

MINUTES OF THE SENATE COMMERCE COMMITTEE

The meeting was called to order by Chairperson Karin Brownlee at 8:35 A.M. on January 11, 2007 in Room 123-S of the Capitol.

All members were present except:
David Wysong- un-excused

Committee staff present:
Amy Deckard, Kansas Legislative Research Department
Kathie Sparks, Kansas Legislative Research Department
Norm Furse, Revisor of Statutes
Mike Heim, Revisor of Statutes
Jackie Lunn, Committee Assistant

Conferees appearing before the committee:
Secretary Garner, Kansas Department of Labor

Others attending:
See attached list.

Chairperson Brownlee introduced Secretary Garner, Kansas Department of Labor to request a bill introduction.

Secretary Garner presented written testimony (Attachment 1) and stated he was requesting the introduction of a bill proposing changes to the Employment Security Laws recommended by the Employment Security Advisory Council to reduce Unemployment Insurance taxes on Kansas employers while ensuring the future integrity of the UI Trust Fund.

Senator Reitz made a motion to introduce the bill. Senator Emler seconded. Motion carried.

Chairperson Brownlee stated that they did have another request for a bill to repeal the minimum wage stating that Kansas' market was driving its wages much higher than the minimum. The bill would be amending the statute to remove the minimum wage.

Senator Emler made a motion to introduce a bill to repeal the minimum wage. Senator Jordan seconded. Motion carried.

Next, Chairperson Brownlee referred the Committee to handouts regarding the Mission Statement and Goals of the Committee which were revised in the 2005 session; (Attachment 2) and Senate Commerce Committee Goals, Jan 2005. (Attachment 3) The Committee discussed the goals of the Committee and noted that some of the goals set had been met citing the IKE Report to be one of those. The Committee had concerns regarding vocational and technical education schools and the importance they hold for Kansas and the fact they are not treated the same as universities and colleges, agreeing the funding was not adequate. Workforce development in rural areas was also discussed. The subject of diversification was another topic of discussion noting that the three big engines in the Kansas economy are oil and gas and aviation and that they were subject to change at any time. In order for Kansas to have a stronger economy that just doesn't rely on Oil and Gas and Aviation Kansas should diversify and bring in new industry.

Upon the conclusion of the discussion, the Committee was in agreement they need to focus on the following for the 2007 session: Diversification of jobs; Rural Economic Development; and Accountability.

The Committee also agreed they needed updates from:

- Kan-ed
- Kansas Center for Entrepreneurship
- Kansas Bioscience Authority
- Kansas Small Business Development Center
- E 911

CONTINUATION SHEET

MINUTES OF THE Senate Commerce Committee at 8:30 A.M. on January 11, 2007 in Room 123-S of the Capitol.

- Tourism Initiative
- Training project in aviation industry in Wichita
- Nano Technology
- K-State Communication Center

Chairperson Brownlee asked the Committee if they had any interest in taking field trips to visit Heartland Park and Innovia. The Committee was in agreement they would like to visit those sites to see first hand how some of the STAR Bond projects that the Committee has approved are doing.

Next, Chairperson Brownlee introduced Kathie Sparks, Legislative Research to give a review of the report for the Joint Committee on Economic Development. (Attachment 4)

Upon the completion of Ms. Sparks review there was a short discussion. Chairperson Brownlee gave a review of the agenda for next week and adjourned the meeting at 9:25 a.m. with the next meeting scheduled for Tuesday, January 16th at 8:35 a.m. in room 123S.

Request for Bill Introduction
Senate Commerce Committee
Jim Garner, Secretary
Kansas Department of Labor
11 January 2007

Chairwoman Brownlee and Members of the Committee:

Thank you for this opportunity to appear and request the introduction of a bill proposing changes to the Employment Security Laws recommended by the Employment Security Advisory Council. For your information, I have attached a list of the members of the Council.

Last month, Governor Sebelius asked the Council to meet and make a recommendation on how best to reduce Unemployment Insurance taxes on Kansas employers while ensuring the future integrity of the UI Trust Fund. Last night, the Governor renewed her call for UI tax relief.

On January 4th, the Council met and after very thorough discussions, they made their recommendations for legislation on this matter. The Council unanimously endorsed a proposal to reduce UI taxes for employers, saving businesses more than \$170 million during CYs 2007 and 2008. The Council also recommended setting a standard "New Employer" rate of 4.0 percent (6 percent for new employers in the Construction industry) and a change to simplify the definition of an "employer" under the Employment Security Act to include any employer who employs one or more individuals during a calendar year.

I have provided a couple of copies of draft language of the recommendations approved by the Council.

I respectfully request that the Committee introduce the changes endorsed by the Employment Security Advisory Council as a Committee Bill. Thank you again for this opportunity. I will be glad to take questions.

Senate Commerce Committee
January 11, 2007

Attachment 1-1

Kansas Employment Security Advisory Council

(Revised October 2006)

EMPLOYEE MEMBERS

Andy Sanchez (2010)
Executive Secretary-Treasurer
Kansas AFL-CIO
2131 SW 36th St.
Topeka, KS 66611-2553
785- 267-0100

Wil Leiker (2008)
Executive Vice-President
Kansas AFL-CIO
2131 SW 36th St.
Topeka, KS 66611-2553
785- 267-0100

Jim Grunewald, President (2010)
Topeka Federation of Labor
Assistant Bus. Agent, IBEW #226
1620 NW Gage
Topeka, KS 66618
785- 232-1761

Debbie Snow (2008)
Communications Workers of America Local 6401
Legislative Director
1801 SE 37 St.
Topeka, KS 66605
785-266-4185

EMPLOYER MEMBERS

Terry Leatherman (2008)
Executive Director, Kansas Industrial Council
Kansas Chamber of Commerce & Industry
835 SW Topeka Blvd.
Topeka, KS 66612-1671
785- 357-6321

Roger Morris (2010)
Vice-President of Human Resources
Gill Studios, Inc.
10800 Lackman Rd., PO Box 2909
Shawnee Mission, KS 66201-1309
913- 888-4422

Dave Huston, President (2010)
Olson Manufacturing and Distribution, Inc.
8310 Hedge Lane Ter
Shawnee, KS 66227-3543
913-441-6637

Dick Rader (2008)
Boeing Company
12125 W. Ridgepoint
Wichita, KS 67235
316-526-4036

PUBLIC MEMBERS

Russell Smith (2010)
Professor/Associate Dean
Washburn University School of Business
1700 SW College Ave.
Topeka, KS 66621
785-670-1308

Joseph F. Singer (2010)
Executive Director, HWB Center for
Small Business & Entrepreneurism
11923 Bradshaw Street
Overland Park, KS 66213-2381
913- 814-9177
816- 235-2320 (Univ of Missouri)

Michael Oldfather (2008)
Professor of Economics at
Kansas State University
3007 Tumbleweed Terr.
Manhattan, KS 66502
785-532-4580

Charles Krider, Professor (2008)
School of Business
1300 Sunnyside
The University of Kansas
Lawrence, KS 66045-7885
785-864-7543

Senate Commerce Committee Goals (revised 2005)

1. Continue to support initiatives set forth which include the Kansas Economic Growth Act
2. Maintain Kansas' reputation as business friendly and enhance that reputation.
 - (A) Better understanding of the Kansas economy and trends
 - (B) Develop useful indicators of Kansas Economy (IKE Report)
3. Create a climate for supporting military development for military bases in Kansas.
4. Understand how tax policy impacts the economy and job growth.
 - (A) Cooperate and coordinate with the Assessment and Taxation Committee.
5. Evaluate programs in place.
6. Programs that bring new money to the State coffers.
 - (A) Ways to obtain discretionary money within the State.
7. "Stop brain drain" that is keep talent in Kansas. Bring in talent from other states.

