

Approved: 2/1/93
Date

MINUTES OF THE SENATE COMMITTEE ON COMMERCE.

The meeting was called to order by Chairperson Alicia Salisbury at 8:00 a.m. on January 13, 1993 in Room 123-S of the Capitol.

Members present: Senators Burke, Downey, Feleciano, Gooch, Harris, Hensley, Kerr, Petty, Ranson Reynolds, Steffes and Vidricksen

Committee staff present: Lynne Holt, Legislative Research Department
Bob Nugent, Revisor of Statutes
Mary Jane Holt, Committee Secretary

Conferees appearing before the committee: Lynne Holt, Legislative Research Department

Others attending: See attached list

Lynne Holt, Legislative Research Department, reviewed the 1992 interim study of the Joint Committee on Economic Development. She stated the Joint Committee on Economic Development directed its efforts to acquiring knowledge about: (1) certain industry sectors of the state and (2) state and community strategic planning activities. The Committee focused particularly on the nonfood agriculture value-added, biotechnology, and aviation industries but received information as well on the tourism and service industries.

In regard to strategic planning, Ms. Holt stated the Committee recommended that funding for all state economic development services be examined, priorities be set, and, if necessary, existing programs and services be restructured. The Committee also recommended further consideration be given to promote networking activities of small and medium-sized businesses in Kansas.

The Joint Committee on Economic Development introduced HB 2020 that amends the Community Strategic Assistance Act. HB 2020 addresses the amount of community development grants and the use of such grants.

The Joint Committee on Economic Development recommended the 1993 standing Economic Development committees consider expansion of the Community Strategic Planning Assistance Act to make blighted urban areas eligible for planning and action grant awards. The Committee was informed that Bank IV in Wichita intends to create a bank community operation. The Committee decided to monitor Bank IV's progress.

The importance of continued targeting of state funds to specific industry sectors was recognized; however, the Committee recommended that any sector-specific assistance provided by the state respond to actual market demand.

In regard to Export Assistance the Committee recommended that the Secretary of Commerce and Housing or the Program Director give a status report to the standing Economic Development committees with suggestions for modifying the program to make it more effective.

The Committee recommended that 501(c)(6) organizations be eligible to apply for grants under the Tourism and Tourist Attractions Matching Grant program. In regard to tourism signage, the Committee suggested consideration be given to additional funding from the Economic Development Initiatives Fund for signage, see Attachment 1.

Senator Kerr reported on meetings of the Joint Committee on Economic Development's meetings regarding agriculture value-added, biotechnology and seed and venture capital.

The Chairman announced she would be appointing subcommittees to work on economic development issues and various employment issues. Committee members were requested to make known which areas they would prefer to concentrate.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON COMMERCE, Room 123-S Statehouse, at 8:00 a.m.
on January 13, 1993.

Senator Salisbury introduced Vice Chairman Ranson who will be working on economic development issues and Vice Chairman Harris who will be working on employment issues.

The Committee meeting was adjourned at 9:00 a.m.

The next meeting is scheduled for January 14, 1993.

GUEST LIST

DATE: Jan. 13, 1993

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JOINT COMMITTEE ON ECONOMIC DEVELOPMENT

Report to the 1993 Kansas Legislature

*Filed With the Legislative Coordinating Council
January, 1993*

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INTRODUCTION

The Joint Committee on Economic Development was established pursuant to K.S.A. 46-1604. It is a statutorily prescribed committee with authority to set its own agenda for interim meetings. The Committee consists of five senators and eight representatives, as specified by statute. The following legislators served on the Committee during the 1992 interim:

Senators

Dave Kerr, Chairperson
Bill Brady
Paul Feleciano, Jr.
Alicia Salisbury
Ben Vidricksen

Representatives

Diane Gjerstad, Vice-Chairperson
Richard Lahti
Dennis McKinney
Bob Mead
Jack Sluiter
Frank Weimer
Jack Wempe
Allan White

JOINT COMMITTEE ON ECONOMIC DEVELOPMENT

BACKGROUND

The 1992 Joint Committee on Economic Development directed its efforts to acquiring knowledge about: (1) certain industry sectors of the state and (2) state and community strategic planning activities. The Committee focused particularly on the nonfood agriculture value-added, biotechnology, and aviation industries but received information as well on the tourism and service industries. The intent was to better understand changes in the economic performance of those industries and the needs of businesses confronting such changes. To that end, the Committee heard presentations from businesses in three of those industries (biotechnology, agriculture value added, and aviation) and availed itself of research reports written for Kansas Inc. on the structure and performance of the aviation industry, agriculture value-added industry, and service sector and of the overall Kansas economy. The Committee also was informed about pilot projects undertaken by the Kansas Technology Enterprise Corporation in conjunction with others to promote industrial agriculture value-added products, and about the capital needs of small high-risk technology firms.

