

MINUTES OF THE HOUSE ECONOMIC DEVELOPMENT AND TOURISM

The meeting was called to order by Chairman Lana Gordon at 3:30 p.m. On January 14, 2009 in Room DSOB 785 of the Capitol.

All members were present except:

Representative Valdenia Winn- excused

Committee staff present:

Ann Deitcher, Administrative Assistant  
Reed Holwegner, Kansas Legislative Research  
Jason Long, Kansas Legislative Revisor  
Matt Todd, Kansas Legislative Revisor

Conferees appearing before the committee:

David Kerr, Secretary, Ks Dept. Of Commerce

Representative Gordon opened the meeting by asking each committee member to introduce themselves.

She then spoke of the plans she has for this legislative session and asked that they feel free to offer suggestions for what they'd like to see accomplished.

The Chair told the Committee that they were invited to the Senate Commerce Committee meeting on Thursday, January 15. Tom Thornton of the Kansas BioScience Authorities (KBA) would be the conferee.

Secretary David Kerr of the Kansas Dept. of Commerce was then introduced and addressed the Committee regarding the economic outlook of the Department of Commerce. (Attachment 1)

The Secretary told them that both Cessna and Spirit were committed to building in Wichita. He also told them that when approaching companies outside of Kansas, taxes weren't as big an issue with these organizations as workforce and workforce training available in the state.

Asked if under the Governor's budget proposal, Kansas Technical Enterprise Corporation (KTEC) would be placed under the direction of the Commerce Department, Secretary Kerr said he was not aware of that plan but would have that information ready for them as soon as it became available to him.,

Regarding the Governor's proposed budget, it was decided that Duane Goossen, Director of the Division of the Budget would be invited to appear before the Committee.

Copies were distributed of the Performance Audit Report from the Legislative Division of Post Audit on the Department of Commerce. (Additional copies are available at the LPA).

The meeting was adjourned at 4:50 p.m. The next meeting is scheduled for Wednesday, January 21, 2009.





# DEPARTMENT OF COMMERCE OVERVIEW

**Testimony presented by David D. Kerr, Secretary  
Kansas Department of Commerce  
January 14, 2009**



**Kansas Department of Commerce**  
Presentation to the House  
Committee on Economic Development and Tourism

**COMMERCE OVERVIEW**

For FY 2003-2007, Commerce administered more than 37 state and federally funded programs that could be considered economic development, totaling \$121.3 million.

Primary programs utilized for business recruitment, expansion and retention include:

- Investments in Major Projects and Comprehensive Training (IMPACT)
- Kansas Existing Industry Expansion Program (KEIEP)
- Kansas Economic Opportunity Initiatives Fund (KEOIF)
- Kansas Industrial Training Program (KIT)
- Kansas Industrial Retraining Program (KIR)

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**Kansas Department of Commerce**  
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**COMMERCE OVERVIEW**

**For the five-year period of 2003-2007:**

- Through IMPACT, KEIEP, KEOIF, KIT and KIR, the state provided more than \$76 million.
- 25,320 new jobs were created, generating \$3.576 billion in new payroll and \$104 million in new employee withholding taxes.
- 40,564 jobs were retained, generating \$7.67 billion in retained payroll and \$222 million in withholding taxes from retained employees.
- 23,544 new employees were trained, and 38,743 existing employees were retrained.



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**Kansas Department of Commerce**  
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**COMMERCE OVERVIEW**

**For the five-year period of 2003-2007:**

- Ag marketing: State funds of more than \$2 million generated nearly \$5 million for program applicants.
- Attraction Development Grants: State invested nearly \$2.6 million and leveraged nearly \$7.3 million locally. Travel-generated payroll increased from \$881 million to \$931 million, and tax revenues grew 11 percent.
- Community Development Block Grants: More than \$17 million in federal funds resulted in 1,683 jobs created and company and community investment of \$122 million.



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**Kansas Department of Commerce**  
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**COMMERCE OVERVIEW**

In 2004, Workforce Development was moved to Commerce from the Department of Labor.

- 300 positions transferred, bringing the total number of Commerce employees to 400.
- Since the transfer, Commerce staff has been reduced by 21% (87 positions), despite the addition of tens of millions of dollars in new programs.

Prior to Migration:

- The workforce system failed to meet minimum federal performance standards.
- State workforce investment board was unable to muster a quorum.

Currently:

- Kansas has met or exceeded all standards the past two years and is poised to do so for a third consecutive year.
- State WIB is an active board that meets quarterly (with multiple subcommittees meeting regularly, too) and has developed a statewide brand (**KANSASWORKS**).
- Investment in critical-industry training has increased from 48% in FY 2006 to 65% in FY08.
- Investment in non-metro area training has increased from 10% in FY 2006 to 37% in FY08.



