical skills learning and explained about the funding from federal Perkins funds, as well as, funding through the education finance formula. USD 259, Wichita Public School explained that they offer 19 approved career and technical education programs to the district's 11 high schools. The district employs a staff of 120 and serves 6,000 high school students each year. The representative from the district explained that they have found their strength in developing a link between schools and businesses in the area. The representative of the Pottawatomie Consortium explained that they serve two rural high schools in Pottawatomie County, Rock Creek Junior/Senior High School (USD 323) and Wamego High school (USD 320) with a combined enrollment of 704. Last May, Rock Creek graduated 50 students and Wamego graduated 108. The Rock Creek Board of Education has required both a senior exit project and portfolios as graduation requirements. The portfolio project requires that all students develop the portfolio during their four years of high

school that includes a personal snapshot of their career and personal interest, academic and teamwork skills, time management and community service involvement. The senior exit project is a research paper on a topic of the student's choice developed during their junior year and also requires a 10-20 minute presentation during their senior year. The Wamego High School requires that all seniors complete a personal resume, cover letter, application, application cover letter, follow-up thank you letter, and successfully complete three 20 minute interviews with community business interviewers. Dining etiquette is reviewed and students and interviewers participate in a working-business luncheon complete with multiple utensils.

**Kansas Department of Commerce:** As the lead agency for Workforce Development and the receiving agency for federal Workforce Investment Act funding gave an overview of their Kansas 1<sup>st</sup> initiative. The Department defines workforce development as "the training, retraining and development of incumbent and emerging workers for specific positions required by Kansas employers to remain globally competitive." The agency believes that the new system will place "at the finger tips" of regional directors all the resources including identifying employer needs and deliver solutions targeted to the needs. Under the former system, according to the representative, the agency would give the company a grant and go on to the next project. In addition, the post-secondary schools will have increased capability to deliver relevant training to employers and job seekers. To this end, the Department has created an executive team composed of members of Commerce and the Board of Regents representative to oversee the Kansas 1<sup>st</sup> initiative.

**Kansas Legal Service Programs:** The non-profit organization provides five programs for employment training. The Job Success Program provides job readiness and life skills training to recipients of long term

cash assistance and other persons entering the workforce for the first time. Office Training and Assessment Program offers comprehensive training in the use of computers and other office equipment and teaches people new to the office environment how to obtain and keep employment. Custom Computer Training provides a range of services from an introduction to computers to specialized one-on-one training in particular software applications. Work Opportunities for Rural Kansans assists displaced farmers, ranchers and their families with training, education and non-farm job placement. Topeka Moving Ahead Program provides comprehensive employment, housing and other assistance to homeless persons in Topeka. The organization has successfully combined where appropriate funding from Workforce Investment Act (WIA) through Heartland Works, Vocational Rehabilitation through Department of Social and Rehabilitation Services (SRS), Temporary Assistance for Needy Families (TANF) through SRS and grants to provide these programs.

**Kansas Cisco Academy System:** The Cisco Academy System at Ft. Hays State University is a comprehensive e-learning program, which provides students with the Internet technology skills. The Academy program provides web-based content, online assessment, student performance tracking, hands-on labs, instructor training and support, and preparation for industry standard certifications. The system is currently available in 18 community and technical colleges and in 30 high schools across Kansas. In addition, Fort Hays State University information networking and telecommunications graduates in network design engineers, systems engineers, and network administrators find starting salaries averaging \$45,000 a year, and some start in excess of \$60,000. The Committee also was informed that Wichita State University has recently been awarded a \$2.0 million commitment from Cisco Systems with an additional \$6.0 million over the next three

years to run a technology research center.

**Local Workforce Investment Boards for Regions I, II and V:** Representatives of three of the five local workforce boards made presentations about the work of each board. Some boards contract out the administration of the region. Local Area I contracts with Kansas Legal Services and Local Area II contracts with Heartland Works, while the three remaining have administration provided by the Kansas Department of Commerce. All three regions making presentations made or exceed their accountability requirements as outlined by federal law and the state plan. The State as a whole made or exceeded 16 of the 17 performance measures and failed one. As outlined in the federal law, services for adults, dislocated workers and youth are contracted out with 85 percent of the federal funds being made available to the local boards. Local Area I covers 62 counties in western Kansas, Local Area II covers 17 counties in northeast Kansas and Local Area V covers 17 counties in Southeast Kansas.

The Kansas Board of Regents also provided testimony to the Committee.

