

MINUTES OF THE SENATE COMMERCE COMMITTEE

The meeting was called to order by Chairperson Karin Brownlee at 8:30 A.M. on March 18, 2008 in Room 123-S of the Capitol.

All members were present except:

Jean Schodorf- absent

Committee staff present:

Jennifer Thierer, Kansas Legislative Research Department

Kathie Sparks, Kansas Legislative Research Department

Jason Long, Revisor of Statutes

Jackie Lunn, Committee Assistant

Conferees appearing before the committee:

Joe Lawhon, Legislative Post Audit

Others attending:

See attached list.

To read testimony submitted by conferees go to

<http://skyways.lib.ks.us/government/KansasSenateCommerceCommittee>.

Chairperson Brownlee introduced Joe Lawhon, Legislative Post Audit, to review the *Economic Development Post Audit dated February 2008*. A copy of the Post Audit report can be found in the office of Legislative Post Audit and the Senate Commerce Committee Assistant's Office.

Mr. Lawhorn stated this audit contains two of a three questions audit and the third question would be out soon.

Mr. Lawhorn began his review with **Question 1. How much state and federal and local money has been spent on economic development programs during the past five years.**

Mr. Lawhon stated the estimated cost of economic development in Kansas during fiscal years 2003 through 2007 is at least \$1.5 billion, which includes both governmental spending and forgone tax revenues. During that period, Kansas' State and local governments spend about \$630 million. The Kansas Department of Commerce spent the vast majority of that amount. About 70% of total spending came from federal moneys, 25% was State, and 5% was other. During this period, Kansas' governments also waived about \$860 million in projects. The largest portion (\$350 million) was attributable to economic development projects funded using industrial revenue bond exemptions. In addition to any established economic development spending in the future, Kansas governments could forego about \$404 million in revenue because of the repeal of the Business Machinery, and Equipment (BM&E) Property tax.

A question and answer session occurred while Mr. Lawhon was reviewing the report. It was noted that there are nine items that are in the wrong category and they will be moved from the federal expenditures to the State expenditures. Foregone revenues were discussed with the Committee having some confusion on the subject. During the question and answers, reference was made to the *Kansas Department of Commerce Audit Original Funding Source (Attachment 1)*; *Kansas Department of Commerce Economic Development Audit Funding Sources Revised by Commerce, (Attachment 2)*; and the *Kansas Department of Commerce IMPACT FY03-07, (Attachment 3)* which were handed out to the Committee by the Department of Commerce. It was noted during the question and answers that when the third question to the audit was ready the changes would also have been made on this audit, moving the nine expenditures from the federal to the State and a revision of the audit would be offered. The Committee has concerns regarding the audit. It was noted by post audit that the Department of Commerce would have to provide more specific information to improve the accuracy of the audit.

Upon the completion of Mr. Lawhon's review of question one, there was a lengthy questions and answer discussion session with the Committee and Mr. Lawhon. The Committee has concerns and is confused somewhat by the information in this audit. It was noted that the Department of Commerce would need to give more detailed information to Post Audit for the revision of this audit. Senator Jordan suggested that Chris

CONTINUATION SHEET

MINUTES OF THE Senate Commerce Committee at 8:30 A.M. on March 18, 2008 in Room 123-S of the Capitol.

Courtwright, Legislative Research, send a memo or come before the Committee to explain information he gave to Post Audit which confuses the Committee. During this discussion, it was suggested by the Committee that all the questions and concerns be cleared up regarding this audit and a revision offered before releasing the audit on question 3. Barbara Hinton, Legislative Post Auditor, joined the discussion and stated that they are using information given to them from several different agencies. She stated, in order for them to get the information the Committee is referring to it would require an individual audit on each agency and that would take years and she does not know what to do with this audit. Senator Emler suggested that Ms. Hinton should consult the chairs of this Committee along with Representative Wilke on the revision of this post audit and the post audit to be out in June.

Due to the time restraints, Chairperson Brownlee asked Mr. Lawhon to quickly review question two very briefly. **Question 2: What have past audits and studies shown about the effectiveness of economic development programs.**

Mr. Lawhon stated that State and local governments can offer economic development assistance in several ways, including tax abatements and cash assistance. When assistance is offered, it's often very difficult to measure the effectiveness or success of that assistance. One item that frequently hinders meaningful analysis is the lack of good data. When data are available, evaluators often find that most traditional economic development programs or incentives show negative or inconclusive results, such as promised jobs haven't been created, or states have received little to no return on their investments for the State. Nevertheless, there are some success stories based on economic development assistance; both traditional and technology based. However, one commonly held belief is that states must offer assistance to remain competitive, regardless of the cost or overall effectiveness of that assistance.

Chairperson Brownlee asked Jeff Conway, Department of Commerce, if he had the information regarding the descriptions on the titles and he stated they are still working on that.

Chairperson Brownlee adjourned the meeting at 9:30 a.m. with the next meeting being scheduled for March 19, 2008 at 8:30 a.m. in room 123 S.