Strategic planning is central to all governmental efforts to effectively assist businesses in every industry sector -- thus the Committee's interest in: Kansas Inc.'s state strategic planning activities; European efforts to assist businesses and the workforce; the Department of Commerce and Housing's Community Strategic Planning Program which supports planning activities in nonmetropolitan counties; and possible options for revitalizing distressed urban areas in the state.

This report contains three sections:

1. an overview of various strategic planning efforts;
2. a summary of the key findings of the information received on the state's economic performance and changing dynamics, as well as on each of the industry sectors under consideration; and
3. observations on strategies that are used in Europe to assist small and medium-sized businesses with possible applications to state policy, and recommendations for legislative and policy changes in other areas considered by the Committee.

SECTION I – PLANNING EFFORTS

Kansas Inc. Strategic Plan

The Committee received two status reports by Charles Warren, Kansas Inc., (one at the beginning of the interim and one at the end) on the state strategic planning process summarized below.

The Kansas Inc. Board of Directors decided to develop a revised and updated Kansas Economic Development Strategy during Calendar Year 1992. The final report on the strategy is scheduled for February, 1993. The focus of the strategy is on the creation and retention of jobs and businesses in Kansas. Specifically, this report will identify long-term goals and actions that need to be undertaken to ensure that the Kansas economy remains strong and that the state's business climate is both nationally and globally competitive.

The strategic planning procedure began with the creation of a vision statement resulting from the efforts of five regional vision workshops held throughout the state, followed by a state vision congress. This vision statement identified five guiding principles which were central to the formulation of a mission statement on how

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this vision could be realized. The mission statement is: to enable all Kansans to achieve the highest possible quality of life and standard of living by: fostering innovation and cooperation; creating a healthy economic environment; investing strategically in our people, communities, and businesses; educating people for high-skill jobs; and competing in the global economy.

Kansas Inc. contracted for 12 studies, including economic and demographic analyses, state and community strategic plan analyses, and analyses of certain factors affecting the state's business climate (work force training, adult basic skills, and taxes). Several of these reports were presented to the Committee in the course of its review of industry sectors and strategic planning processes. The intent of this research was to:

1. identify the state's strengths and weaknesses in economic development capacity, as well as its competitive position relative to other states;
2. assist Kansas Inc. in identifying issues to be addressed in the state strategy; and
3. assist Kansas Inc. in evaluating effective and efficient programs, activities, and organizations.

Part of the strategic planning process involved the articulation of guiding principles to define the respective roles of the state, communities, and businesses. In addition, strategic choices, derived from research findings and input from other sources, were developed to serve as the generic directives for more specific recommendations. These recommendations will be formulated at a later date in the action plans of state agencies, communities, businesses, and other involved parties. The entire strategic planning process was essentially driven by the recommendations of community leaders and committees of members from the private and public sectors -- a "bottom-up" process with empirical support from the data and findings of commissioned reports.

German Marshall Fund Study Trip

The Committee heard a staff presentation on a two-week study trip of three European countries -- Denmark, Germany, and Italy -- in which Senator Dave Kerr and Lynne Holt, Kansas Legislative Research Department, took part. This trip was funded by a German Marshall Fund grant under the auspices of the National Conference of State Legislatures (NCSL). A delegation of 12 legislators and staff from six states (Kansas, Colorado, Connecticut, Wisconsin, Ohio, and Kentucky), accompanied by a consultant and an NCSL staff member (Dan Pilcher), examined the strategies used in those countries to educate and train workers and to assist small and medium-sized firms. Such assistance involves the encouragement of business networks or partnerships, public sector leveraging, export assistance, applied research and technology transfer activities, and other forms of technical assistance. The main objective of this trip was to acquire information about European training systems and business assistance policies and practices, in order to apply, where practicable, such information to the development of state policies aimed at increasing business competitiveness.

The connection of observations about this trip with strategic planning is that each of the three countries under consideration has some type of national industrial policy about which considerable consensus exists among the public and private sectors, trade associations, chambers of commerce, and other relevant parties. Although the nature of the policy and degree of consensus varies, workforce training and business assistance efforts are directed in each country to ensuring a dependable and continuously expanding flow of high-quality, value-added, exportable products and services. Strategic planning is undertaken to guarantee that such efforts are integrated to meet the exigencies of market demand and global competition. (The Committee endorses several principles underlying the economic development efforts of those three countries; see the Conclusions and Recommendations section of the report, pages 8-9.)

Kansas Community Strategic Plans

The Committee devoted part of one meeting to presentations from the Kansas Department of Commerce and Housing staff and representatives of single counties and multiple counties which had received planning and action grants under the program. These representatives were divided into two panels, one comprised of single-county grant recipients and the other of multi-county grant recipients. The panelists responded to questions sent to them prior to the meeting. Single-county representatives provided information on various components of the planning process, including the facilitator, involvement of the community, results from the strategic planning process, university technical assistance, and barriers. Members of the multi-county panel mentioned the increased communication and cooperation among local communities and governing bodies resulting from the program, as well as the importance of an ongoing strategic planning process.

