

Approved: March 13, 2008  
Date

## MINUTES OF THE HOUSE ECONOMIC DEVELOPMENT AND TOURISM COMMITTEE

The meeting was called to order by Chairman Lana Gordon at 3:30 P.M. on March 10, 2008 in Room 519-S of the Capitol.

All members were present except:  
Geraldine Flaharty- excused  
Annie Tietze- excused  
Mark Treaster- excused  
Ron Worley- excused

Committee staff present:  
Ryan Hoffman, Kansas Legislative Research Department  
Matt Todd, Office of the Revisor of Statutes  
Ann Deitcher, Committee Assistant

Conferees appearing before the committee:  
Carole Jordan, Director, Agriculture Marketing & Community Development Division,  
Kansas Dept. Of Commerce  
Wally Kearns, State Director, Kansas Small Business Development Center

The Chair introduced Carole Jordan who presented background information on the state's rural business development tax credits and how they are utilized for economic and leadership development in rural Kansas. (Attachment 1).

Speaking of the history of the rural business development tax credits, Ms Jordan said that the act addressed six priorities that continue to be vital to the future of our state. Those priorities were the biosciences, entrepreneurship, rural development, workforce development, enhancing the state's image and Kansas military installations.

The program consisted of \$7 million in tax credits over three years to encourage individuals and businesses to invest in regional foundations in each of seven economic development regions in Kansas.

The legislature passed the Economic Growth Act of 2004. As passed, the Rural Business Development Program consisted of \$7 million in tax credits over three years to encourage individuals and businesses to invest in regional foundations in each of seven economic development regions in Kansas. The seven regions are: 18 counties in the Northwest; 19 counties in the North Central; eight counties in the Northeast; six counties in the East Central; 12 counties in the Southeast; 14 counties in the South Central and 28 counties in the Southwest.

Told by a Committee member that the entities of the various Commerce Department's agencies were a mystery to them, Ms Jordan promised they would forward them any information needed to keep them informed.

It was also suggested that perhaps such a thing as a spreadsheet to clearly define the agency's various activities, would be helpful. Ms Jordan said they had a picture that would be provided to them that would do just that.

When asked about the Agency's name change to "NetWork, Kansas", Wally Kearns explained that it was the "Kansas Center for Entrepreneurship" by statute, but this was confusing because of the "Center for Entrepreneurship" in Wichita. Hence the name change.

The meeting was adjourned at 4:30 pm. The next meeting is scheduled for Tuesday, March 11, 2008.

**Testimony on Rural Business Development Tax Credits**

**To**

**House Committee on Economic Development**

**By Carole Jordan**

**Director**

**Agriculture Marketing and Community Development Divisions**

**Kansas Department of Commerce**

**March 10, 2008**

Good afternoon, Chairperson Gordon and members of the committee. I am Carole Jordan, director of the agriculture marketing and community development divisions of the Kansas Department of Commerce. It is my pleasure to be here this afternoon to present background information on this state's rural business development tax credits and how they are utilized for economic and leadership development in rural Kansas.

We at the Department of Commerce administer the tax credit program to allow seven economic development regions in Kansas to create new capital investment. Folks at the local and regional levels make the decisions about what is needed for their areas. They are the real engines and drivers of rural economic development in Kansas, and I am happy to talk about the good things that are happening with rural development from the ground up in this state.

I believe the foundations are aptly named, because the building of the economic future of our rural areas needs to come from the foundation up, not from Topeka down. You can't build without a foundation. No dollars for the regional foundations reside in the Department of Commerce; other dollars used for regional enterprise facilitation efforts are collected from the foundations and pass through the department very quickly to be returned to enterprise facilitation regions in rural areas.

### **History**

I would like to take a few minutes to talk about the history of the rural business development tax credits and how they affect rural areas.

The legislature passed the Economic Growth Act of 2004, creating the rural business development tax credit program. The act addressed six priorities that continue to be vital to the future of our state. Those priorities were the biosciences, entrepreneurship, rural development, workforce development, enhancing the state's image, and Kansas military installations.

As passed, the Rural Business Development Program consisted of \$7 million in tax credits over three years to encourage individuals and businesses to invest in regional foundations in each of seven economic development regions in Kansas. The seven regions are: 18 counties in the Northwest; 19

counties in the North Central; eight counties in the Northeast; six counties in the East Central; 12 counties in the Southeast; 14 counties in the South Central; and 28 counties in the Southwest.

The tax credits were planned to draw cash donations worth \$14 million to develop entrepreneurial efforts in rural communities, ensure regional determination for use of the funds, and encourage local investment in the region's economic future. Donations were eligible for a 50 percent tax credit.