**Kansas Department of Commerce
Economic Development Audit
Original Funding Source**

Funding Source & Fund Name	FY '03-'07 Totals
Federal	\$ 418,247,804
Community Development Block Grant	\$ 120,940,353
Community Development Block Grant Loan	\$ 17,386,304
Conference Registration	\$ 79,596
Economic Development Initiative Fund	\$ 6,966,910
Flood Mitigation	\$ 41,554
General Fees	\$ 15,039
Goodyear	\$ 100,000
Greensburg National Emergency Grant	\$ 44,094
IMPACT Program Repayment	\$ 51,213,375
IMPACT Program Services	\$ 25,422,385
Indirect Costs	\$ 4,674,851
Kansas Commission on Disability Concerns	\$ 3,548
Kansas Economic Opportunity Initiatives Fund	\$ 18,494,767
Kansas Existing Industry Expansion Program	\$ 1,297,093
Kansas Partnership Fund	\$ 503,746
Ks Community Entrepreneursip	\$ 450,000
Less Debt Service	\$ (132,629)
Mainstreet	\$ 63,644
Other Federal Grants	\$ 4,287,849
Publication & Other Sales	\$ 1,035,023
Re-employment Services	\$ 856,617
Reimbursement & Recovery	\$ 986,029
School To Work	\$ 2,019,399
Trade Adjustment Act	\$ 8,041,206
Veterans Programs	\$ 4,886,869
Wagner Peyser	\$ 20,208,703
Wheat Harvest Non-Fed	\$ 14,977
Workforce Investment Act	\$ 47,537,852
Workforce Investment Act Dislocated Worker	\$ 3,152,292
Workforce Investment Act Set-Aside	\$ 4,321,267
Workforce Investment Act Youth	\$ 5,554,558
*Employment Services	\$ 67,780,533
Other	\$ 25,287,948
Athletic Fee Fund	\$ 28,975
Conference Registration	\$ 65,300
Conversion of Equipment & Materials	\$ 17,000
Flood Mitigation	\$ 133,413
General Fees	\$ 306,995
Greyhound Tourism	\$ 199,089
Kansas Commission on Disability Concerns	\$ 1,088
Kansas Export Loan Guarantee	\$ 100,000
Kansas Partnership Fund	\$ 1,313,694

Senate Commerce Committee
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Attachment 1-1

**Kansas Department of Commerce
Economic Development Audit
Original Funding Source**

Ks Venture Capital Company	\$ 4,818
Less Debt Service	\$ (433,074)
Mainstreet	\$ 55,000
Market Development	\$ 1,067,262
Other Federal Grants	\$ 1,250,971
Publication & Other Sales	\$ 6,761,329
Re-employment Services	\$ 24,991
Reimbursement & Recovery	\$ 5,787,791
Trademark	\$ 21,819
Wheat Harvest Non-Fed	\$ 26,166
*Americas Job Link Alliance	\$ 8,553,658
*Registered Apprenticeship	\$ 1,663
State	\$ 99,594,738
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Affordable Airfares	\$ 5,000,000
Economic Development Initiative Fund	\$ 69,272,994
Goodyear	\$ 3,123
IMPACT Program Repayment	\$ 13,538,638
IMPACT Program Services	\$ 1,104,026
Kansas Economic Opportunity Initiatives Fund	\$ 6,300,925
Kansas Existing Industry Expansion Program	\$ 15,000
Less KCDC	\$ (691,879)
Less SBDC	\$ (1,453,661)
State General Fund	\$ 5,111,127
*Employment Services	\$ 1,278,742
*Registered Apprenticeship	\$ 115,703
Grand Total	\$ 543,130,490
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*Department of Labor	

**Kansas Department of Commerce
Economic Development Audit
Funding Sources Revised by Commerce**

Funding Source & Fund Name	FY 03-07 Totals
Federal	\$ 312,577,973
Community Development Block Grant	\$ 120,940,353
Community Development Block Grant Loan	\$ 17,386,304
Flood Mitigation	\$ 174,967
Greensburg National Emergency Grant	\$ 44,094
Indirect Costs	\$ 4,674,851
Less Debt Service	\$ (565,703)
Other Federal Grants	\$ 5,538,820
Re-employment Services	\$ 881,608
School To Work	\$ 2,019,399
Trade Adjustment Act	\$ 8,041,206
Veterans Programs	\$ 4,886,869
Wagner Peyser	\$ 20,208,703
Workforce Investment Act	\$ 47,537,852
Workforce Investment Act Dislocated Worker	\$ 3,152,292
Workforce Investment Act Set-Aside	\$ 4,321,267
Workforce Investment Act Youth	\$ 5,554,558
*Employment Services	\$ 67,780,533
Other	\$ 24,158,880
Athletic Fee Fund	\$ 28,975
Conference Registration	\$ 144,896
Conversion of Equipment & Materials	\$ 17,000
General Fees	\$ 322,034
Kansas Commission on Disability Concerns	\$ 4,636
Less KCDC	\$ (691,879)
Mainstreet	\$ 118,644
Market Development	\$ 1,067,262
Publication & Other Sales	\$ 7,796,352
Reimbursement & Recovery	\$ 6,773,820
*Americas Job Link Alliance	\$ 8,553,658
State	\$ 206,393,637
Affordable Airfares	\$ 5,000,000
Economic Development Initiative Fund	\$ 76,239,904
Goodyear	\$ 103,123
Greyhound Tourism	\$ 199,089
IMPACT Program Repayment	\$ 64,752,013
IMPACT Program Services	\$ 26,526,411
Kansas Economic Opportunity Initiatives Fund	\$ 24,795,692
Kansas Existing Industry Expansion Program	\$ 1,312,093
Kansas Export Loan Guarantee	\$ 100,000
Kansas Partnership Fund	\$ 1,817,440
Ks Community Entrepreneurship	\$ 450,000
Ks Venture Capital Company	\$ 4,818
Less SBDC	\$ (1,453,661)