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**Kansas Department of Commerce**  
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**COMMERCE OVERVIEW**

**Travel & Tourism:**

- Funding (actual expenditures)

FY 2009	\$5.146 million (budgeted)
FY 2008	\$4.005 million
FY 2007	\$4.365 million
FY 2006	\$4.216 million
FY 2005	\$4.291 million
  
- Organizational Realignment
- Industry Involvement



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**Kansas Department of Commerce**  
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**COMMERCE OVERVIEW**

**Kansas, Inc. Statutory Evaluation**

- “Commerce business assistance programs are achieving their stated mission. Virtually all of its key stakeholders, both inside and outside of Kansas, are positively impressed by Commerce’s programs and staff.”
- “Commerce programs are generally well-run and make accountable, effective use of public dollars. Executives in both the business and site location communities consistently called Commerce staff some of the best, most professional economic development personnel in the country.”
- “In the aggregate, our findings suggest Commerce generally achieves its mission and makes effective use of public dollars. We recommend no major changes in structure, organization or objectives at this time.”

*Evaluation of the Kansas Department of Commerce, presented to Kansas, Inc. Board of Directors, November 13, 2007.*



**Kansas Department of Commerce**  
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**ECONOMIC OUTLOOK**

**Aviation**

- **Cessna** (12,000 in workforce):
  - 500 laid off in December 2008
  - 1,000 more layoffs expected in January 2009
- **Hawker Beechcraft** (9,800 in workforce; 7,700 in Wichita):
  - 490 laid off in November 2008; perhaps 500 more to be let go
- **Boeing Wichita** (2,400 in workforce):
  - 800 expected to be laid off
- **Cessna and Spirit** have made the commitment, and other industry partners have pending projects to build next-generation aircraft in Kansas.

Oklahoma: an engineer hired by an Oklahoma aerospace company is eligible for a \$5,000 tax credit per year for up to five years.

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**Kansas Department of Commerce**  
Presentation to the House  
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**ECONOMIC OUTLOOK**

**Energy**

- Global economic downturn has eroded demand for oil and natural gas. Credit crunch will slow capital expenditures by Kansas oil and gas companies.
- Oil prices are down 75%, and natural gas prices are down 50% since July 2008.
- Drilling and completion costs in Kansas are up more than 100% over the past 3 years.
- Kansas oil and gas companies are cutting back on 2009 budgets and drilling plans, even though 2008 production growth was around 8%.
- Many predict low crude prices due to weak global economic outlook, financial market turmoil and the strengthening dollar.



**Kansas Department of Commerce**  
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**ECONOMIC SNAPSHOT**

- Retail sales tax receipts for July-Dec FY09 [at \$863M] were up nearly \$3M dollars over the same period last year, an increase of 1.3%.
- Individual income tax receipts [at \$1.276 B] were up 2.7% over last year. Severance taxes [at \$90 M] were up almost 45% over last year.

BUT:

- Corporate income taxes [at \$148 M] were down almost 23% over last year.
- Use taxes [at \$115M] were down more than 15% over last year.



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**Kansas Department of Commerce**  
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**ECONOMIC OUTLOOK**

**Business Recruitment:**

	<b><u>FY 2007</u></b>	<b><u>FY 2008</u></b>	<b><u>FY 2009 (YTD)</u></b>
<b>Total Projects</b>	43	34	31
<b>Jobs</b>	6,880	5,905	4,290
New	6,698	4,341	3,643
Retained	182	1,534	647
<b>Capital Investment</b>	\$780 million	\$1,100 million	\$731 million



**Kansas Department of Commerce**  
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**ECONOMIC OUTLOOK**

**Business Recruitment:**

- Some significant projects in **FY 2008:**
  - Abengoa biodiesel plant in Hugoton
  - U.S. Bank Data Center project in Olathe
  - Embarq in Overland Park (Pre-merger)
  - Cessna Aircraft in Wichita
  - Kiewit Engineering in Lenexa
  - Hill's Pet Food manufacturing in Emporia
  - Kimberly Clark distribution center in Olathe
  
- Some significant projects in **FY 2009:**
  - Spirit Aircraft in Wichita
  - Coleman distribution plant in Gardner
  - FlightSafety facility in Wichita
  - Premiere Global customer service in Lenexa
  - Johnson Controls manufacturing in Wichita
  - National Bio and Agro-Defense Facility

**Capital Investment/Jobs**

\$313 M / 120 new  
 \$100 M / 46 new  
 \$96 M / 1,100 retained  
 \$200 M / 1,009 new  
 \$32 M / 378 new / 362 retained  
 \$160 M / 150 new  
 \$20 M / 60 new