In 2006, SB 324 was passed to increase the amount of the tax credit to 75 percent to further assist the seven economic development regions. A total of \$2 million in tax credits are available each year through FY 2012. The 75 percent credit makes donations more appealing to taxpayers.

Keeping dollars and inheritances working for the future of our rural areas has long been a concern for rural Kansas and indeed, most Midwestern states.

The tax credits leverage private dollars for community economic development. Working with the seven regional foundations promotes regional planning and development. This keeps dollars at home and gives donors an opportunity to invest in the future of their areas.

Funds derived from the credits can be used for projects dealing with job creation and retention, business start-ups, business expansions, business support services, regional leadership development, and technology improvements to enhance entrepreneurship and small businesses in the region. In this program, the definition of rural area is a city/county with a population under 50,000 or an unincorporated area within a county that has a population under 100,000.

Currently, at least 60 percent of the funds are used to create a revolving loan fund for business development and job creation. Most loans are at the level of \$75,000 or less and are usually leveraged with funds from other programs like the Small Business Administration, USDA Rural Development, other local or regional revolving loan funds, and/or funds from traditional lenders.

About 30 percent of the funds are to be used for business support services, regional leadership development and marketing, and technology enhancements for businesses.

Money directed to enterprise facilitation is in this 30 percent. As I mentioned earlier, five percent of the funding raised through sale of the tax credits is returned to the Kansas Department of Commerce, where it passes through in an allocation to the state's Enterprise Facilitation zones. This transfer was made possible by HB 2004, passed during the 2007 session.

This is a relatively new portion of the program. Currently, all checks have been received from the regional foundations and deposited into the fund. Rules and regulations governing the program have been approved by the Attorney General, and our next step is to schedule a public hearing. Contracts for the Enterprise Facilitation groups have been sent out, and two have been returned so far to the Department of Commerce. Each of the five enterprise facilitation groups will receive an allocation of \$21,294.82 when the contract is received. Each group receives the same amount of dollars. The Department of Commerce transfers 100 percent of the dollars deposited into the fund to the groups. We are purely the pass-through avenue for these dollars.

## Rules and Regulations on Regional Foundations and SB 489

Tomorrow you will be taking up SB 489, a bill that places some limits on the use of regional foundation funds. In the Senate, the Kansas Department of Commerce testified in a neutral position on the bill.

We became aware of some concerns about the use of funds during meetings of the joint committee on Economic Development during the interim last fall.

Hearing those concerns, we proceeded with the drafting of rules and regulations that are nearly through the process of implementation at this time. Those rules and regulations changed the percentage of regional funds to be allocated to job creation or retention from 60 to 75 percent; set out that funds are not to be used to pay for services, studies, or other items that are available from existing sources; and set a method for approval of non-cash contributions to the foundations. SB 489 does much the same thing as we have already done through rules and regulations.

Each foundation also signs a contract with the Department of Commerce. Among other things, the contract specifies that the foundations should avoid using funds for services that are duplicative of other services available from other sources; that non-cash contributions should be reviewed by the Secretary before tax credits are issued; and that five percent of funds be returned to KDOC in January to be redistributed to the Enterprise Facilitation regions.

All foundations receiving tax credits must have financial and compliance audits performed annually. To remain eligible to receive the tax credits, each region must complete a standardized performance report outlining all funding activities. Our departments receive those reports each February. Total capital investment in 2007 in the regions was more than \$7.2 million. A summary of those reports follows:

### FY 2007 RBDTC PROGRAM

<u>Regional Foundation</u>	<u>Jobs Created</u>	<u>Jobs Retained</u>	<u>Grants Awarded</u>	<u>Grant Dollars</u>	<u>Loans Awarded</u>	<u>Total Capital Investment</u>
Northwest	16	9	2	\$ 70,830	8	\$ 1,209,000
North Central	18	33	23	794,750	2	318,674
Northeast	0	0	0	0	0	0
Southwest	27	15	0	0	19	4,106,548
Southeast	0	0	2	60,000	3	30,000
South Central	18	10	7	121,950	9	1,578,100
East Central	0	0	0	0	0	0
	79	67	34	\$1,047,530	41	\$ 7,242,322

Total new & retained jobs: 146

2007 Tax Credits Available	\$2,000,000
2007 Tax Credits Claimed	\$1,809,683
Tax Credit Dollars/Job	\$ 12,395

## What is Enterprise Facilitation?

I am going to take a few minutes here to explain enterprise facilitation. It is another street-level program for rural economic development. The Kansas Department of Commerce implemented it as an initiative in 2001 to help rural entrepreneurs get their start, and to grow and prosper. There was a strong belief expressed statewide at the Prosperity Summits that more time, energy, and resources needed to be focused on rural Kansas. Enterprise facilitation was one of the ways chosen to maintain that focus.