The staff of the Department of Commerce and Housing informed the Committee about the statutory provisions governing the program, including the program expiration date of July 1, 1993. The staff further noted that the FY 1993 appropriation from the Economic Development Initiatives Fund for the program was \$445,000 (the University of Kansas, Kansas State University, and Fort Hays State University each received \$15,000 of that total).

Charles Warren, Kansas Inc. and Cal Lantis, Department of Commerce and Housing, reviewed proposed statutory changes to the program developed by staff of Kansas Inc. and the Department of Commerce and Housing. These changes formed the basis of the Committee's recommendations to amend the legislation governing this program. (See Attachment I (legislation) and the Conclusions and Recommendations section of the report, pages 9-10.)

The Committee also received copies of the Executive Summary of a report on Kansas Community Strategic Plans (November, 1992). The report noted that 38 rural counties have developed a strategic plan and 23 of those counties have received program funds. Another 29 counties are in the process of preparing a strategic plan and 19 of those counties have received a program grant. Thirty-two rural counties in Kansas do not presently have a strategic plan, but several of those counties are in the process of applying for a grant. A review of strategic plans disclosed that counties were most concerned about business environment, commitment from the state to enhance their institutional capacity, and quality of life issues. Technology/innovation issues and capital availability issues were the least addressed topics in these plans.

Urban Revitalization

An interim study was requested on this issue by the standing House and Senate Economic Development committees. A staff presentation included an overview of the problems associated with inner city deterioration; explained why the Legislature should care about urban decay; outlined possible approaches for addressing those problems, including support for community development corporations, greater business involvement, and a more coordinated approach to social service delivery; and summarized at that time impending (but subsequently vetoed) federal legislation on enterprise zones. A visit to the Cessna training facility in Wichita provided the Committee with a concrete example of active business involvement in combating urban deterioration, and of a successful partnership between the public and private sectors in funding both the facility (Wichita and Sedgwick County initially provided \$440,000) and the training activities (the federal Job Training Partnership Act, the state Kansas Industrial Training program, USD 259, and corporate support).

A subcommittee of the Joint Committee addressed the issue of urban revitalization and reported to the Committee its recommendations, which underscored the need for strategic planning and incentives to encourage investments in community development corporations. (See the Conclusions and Recommendations section of the report, page 10.)

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SECTION II – SECTOR ANALYSIS

The Kansas Economy

The Committee heard an overview of the report *The Changing Structure and Performance of the Kansas Economy* (June, 1992) by Dr. M. Jarvin Emerson, Kansas State University, written under contract with Kansas Inc. The report addresses employment changes, firm starts and quits, and income and wage changes. These dynamics in the state's economy were examined for the period of 1985-1990. During that period, the state had a slower growing economy than the nation as a whole, with the exception of growth in the manufacturing sector. Manufacturing employment in Kansas increased by 5.9 percent during that period, largely due to the aircraft industry, whereas there was a decrease in manufacturing employment nationally. Other manufacturing industries in Kansas, such as agriculture and oil and gas, experienced declining employment from 1985-1990. The service sector accounted for 58,132 of the total employment increase of 118,446 during that five-year period.

There was a net gain of 1,371 Kansas firms with positive business formation in the metropolitan areas and a net reduction in the number of firms and associated wages in nonmetropolitan areas. The effect for all firms starting and quitting was a net increase in the number of firms, a net decrease in jobs, and a net increase in wages.

With respect to income, the personal income growth rate in Kansas lagged behind that of the United States from 1985-1989, but surpassed it in 1990. Certain sectors experienced personal income deterioration (oil and gas extraction, motor vehicles and equipment, railroad transportation, and heavy construction). However, personal income growth in several industries in Kansas surpassed that of the United States: communications, educational services, miscellaneous repair services, paper and allied products, transportation equipment (excluding motor vehicles), furniture and fixtures, and petroleum and coal products.

Agriculture Value-Added

The Committee devoted a large part of one meeting to learning about recent national and state developments in the nonfood agriculture value added industry. The Committee was informed about a new structure -- the Alternative Agricultural Research and Commercialization Board (AARC) -- which was established as a result of the 1990 Farm Bill. The main purpose of the Board, which reports to the U.S. Department of Agriculture, is "to facilitate and accelerate the commercialization of new industrial uses from farm and forestry materials." The desired outcome is for expanded use of products such as degradable polymers, oxygenated fuels, printing ink, transmission fluids, and news print to reduce commodity program payments, enhance rural economic activity, replace imported oil, and to make farmers more reliant on the market and less reliant on government. The New Uses Council, headquartered in Topeka, was formed to monitor and support the activities of the AARC Board and disseminate information on the latest developments in industrial uses of agricultural commodities.

Dr. Paul O'Connell, Director of the AARC Board, told the Committee that, in contrast to the European Community, the United States places far less emphasis on end use technical and demand analysis; economic demand is not integrated with research and processing. He explained that there is a faulty linkage between production, utilization, economic analysis, demonstration projects, and information transfer. Most of the country's resources go to agricultural production research, a very small amount to utilization research, and almost nothing to economic analysis. He advocated looking at the best market opportunities and then concentrating on research in those areas.