Other goals to consider:

- Support recreation and tourism in the State
- Responsive to work environment needs (prompt pay bill, workers' compensation, etc.)
 - Focus on rural economy
 - (a) Better understanding of the agriculture economy
 - Jobs with meaningful wages and health care
 - (a) Facilitate Health care affordability
- Fishing/lake development
- Unemployment
- Make it easier from a state level for business to succeed (one stop shop)

Senate Commerce Committee

January 11, 2007

Attachment 2

Senate Commerce Committee Goals, Jan. 2005

1. Continue support of current initiatives including the Kansas Economic Growth Act
2. Maintain Kansas' reputation as business friendly and enhance that reputation.
 - (A) Better understanding of the Kansas economy and trends
 - (B) Develop useful indicators of Kansas Economy (IKE Report)
3. Create a climate for supporting military development for bases in Kansas.
Support growth w/ return of Big Red One to Fort Riley
4. Understand how tax policy impacts the economy and job growth.
Cooperate and coordinate with the Assessment and Taxation Committee.
5. Evaluate programs in place.
6. Explore programs that would increase state revenue
7. "Stop brain drain" by keeping talent in Kansas and attracting out of state talent.

Other goals to consider:

- Support recreation and tourism in the State
- Responsive to work environment needs (prompt pay bill, workers' comp, etc.)
- Focus on rural economy

Mission Statement

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

- Job Creation
- Support of existing business
- Support of new business and entrepreneurship,

with effective policy, oversight and evaluation of implementation.

Priorities, Jan. 25, 2006

1. Workforce Development – track how the money is spent, set outcomes, better understand elements of (federal) programs and meet needs of older Kansans.
2. Track and/or support impact of growth of military in Ft. Riley area
3. Create a state debt policy
4. Encourage deployment of high speed broadband deployment
5. Add to Commerce comm. statute KSA 46-1601: *"promote and evaluate workforce development to meet the needs of the economy"*

Senate Commerce Committee

January 11, 2007

Attachment 3-1

Statutory charge to Senate Commerce:

KSA 46-1601. The purpose of the legislative committees shall be to:

- (a) Facilitate the growth, diversification and expansion of existing enterprises and the creation by Kansans of new wealth-generating enterprises;
- (b) promote economic diversification and innovation within the basic industries and sectors of the state;
- (c) 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;
- (d) 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;
- (e) protect and enhance the environmental quality of the state in ways consistent with dynamic economic growth; and
- (f) promote and evaluate workforce development to meet the needs of the economy.

2007: What changes would you like to make?

1. What have we accomplished?
2. Do we need to change some of our goals?
3. Would you like to take a few field trips to observe our past work? For example, Innovia and Heartland Park.
4. What reports do you think are most critical to hold agencies and others accountable?
E911, KAN-Ed, STAR bonds annual reports, others?
5. From whom do we need to hear progress reports? K-TEC, KS Bioscience Authority, enterprise facilitation, Dept. of Commerce, Agritourism, Board of Accountancy, workers comp, Tourism initiative, workforce development (post audit report)...
6. Would you be interested in an update on new innovations such as nanotechnology, RFID, bioscience advances and other technologies?
7. Which days of the week are best for our meetings?

Report of the
Joint Committee on Economic Development
to the
2007 Kansas Legislature

CHAIRPERSON: Senator Nick Jordan

VICE-CHAIRPERSON: Representative Lana Gordon

OTHER MEMBERS: Senators Jim Barone, Karin Brownlee, Laura Kelly, and David Wysong; and Representatives Sydney Carlin, Donald Dahl, Terrie Huntington, Scott Schwab, Kenny Wilk, Jerry Williams, and Valdenia Winn

STUDY TOPICS

- Kansas Center for Entrepreneurship; Animal Health Research in Kansas; Extension Services; Pharmaceuticals and Kansas; Workers Compensation and Medical Costs; and Trade Division Development
- Rural Business Development Tax Credit Program
- Sales Tax and Revenue (STAR) Bond Program
- Workforce Development

December 2006

Senate Commerce Committee
January 11, 2007
Attachment 4-1

Joint Committee on Economic Development

KANSAS CENTER FOR ENTREPRENEURSHIP; ANIMAL HEALTH RESEARCH IN KANSAS; EXTENSION SERVICES; FARMACEUTICALS AND KANSAS; WORKERS COMPENSATION AND MEDICAL COSTS; AND TRADE DIVISION DEVELOPMENT

CONCLUSIONS AND RECOMMENDATIONS

- The Committee recommends that the Revisor of Statutes draft legislation that will provide technical clean up to the statutes dealing with the Center for Entrepreneurship. The Revisor has found that the term “Kansas community entrepreneurship fund” remains in statute when it should refer to Center for Entrepreneurship.
- The Committee recommends that the Revisor of Statutes draft legislation that will remove the term economic development from the mission statement of the extension services and replace the economic development program development committee with community and resource development program committee in statute.
- The Committee wishes to express its appreciation for the work the Greater Kansas City Chamber of Commerce, Kansas State University, Bayer Health Care Animal Health, Kansas City Area Life Sciences Institute, and the Kansas City Area Development Council have done to make Kansas the leader in animal health research. The animal health corridor is showing great promise as an expanding industry for the state. This industry will bring new high paying jobs and economy growth to the state. The Committee looks forward to the presentation next year about the new initiatives put forth by the various institutions and companies involved in this industry.
- The Committee wishes to acknowledge the fine job the Kansas State University Extension Services Program is doing in Kansas. However, the Committee hopes the extension services will not duplicate efforts for economic development in areas of Kansas which already have organizations in place providing economic development services. In addition, the Committee strongly believes it would be to the benefit of the extension services programs to be part of the Center for Entrepreneurship partner programs and be listed as a Network Kansas partner to further both the Center’s and extension programs goals.
- The Kansas Bioscience Authority has made great strides in its first two years of operations and the Committee is very pleased that Mr. Tom Thornton has been hired as President. However, in the future, the Committee would appreciate an explanation of the criteria employed by the Authority for determining investments and additional information about the companies the Authority has chosen to invest in.
- The Committee found the outline presented about the future of plant grown pharmaceuticals and the potential for profit for Kansas farmers very informative. The Committee requests that KTEC keep the Committee informed as this new industry develops in Kansas.

- The Committee requests that the Department of Labor provide the appropriate House and Senate Committees the report and its recommendation to align fees for workers compensation medical costs with state of Kansas medical fee reimbursements. The Committee believes that this alignment of fees with the state of Kansas medical fee reimbursement should begin with the November 2006 meeting.
- The Committee requests that the Legislative Coordinating Council give a positive consideration to any request made by members of the Joint Committee on Economic Development to attend the 2007 BioConference in Boston, MA.

Proposed Legislation: The Committee recommends 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.

COMMITTEE ACTIVITIES

Kansas Center for Entrepreneurship

Steve Radley, Director of the Kansas Center for Entrepreneurship, updated the Committee on the current initiatives at the Center. The Kansas Center for Entrepreneurship has developed a seamless integrated network of small business service providers in Kansas and is now working to connect entrepreneurs and small business owners with the necessary education, expertise and economic resources.

The Center has provided a grant to the Center for Entrepreneurship at Wichita State University to conduct an inventory of all entrepreneurial offerings in the state of Kansas. The inventory will include K-12, community college, private college, Regents' universities and public sector course work, both credited and non-credited courses. The report is expected to be completed by the end of September 2006. Once the report is received, the Center will then determine

whether there are any areas of need for education that are not covered through the current course offerings offered in the state.

