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Kansas Department of Commerce
Department Overview and Special Initiatives

Prepared for the House Commerce, Labor and Economic Development Committee
Room 346-S, The Statehouse
Jan. 21, 2015

Overview

As the state's lead economic development agency, the Kansas Department of Commerce strives to empower individuals, businesses and communities to achieve prosperity in Kansas. To this end, the Department comprises a variety of programs and services that create jobs, attract new investment, provide workforce training, encourage community development and promote the state as a great place to live and work. This is accomplished through the Department's two major Divisions:

- **Business and Community Development** focuses on growing the Kansas economy and strengthening the state's communities. This is done by:
    - The creation and retention of jobs and capital investment, through recruiting new companies and helping existing companies grow.
    - Using various community development programs (such as the Community Development Block Grant and the Rural Opportunity Zones program) to make Kansas communities, especially in rural areas, economically strong and vibrant.
    - Providing individualized counseling and expertise to Kansas companies expanding their export markets.
- **Workforce Services** links businesses, job candidates and educational institutions to ensure that employers can find skilled workers.

The Department also oversees two Commissions:

- The **Kansas Athletics Commission** promotes and regulates the state's combat sport industry by regulating and facilitating high-quality competitive sporting events.
- The **Kansas Creative Arts Industries Commission** is focused on leveraging the potential of the creative industries sector to create jobs and grow the Kansas economy.

Fiscal Year 2015 Budget

Revenue Sources	DOB Recommendation (in millions)
State General Fund	0.24
Economic Development Initiative Fund	18.83
Federal Funding	57.17
Special Revenue	50.89
Total	**127.13**

Business Development Successful Projects – By Fiscal Year

(Capital Investment in millions; FY 2015 numbers July 1-Dec.31, 2014)

Year	Projects	Total Jobs	New Jobs	Retained Jobs	Capital Inv.
2011	115	11,874	5,805	6,069	542.6
2012	164	15,426	13,348	2,078	2,359.8
2013	191	20,049	12,023	8,026	1,395
2014	175	15,267	10,260	5,007	1,383
2015	81	4,131	3,654	477	520.6

The Department's Business Recruitment Team had a number of successful projects in non-metropolitan areas of the state, with more than 32 percent of the overall jobs and 51 percent of the overall capital investment for our successful projects in non-metropolitan areas of the state. The manufacturing sector had the highest number of project leads in FY 2014, and the manufacturing and professional service sectors had the most successful projects.

10 Key Successful Projects (Fiscal Year 2014)

Project	Jobs created	Capital Inv. (in millions of $)
Alliance Data Services, Lenexa	531 new	18
AIG PC Global Services, Olathe	300 new	24.1
Catalyst Artificial Lift, Iola	100 new, 22 retained	3.6
Grantham University, Lenexa	500 new	22.5
GVL Polymers, Beloit	50 new	2.3
Hospira, McPherson	150 new, 320 retained	89
Intouch Solutions, Overland Park	350 new, 342 retained	22.7
Netsmart Technologies, Overland Park	417 new	26.8
Quest Diagnostics, Lenexa	500 new, 100 retained	9.5
TM Track Machines, Parsons	75 new	4
Total	**2,973 new, 784 retained**	**222.5**

Media Accolades and Rankings

The state's recruitment and retention/expansion success earned Kansas wide media coverage and exposure among site location consultants nationwide. The state was recognized by several major media outlets, surveys or publications for business excellence in 2014. Key media accolades and rankings include:

- The state won *Area Development Magazine's* Silver Shovel Award for 2014, which recognizes state economic development agencies that drive significant job creation through a variety of innovative policies. This is the fifth consecutive Shovel Award for Kansas.
- Kansas was ranked as the fifth best "Pro-Business State" by Pollina Corporate, a nationally recognized real estate company.
- Commerce was ranked as the fifth best state economic development agency in the country by Pollina.
- According to *Business Facilities* magazine, Kansas ranked in the top 10 in several key energy sectors, including renewable energy (power generation), installed wind power capacity, and wind power as a percentage of overall energy. *Business Facilities* also ranked Kansas in the top 10 among Aerospace/Defense Industry Leaders.