On the state level, agriculture value added research (food and nonfood) at Kansas State University totaled \$8,236,028 in FY 1991, compared to \$4,938,000 in FY 1990. Expenditures for agricultural production research projects at Kansas State University totaled \$27,080,471 in FY 1991, compared to \$21,166,570 in FY 1990. Research at Kansas State University has been conducted on the following value added projects: Karl wheat, foam loose-fill packaging from wheat starch and corn starch, stabilized vitamin C for food for human consumption, beef hearts and skeletal muscles

for modification of meat products, controlled atmospheric packaging for pork, removal of fat from products, use of soybean-based resins in pigment printing of textiles, and the development of a short-flow grain mill.

The Committee heard two status reports on the Kansas Industrial Agriculture Initiative (KIAI), a collaborative effort of KTEC, the State Board of Agriculture, and the Kansas Value Added Center. The overriding goal of KIAI is to "establish an industrial agriculture industry in the State of Kansas." KIAI has helped initiate two projects to date: a pilot plant for tallow-based biodiesel and a pilot plant which converts a waste product into material used for environmental cleanup. The Committee learned that KIAI is in the process of finalizing its strategic plan and business plan and that the organizational structure for this initiative is still under advisement. To date, KTEC has committed a total of \$200,000 in matching funds for the two pilot projects and has submitted pre-proposals requesting federal funds from the AARC Board to continue work on those projects.

A panel discussion of industry representatives from five companies engaged in agriculture value-added operations brought several issues to the Committee's attention. Companies cited concerns about greater government subsidies enjoyed by members of the European Community with respect to vital wheat gluten, wheat starch and oilseeds, as well as problems with restrictive EPA regulations. Another concern was raised about the Kansas Export Finance program and the program requirement for irrevocable letters of credit. This led to a Committee recommendation to review the program during the 1993 Session. (See the Conclusions and Recommendations section of the report, page 10.)

Biotechnology

Although biotechnology might be considered more of a tool and less of an industry, biotechnology companies share certain characteristics and problems and therefore were accorded the same treatment as were other industries reviewed by the Committee.

The Committee meeting on biotechnology/biomedical companies had essentially three thrusts:

1. to provide a global, national, and regional overview of technology development and technology transfer activities;
2. to describe biotechnology/biomedical research activities at the Regents institutions (Kansas State University, Wichita State University, the University of Kansas, and Kansas University Medical Center); and
3. to receive input from biotechnology and biomedical companies on existing barriers and the necessary conditions for increasing firm concentrations in the state.

Presentations by such companies revealed an array of problems and obstacles, including a lack of capital available to start-up firms, a deficit of lab technicians, the lack of recognized clinical researchers at area universities, a lack of emphasis placed on problem-solving ability in the education system, the unresponsive and prolonged drug approval process of the Food and Drug Administration, and insufficient assistance available to small companies in assessing the commercial potential of products and processes under development.

The lack of seed and venture capital available to technology firms was the focus of part of a Committee meeting. The Committee was apprised that it often takes biotechnology/biomedical firms from seven-ten years to recoup their investments. Because of the slow return on investment and their high-risk nature, biotechnology/biomedical firms often experience difficulty in obtaining loans from financial institutions. Conferees stressed the importance of viewing seed and venture capital in the context of other support services, such as those offered by KTEC, MAMTC, the Center for Business Innovation (Kansas City, Missouri), and the Silicon Prairie Technology Association. Five Kansas entrepreneurs and professional managers, including former Governor John

Carlin, addressed the Committee on their respective efforts to procure financing for their start-up ventures. Governor Carlin noted that the research foundation is in place in Kansas; however, Kansas will not reap the benefits of that research (other states will) if capital is not available to apply that research.

Information also was presented to the Committee on the state's incentives to encourage investments in start-up or young companies. State income tax credits have been granted for investments in certified venture capital funds (\$32.1 million invested to date); certified local seed capital pools (\$400,000 invested to date); and the Ad Astra Fund (\$2.5 million invested to date). The tax credit provisions are scheduled to expire on January 1, 1993. On the regional level, Silicon Prairie Technology Association established an Angel's Network, which matches individuals ("angels") interested in making investments of \$10,000 to \$50,000 with emerging businesses. Recommendations to the Committee included extension of the state tax credits for investments in certified seed and venture capital funds and additional funding over a five-year period for the Ad Astra Fund (\$4 million each year beginning in FY 1994).

Aviation

The Committee heard an overview of a report, which analyzes the impact of the aircraft industry on Kansas. This report was written by Janet Nickel and Carlene Hill Forrest (Wichita State University), under contract with Kansas Inc. According to the report, 55 percent of all U.S. general aviation aircraft shipments in 1990 came from Kansas. The state's aviation industry includes civilian and military aircraft parts and production. A profile of the industry in Kansas includes the following observations for 1991. An estimated 50,288 or 26.3 percent of all Kansas manufacturing jobs were in aviation. The state's payroll for aviation-related work totaled over \$1.8 billion (approximately 31 percent of Kansas manufacturing payrolls). The average salary for an aviation-related job was \$36,579. Four major aviation companies -- Beech, Boeing, Cessna, and Learjet -- purchased more than \$583 million in supplies from Kansas companies. Aviation accounted for 11.3 percent of total state earnings, assuming a 2.0 income multiplier. Close to \$300 million in local revenue was generated, also assuming a 2.0 income multiplier.