The Entrepreneurship Fund StartUp Kansas Program is to provide economic resources to startup and existing businesses in conjunction with the Center's NetWork Kansas partners. The StartUp Kansas program does not provide capital directly to the entrepreneur or small business. The Fund currently has a balance of \$450,000 and the Center has initiated a quarterly proposal review process. The proposals are reviewed by the StartUp Kansas Committee which is made up of members of the Kansas Center for Entrepreneurship Board of Directors. The Center has received seven proposals; four of the seven were approved for StartUp Kansas funds and will share \$165,000. The four businesses will utilize StartUp Kansas funds to leverage more than \$1.5 million in private funds from banks, regional foundations, and other sources. Two of the awards involved succession management of existing businesses and two are expansions of existing businesses. In all four cases, the projects would not move forward without the assistance of the StartUp Kansas fund. The Center is also in the process of setting up a 501(c)(3) corporation so that it can begin raising additional capital for the fund.

Erik Pedersen, Director, Kansas Center for Entrepreneurship, explained that on March 9, 2006, the Kansas Center for Entrepreneurship officially launched the

NetWork Kansas call center and networkkansas.com website with 240 resource partners. At the present time, there are more than 270 resource partners in this statewide referral network. Currently, there are more than 50 service providers in both the east central and south central region. In addition, there are more than 35 in the southwest and approximately 25 in each of the other four economic development regions of the state.

In the five plus months between launch and the end of August, the call center has received 139 incoming calls, averaging about 25 per month. About 10 percent of the calls are coming from cities with population less than 1,000, and about 17 percent from cities with population between 1,000 and 5,000. Therefore, just under one-third of the calls are coming from entrepreneurs in cities with populations less than 5,000. Approximately one-half of the calls are coming from cities with populations more than 25,000 and the remaining 20 percent fall in that 5,000-25,000 range.

The 139 callers were referred to NetWork Kansas by more than 45 different referral sources, including banks, press release, and word of mouth. The leading referral sources are the Kansas Department of Commerce, the Kansas Small Business Development Center lead office and its resource partners. More than 25 of the resource partners have referred at least one caller to the call center. Through the first five months, the most requested types of business assistance were: financial resources and assistance; business planning, marketing and licensing/permit assistance.

The NetWork Kansas, in conjunction with Kansas Community Colleges and its Network partners, held town hall meetings across the state to engage communities in an open forum discussion concerning entrepreneurship as a means for economic and community development. The meetings were held from March 15, 2006, through May 3, 2006, and were intended to challenge

communities to identify issues and begin looking for solutions to problems in addition to providing NetWork Kansas and its partners with substantive feedback in order to improve service.

The Center is in the initial stages of implementing its marketing and promotion plan with the goal to grow the call volume. In addition, the staff is actively working to engage organizations such as Kansas Bankers Association, Kansas Association of CPA's, and the Kansas Chamber of Commerce. The Center's staff is available to speak at meetings, distribute information and help members of these organizations gain understanding that the Network Kansas is the gateway to entrepreneurial resources across Kansas.

Ray Hammarlund, Director, Agriculture Marketing and Community Development, Kansas Department of Commerce, updated the Committee on the statutory requirement of the Kansas Center for Entrepreneurship to "organize a summit to recommend policy to foster an economic climate conducive to the development of an agriculture bioscience industry." The Department has assembled a steering committee to begin the process of forming the issues surrounding the agriculture bioscience industry. The steering committee has representatives from the Kansas Center for Entrepreneurship, the Kansas Small Business Development Center, Kansas Bio, Kansas Technology Enterprise Corporation, Kansas Inc., Kansas State University, the Kansas Department of Agriculture, and the Kansas Department of Commerce. Currently, the plan is to hold this summit January 30 or February 1 of 2007.

Animal Health Research

At the September meeting, Jenny Erdman, Dr. Lisa Freeman, Dr. Scott Weir, Dr. William Duncan, and Bob Walker presented testimony about animal health research occurring in Kansas. According to Ms. Erdman, Kansas City has the largest

single concentration of animal health interests in the world. Nearly one third of the \$14.2 billion global animal health industry is represented by companies in Kansas City, and Kansas City is the only United States region investing specifically in attracting animal health companies. Finally, Kansas will benefit by this research because it will provide the opportunity for healthier people and animals, statewide economic development and increased food safety and security.

Dr. Lisa C. Freeman, Professor of Pharmacology, Associate Dean for Research and Graduate Programs at Kansas State University College of Veterinary Medicine, spoke about the university's success in taking innovation in animal health from cell to society. For example, MicroHeart has acquired exclusive rights to develop and commercialize PR39, a naturally-occurring 39-amino acid peptide with angiogenic and anti-inflammatory properties. Significant pre-clinical findings show promising applications in angiogenesis for the treatment of coronary artery and peripheral artery disease and protection against cardiac ischemia/reperfusion injury. Other potential applications include the treatment of stroke and the prevention of restenosis. Research on clinical applications for PR39 is being done at Beth Israel Deaconess Medical Center and Children's Hospital in Boston, Kansas State University, Max Planck Institute, Bad Nauheim, Germany, and other university research centers. In addition, Mike Dryden's focus is the biology and control of fleas and ticks at Kansas State University. He has lead applied research on: Frontline & Frontline Plus; Advantage, K9Advantix, Program, Capstar and Revolution.

Scott Weir, Pharm. D., Ph.D. Office of Therapeutics Discovery and Development at the Cancer Center at the University of Kansas spoke about the intersection of human and animal drug development. Dr. Weir explained how a drug moves from discovery through pre-clinical, animal

efficacy, animal toxicity and human formulation to the clinical proof of concept or human testing. William P. Duncan, Ph.D., President of the Kansas City Area Life Sciences Institute, has utilized "prime the pump" grants since October 2002, to facilitate and expand collaborative life sciences research among the organization's stakeholder institutions. The expectation of the Institute is that the initial grant would lead to much larger research efforts funded by federal agencies, foundations, or private sector companies. The Life Sciences Institute has routinely experienced an average 10 to one return in one year on these grants, i.e., \$10 in additional funding received within one year for every \$1 invested.

Mr. Bob Walker, Director of Communications and Public Policy for Bayer HealthCare's Animal health business testified that Bayer's has its Animal Health North American headquarters in the State of Kansas because of the strong public private partnership that has occurred in Kansas. In addition, Bayer believes that retention and recruitment of top talent, research and development of new products, and an increase in partnership opportunities has occurred because of the work of the animal health corridor companies, institutions, and individuals involved. He stated that the animal health and nutrition market has grown exponentially in the last decade and will continue to do so. What this means for the animal health corridor is that businesses located from Manhattan to Jefferson City, from Saint Joseph to Columbia will continue to define this industry and grow.

Extension Services at Kansas State University

Dr. Daryl Buchholz, Associate Director Kansas State Research and Extension, testified that the overall mission of Kansas State research and extension service's program is to build upon the university's research and education mandates to provide a safe, sustainable, competitive food and

fiber system, and strong, healthy communities, families and youth through integrated research, analysis and education. The extension program maintains a network of local offices in every county across Kansas. The positive benefit of funds from only the extension sources that generate economic income into those counties and communities is estimated to be some \$48 million in both direct and indirect income. The economic activity is closely tied to about 1,200 jobs throughout the state's economy. In a recent study by Huffman and Evanson (Iowa State University 92206), concluded that programmatic funding for agricultural research and extension has had a significant positive impact on state agricultural total factor productivity over the 30 year period studied from 1970 through 1999. In Kansas, that total factor productivity increase for agriculture attributed to research and extension was at a rate of 1.65 percent annually. Finally, a few examples of economic impacts of the extension programs are as follows:

- Adoption of new wheat cultivars;
- Workshops, training and consultations for Medicare D Program;
- Voluntary income tax assistance;
- Family nutrition program;
- 4-H Youth Development; and
- Community PRIDE program (jointly administered with Department of Commerce).