Enterprise Facilitation was created by Ernesto Sirolli, founder of the Sirolli Institute of Sacramento, California. It is a model that works to strengthen a barn-raising attitude among rural residents, which then can be applied to business development. The Kansas Department of Commerce contracted with the Sirolli Institute to use its regional approach to economic development in Kansas.

Enterprise facilitation provides networks for different types of entrepreneurs, which generally fall into these categories:

- Lifestyle entrepreneurs—people who like the rural lifestyle and would like to add to the prosperity of their community by creating jobs.
- Growth entrepreneurs—existing business people that want to expand and create more jobs.
- Immigrant entrepreneurs—second and third generation immigrants with a desire to become business people.
- Transitional entrepreneurs—agricultural producers who need to transition to value added and direct marketing businesses.
- Youth entrepreneurs—enthusiastic and risk-taking youths who can represent the future for our communities.

Enterprise facilitation can help communities take ownership of their futures. More than jobs alone, they can renew feelings of community and agreement on common goals.

Regions interested in Enterprise Facilitation must make a financial investment in training and hire a facilitator. They also must fit some specific definitions of rural according to population. Kansas currently has five Enterprise Facilitation projects. They are all across the state, and each is a group of five or six counties. The areas are: Western Kansas; the Prairie Enterprise Project in central Kansas; Sunflower in south central Kansas; QUAD in the southeast; and Northeast Kansas. More than 200 businesses and 600 jobs have been created since these groups began working in rural Kansas.

The facilitator in the area is an important part of this recipe. Pass-through dollars from Commerce go toward salary and expenses for the facilitator. He or she serves as a business coach who directs local entrepreneurs to resources for education, business planning and funding. The facilitator relies on a local networking board for introductions and business information and resources within the community.

Each Enterprise Facilitation group signs a contract with the Department of Commerce to allow them to receive the funds. The contract specifies how funds will be used and sets out regular reporting requirements to the department.

## Partnering

There is an increasingly strong network of partners working closely together for rural economic development in Kansas. The Department of Commerce works closely with the Small Business Development Center, the Center for Entrepreneurship, and Network Kansas. Those groups, in turn, partner with the regional economic development foundations, Kansas Main Street communities, USDA Rural Development and others. The groups also work with the Enterprise Facilitation areas and facilitators.

Certified Development Companies associated with regional foundations have been partners with NetWork Kansas in 15 of the 22 businesses funded through StartUp Kansas. In addition, several of the businesses funded utilized matching money raised through the Rural Business Development Tax Credit. These regional foundations provide a key economic resource partner to NetWork Kansas, not only through providing matching funds, but by also providing expertise in the area of finance.

In addition, half of the NetWork Kansas E-Communities selected are utilizing regional foundations to assist with administering the E-Community program at the local level. In addition, it is anticipated that the regional foundations will be a key resource in providing mandatory matching funds to communities, as well as playing a key role as the E-Community program expands. NetWork Kansas announced the selection of six pilot E-Communities last fall. The communities raise seed funding for entrepreneurs in their areas.

Last week you heard testimony from Erik Pederson with the Kansas Center for Entrepreneurship and Carrie O'Dell, owner of a grocery store in Fall River, Kansas. That was a great story of cooperation, partnerships, and success. Carrie owns Fall River Grocery today because of a collaborative effort between the Kansas Small Business Development Center, QUAD Enterprise Facilitation, Greenwood County Economic Development and the South Central Kansas Economic Development District Certified Development Company to develop a proper business foundation and funding. A small business owner met her goals and the community benefited from the partnerships. Similar stories are happening in many rural areas, and we are proud to be a part of it.

On the other side of the state, the Northwest Kansas Planning and Development Commission reminded me that the real funding through the RBDTC has kicked in only relatively recently, and they have only had a substantial amount of funds to lend for slightly over a year now. In that time, they have made more than \$430,000 in small business loans from the tax credit funds, and those funds have leveraged several times that amount from other sources. Their director told me he feels the RBDTC program is "one of the better business financing programs the state has come up with for many years."

Among the loans mentioned in that area is one to a bean processing company in the area that allowed the company to meet an important deadline, and to take advantage of substantial profits because of recent increases in the pinto bean market. Another loan helped a new owner take over a 60-year-old body and frame business where the owner was retiring; yet another helped a young entrepreneur with business planning and projections before loaning the dollars to help start a dog grooming business.

Thank you for your attention, and I'd be pleased to answer questions.