## CONCLUSIONS AND RECOMMENDATIONS

- The Committee wishes to express its appreciation for the manner in which the U. S. Department of Agriculture Rural Development and the Kansas Housing Resources Corporation are working together to maximize resources in order to minimize the duplication of services. The need for improved rural infrastructures, as well as affordable housing, are major components of improving the economy in Kansas.
- The Committee, with the approval of the Legislative Coordinating Council, sent a letter to the Kansas Congressional Delegation supporting the efforts of the Kansas Housing Resources Corporation to address the current U. S. Department

of Housing and Urban Development (HUD) program guidelines that unfairly discriminate against enlisted military personnel and their families who use the basic allowance for housing to obtain off-base housing in low-income counties within our state.

- The Committee wishes to acknowledge the growth and leadership in Kansas, Inc. during the past few months. Kansas, Inc. has shown remarkable progress in achieving many of its statutory responsibilities by completing several reports. However, the Committee wishes to convey its desire that Kansas, Inc. also undertake its responsibilities to provide to the Legislature and the Governor evaluation of economic development agencies. If this statutory responsibility is not assumed by Kansas, Inc., the agency is directed to return to the standing committees and the Joint Committee on Economic Development and explain the reasons why evaluation of state agencies is not occurring.
- The Committee is pleased with the progress being made by the Kansas Department of Revenue and the Kansas Department of Commerce on the Sales Tax Exemptions and Tax Credit Report. The information, once generated by these agencies, will be very valuable to the Legislature in determining which incentives are effective in improving the economy of the State by retaining and attracting new jobs in Kansas.
- The Committee is please with the efforts of Kansas Inc. In preparing the Indicators of the Kansas Economy (IKE) report. It is clear that the agency has convened a comprehensive group of talented individuals to prepare this report which will be of value to the Legislature.
- The Committee is hopeful that the Legislature will enact new eminent

domain legislation during the 2006 Legislative Session that will provide a clear definition of a blighted area; allows for proper compensation for the property owner; and establish a threshold on local government that allows for the use of eminent domain.

- The Committee wishes to express its desire that once eminent domain legislation is enacted, a private or public entity disseminate the legislation to the public in the best means possible.
- The Committee is hopeful that Local Workforce Development Boards, as well as, the State Workforce Board will take into consideration the employment needs of senior citizens of the State. In addition, the Committee hopes that the needs of the senior citizens will be represented in some manner on the above mentioned boards.
- The Committee was very impressed with the efforts of the Kansas Department of Corrections Offender Employment Program; the Wichita Public Schools' secondary career and technical education program and especially impressed with the Pottawatomie Consortium's requirement for a Senior Exit Project and Portfolios that incorporate academic, technical and performance standards; Kansas Legal Services employment training programs that work with Department of Social and Rehabilitation Service's clients with several barriers to successful employment; the Kansas Cisco Network Academy System which trains individuals to work with computers and software; and the three local workforce boards, Heartland Works, Barton County Community College and Local Area 5 Workforce Board, for their explanation of the operations of these diverse areas and the workforce training they are providing.
- The Committee believes that several

programs are providing excellent workforce training; however, there is lack of communication between the Kansas Department of Commerce and other stakeholders. Also, the State of Kansas lacks a clear financial picture of what is being spent on workforce development. Therefore, the Committee makes the following recommendations and requests:

- The Committee defines workforce development as a partnership between the State and business to develop employment opportunities with meaningful and sustainable income to Kansans and providing programs that assist business through specialized training. The goals established by the Committee for workforce development are to:
  - Increase employment;
  - Increase personal income through continuing education and training programs;
  - Work with business in developing programs to provide specialized education and training programs, including technical programs at post-secondary institutions;
  - Develop, through an executive team that includes all applicable stakeholders, strategies to address goals while linking programs to the best practices to be delivered effectively and efficiently; and
  - Provide statewide accountability standards and reporting for all workforce programs and their finances.
- The Committee requests that the Department of Commerce provide to the House Committee on Commerce and Labor, the House Committee on Economic Development and the Senate Committee on Commerce the time table for the transition to Kansas 1<sup>st</sup> initiative and when it will be fully

implemented during January 2006.