Farmaceuticals and Kansas

Adrian Polansky, Secretary of Kansas Department of Agriculture submitted written testimony in which he stated that the ability to develop host crops from which pharmaceuticals can be derived is an important milestone for agriculture and for humanity, and it makes sense for many reasons. Two compelling reasons are that they are safer and they are more economical. Many of the current medicines depend on production methods that involve animal hosts or animal proteins, which opens the

door to inadvertent human infection with animal pathogens. Using plant-derived medicines eliminates that risk. Plant-based pharmaceuticals also provide opportunity for Kansas farmers to grow more valuable crops and Kansas farmers who choose to grow rice for Ventria Bioscience could realize a potential net profit of \$200 per acre.

Tracy Taylor, President and CEO of Kansas Technology Enterprise Corporation (KTEC) briefed the Committee on the Ventria Bioscience Company that is using rice as the host for high yield proteins for use in medical foods. Ventria has planted rice under close USDA scrutiny since 1997, with a 100 percent compliance record. The proposed Kansas deal would be \$6 million in grants from a consortium of KTEC and Junction City; \$5 to \$10 million of private equity with preferred stock at \$1.30 per share and the projected net present value of future domestic cash flows at 40 percent discount is \$196 million. Mr. Taylor outlined that this biotechnology company is in an emerging field of plant-made pharmaceuticals with a "world-class" management and board of directors. The company has 13 years of technology development and \$36 million of capital invested to date and a strong potential for liquidity in three to five years with several products that will address such things as oral rehydration; difficile infections, inflammatory bowel and diarrhea in children and adults.

Mr. Taylor also gave an overview of the KTEC technology commercialization value chain operations. KTEC's areas of focus are: Centers of Excellence in Kansas, Experimental Program to Stimulate Competitive Research (EPSCoR), small business innovation research assistance; Investment through the Angel Tax Credits, Creation of Angel Networks and Technology Commercialization Seed Fund; and business assistance through incubators, Mid-America Manufacturing Technology Center (MAMTC) and the KTEC pipeline of entrepreneur leadership development.

Kansas Bioscience Authority

Clay Blair, Chairman of the Board of Directors of the Kansas Bioscience Authority gave the Committee an outline of the Authority's current status. The Authority was created in 2004 by the Kansas Economic Growth Act and has the responsibility over a 15 year period to direct the investment of more than \$580 million. The mission of the Authority is to make Kansas the national leader in bioscience.

The Authority is governed by an eleven-member board with expertise in the fields of finance, business, bioscience research, plant biotechnology, basic research, health care, legal affairs, bioscience manufacturing or product commercialization, education or government. As of the September meeting the following is a list of the funded investments of the Authority:

Prescription Solutions, Overland Park, KS - 7/1/2005	\$ 150,000
Heartland Bioenterprise - 1/5/2006	200,000
Hospira, McPherson, KS - 4/11/2006	200,000
Quintiles, Overland Park, KS - 4/11/2006	3,500,000
JACAM, Sterling, KS - 4/11/2006	500,000
IdentiGEN, Lawrence, KS - 4/11/2006	125,000
American Ingredients, Lenexa, KS - 7/13/2006	1,000,000
City of Manhattan, KS - 7/13/2006	1,000,000
CritiTech, Lawrence, KS - 7/13/2006	48,700
KCADDC - 7/13/2006	41,200
KCALSI - 7/13/2006	10,000
MGP Ingredients, Atchison, KS - 7/13/2006	40,000
Nutri-Shield, Courtland, KS - 7/13/2006	40,000
Sunflower Bioenergy, Holcomb, KS - 7/13/2006	13,000
KUMC Wetlab Upgrade, Kansas City, KS - 7/13/2006	100,000
Olathe Wetlab Project, Olathe, KS - 7/13/2006	150,000
TOTAL	\$ 7,117,900

Workers Compensation and Medical Costs

Richard Thomas, Public Resource Director, Division of Workers Compensation, Kansas Department of Labor explained that workers' compensation medical fee schedules are the policy tools most often used by states to contain medical costs. Medical fee schedules are used by forty-three jurisdictions in 2006 and these fee schedules dictate the maximum reimbursement that providers can receive

for specified services. In addition, state fee schedule premiums over Medicare levels vary greatly across service groups. In general, the greatest interstate variation and largest premium over Medicare reimbursement rates occurred for surgical services and radiology. Fee levels were closest to and sometimes less than Medicare levels for physical medicine and evaluation and management services. Kansas

reimbursement for medical services under workers' compensation appears to be in the middle when compared to the other states.

Paula Greathouse, Director, Division of Workers Compensation, Kansas Department of Labor reported that during the previous nine months, the Kansas Insurance Department had received 79 complaints against workers compensation insurance carriers. Currently, 26 of those cases remain open and six of those cases have been terminated due to insufficient information from the person filing the complaint. The remaining 47 cases have been closed as the Kansas Insurance Department has either obtained reimbursement or refunds of disputed amounts for the complainant or a discontinuance of the complained of practice or that a determination that a violation of law could not be established. In addition, Ms. Greathouse reported that for FY 2005 the agency had received 64,761 accident reports and 6,132 of those cases had been assigned to an Administrative Law Judge for hearing.

Trade Development Division of Kansas Department of Commerce

John Watson, Director, Trade Division, Kansas Department of Commerce, testified that the Department currently has international offices in Japan (opened in 1985), Europe (1988), Mexico (2000), and the People's Republic of China (2005). These offices are located in high-potential markets for Kansas exports and in target countries offering the best prospects for recruiting new investment to Kansas. Each office has a dedicated account representative, full phone, fax and website services. Research has shown that Canada is the number one market for Kansas exports, the Mexico market ranks second, and China ranks as the third most important market for Kansas export sales. In addition, the Kansas China Office and the Kansas Mexico Office focuses on export promotion only, while the Kansas Japan Office and the Kansas European Office perform both export and investment

functions. On average, the direct involvement of the Trade Division generates over \$18 million in export sales each fiscal year and 350 new jobs with an annual wage rate of \$40,000. In addition, the Trade Division has generated \$80 million in capital investment from foreign sources.

Representatives of the ABZ Manufacturing, Inc of Madison, Kansas, testified to the company's experiences with the Trade Division and how the Division facilitated opening markets to the company in South America, Mexico, and Taiwan. Since the initial visits to South America arranged by the Trade Division in 2003, the company's growth in foreign markets has increased 11 fold.

Patrick French, Senior Vice President of the Wichita Area Chamber of Commerce and the President of the Greater Wichita Economic Development Coalition, explained that the Department of Commerce had partnered with his work and the Department's foreign offices in Europe and Japan by assisting his staff in the following international activities: international air show support (such as Farnborough and Paris Air Shows); direct mail assistance; translation services; setting appointments with local companies; lead generation; project follow-up; and travel support.

CONCLUSIONS AND RECOMMENDATIONS

- The Committee recommends that the Revisor of Statutes draft legislation that will provide technical clean up to the statutes dealing with the Center for Entrepreneurship. The Revisor has found that the term "Kansas community entrepreneurship fund" remains in statute when it should refer to Center for Entrepreneurship.
- The Committee recommends that the Revisor of Statutes draft legislation that will remove the term economic development from the mission statement

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- The Committee wishes to acknowledge the fine job the Kansas State University Extension Services Program is doing in Kansas. However, the Committee hopes the extension services will not duplicate efforts for economic development in areas of Kansas which already have organizations in place providing economic development services. In addition, the Committee strongly believes it would be to the benefit of the extension services programs to be part of the Center for Entrepreneurship partner programs and be listed as a Network Kansas partner to further both the Center's and extension programs goals.
- The Kansas Bioscience Authority has made great strides in its first two years of operations and the Committee is very pleased that Mr. Tom Thornton has been hired as President. However, in the future, the Committee would appreciate an explanation of the criteria employed by the Authority for determining investments and additional information about the companies the Authority has chosen to invest in.
- The Committee found the outline presented about the future of plant grown pharmaceuticals and the potential for profit for Kansas farmers very informative. The Committee requests that KTEC keep the Committee informed as this new industry develops in Kansas.
- The Committee requests that the Department of Labor provide the appropriate House and Senate Committees the report and its recommendation to align fees for workers compensation medical costs with state of Kansas medical fee reimbursements. The Committee believes that this alignment of fees with the state of Kansas medical fee reimbursement should begin with the November 2006 meeting.
- The Committee requests that the Legislative Coordinating Council give a positive consideration to any request made by members of the Joint Committee on Economic Development to attend the 2007 BioConference in Boston, MA.