The report notes that, in the short-term, the industry may experience a slowdown due to the global recession. For example, Boeing began 1992 with 22,400 employees and in October reported a 10 percent reduction from that number. However, the long-term prospects for the industry are good, with modest growth expected over the next 20 years (5.7 percent in 1995-2000; 4.3 percent in 2000-2010).

Global competition and government subsidies present a challenge for the U.S. aviation industry. In a four-year period the U.S. share of the worldwide market for aerospace products declined from 73 percent to 60 percent. During that same period, Europe's share increased from 21 percent to 33 percent. In order to compete effectively, American companies will have to meet changing technology needs, have access to capital and skilled labor, and expand in a business environment characterized by stable regulatory and tax policies.

The Committee heard a presentation on the activities of the Institute for Aviation Research at Wichita State University, and also took part in a tour of the Institute which is adjacent to the University's Walter Beech Memorial Wind Tunnel. The Institute contains the following facilities and provides the following services: research and training laboratories for aerodynamics, propulsion, basic materials, cryogenics and superconductivity, composite structures, structures, crash dynamics, icing, computer-aided design/computer-aided manufacturing, avionics, flight simulation, computer-integrated manufacturing, software, human factors, and aviation education and management.

Part of the meeting in Wichita was devoted to presentations of small manufacturing companies in Wichita, including suppliers to larger aircraft companies and two associations -- the Kansas Manufacturer's Association (KMA) and Kansas Association for Small Businesses -- which represent those interests. The Chief Executive Officer of KMA described the evolution and activities of KMA to Committee members. KMA is a nonprofit joint marketing network in Wichita organized by the National Tooling and Machining Association. Its support has come from the Mid-America Manufacturing Technology Center (MAMTC), the WI/SE Partnership for Growth, and the Southeastern Kansas Economic Development District. This network is composed of independent "make to order" tooling and machining shops which supply the major aircraft manufacturers and the aerospace firms of the national defense

industry. These shops organized in response to a deteriorating market due to recession and defense cutbacks. Membership in KMA will ideally enable these shops to improve their export capabilities, thus giving them larger market and sales volume. In order to accomplish that objective, member firms must: acquire and operate state-of-the-art metal equipment; use sophisticated technological processes to operate the equipment and to communicate with customers; gain familiarity with "best" business practices; and achieve certification in the new international quality standards -- ISO-9000. Obstacles confronting KMA include: competitiveness in a low-bidder market; fair allocation of bid opportunities; and gaining customer trust in a group rather than in a single subcontractor. One conferee attributed his company's reluctance to network participation to the concern that competitors might gain access to technologies in which his company enjoys a competitive advantage.

The spokesperson for the Kansas Association for Small Business shared her observations about the appropriate role for governmental assistance to small companies in the aerospace industry. She noted that, given global competition, governmental policy should be directed at assisting companies that are innovative and in step with state-of-the-art technology. Tax policy should attempt to reduce technology costs and encourage replacement of machinery and equipment. Emphasis also should be placed on producing a skilled workforce.

Services

The Committee heard an overview of a report on the service sector. This report was written by Pat Oslund, Institute for Public Policy and Business Research, the University of Kansas, under contract with Kansas Inc. For purposes of this report, this sector includes personal services, finance and insurance, business services, and communications. In other reports, the definition of service sector is sometimes broader and even includes wholesale and retail trade, public utilities, and transportation. Based on the definition in Ms. Oslund's report, services account for 32 percent of all employment in Kansas. Services are the fastest growing segment of both the Kansas economy and the U.S. economy. Service sector jobs in Kansas and the U.S. contributed the most to job growth in non-metropolitan areas during the 1980s, even though growth in this sector was largely concentrated in urban areas. Wages in the state's service sector are approximately two-thirds of wages for manufacturing jobs. However, some industries within the service sector, including communications and banking, pay wages comparable, on average, to manufacturing industries. The Kansas share of high wage industries slightly exceeds the national average. Moreover, Kansas real wages (measured per employee and not per hour) in the service sector, in contrast to wages in several other sectors, have actually been increasing. Despite that phenomenon, wage increases in Kansas, on average, still lag behind increases in the U.S.

The report identifies several options for promoting service sector growth. Policymakers could:

1. extend state business assistance and incentives that encourage manufacturing development to export-oriented services;
2. identify service sector growth opportunities and barriers to growth in nonmetropolitan areas;
3. analyze the impact of potential tax changes on the service sector to ensure that services are not at a competitive disadvantage relative to other sectors;
4. promote access to new technology for services;
5. recognize the importance of services to manufacturing productivity; and
6. create and maintain a highly skilled, adaptable workforce for the service sector.