Kansas Exports Update

Kansas exports for 2013 were $12.45 billion, an increase of 6.46 percent compared to 2012 and the highest figure observed since 2008. Over the last several years, Kansas exports have grown steadily, and 2013's total was nearly 26 percent higher than 2010.

While final export totals are not yet available for calendar year 2014, through November, Kansas exports had reached $10.99 billion for the year. That is $2.07 billion more than the regional average of $8.92 billion during the same period (for the five state region of Kansas, Colorado, Missouri, Nebraska and Oklahoma).

Top Five Countries for Kansas Exports	Amount (in millions), 2014 through November
Canada	$2,297
Mexico	$1,598
China	$1,092
Japan	$748
Brazil	$507

Top Five Export Products	Amount (in millions), 2014 through November
Aircraft and Parts	$1,853
Cereals	$1,451
Meat and Edible Meat Offal	$1,250
Industrial Machinery	$1,134
Electric Machinery and Parts	$875

Special Initiatives

Career and Technical Education

The Department continues to partner with other agencies in support of the Career and Technical Education initiative, which allows high school students to take postsecondary level technical education classes at no cost.

Innovation Growth Partners

The Innovation Growth partners support Governor Brownback's overall vision of Kansas research universities as engines of economic growth. The partners are tasked with leveraging university research to better support commercialization efforts using public-private partnerships.

Partners include Kansas State University, the University of Kansas, Wichita State University, Pittsburg State University, the Advanced Manufacturing Institute, the Bioscience and Technology Business Center, the Mid-America Manufacturing Technology Corporation and the Wichita Technology Corporation.

Kansas Edge (www.TheKansasEdge.com)

The Kansas Edge reshoring initiative was launched in September 2014. The initiative aims to help Kansas capture manufacturing jobs that are returning to the U.S. in the growing reshoring trend. A key feature of the initiative is its website, TheKansasEdge.com. In addition to providing information on how doing business in Kansas is more affordable than offshoring production, this website features a unique database of Kansas suppliers that is dynamic and continually updated. The database allows businesses to easily identify manufacturers and suppliers across the state.

KanVet (www.KanVet.ks.gov)

KanVet is a website that serves as a central, comprehensive resource for services that the state provides to veterans. KanVet helps connect veterans with higher education information and job searching tools designed specifically for veterans.

KanVet features employment and education information in an easily navigable website with links to several Kansas programs available for veterans. Employment resources include information about **KANSAS**WORKS, the KanSERVE program, opportunities with the Kansas Army and Air National Guard and descriptions of other employment services. Education tools provide the ability to search for higher education programs for veterans at all Kansas Board of Regents universities and community and technical colleges. Several agencies are involved in developing KanVet, including the departments of Commerce, Labor and Children and Families; the Kansas Commission on Veterans Affairs; the Kansas Board of Regents; and the Kansas Adjutant General's Office.

Other veterans' initiatives include working with the Board of Regents Technical Education Authority to develop industry-led credentials and training to get veterans back to work more quickly.

Keeping Kansas Competitive Engineering Initiative
This initiative is being used by the state's professional engineering programs at Kansas State University, the University of Kansas and Wichita State University to address the need for more engineers by business and industry in the state. From 2012-2021, $3.5 million per year in state funds is being provided for each engineering school, with a dollar-for-dollar match provided by the universities to ensure Kansas businesses have access to the engineering talent they need to fuel economic growth. This overall investment of $210 million will be used to increase engineering graduates to 1,365 per year by 2021.

Rural Opportunity Zones
The Rural Opportunity Zones (ROZ) program was expanded by the Legislature in 2014 to include four new rural counties, bringing the total number of ROZ counties to 77. The Department oversees the student loan repayment portion of the program, which is a shared cost with participating counties. To date, 2,008 applications have been received, with 946 accepted participants and 458 pending applications. In surveying participants, the Department found that 58.7 percent of participating households have purchased or built homes and 17 percent of participating households have purchased or started a business since moving to a ROZ county.