Joint Committee on Economic Development

RURAL BUSINESS DEVELOPMENT TAX CREDIT PROGRAM

CONCLUSIONS AND RECOMMENDATIONS

The Committee believes that the Rural Business Development Tax Credit Program does require additional time to mature and grow and that three years is not adequate to determine a true test of the success or failure of the program. Therefore, the Committee recommends legislation be introduced that will extend the life of the program through tax year 2009 and that statewide tax credits be \$2.0 million for FY 2008 and \$2.0 million for FY 2012. Finally, the Committee is recommending that the annual audit requirement of the seven regional foundations be amended to allow for the use of an audit to coincide with the fiscal year of the foundations.

Proposed Legislation: The Committee recommends introduction of four bills.

BACKGROUND

The Joint Committee on Economic Development is statutorily authorized to set its own agenda. The Legislative Coordinating Council asked that the Committee review the effectiveness of the Rural Business Development Tax Credit Program (RBDTCP). In addition, the Committee was asked to study whether the current expiration date of June 30, 2007 (this translates to tax year 2007 or December 31, 2007) for the Program should be extended.

COMMITTEE ACTIVITIES

During the September meeting the Committee took testimony from the Department of Commerce, Department of Revenue, representatives of the North Central Regional Planning Commission and the Ottawa Area Chamber of Commerce about the Program. The Program provided an estimated \$7.0 million in tax credits over the three-year period of 2005 through 2007 to encourage individuals and businesses to invest in regional foundations in each of the seven economic development regions in Kansas. This investment was designed to provide capital for entrepreneurial efforts in rural communities, ensure regional

determination for the usage of funds, and encourage local investment in the region's economic future.

The representative of the Department of Commerce encouraged and supported an extension of the program beyond the December 2007 date. The Department believes that the RBDTCP can and will offer benefits to Kansas and will help empower individual foundations in the seven regions to deliver financial assistance to their local communities while utilizing the unique insights and relationships with the communities and businesses in the individual regions. The role of the Department of Commerce under the provisions of the act is to provide oversight and assistance to the seven regional foundations.

The representative of the Department of Revenue explained that for tax years 2005 and thereafter, as a result of 2006 Senate Bill 324, the amount of the credit was increased to 75 percent of the total contribution made by the taxpayer during the taxable year to a regional foundation approved by the Department of Commerce. Prior to that legislation, the credit was 50 percent of the total contribution. If the amount of the credit exceeds the taxpayer's tax liability, the

excess amount is refunded to the taxpayer. Any taxpayer taking advantage of this credit must make an subtraction on the Kansas return to their taxable income in the amount of the total contribution made, for the tax year in which the contribution was made. The credit is claimed on Schedule K-32.

The following shows the regional foundation tax credit utilization to date, based on K-32 Schedules received by the Department of Revenue from taxpayers claiming the credit:

- Tax Year 2004: Confidential (less than five claimants)
- Tax Year 2005: 12 filers have applied for \$7,056 of tax credits

The information for tax year 2005 is not yet complete, and the Department expects to receive more returns on extension claiming the credit by the end of October.

Mr. John Cyr, Executive Director of the North Central Regional Planning Commission stated that the program holds out immense possibilities, but it is going to take time given the fact the program promotes economic development on a regional scale in addition to the sale of state tax credits. Mr. Cyr encouraged the Committee and the Legislature to do two things: first, extend the sunset provision of the program out beyond the current termination date; second, award additional tax credits during each year of the extension at a level equal to, but preferably greater than the highest amount previously made available to each of the seven regional foundations. He stated that the regional foundations were not in a position to

immediately sell the credits when they first became available in 2004, and that the foundations are only now beginning to come up with a case statement that engages the interest of those possessing a state income tax liability.

Mr. Tom Weigand, President and CEO of the Ottawa Chamber of Commerce and Economic Development Director for Ottawa and Franklin counties, explained that the RDTCP is an outstanding mechanism for planning, coordinating and growing business opportunities in rural Kansas. The concept of selling tax credits to raise funds to invest in more jobs and business expansion is a perfect illustration of a “win-win” program. Finally, he believes this program has the fundamentals of a very successful program, and it would be a tragedy if it were not permitted the time to develop and grow.

CONCLUSIONS AND RECOMMENDATIONS

The Committee believes that the Rural Business Development Tax Credit Program does require additional time to mature and grow and that three years is not adequate to determine a true test of the success or failure of the program. Therefore, the Committee recommends legislation be introduced that will extend the life of the program through tax year 2009 and that statewide tax credits be \$2.0 million for FY 2008 and \$2.0 million for FY 2012. Finally, the Committee is recommending that the annual audit requirement of the seven regional foundations be amended to allow for the use of an audit to coincide with the fiscal year of the foundations.

Joint Committee on Economic Development

SALES TAX AND REVENUE (STAR) BOND PROGRAM

CONCLUSIONS AND RECOMMENDATIONS

The Committee believes that the STAR Bond Program has been very successful in Wyandotte County and recommends reauthorization of the program until June 30, 2012. In addition, the Committee is recommending that the Revisor of Statutes draft legislation that provides separate sections in law for Tax Increment Financing and STAR bonds. Finally, the Department of Commerce expressed confusion about the Legislature's intent with regard to the percent of revenue the city or county must commit to repayment of STAR Bonds and the requirement for annual reports and audits of STAR Bond projects. Therefore, the Committee has requested that the Chairman write to the Kansas Department of Commerce and explain that the legislative intent under KSA 12-1774 (a) (1) (H) is the policy that the Department is to follow if either city or county revenue is used to pay back the bonds and that an annual report and audit is required for every STAR Bond project approved by the Kansas Department of Commerce.

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 Legislative Coordinating Council asked that the Committee review the effectiveness of the Sales Tax and Revenue (STAR) Bonds. In addition, the Committee was asked to study whether the current expiration date of June 30, 2007 for the Program should be extended.

financing was the "Oz Theme Park" which never occurred. Mr. North concluded with the 2005 amendments which allowed STAR Bonds to be used for a "major motorsports complex" which was the Heartland Park renovation in Topeka.

The Department of Commerce has approved four STAR Bond projects as follows:

- Kansas Speedway and Village West Project in Wyandotte County, Kansas

COMMITTEE ACTIVITIES

Mr. Bob North, General Counsel for the Kansas Department of Commerce gave a brief history of STAR Bond legislation from 1993 when the existing statutes for Tax Increment Financing (TIF) were amended to allow for the use of sales, compensating use and transient guest taxes for financing for redevelopment projects of "statewide importance" and became known as STAR Bonds financing. The first project envisioned for the new STAR Bond

This project has received all necessary approvals from the Secretary of Commerce and construction is virtually complete. The original bonds have been refunded with the approval of the Secretary of Revenue and Secretary of Commerce and should be paid off well ahead of schedule. STAR Bonds in an approximate amount of \$298 million have been authorized for this project. The estimated economic impact of the Speedway and Village West is reported to be as follows: 10 million annual visitors to the area;

increase in property taxes from \$15,000 to \$6.4 million in 2005; \$810 million in combined public/private investment; annual sales of \$450 million; 3,500 new jobs generating \$52 million in payroll and \$ 28 million in new state sales tax; and \$200 million in new housing construction in the surrounding area since 2003.