- The Committee requests that the House Committee on Commerce and Labor, House Committee on Economic Development and the Senate Committee on Commerce continue the exploration and discussion of workforce development during the 2006 Legislative Session.
- The Committee requests that the Chairperson of the Joint Committee on Economic Development send a letter to Secretary of Commerce Howard Fricke with copies to Deputy Secretary Steve Kelly, President and CEO of the Kansas Board of Regents Reginald Robinson, and Dr. Blake Flanders, Director, Career and Technical Education. The letter is to express the frustration the Committee has experienced over a number of years in trying to receive accurate and complete data on the workforce efforts in Kansas. In addition, the Committee is requesting that Dr. Flanders revise his testimony and information provided to Kansas Legislative Research Department to accurately reflect the efforts of the Board of Regents with regard to workforce development. The testimony also should include technical schools and colleges and the community colleges which the Board of Regents represents.
- The Committee recommends legislation that will increase the rural business development tax credit and the Center for Entrepreneurship contribution tax credit from 50 percent to 75 percent. In addition, the bill will abolish the Community Entrepreneurship Fund in the state treasury and authorize the Center for Entrepreneurship to place money in an account or accounts established at local banks or savings and loans. The new accounts would be

administered by the Center under guidelines developed and implemented by the Center and approved by the Secretary of Commerce.

- The Committee recommends legislation that will outline the procedure for transferring property back to a city when excess land for a redevelopment project has been taken. The bill also prescribes penalties for violation of the act.

**MISSION STATEMENT FOR SENATE COMMERCE COMMITTEE**

**C**REATE A VISION AND ENVIRONMENT TO GROW ALL ASPECTS OF THE  
KANSAS ECONOMY THROUGH:

- JOB CREATION,
- SUPPORT OF EXISTING BUSINESS, AND
- SUPPORT OF NEW BUSINESS AND ENTREPRENEURSHIP,

WITH EFFECTIVE POLICY, AND WITH OVERSIGHT AND  
EVALUATION OF IMPLEMENTATION.

2005 SESSION

Senate Commerce Committee

January 11, 2006

Attachment

7-1

## Commerce Committee

### **46-1601. Legislative committees on economic development; purpose.**

(a) The purpose of the legislative committees shall be to:

(1) Facilitate the growth, diversification and expansion of existing enterprises and the creation by Kansans of new wealth-generating enterprises;

(2) promote economic diversification and innovation within the basic industries and sectors of the state;

(3) promote increased productivity and value added products, processes and services among wealth-generating enterprises, and the export of those goods and services created by small and large Kansas enterprises to the nation and world;

(4) maintain and revitalize economically depressed rural areas and urban neighborhoods by annually targeting scarce resources by size, sector and location to communities and enterprises of particular need and opportunity, and by working in close collaboration with local communities; and

(5) protect and enhance the environmental quality of the state in ways consistent with dynamic economic growth.

Senate Commerce Committee

January 11, 2006

Attachment 8-1

Original Mission Statement Synopsis

*Grow (Create an environment to grow) all aspects (rural, urban, business, workforce/labor) of the Kansas economy through*

- *Job creation*
- *Supporting existing businesses*
- *Supporting new businesses*

*and with effective policy, oversight, evaluation and (implementation).*

Revised Mission Statement Synopsis

**Create a vision and environment to grow all aspects of the Kansas economy through:**

- **job creation,**
  - **support of existing business, and**
  - **support of new business and entrepreneurship,**
- with effective policy, and with oversight and evaluation of implementation.**



**Brain Storming Ideas—Polled and Weighted**

- 1) Green            First Priority            3 weight
- 2) Orange        Second Priority        2 weight
- 3) Red            Third Priority            1 weight

Score	Green	Orange	Red	Idea
10	2	2	0	B. Continue to support initiatives set forth which include KEGA
7	2	0	1	O. Maintain Kansas' reputation as business friendly and enhance
6	1	1	1	A. Create a climate for supporting military development for bases in Kansas
6	2	0	0	D. Understand how tax policy impacts the economy and job growth
5	1	1	0	C. Evaluate programs in place
5	1	1	0	N. Need more money coming into state coffers. What do we do to make this happen? (New money into Kansas)
4	0	1	2	P. Stop the brain drain—keep talent in Kansas—bring others in
4	0	2	0	U. Partner with universities – “think tank”
3	1	0	0	R. Ways to obtain discretionary money within state
2	0	0	2	E. Support recreation and tourism of state
2	0	0	2	H. Responsive to work environment needs—(prompt pay bill, workers comp)
2	0	1	0	J. Better understanding of Kansas Economy and Trends
2	0	1	0	K. IKE—Indicators of Kansas Economy (Federal Reserve)
1	0	0	1	F. Focus on rural economic development
1	0	0	1	T. Jobs with meaningful wages and health care
0	0	0	0	G. Fishing/lake development
0	0	0	0	I. Unemployment
0	0	0	0	L. Make it easier from a state level for businesses to succeed (one stop shop)
0	0	0	0	M. Facilitate health care affordability
0	0	0	0	Q. Better understanding of agriculture economy
0	0	0	0	S. Cooperate/coordinate with Tax Committee