University Research Grants
To support Governor Brownback's strategic plan and vision for Kansas research universities as engines of economic growth, each participating university is pursuing goals unique to the opportunities available through these grants. Kansas State University is leveraging these grants for agricultural corridor and bio-defense research, the University of Kansas Medical Center for cancer research and Wichita State University for aviation research through the National Institute for Aviation Research.

Workforce Services Division Inter-Agency Collaboration
The Workforce Services Division within the Department is working with the Department of Children and Families, Department of Labor, Department of Corrections and the Kansas Board of Regents in a number of areas to improve programs and services provided to Kansans. Those include University Partnerships, finding Kansans with disabilities full-time jobs, and providing a workforce that is certified to meet the job demands of the state's businesses.

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Legislative Post Audit Performance Audit Report Highlights

Highlights

Economic Development: Determining Which Economic Development Tools are Most Important and Effective in Promoting Job Creation and Economic Growth in Kansas, Part 3

Report Highlights

December 2014 • R-14-011

Summary of Legislator Concerns

Legislators have expressed interest in knowing which Kansas economic development programs and incentives are most helpful to Kansas businesses.

Background Information

The Department of Commerce, the Kansas Bioscience Authority, and the Department of Revenue administer the state's main economic development programs. This analysis does not include programs offered through the Kansas Bioscience Authority.

The state's major programs may be bundled together or combined with local government incentives to form packages of incentives or "projects."

In this audit, we evaluated the state's six major economic development programs based on a judgmental sample of 42 projects initiated between fiscal year 2006 and fiscal year 2011. These projects comprised 98 different agreements from the six main state programs and local government incentives.

QUESTION 1: Has the Implementation of Major Kansas Economic Development Programs Been Successful?

Program-Level Findings

- According to our analysis, the state's six major economic development programs created significant returns on investment for Kansas with regard to business activities.
  - All programs appeared to generate significant returns on investment, which means the business activities programs generated greatly exceeded the incentives they contributed.
  - The programs also appeared to generate more business activities in Kansas than an across-the-board tax cut equal to the incentive (net present value).

Business Activities Created by the Six Major Kansas Economic Development Programs and Local Incentives (in millions) (a)

Program	Incentives Contributed	Measures of Success: Net Present Value	Measures of Success: Return on Investment (b)
IMPACT	$133.7	$17,206.5	**$128.7**
PEAK	$51.2	$2,916.5	**$57.0**
HPIP	$60.3	$3,387.8	**$56.2**
KIT/KIR	$0.6	$24.6	**$44.6**
JCF	$8.5	$334.8	**$39.6**
KEOIF	$12.1	$353.8	**$29.1**
Local	$113.7	$5,321.6	**$46.8**

(a) The values above are based on our full sample of 42 projects and reflect the midpoint of our estimates. The high and low estimates are +/- 9% of the midpoint.
(b) Values are per $1 of investment.
Source: LPA analysis of unaudited Kansas Department of Commerce and Kansas Department of Revenue economic development data.

- All major programs also appeared to yield positive returns on investment in terms of tax revenue generated for state and local governments.

  - All programs appeared to generate a positive return on investment, which means that the tax revenue programs generated exceeded the incentives they contributed.
  - The programs also appeared to generate more tax revenue in Kansas than an across-the-board tax cut equal to the incentive (net present value).

State and Local Tax Revenue Created by the Six Major Kansas Economic Development Programs and Local Incentives (in millions) (a)

Program	Incentives Contributed	Measures of Success			
		State Tax Net Present Value	Local Tax Net Present Value	Total Tax Net Present Value	Return on Investment (b)
IMPACT	$13.2	$287.4	$71.9	$359.3	$27.2
JCF	$2.8	$14.2	$3.5	$17.7	$6.3
PEAK	$29.4	$102.2	$25.5	$127.7	$4.4
KIT/KIR	$0.4	$1.1	$0.3	$1.4	$3.9
HPIP	$49.4	$135.9	$34.0	$169.9	$3.4
KEOIF	$6.8	$7.4	$1.8	$9.2	$1.4
Local	$71.9	$83.6	$20.9	$104.6	$1.5

(a) The values above are based on 19 projects from our full sample of 42 projects. The values reflect the midpoint of our estimates. The high and low estimates are +/- 12% of the midpoint.
(b) Values are per $1 of investment.
Source: LPA analysis of unaudited Kansas Department of Commerce and Kansas Department of Revenue economic development data.