- Heartland Park Racetrack in Topeka, Kansas

This project was formally approved on January 30, 2006 in the amount of \$10.46 million in STAR Bonds. Total redevelopment cost was in excess of \$22 million. Renovations and new construction to the racetrack and visitor amenities are believed to be nearly complete.

- Schlitterbahn Vacation Village in Wyandotte County, Kansas

This project, which consists of a major water park resort, vacation village and related amenities, has been formally approved by the Secretary of Commerce and is awaiting construction. Total project cost is in excess of \$400 million with up to \$225 million of STAR Bond financing approved so long as the that amount does not exceed 50 percent of the total project costs. The construction is to begin in 2007 with an the estimated completion date of 2009.

- Kansas Underground Salt Museum in Hutchinson, Kansas

This project was formally approved in July 2006, construction has begun and the estimated completion date is the end of 2006. The bond closing will be held in the very near future and the project is progressing as anticipated. This project consists of a \$10.5 million destination development including a visitor complex, underground museum and

related amenities. STAR Bonds have been approved in an amount up to \$4.81 million.

The representative of the Department of Commerce asked the Committee for clarification and possible consideration for following questions dealing with the STAR Bond statutes:

- Should the statutes be separated by type of tax revenue required for repayment of indebtedness?
- Should financing for tourism/entertainment development projects be combined in the same statute as financing for bioscience projects and blighted areas or enterprise zones?
- Should clarification be provided regarding the allowance for a combination of obligated tax revenues to pay off the indebtedness in the time frame allowed?
- What combination of local and state revenues should be allowed?
- What should a feasibility study provide in order to predict the public benefit from the public expenditure and what kind of reporting should follow to demonstrate effectiveness?
- Is it the intent of the Legislature to allow for only the new sales tax revenues generated in a redevelopment district to be available for the STAR Bond repayment, or all of the sales tax revenues generated within the district given the "Greenfield" type of development versus a redevelopment from which tax revenues are already being collected?

Ms. Joan Wagon, Secretary of the Department of Revenue, explained that the role of her Department is administrative for

STAR Bond statutes, as the Department collects the sales tax and distributes it. Secretary Wagnon believes that the legislation needs a complete rewrite to clarify how the process works, resolve some of the points of contention, and to create a stand-alone set of statutes. Some of the points that she believes need policy clarification are:

- Whether county approval of a project by resolution is needed in place of a finding of no adverse harm?
- Whether county commitment of all sales, use, and transient guest revenues generated in the proposed district, if they have authorized such taxes, are warranted in all circumstances?
- Whether a Formalized Project Plan Review process should be included in statute between the Department of Commerce, Department of Revenue and Kansas Development Finance Authority?

Secretary Wagnon testified that the Department recommends giving the process an additional five years, until 2012, to guarantee a review by the Legislature. During this time, every effort should be made to leave the statutes alone so local communities will know what the rules are and what to expect. Finally, she

recommends that the Legislature create no more special exceptions during this period, and amend language only if there are "egregious" flaws in the statute.

CONCLUSIONS AND RECOMMENDATIONS

The Committee believes that the STAR Bond Program has been very successful in Wyandotte County and recommends reauthorization of the program until June 30, 2012. In addition, the Committee is recommending that the Revisor of Statutes draft legislation that provides separate sections in law for Tax Increment Financing and STAR bonds. Finally, the Department of Commerce expressed confusion about the Legislature's intent with regard to the percent of revenue the city or county must commit to repayment of STAR Bonds and the requirement for annual reports and audits of STAR Bond projects. Therefore, the Committee has requested that the Chairman write to the Kansas Department of Commerce and explain that the legislative intent under KSA 12-1774 (a) (1) (H) is the policy that the Department is to follow if either city or county revenue is used to pay back the bonds and that an annual report and audit is required for every STAR Bond project approved by the Kansas Department of Commerce.

Joint Committee Economic Development

WORKFORCE DEVELOPMENT

CONCLUSIONS AND RECOMMENDATIONS

The Committee:

- Requests a letter be sent to the Congressional delegation; National Association of State Legislators (NCSL); The Council of State Governments (CSG); and American Legislative Exchange Council (ALEC) by the Chairman asking for help regarding reauthorization of the federal Workforce Investment Act (WIA) and needed Congressional changes to the Act;
- Directs Secretary Fricke to coordinate with other states' agencies in requesting help for needed Congressional changes to the reauthorization of WIA;
- Requests the bylaws of the State Board for Workforce Investment be modified to include the removal by the Governor of any State Board member after two consecutive absences;
- Requests the Department of Commerce to begin in FY 2008 providing the local boards a marketing and implementation plan and direct the Department to report progress to the standing House and Senate committees during the 2007 Session;
- Requests that staff from the offices of Senator Sam Brownback and Senator Pat Roberts meet with legislators to discuss the problems with the Workforce Investment Act;
- Directs the Department of Commerce to create a framework for training of both local and state board members and staff and report the progress back to the standing House and Senate committees during the 2007 session;
- Directs the Department of Commerce to contact KAN-ED to seek help for local boards in receiving on-line training;
- Directs the Department of Commerce to create a uniform evaluation for local boards to implement for contracts;
- Requests a letter be sent from the Chairman to the Kansas Department of Labor inquiring why a representative from the unemployment office is not co-located in every Local Area One-Stop Center;
- Encourages the local boards for Area III and V obtain an administrative entity other than the Department of Commerce as soon as possible; and
- Asks that Kansas, Inc. report back to the House and Senate committees on its review of the Workforce Investment Act; comparison with other states; and make recommendations for improvement in the present system in Kansas.

Proposed Legislation: The Committee recommends introduction of four bills.

BACKGROUND

The Joint Committee on Economic Development is statutorily authorized to set its own agenda. The Legislative Coordinating Council asked that the Committee to review the current Kansas workforce development activities and expenditures. In addition, the Committee was asked to review the Legislative Post Audit report on workforce development and study the Kansas First program and its effectiveness.

COMMITTEE ACTIVITIES

Legislative Post Audit Study

At the October meeting a staff member of the Division of Legislative Post Audit presented the following findings to the four questions outlined in the Scope Statement to the Committee:

Question 1: Does the administrative structure Kansas has established for the Workforce Investment Act comply with the requirements of the Act?

The Post Audit Study concluded that given the multitude of boards, administrative agencies, One-Stop operators, and program “partners” at the state, regional, and local levels, there is a great deal of administrative structure in the current workforce development program. However, that structure is called for by the federal Workforce Investment Act. On the other hand, some of the ways that administrative structure is being implemented, (including an inactive state-level board, conflicts caused by the Department’s dual role of operating two local areas while also being responsible for monitoring them, inadequate state monitoring efforts, and the lack of comprehensive One-Stop centers in all local areas) can work against the goal of having an integrated, seamless system for delivering employment and training services in Kansas.

Question 2: How much of the Workforce Investment Act funding is being spent on administration and oversight, and how much is being spent directly on worker training and assistance activities?

The Post Audit Study found that slightly more than \$2 million out of nearly \$17 million in Workforce Investment Act money was spent on administration under such categories as salaries, professional services, and travel; however, that amount falls within the federal limits for administrative spending. It also has to be considered in light of the top-heavy administrative structure required by the Act. Of equal importance is the way processes and procedures are set up to safeguard program funds and ensure they are being spent appropriately. Over the years, federal and state monitoring reviews have identified such things as open-ended contracts, inadequate fiscal procedures, and lack of supporting documentation. While “control” procedures may represent some of the most mundane aspects of any program, they provide the foundation for ensuring that the program is accountable to the public and is using its resources wisely, effectively, and efficiently.