Tourism

The Committee's review of tourism included an update of the Tourism 2000 committee's activities. The Tourism 2000 committee identified and set priorities for the marketing programs of the Travel and Tourism Development Division. The Committee also was presented with a task force report from the Tourism 2000 committee on international tourism.

Nick Jordan, Chairman of the Kansas Travel and Tourism Commission, gave a status report on the Tourism and Tourist Attractions Matching Grant program. Under existing law, only 501(c)(3) organizations are eligible to receive program funding. Mr. Jordan recommended that legislation be passed to allow 501(c)(6) organizations and private entities, in addition to 501(c)(3) organizations, to receive program funding. Mr. Jordan also reviewed the tentative general guidelines (since finalized) which were developed by a subcommittee of the Travel and Tourism Commission. These guidelines address eligible activities (land acquisition, purchase, construction or renovation of buildings, and purchase or installation of machinery or equipment); eligible participants (501(c)(3) organizations); terms of grant coverage (up to 40 percent of an approved project for no more than \$130,000); terms for leveraging other contributions; evaluation criteria; and application submission instructions. (The Committee's recommendations concerning program guidelines, funding, and legislation are found in Attachment II (legislation) and the Conclusions and Recommendations section of the report, page 10.)

Signage of tourist attractions was considered by the Committee at the request of the 1991 Joint Committee on Economic Development. The Committee was informed that the Travel and Tourism Commission, the Division of Travel, Tourism, and Film Services, the Travel Industry Association of Kansas, and the Kansas Department of Transportation had developed a five-year tourism signage plan. The plan, approved by the Kansas Department of Transportation, includes \$200,000 for each of five years (FY 1993-97), and will fund five new projects each year with four freeway signs, four conventional road signs, and two trailblazer signs per project (total -- \$130,000). In addition, the Committee learned that approximately one-fifth of the existing signs will be upgraded or replaced each year (\$52,000). (The Committee's position on the signage issue is addressed in the Conclusions and Recommendations section of the report, page 10.)

SECTION III – CONCLUSIONS AND RECOMMENDATIONS

A. Strategic Planning

German Marshall Study Trip. The Committee recognizes that European models, such as those addressed on the German Marshall trip (see page 2), could prove instructive to further refining the state's economic development policies. In particular, the Committee notes the importance of adopting a holistic and integrated approach to economic development. To realize that objective, the Committee recommends that funding of all state economic development services be examined, priorities be set, and, if necessary, existing programs and services be restructured. The Committee concludes from its analysis of efforts in Denmark, Germany, and Italy that assistance to businesses and workers is most effective when all factors critical to the productivity of such businesses and workers are addressed in an integrated manner, instead of on a program-by-program basis.

The Committee notes the importance of the following concepts which underlie the European economic development strategies under review and suggests consideration of their possible applications to this state's economic development strategy:

1. the public sector leverages funding and avoids making direct grants;
2. the overriding objective of services and workforce training is to make businesses and employees self-sufficient;

3. services and training are driven by both projected and actual market demand;
4. vocational training services are comprehensive systems that attempt to address workforce needs at every critical stage ranging from the chronically unemployed to upper management echelons;
5. sustained investments in basic skills are made, so that a foundation exists for vocational training and retraining;
6. specialized training is the ultimate responsibility of employers and not government; thus, businesses, with representation from trade unions and trade associations, participate actively in developing standards and curricula and in funding training programs;
7. there is some recognized evaluation mechanism to attest to a student's skill acquisition and proficiencies;
8. emphasis is placed on the delivery of high-quality, comprehensive services which are critical to the production of competitive products and processes on the international market; such services include, but are not limited to, export assistance, applied research, technology transfer and commercialization, diagnosis of a company's strengths and weaknesses, innovation assistance, quality improvement, cost containment, targeted marketing applications of the newest technologies, the acquisition of skills to operate new technologies, and management efficiencies; and
9. because such services are generally high quality and involve considerable expertise on the part of the service provider, businesses are expected to pay for them (although some services are subsidized by the public sector).

The Committee recommends that further consideration be given to promote networking activities of small and medium-sized businesses in Kansas, such as are encouraged in Denmark and Italy. (See staff memorandum on Preliminary Observations -- German Marshall Fund Trip (December 1, 1992) for further information.)

Kansas Community Strategic Planning. The Committee recommends the introduction of legislation (see Attachment I) that amends the Community Strategic Assistance Act. As proposed, the maximum amount allowable for a planning grant award for any single county economic development plan would be \$15,000, with a provision for additional increments of \$5,000 for each participating county. The total award may not exceed \$35,000. Awards would require a local cash match of 25 percent. (Under existing law, the maximum amount allowable for a planning grant, regardless of the number of participant counties, is \$20,000. The same matching requirement pertains.)