Senate Commerce Committee

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Attachment 2-1

Kansas Department of Commerce
Economic Development Audit
Funding Sources Revised by Commerce

State General Fund	\$ 5,111,127
Wheat Harvest Non-Fed	\$ 41,143
*Employment Services	\$ 1,278,742
*Registered Apprenticeship	\$ 115,703
Grand Total	\$ 543,130,490
*Department of Labor	

**Kansas Dept of Commerce
IMPACT FY03-07**

FY	County	City	Award	EmplTrainees	Jobs	AvgTraineeWage
03	COWLEY	Winfield	\$250,000	150	New	\$13.26
03	DOUGLAS	Eudora	\$307,767	22	New	\$11.78
03	JOHNSON	Leawood	\$325,000	73	New	\$64.90
03	JOHNSON	Lenexa	\$154,899	90	New	\$17.76
03	JOHNSON	Lenexa	\$505,000	184	New	\$18.15
03	JOHNSON	Lenexa	\$434,119	341	New	\$10.40
03	JOHNSON	Overland Park	\$1,980,000	492	New	\$19.93
03	JOHNSON	Lenexa	\$400,000	175	New	\$13.36
03	McPHERSON	McPherson	\$450,000	137	New	\$17.11
Total			\$4,806,785	1664		
04	COWLEY	Arkansas City	\$910,000	630	New	\$14.22
04	JOHNSON	Leawood	\$2,700,000	540	New	\$29.60
04	JOHNSON	Overland Park	\$400,000	209	New	\$14.23
04	JOHNSON	Westwood	\$250,000	113	New	\$21.02
04	RILEY	Manhattan	\$500,000	250	New	\$11.84
04	SEDGWICK	Wichita	\$615,000	530	New	\$15.48
Total			\$5,375,000	2272		
05	JOHNSON	Olathe	\$500,000	351	New	\$21.36
05	JOHNSON	Olathe	\$725,000	361	New	\$14.46
05	JOHNSON	Overland Park	\$120,000	76	New	\$35.92
05	JOHNSON	Shawnee	\$950,000	221	New	\$27.17
05	JOHNSON	Lenexa	\$550,000	272	New	\$19.92
05	SEDGWICK	Wichita	\$1,000,000	620	New	\$15.10
05	SEDGWICK	Wichita	\$1,500,000	208	New	\$50.50
05	SHAWNEE	Topeka	\$620,000	620	New	\$13.01
05	WYANDOTTE	Kansas City	\$4,000,000	2900	Existing	\$27.84
Total			\$9,965,000	5629		
06	ELLIS	Hays	\$385,000	425	New	\$7.87
06	JOHNSON	Overland Park	\$3,861,000	792	New	\$42.51
06	JOHNSON	Overland Park	\$8,250,000	1799	Retrained	\$30.43
06	JOHNSON	Overland Park	\$1,700,000	375	Retrained	\$26.77
06	JOHNSON	Overland Park	\$575,000	424	New	\$32.89
06	JOHNSON	Lenexa	\$625,000	125	New	\$34.01
06	JOHNSON	Overland Park	\$6,000,000	741	New	\$56.14
06	MONTGOMERY	Independence	\$875,000	500	New	\$11.83
06	SEDGWICK	Wichita	\$7,150,000	2410	Retrained	\$25.90
06	SEDGWICK	Wichita	\$1,000,000	944	New	\$9.45
06	WYANDOTTE	Kansas City	\$1,000,000	129	New	\$31.27
Total			\$31,421,000	8664		
07	COWLEY	Winfield	\$433,643	300	New	\$13.94
07	DOUGLAS	Lawrence	\$325,000	440	New	\$11.25
07	JOHNSON	Overland Park	\$750,000	267	New	\$19.22
07	JOHNSON	Overland Park	\$1,750,000	850	New	\$16.54
07	JOHNSON	Olathe	\$2,650,000	484	New	\$15.50
07	JOHNSON	Overland Park	\$6,555,888	531	Combination	\$46.07
07	JOHNSON	Olathe	\$250,000	150	New	\$13.46
07	RILEY	Manhattan	\$250,000	122	Retrained	\$14.31
07	SEDGWICK	Wichita	\$2,157,355	1144	Retrained	\$38.60
07	WYANDOTTE	Kansas City	\$300,000	176	New	\$13.08
Total			\$15,421,886	4464		

Attachment

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