Question 3: What types of contracts are in place to provide training or job-assistance services, what are their terms, and have they been awarded competitively?

Overall, the Division found relatively few problems with the way local areas were handling their contracts, but the Department of Commerce does need to improve its process for awarding contracts, by seeking competitive bids or by providing justification for sole-source contracting when competition doesn’t exist. Had any of its sole-source contracts been competitively bid, there is no way to know if other vendors would have bid, if they would have been as qualified, or if they would have submitted lower bids. But that is always the case. The state’s process is

intended to be as open and competitive as possible to help ensure that tax dollars are used effectively.

Question 4: What other programs in Kansas meet the definition of workforce development adopted by the Joint Committee on Economic Development in 2005, and what level of coordination exists for those programs?

The Study found that nearly \$129 million is being spent on 35 state or federally funded workforce development programs alone, and an undetermined amount is being spent on a wide array of other training programs, courses, and partnerships. Despite the attempts that have been made to coordinate such programs in Kansas, the Workforce Network Board, the Department of Commerce, and local area workforce investment boards still have a long way to go to overcome the program silos that still continue to exist within the workforce investment areas. Developing a well-coordinated system is especially challenging because no single entity has the authority on a statewide basis to direct the types of changes that will be needed. Nonetheless, more coordination can be generated by fostering a spirit of cooperation among the various entities involved in workforce development.

Department of Commerce

Howard Fricke, Commerce Secretary, testified that it is important to understand the State's role in implementing the federal Workforce Investment Act (WIA). This federal program currently provides \$25 million to provide WIA services. The federal government sets the rules and guidelines for this federal program, which is carried out at the local level through Local Workforce Investment Boards (LWIBs). The State's role is to provide advice to the LWIBs on whether or not they are in compliance with the federal program and to offer suggestions and guidance when we believe the local boards

need to take some actions to meet the federal program mandates. The bottom line is that this is a federal program administered at the local level.

In response to the audit findings that Local Areas 1, 3, and 5 do not have comprehensive One-Stop centers, Secretary Fricke stated that the agency has been assured by the federal government that partners are not required to be physically located in the One-Stop centers as long as their services are available on an as-needed basis through part-time staff, electronic links, or cross-training of One-Stop staff. Kansas' one-stops are in compliance with the Workforce Investment Act.

In addressing the finding that Kansas' system lacks coordination, the Secretary pointed out that the auditors were unable to find any state to hold out as an example of a well-coordinated system. While the recommendations made to address this finding would create minimal changes, the Department of Commerce will continue to seek ways to better cooperate with other agencies and pointed out its current activities with the Department of Corrections, Department of Social and Rehabilitation Services and the Board of Regents.

Local Workforce Investment Act (WIA) Boards

Area I Local WIA Board. Executive Director testified that this Board has authorized enrollment in a comprehensive on-line training program called "Workforce Board member in Action—Making an Impact in the Community." This Board is the first in the nation to take advantage of this resource, which will provide cost-effective and comprehensive training at a pace and time suited to each Board member. In addition, the Board has conducted two performance training sessions with each of its nine Title IB providers. The training sessions were conducted to ensure that each provider had a thorough understanding of each performance standard and understood how to track performance in the system. The training

sessions also reviewed case management practices, which influence and ensure good performance. Finally the Board recently took action to move from a single partner entity being the One-Stop Operator to a consortium approach, in which at least three required mandatory partners share the lead roll in coordinating activities and assuring delivery of required core services in the One-Stop centers. Partners in the Salina and Hays areas are currently working on similar consortium proposals.

Area II Local WIA Board. Executive Director testified that this local area is offering five new programs: Corrections to Careers; the Military Spouse Program; Pre-Vocational and Self-Paced Tutoring program; Workforce Innovation in Regional Economic Development (WIRED); and Business Services Program. The Corrections to Careers service will assess inmates from county jails and prisons who are scheduled for release within six months. Assessments will cover basic, technical and soft skills. Concurrently, local jobs will be assessed for basic, hard and soft skills requirements. Services will concentrate on business sectors experiencing labor shortages in entry level positions, with an initial emphasis on the construction trades. The goal of the program is to place 120 offenders with a minimum 45 percent retention rate by the end of 24 months. Emphasis is placed on retention vs. just job placement.

The Fort Riley Military Spouse Program addresses the fact that approximately 5,0000 spouses will be relocated to Fort Riley over the next five years. The Local area has established an on-post satellite Workforce Center that includes an assessment/tutorial station with six networked laptops. The satellite workforce center is staffed by a full time Career Counselor who is a military spouse. As of the date of the meeting, the office is fully operational and currently had 12 individuals enrolled in the program.

The Pre-Vocation and Self-Paced Tutoring Program uses an Internet-based learning

management system to help job seekers ready to learn, either in a formal classroom setting or through on-the-job training. The goal of the program is to provide customers with very short, very specific skills upgrades in basic “prerequisites”. Job seekers can take only those specific modules needed by specific employers, giving them an advantage in the hiring process. Employers may also have incumbent workers take modules for a very low cost.

The Local Area II sector initiatives include healthcare, biotechnology, advanced manufacturing and construction. The first three align with the area’s WIRED involvement. In construction, the local area is partnering with the Associated General contractors and the Kansas Construction Association to expand both the available labor pool and training opportunities for both new and incumbent workers.

Business services is concerned with sourcing the right people to the right jobs. In addition to large, medium and small businesses, the Board also is working with many government entities who are having difficulty with turnover or productivity.

Local Area III WIA Board. Executive Director for Local Area III testified that the Board was well aware of its shortcomings and nothing in the Post Audit report came as a surprise. However, it is important to point out that many problems are longstanding ones that have been allowed to grow over time. Resolving them is also going to take time. With respect to Local Area III, the Post Audit report touches on four issues: the Department of Commerce carrying out the area’s administrative duties are problematic; a lack of a comprehensive One-Stop center in which partners’ services are available and costs are being shared; expenditures per job seeker grew significantly last year, while the number of job seekers served dropped; and the area’s difficulty meeting several performance measures.

On August 30, 2006, the Board published a request for proposals (RFP) for a WIA Adult and Dislocated Worker Program Operator and One-Stop Operator roles. The Board expects to select a new operator at its meeting in late November with the new operations commencing July 1, 2007.

The Board believes that the One-Stops in the area are only minimally compliant; however the Board is not satisfied with minimal compliance. To that end, the following steps are being undertaken to enhance the interconnectedness of the One-Stop programs:

- One-Stop partners are meeting monthly to work on program integration;
- Cross-training sessions are being held so that workforce center staff can gather application information and conduct initial eligibility determinations for any program;
- Working committees have been established by the Board to address program integration and One-Stop operation issues; and
- The Kansas City One-Stop had dedicated additional physical space to accommodate increased partner presence.

As the program operator, the Department of Commerce has undertaken a renewed effort to recruit job seekers, and both the Board and Commerce have been actively marketing employer services as a way to increase the number of individuals served, but as a way to increase business engagement in workforce services. The Board is currently undertaking an examination of the area's eligibility rules. In 2004, the Board adjusted its policies to place a higher priority on serving lower-income job seekers. That change had the unintended consequence of suppressing the number of individuals eligible to be served under the Adult program. The Board is examining this policy

and will likely make changes to make more individuals eligible.

The Board has submitted to the Department of Commerce a corrective action plan outlining specific steps that it will have taken and will take to improve performance. The plan included a number of operational changes undertaken in the One-Stop Centers, and also includes board-level changes. Finally, due to the nature of the performance measurement system, it may take some time before the effect of these changes is apparent. Nevertheless, the Board is confident that the changes will result in improved performance.