**State of Kansas**  
**2005 Debt Affordability Report**  
September 1, 2005

Project Leader:

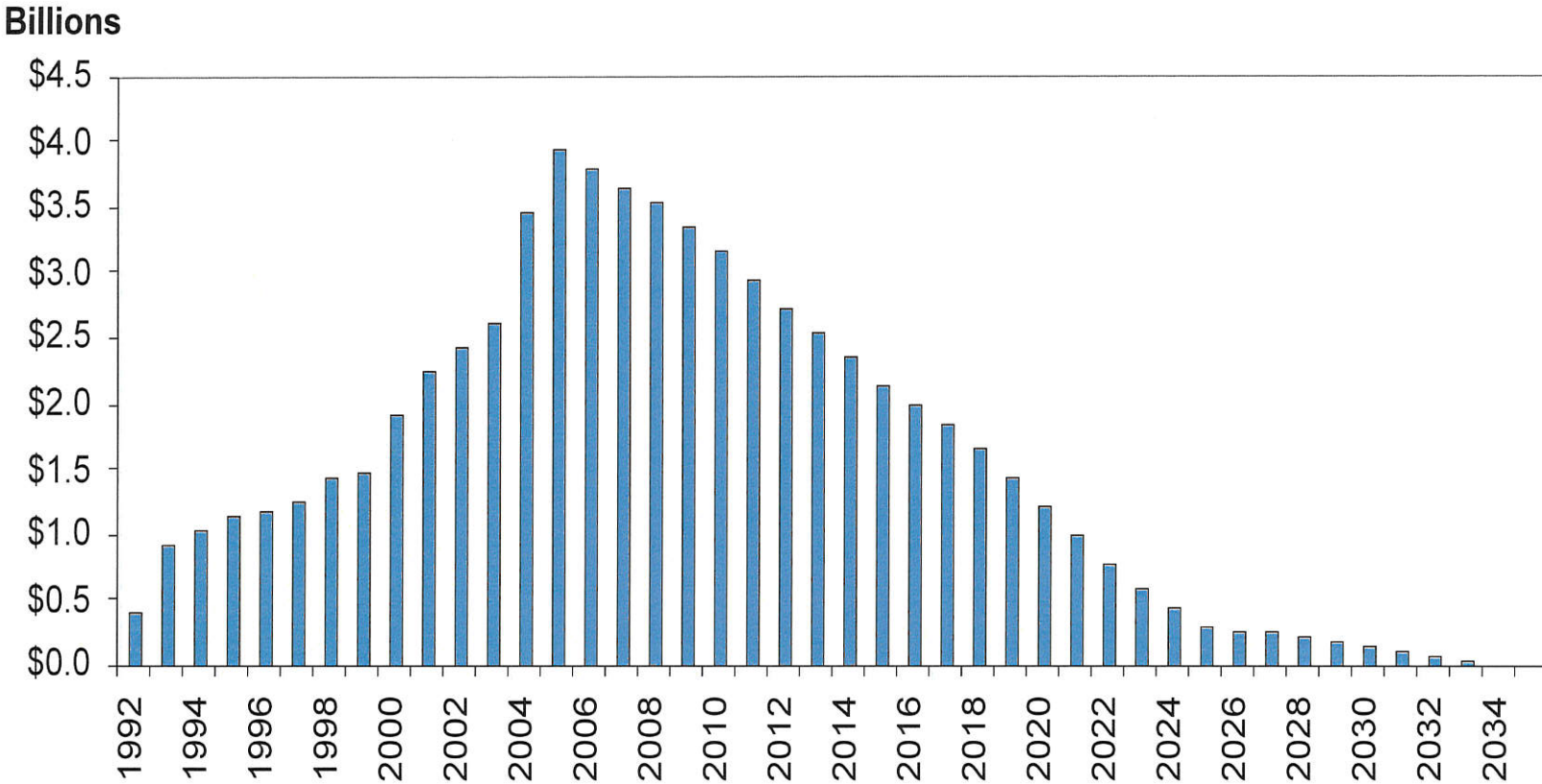
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# Purpose of Debt Affordability Analysis