As proposed, the maximum amount allowable for an action grant award for any single county would be \$25,000, with a provision for additional increments of \$10,000 for each participating county. The total award may not exceed \$65,000. Awards would require a 100 percent match, up to 75 percent of which may be in-kind contributions. (Under existing law, the maximum amount allowable for an action grant, regardless of the number of participant counties, is \$40,000. Moreover, the matching requirement is 100 percent but there is no explicit provision for in-kind contributions.)

The proposed legislation would allow unexpended funds from planning grants to be applied to the implementation of the recipient's strategic plan, upon authorization of the Secretary of Commerce and Housing. However, reductions of any subsequent action plan awards might result. (Under existing law, there is no such provision for unexpended planning grant funds.)

The proposed legislation would delete reference to agreements between the Secretary of Commerce and Housing and universities for services related to the strategic plans. In addition, the Kansas Department of Commerce and Housing would be required to submit an annual status report on program activities. (Under current law that

responsibility resides with the President of Kansas Inc. as the Chairperson of the Community Strategic Planning Grant committee.)

Finally, planning grants could not be awarded on or after July 1, 1995, and action grants, on or after July 1, 1996. (Under existing law, both types of grants may not be awarded on or after July 1, 1993.)

Urban Revitalization. The Committee endorses a recommendation of the subcommittee, which was appointed to explore options for revitalizing distressed urban areas. This recommendation requests that the 1993 standing Economic Development committees consider expansion of the Community Strategic Planning Assistance Act to make blighted urban areas eligible for planning and action grant awards. (Under current law, only nonmetropolitan areas are eligible for such grants.) While recommending that this concept be considered further, the Committee also notes that certain questions would still warrant resolution. For example, what is the definition of a blighted or distressed urban area for purposes of such legislation? Who may apply for grant awards? Would the city in which the blighted area is located be required to approve the grant application as a precondition for review by the Kansas Department of Commerce and Housing?

Finally, the Committee notes that it was informed about the intention of Bank IV in Wichita to create a bank community development corporation; the Committee plans to monitor Bank IV's progress to that end.

B. Sector Analysis

Targeting. The issue of targeting state funds to specific industry sectors was raised in Committee deliberations about the most effective form of state government assistance to businesses. The Committee recognizes the importance of continued targeting of state funds to maximize limited resources for those activities for which a real need has been identified. However, the Committee recommends that any sector-specific assistance provided by the state respond to actual market demand.

Export Assistance. In light of concerns about the requirement for irrevocable letters of credit in the Kansas Export Finance program, the Committee recommends that the Secretary of Commerce and Housing or the Program Director give a status report to the standing Economic Development committees with suggestions for modifying the program to make it more effective.

Tourism. The Committee observes that the tourism industry and the Kansas Department of Commerce and Housing have made considerable progress in implementing the Tourism and Tourist Attractions Matching Grant program. The Committee also notes that it reviewed the draft guidelines during its first meeting (August) addressing the program. Although the guidelines, in general, appeared to be satisfactory, the Committee suggested that the guidelines concerning the determination of project impact take into account not only the number of jobs created, but also the quality of those jobs. A review of the guidelines submitted to the Committee at the last interim meeting (December) reveals that this suggestion was adopted. In addition, the Committee notes that its recommendation in 1991 to the 1992 Legislature called for program funding of \$1 million each year for five years. (The FY 1993 estimate for tourism matching grants is \$710,000 from the Economic Development Initiatives Fund.)

With respect to the legislation governing the Tourism and Tourist Attractions Matching Grant program, the Committee recommends that 501(c)(6) organizations be eligible to apply for grants, in addition to 501(c)(3) organizations authorized under existing law. Included in the definition of 501(c)(6) organizations are, among others, nonprofit business leagues and chambers of commerce. The proposed legislation would specify that an applicant may not use any state funds to meet program matching requirements. (The program requires matching funds of at least 60 percent of the total project cost.) Finally, the proposed legislation would include a definition for the term "tourist attraction" for purposes of the program.

Concerning the issue of tourism signage, the Committee commends the parties who were involved in reaching agreement on the plan to increase signage activity. However, the Committee notes that it will take a long

time to make significant progress if the program is funded at only \$200,000 a year. The Committee suggests that consideration be given to additional funding from the Economic Development Initiatives Fund for signage.

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HOUSE BILL NO. 2020

By Joint Committee on Economic Development

AN ACT concerning community strategic planning; relating to the amount of community development grants and the use of such grants; amending K.S.A. 74-5097, 74-5098 and 74-50,100 and repealing the existing sections.

Be it enacted by the Legislature of the State of Kansas:

Section 1. K.S.A. 74-5097 is hereby amended to read as follows: 74-5097. (a) Subject to the provisions of appropriations acts and in accordance with the provisions of this act, the department of commerce may provide planning grants and action grants to city-county economic development organizations located in nonmetropolitan counties, for the development and implementation of county-wide economic development strategy plans.