Local Area IV WIA Board. Executive Director testified that the Board and staff are committed to continuous improvement of the program. The Post Audit Study references a number of issues related to operations in the area, most of which have been addressed and resolved. Local Area IV was cited by the United States Department of Labor in 2004 for not having a comprehensive One-Stop Workforce Center. In response, the area conducted an analysis of the facility, which led to the determination that additional space was required to accommodate the partners and programs necessary to establish a comprehensive center. Moving the Wichita Workforce Center to 150 North Main allowed the Board to bring more partners on-site. While the facilities cost have increased with the move, the base rent per square foot for the facility is lower than the average cost of Class B office space in downtown Wichita as cited in a recent study by Grubb and Ellis. Funds are also being leveraged from federal, state and local levels to share the costs of the facility, which now meets the requirement of the Act for a comprehensive center to serve both employers and job seekers.

Since the Wichita center opened in February 2006, the number of job seekers accessing services has increased dramatically. At the previous location an average of 300 to 400 job seekers were served per week. Currently 800 to 1,000 job seekers per week are utilizing services from the

center. It should also be noted that the ability to serve employers has been augmented since moving to the new facility and this is a primary goal of the Act. In addition to holding job fairs on-site, which was not possible at the previous location, many employers are using the center to perform assessments for applicants, conduct job interviews and holding orientations for new employees. Companies such as Cessna Aircraft, Union Pacific Railroad, Cox Communications, NuComm International and many others have been on-site receiving services since February.

Local Area V WIA Board. The Chairperson testified about the area's demand for services; and how needs for both unskilled and skilled laborers in industries are growing. These include petroleum refining, machine operators in the fiberglass operations, furniture, plastics, rubber and plastics, welders from iron and steel industries, sheet metal workers for the aircraft industry and several different fields related to the oil and gas industry, transportation and locally what seems to be a continuous demand for healthcare workers. What Area V needs is better partnerships with local industry to determine what specific training needs should be supplied with the amount of limited funds the area receives. Local workforce boards should be flexible and focused, knowing that the policy they set is supplying and supporting real local employment and training services that will enable job seekers with barriers to employment to become self-sufficient and that meet local industry and employment demands.

The Kansas Department of Commerce has provided an request for proposal for Audit, Dislocated and the One-Stop operation to the local board. Area V expects that the Department will cooperate with assisting the Board to accomplish whatever decision it makes for an administrative entity duties and how services should be delivered in the area. However, the Board has been dismayed by the way the Department's business has been

conducted, the lack of necessary information, the lack of cooperation, timeliness, turnover as well as employment and training services provided to employers and job seekers. The Local Area V Board is currently considering making application to engage more in the role of the administrative entity duties and as the One-Stop operator for Area V.

Kansas Department of Social and Rehabilitation Services (SRS)

The representative of the Kansas Department of Social and Rehabilitation Services explained that the Department is required by federal law to provide employment services to Temporary Assistance for Needy Families (TANF) recipients statewide and to Food Stamp recipients in Dickinson, Geary, Pottawatomie, Riley, and Saline counties. Under the requirements for TANF, each state is required to meet a work participation requirement of 50 percent for single parent households providing job readiness, community service, work experience, job search, and some education/training activities. Each SRS management region has the flexibility to develop these services to meet the unique needs of consumers in its region.

The Food Stamp Employment and Training Program is funded by the United States Department of Agriculture and each state is mandated to provide some level of services to Food Stamp recipients. SRS case managers identify and address employment barriers and provide an array of services to assist customers to obtain employment and provide additional services after employment to ensure stabilization and promote job retention. Vocational rehabilitation services help people with disabilities become gainfully employed in the competitive workforce. During FY 2006, vocational rehabilitation services were provided for a total of 14,871 individuals whose disabling conditions included physical disabilities, severe and persistent mental illness, developmental disabilities, and significant learning disabilities.

Kansas Board of Regents

The representative of the Kansas Board of Regents spoke about the comprehensive study planned by the State Workforce Board, in partnership with the Kansas Department of Commerce, Kansas Inc., and the Kansas Board of Regents which is being designed to provide a resource guide for practitioners working in the regional offices. The study titled, *Aligning Postsecondary Education and Training to Meet the Needs of the Business Community*, is designed to include an analysis of key industry sectors and identify skill shortages within those sectors in Kansas. In addition, a review of innovative and best practices across the country will be included in the study.

The Post Audit study emphasizes the need for more coordination, which is important provided the coordination increases both the number of qualified employees available for businesses and the opportunities for individuals seeking employment. This type of coordination, according to the Regents representative, requires more communication than a newsletter or web link can provide, which is what the report recommended. For example, several workforce entities are cooperating to develop a qualified workforce for the aircraft industry located in Wichita. The goal of this specific project is to recruit and train 1,000 manufacturing workers. The progression of activities initially began with the award of a Workforce Solution Grant from the Department of Commerce to Hutchinson Community College to develop an industry validated manufacturing skills certificate. As lessons are learned from the successes and setbacks of this particular project, Commerce, in partnership with postsecondary educational institutions, is planning to duplicate this type of project in other areas of the state to address other workforce development challenges.

Finally, the level of educational coursework the auditors classified as fitting the definition of workforce development is

used as curriculum for training many entry-level workers. However, solving workforce issues such as the nursing shortage requires participation from all educational sectors including technical institutions, community colleges, and universities. Likely, other workforce shortages will require a similar approach involving all educational sectors.

Roundtable Discussion

The roundtable discussion included representatives from Kansas Department of Commerce, the five regional Workforce Investment Act Boards, Kansas Department of Social and Rehabilitation Services, Kansas Board of Regents, and Kansas Department of Corrections. The following issues were discussed during the roundtable discussion:

- Block grants;
- Marketing the services of the One-Stop Centers;
- Accountability of Local Area Board members;
- Recourse if a Local Area is not compliant;
- Tracking Workforce Investment Act programs in local areas;
- Local Areas III and V should obtain outside administrative entities;
- Partnering with the Center for Entrepreneurship;
- Statewide Board's problem of meeting consistently, therefore, not effective;
- Integrating better;
- Local Area One-Stop Centers and partnering;
- Transportation issues in Local Area III and Local Area IV;
- Childcare providers problem in Local Area IV; and
- National Association Workforce Board provides guidance, leadership, and training.

CONCLUSIONS AND RECOMMENDATIONS

The Committee made the following recommendations:

- Requests a letter be sent to the Congressional delegation; National Association of State Legislators (NCSL); The Council of State Governments (CSG); and American Legislative Exchange Council (ALEC) by the Chairman asking for help regarding reauthorization of the federal Workforce Investment Act (WIA) and needed Congressional changes to the Act;
- Directs Secretary Fricke to coordinate with other states' agencies in requesting help for needed Congressional changes to the reauthorization of WIA;
- Requests the bylaws of the State Board for Workforce Investment be modified to include the removal by the Governor of any State Board member after two consecutive absences;
- Requests the Department of Commerce to begin in FY 2008 providing the local boards a marketing and implementation plan and direct the Department to report progress to the standing House and Senate committees during the 2007 Session;
- Requests that staff from the offices of Senator Sam Brownback and Senator Pat Roberts meet with legislators to discuss the problems with the Workforce Investment Act;
- Directs the Department of Commerce to create a framework for training of both local and state board members and staff and report the progress back to the standing House and Senate committees during the 2007 Session;
- Directs the Department of Commerce to contact KAN-ED to seek help for local boards in receiving on-line training;
- Directs the Department of Commerce to create a uniform evaluation for local boards to implement for contracts;
- Requests a letter be sent from the Chairman to the Kansas Department of Labor inquiring why a representative from the unemployment office is not co-located in every Local Area One-Stop Center;
- Encourages the local boards for Area III and V obtain an administrative entity other than the Department of Commerce as soon as possible; and
- Asks that Kansas, Inc. report back to the House and Senate committees on its review of the Workforce Investment Act; comparison with other states; and make recommendations for improvement in the present system in Kansas.