- 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

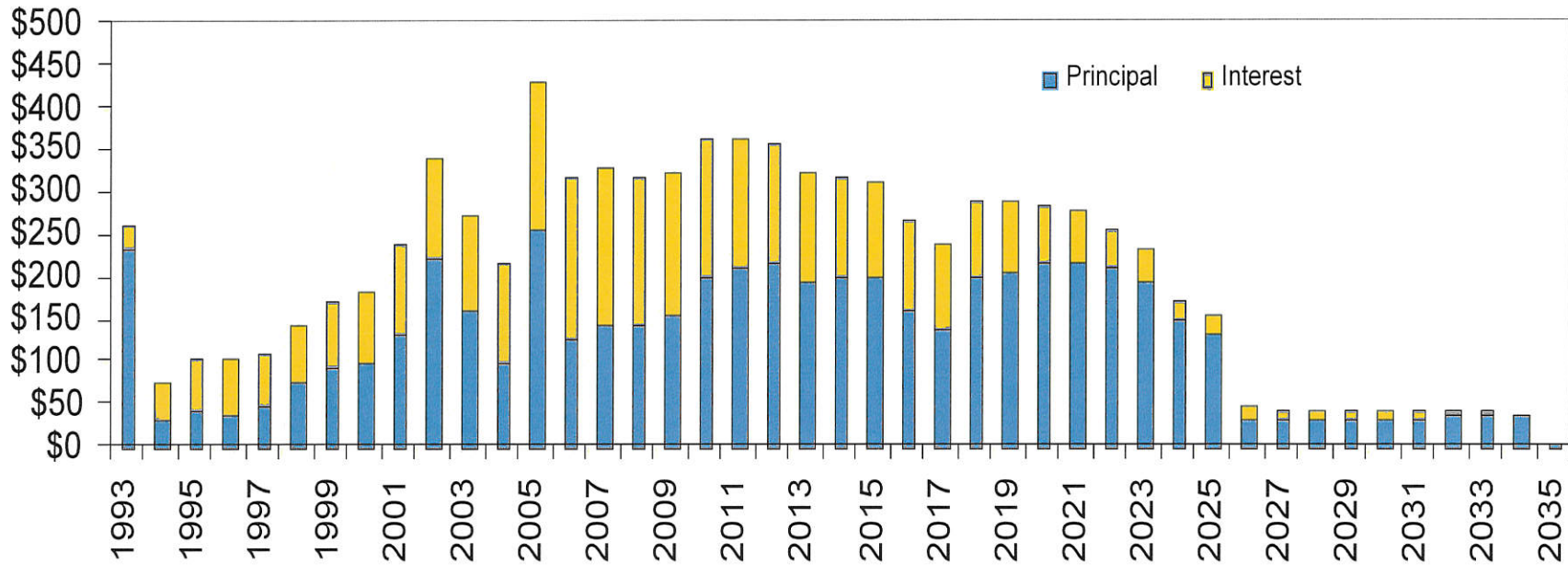


Source: Kansas Division of Budget Spreadsheets as of June 30, 2005-assuming no new debt.

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

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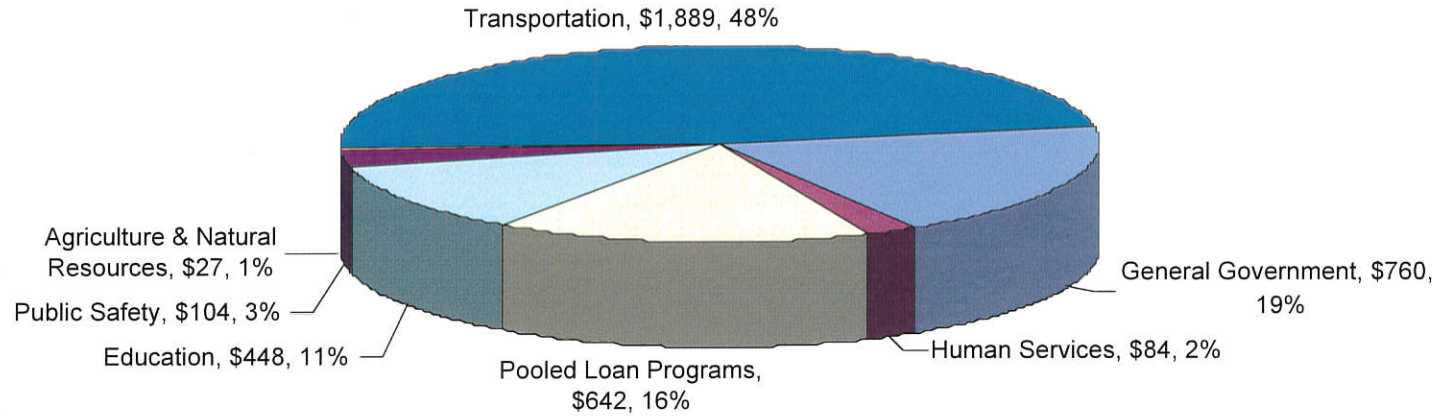
Millions