Project-Level Findings

- A couple of factors significantly influenced the return on investment of the 42 projects we evaluated.

  - The number of jobs a project created or retained had a more significant effect on return on investment than a project's capital investments.
  - The likelihood a project occurred as a direct result of state and local incentives had a significant influence on our return-on-investment estimates.
  - A few projects involved companies that either closed or left the state, but the return to Kansas was still positive.

Other Findings

- The High Performance Incentive Program (HPIP) is fundamentally different than the other major economic development programs we evaluated.

  - Because HPIP is more like an economic development entitlement program, its incentives may be given to companies for investments that would have been made even without the incentive.
  - We were not able to analyze projects that only included HPIP incentives because of the program's structure and lack of documentation.

We selected the 42 projects to ensure the sample included all six major programs and companies from a variety of counties and industries. The results of our work are not projectable because the sample is not representative of the population.

We hired an economic consultant who used IMPLAN to model the direct and secondary effects of the job and capital investment data we collected. IMPLAN is an economic modeling software package that is commonly used to study economic effects.

- *The jobs, payroll, and capital investments that companies create are benefits to state and local governments. The incentives the Department of Commerce or local government award to companies are a cost to state and local governments.*
- *To quantify jobs, investments, and economic development incentives in past years, we generally relied on data from Department of Commerce or Department of Revenue files. We also called local government officials to identify local incentives provided to the projects we sampled.*
- *To estimate jobs, investments, and incentives in future years, we generally relied on company projections, program agreements, and other supplemental information from Department of Commerce files. We estimated a range of possible jobs, investments, and incentives in future years.*

This analysis had two outputs:

- *Business activities measure the economic activity a business creates through increased production and associated secondary effects. It measures the activities that occurred within Kansas and contribute to the state's gross domestic product.*
- *Tax revenue measures the state and local tax revenue from sales, income, property, and several other categories of taxes.*

We allocated the business activities and tax revenue from the sample projects to the six major economic development programs. We then evaluated each program's success based on net present value and return on investment.

We made several assumptions as part of this evaluation, which are explained in more detail in Appendix C of the report.

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Assumptions and Limitations

- Return on investment is an indicator of program success, but should not be interpreted as an absolute value. Our analysis is subject to the following limitations:
  - Job and capital investment data from the Department of Commerce and Department of Revenue are based on company-reported information that is largely unaudited. However, there is no other source of information to analyze.
  - We generally projected jobs through 2023 and capital investments and economic development incentives through the end of a company's contract period. Therefore, jobs, investments, and incentives are frequently based on estimates because most projects do not have records for that entire time period.
  - Business activities and tax revenue may be inflated because we potentially attributed jobs and capital investments to one project when they should have been attributed to multiple projects.
  - Our analysis does not account for factors such as the timing of incentives (upfront or over time) or form of the incentive (cash payment or a tax credit) that may ultimately have a large influence on a company's decision.
  - Because we only looked at a sample of projects, the business activities and tax revenue of one large project could significantly influence the business activities and tax revenue we estimated for an entire program. A sample of different projects could result in different program returns than those described above.
  - Although different methodologies and assumptions could produce different results, any variations likely would not change the overall results from positive to negative.

SUMMARY OF RECOMMENDATIONS

- This report contains no recommendations.

AGENCY RESPONSE

- Department of Commerce officials generally agreed with the report's findings and conclusions, although they disagreed with a few of the assumptions we made to estimate programs' returns. Department of Revenue officials did not submit a formal

HOW DO I REQUEST AN AUDIT?

By law, individual legislators, legislative committees, or the Governor may request an audit, but any audit work conducted by the division must be directed by the Legislative Post Audit Committee. Any legislator who would like to request an audit should contact the division directly at (785) 296-3792.