\$300M / 700 new  
 \$43 M / 110 retained/80 new  
 \$148 M / 253 new  
 \$43.5 M / 232 retained / 218 new  
 \$11 M / 200 new  
 \$451 M / 300 new





**Kansas Department of Commerce**  
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**ECONOMIC OUTLOOK**

**Business Recruitment:**

- Projects on indefinite hold:
  - Two financial/credit projects
  - Fort Dodge Animal Health's move to the Kansas Bioscience Park in Olathe
  - Other projects that had a drop in earnings per share
  
- Trends
  - FY 2008: manufacturing
  - FY 2009: office/service sector and manufacturing
  - Average wage per hour is up; currently \$25/hour.
  - Fewer call center projects now (lower wages, but increase in jobs per project)
  - Interest in alternative energy (solar, wind, electric vehicle, etc.); other states using "green" incentives.
  - Preference for direct cash assistance over tax credits.



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**Kansas Department of Commerce**  
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**ECONOMIC OUTLOOK**

**Workforce Development:**

Workforce is the single largest and most significant issue facing business.

	<b><u>Nov. 2007</u></b>	<b><u>Nov. 2008</u></b>
Statewide Unemployment	3.8%	4.8%*
Number of Kansas Counties		
Less than 4%	84	52**
4.0% - 4.9%	17	25
5.0% - 5.9%	3	14
6.0% or greater	1	14

\* The national unemployment rate in December 2008 was 7.2%

\*\*44 of the 52 counties with an unemployment rate of less than 4% are west of Geary County



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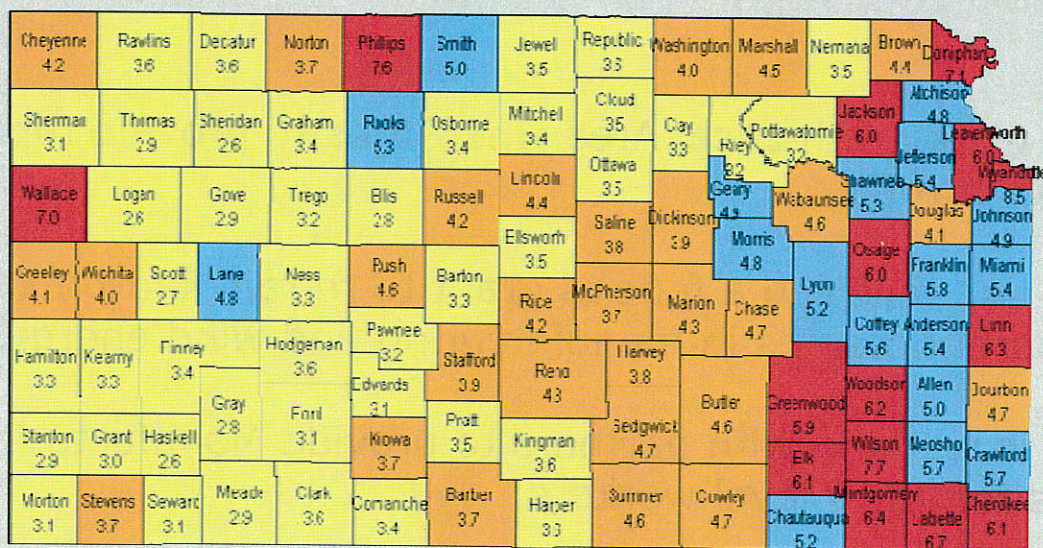
**Kansas Department of Commerce**  
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**ECONOMIC OUTLOOK**

**UNEMPLOYMENT RATES FOR NOVEMBER 2008**

State Rate = 4.8%

KS Counties by Rate



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**Kansas Department of Commerce**  
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**ECONOMIC OUTLOOK**

**Workforce Development:**

- Working to recruit workers to the state; focus on alumni and military families.
- Commerce works with Local Area One-Stops to provide rapid response for layoffs.
- Commerce has received a federal grant to retrain laid-off workers through apprenticeships in manufacturing and wind energy.
- Commerce is working with partners to provide Manufacturing Skills Certificates for entry level workers.



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**Kansas Department of Commerce**  
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**ECONOMIC OUTLOOK**

**Workforce Development:**

- FY 2009 YTD: 29 Kansas Industrial Training program (KIT) projects and 25 Kansas Industrial Retraining program (KIR) projects, training 3,877 employees.
- Only slightly more than half of the projects are in metro areas.
- 69% of the workers and 87% of the dollars are invested in critical industries — advanced manufacturing/aviation, professional services, bioscience and health care.
- 84% of the trainees and 93% of the funds have been invested in projects paying the state median wage or higher.