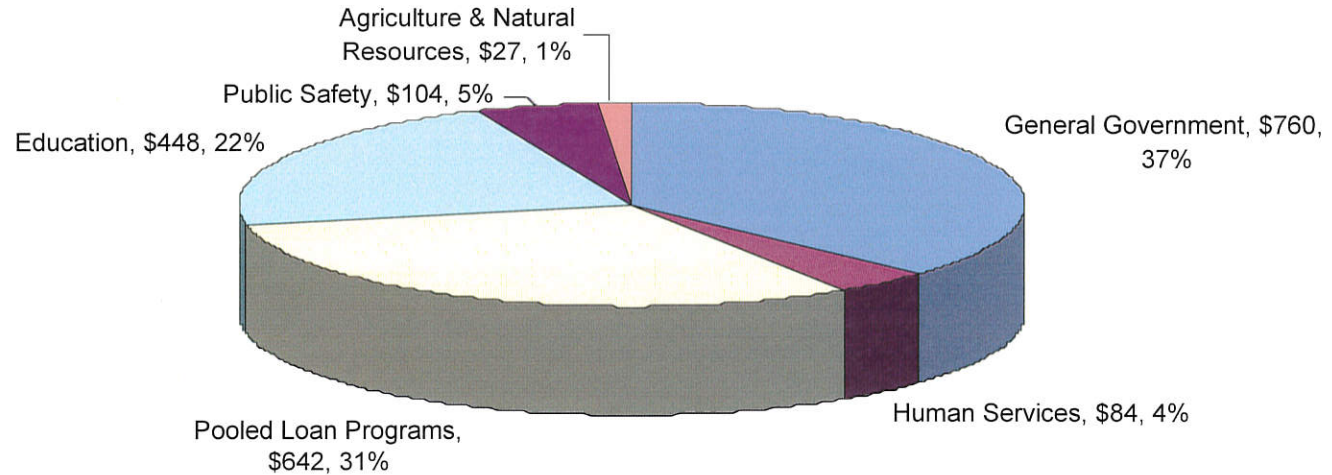
Source: Kansas Division of Budget spreadsheets as of June 30, 2005 – assuming no new debt.