(b) The committee shall establish grant eligibility criteria, and shall administer the competitive selection process for the awarding of planning grants and action grants. The committee shall submit its recommendations for grant awards to the secretary of commerce for final determination and award. Planning grants shall be for the development of county-wide economic development strategy plans. No planning grant shall exceed ~~\$20,000~~ \$15,000 for any single county economic development plan. An additional award for an amount not to exceed \$5,000 may be granted for each additional county participating in the development of a joint multi-county strategic economic development plan, except that under no circumstances shall the total planning grant exceed \$35,000. Any city-county economic development organization receiving a planning grant shall be required to provide additional funds equaling 25% of the amount of the planning grant. Action grants shall be for the

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implementation of countywide economic development strategy plans. Action grants shall not exceed ~~\$40,000~~ and \$25,000 for any single county action grant application. An additional award for an amount not to exceed \$10,000 may be granted for each additional county participating in a joint multi-county action grant implementation effort, except that under no circumstances shall the total action grant exceed \$65,000. Any city-county economic development organization receiving a grant shall be required to provide additional funds equaling 100% of the amount of the action grant. ~~Not more than one planning grant and one action grant may be awarded with respect to any one county.~~ The secretary of commerce and housing may authorize a recipient of a planning grant, who has unexpended funds from such planning grant, to apply such funds to the implementation of the recipient's approved strategic economic development plan. Any unexpended planning grant funds applied to the implementation of such strategic economic development plan shall require the appropriate 100% match. Application of the unexpended planning grant funds to the implementation of the strategic economic development plan may result in the reduction of any subsequent action grant awarded to the recipient.

~~(c) The secretary of commerce may enter into an agreement with Fort Hays state university, Kansas state university, and the university of Kansas to provide services to city-county economic development organizations awarded grants to assist in developing, organizing and implementing community strategic plans in cooperation with cities and counties in the region and to encourage local initiatives to the greatest extent possible. Such services include, but are not limited to, the development of survey instruments, data analysis, facilitator training, report preparation assistance, on-site visitation and consultation services and followup and related services for the development of countywide economic development strategy plans.~~

~~(d) Prior to July 1 of each year, the chairperson of the~~

~~community-strategic-planning-grant-committee-shall-present-an
annual-report-of-activities-under-this-act-to-the-joint-committee
on-economic-development.~~

(c) Each year the Kansas department of commerce and housing shall present a status report of activities under the provisions of this act to the joint committee on economic development.

Sec. 2. K.S.A. 74-5098 is hereby amended to read as follows:
74-5098. City-county economic development organizations can use planning grant proceeds for the acquisition of technical assistance for strategy development activities, identification of specific projects, and other related services from the educational institutions ~~mentioned in subsection (c) of K.S.A. 1990-Supp. 74-5097~~ or other economic development service providers. City-county economic development organizations can use action grants for hiring of technical assistance, implementation, evaluation and reassessment of strategies, purchasing of equipment and other services, and economic development activities undertaken by public-private partnerships as authorized for cities and for counties pursuant to law. Action grants shall not be used for the purchase or lease of land or the purchase, lease or construction of buildings or payment of salaries and benefits for permanent employees of any public or quasi-public agency.

Sec. 3. K.S.A. 74-50,100 is hereby amended to read as follows: 74-50,100. (a) No planning grants ~~or action grants~~ shall be awarded under this act on or after July 1, ~~1993~~ 1995.

(b) No action grants shall be awarded under this act on or after July 1, 1996.

Sec. 4. K.S.A. 74-5097, 74-5098 and 74-50,100 are hereby repealed.

Sec. 5. This act shall take effect and be in force from and after its publication in the statute book.

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SENATE BILL NO. 15

By Joint Committee on Economic Development

AN ACT concerning tourism; relating to eligibility for tourist attraction matching grants; amending K.S.A. 74-5089 and repealing the existing section.

Be it enacted by the Legislature of the State of Kansas:

Section 1. K.S.A. 74-5089 is hereby amended to read as follows: 74-5089. (a) There is hereby established a state matching grant program to provide assistance in the promotion of tourism and development of quality tourist attractions within the state of Kansas. Grants awarded under this program shall be limited to not more than 40% of the cost of any proposed project. Applicants shall not utilize any state moneys to meet the matching requirements under the provisions of this program. Any entity within the state which is exempt from taxation under the provisions of ~~section-501(c)(3)~~ sections 501(c)(3) or 501(c)(6) of the federal internal revenue code of 1986 ~~as-in-effect-on January-17-1990~~ and amendments thereto, or any public entity shall be eligible to apply for a grant under the provisions of this act. The secretary of commerce and housing shall administer the provisions of this act and the secretary may adopt rules and regulations establishing criteria for qualification for a matching grant and such other matters deemed necessary by the secretary for the administration of this act.

(b) For the purpose of K.S.A. 74-5089 through 74-5091, and amendments thereto, "tourist attraction" means a site that is of significant interest to tourists as a historic, cultural, scientific, educational, recreational or religious site, or as a site of natural scenic beauty or an area naturally suited for outdoor recreation.

Sec. 2. K.S.A. 74-5089 is hereby repealed.

Sec. 3. This act shall take effect and be in force from and after its publication in the statute book.

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