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

A. Including Transportation

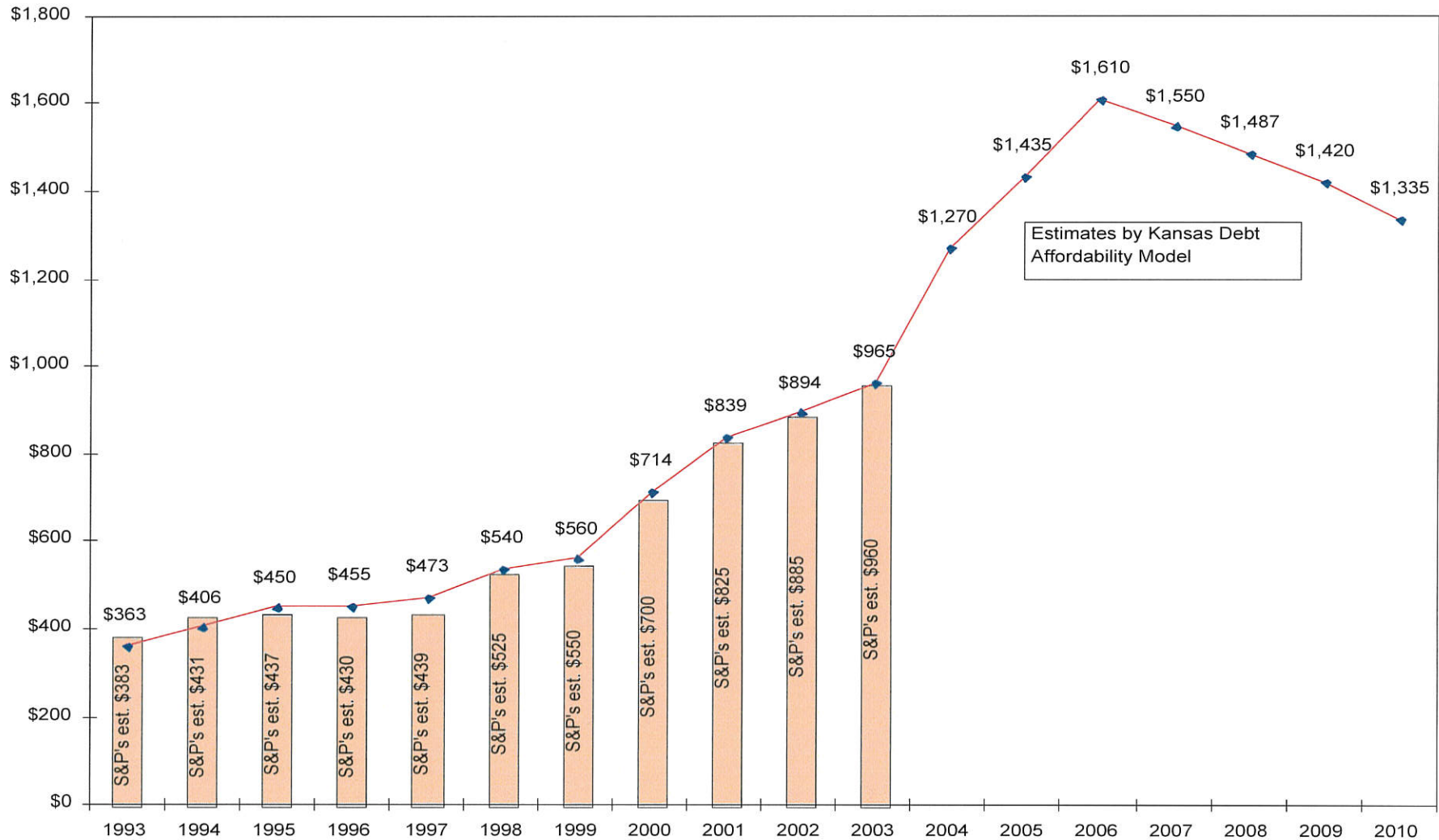


B. Excluding Transportation



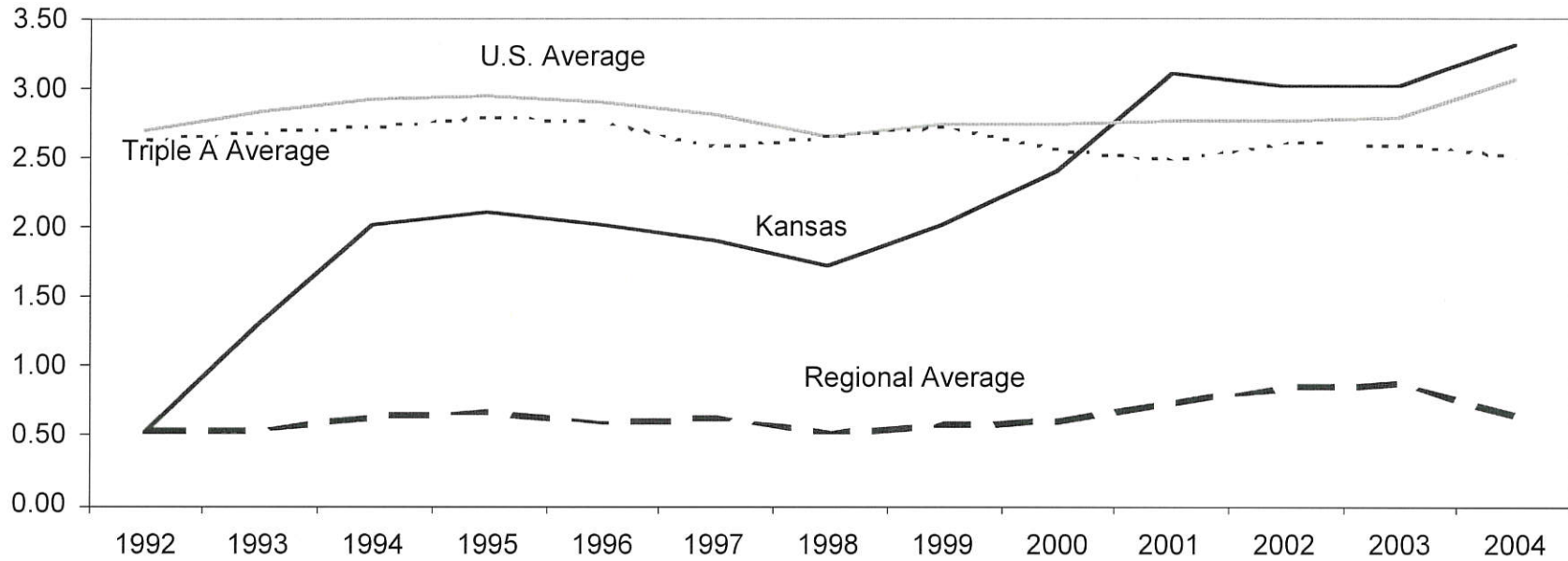
Source: Kansas Division of Budget spreadsheets as of June 30, 2005 assuming no new debt.

**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

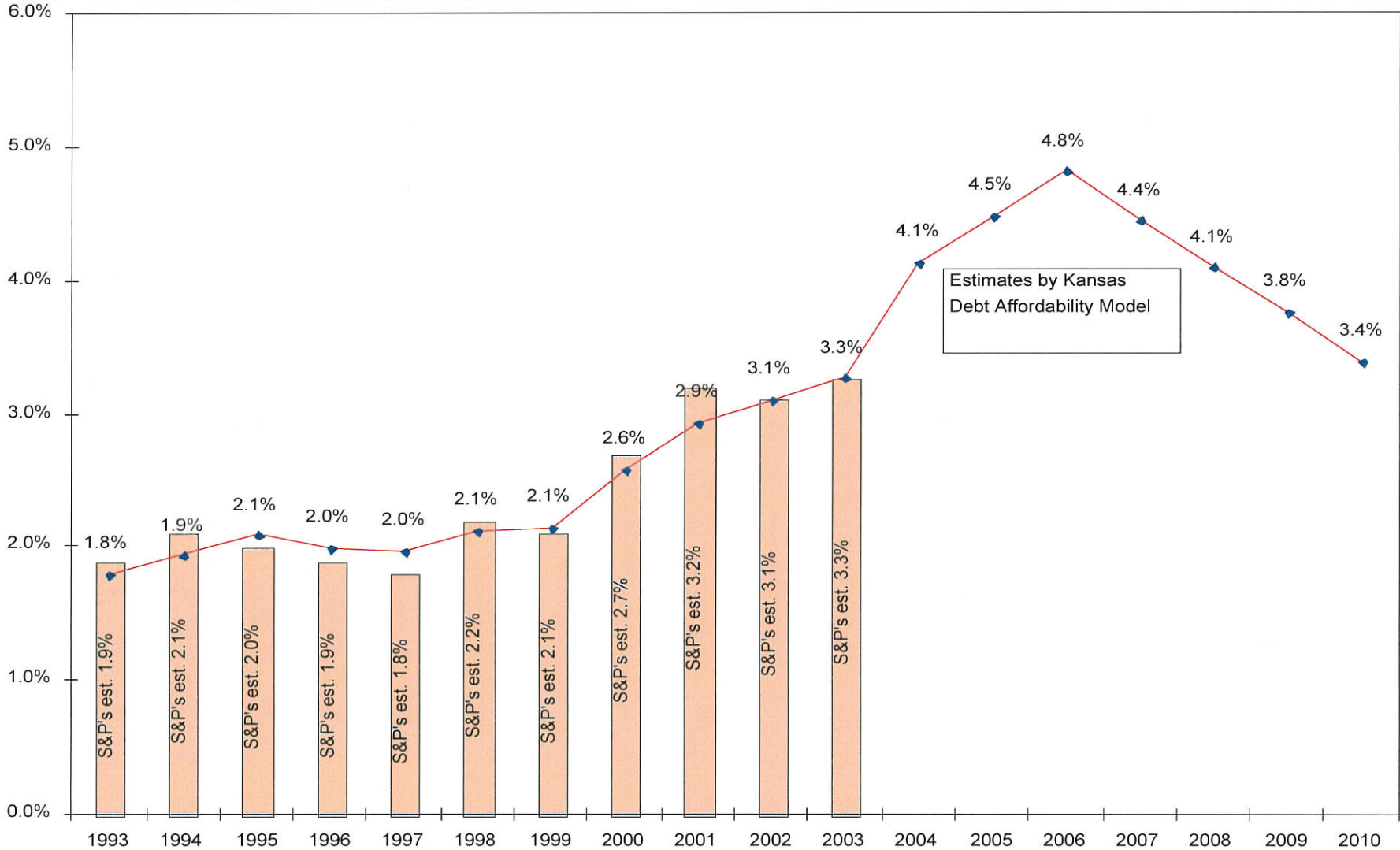


	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Kansas	0.50	1.30	2.00	2.10	2.00	1.90	1.70	2.00	2.40	3.10	3.00	3.00	3.30
U.S. Average	2.69	2.83	2.91	2.94	2.88	2.80	2.65	2.73	2.73	2.75	2.75	2.78	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**

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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/](http://hws.wichita.edu/KPF/reports_publications/)