

Approved: 1/18/94
Date

MINUTES OF THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT.

The meeting was called to order by Chairperson Bob Mead at 3:30 p.m.. on January 11, 1994 in Room 423-S of the Capitol.

All members were present except:

Representative Tom Bishop
Representative Gary Haulmark, excused
Representative Carol Sader, excused

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

Conferees appearing before the committee:

Rich Bendis, KTEC
Marvin Wynn, WI/SE
Dr. Charles Warren, Kansas, Inc.

Others attending: See attached list

Chairman Mead announced the new Vice-Chair of the Committee was Representative Gary Haulmark and the Ranking Minority member was Representative Jack Wempe. He introduced Representative Michael Farmer, the new member to the Economic Development Committee.

Hearings were then opened on HB 2576, establishment of the Kansas Economic Opportunity Initiatives Fund.

Lynn Holt, Research, gave an overview of the bill, stating this was the outgrowth of HB 2507 which was vetoed last session by the Governor.

Bob Nugent, Revisor, stated the main difference between HB 2576 and the vetoed HB 2507 was in line 26, Section I which states the governor shall make application for funds upon certification by the majority vote of a five member panel that an economic emergency or unique opportunity exists which warrants funding.

The Chair called on Rich Bendis, Acting President of KTEC to present testimony. Mr. Bendis stated KTEC was in support of the passage of HB 2576. He continued it was not possible to predict economic development opportunities that might arise within or outside of the state during the time the Legislature was not in session and this bill was a good mechanism for economic development agencies to work together in creative ways to create or save jobs in Kansas. (Attachment 1)

Marvin Wynn, Chief Operating Office of Wichita/Sedgwick County Partnership For Growth, Inc. (WI/SE) next presented testimony in support of HB 2576. He told the committee the availability of a state fund to assist local communities in the attraction and retention/expansion of new business is invaluable and will assist in the development of new jobs in the State of Kansas. He stated no community knows when an opportunity might arise for development and therefore it is impossible to budget for them and that having a state fund such as the proposed Kansas Economic Opportunity Initiatives Fund will give Kansas communities a source to seek state funding to compete when the opportunities exist. (Attachment 2)

The Chair next called on Dr. Charles Warren, President, Kansas Inc. Dr. Warren stated Kansas has been limited in its capacity to respond to major opportunities or economic emergencies and the state does not have a source of flexible funds that are immediately available to address the needs of businesses locating in Kansas, the expansion of a major employer, or the loss of jobs from a major employer. He continued it was difficult to secure state matching funds for federal grants of assistance. He urged prompt approval of HB 2576 in that it meets an urgent need of the State and will enable response in an affirmative and expeditious manner to emergencies and opportunities. (Attachment 3)

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT, Room 423-S
Statehouse, at 3:30 p.m. on January 11, 1994.

Dr. Warren distributed copies of Economic Development Initiatives Fund - Its History and Use for Economic Development and spoke briefly on this report. (Attachment 4)

Written testimony was distributed to the committee from Bill Thompson, Department of Commerce and Housing. (Attachment 5)

The Chair closed hearings on HB 2576 and opened the floor for discussion by committee.

Following discussion by the committee, Representative Mason made a motion to pass HB 2576 favorably as presented. This was seconded by Representative Dean.

Representative Rutledge made a substitute motion conceptually, that would allow this fund to be used for loans, as well as grants, and to provide a mechanism by which these loan payments would be put back into the Kansas Economic Opportunity Initiatives Fund. This was seconded by Representative Wempe.

After discussion the question was called for by Representative Swall. The Chairman took the vote and the substitute motion was adopted.

Representative Packer made a motion to pass HB 2576 favorably, as amended, seconded by Representative Swall and the motion carried.

Chairman Mead reminded the Committee they would be meeting jointly with the Education Committee in Room 519-S on Wednesday and Thursday.

The next meeting is scheduled for January 12, 1994.

GUEST LIST

COMMITTEE: HOUSE ECONOMIC DEVELOPMENT DATE: January 11, 1994

[illegible]



KANSAS
TECHNOLOGY
ENTERPRISE
CORPORATION

*KTEC's mission is to create and maintain
employment by fostering innovation, stimulating
commercialization, and promoting the
growth and expansion of Kansas businesses.*

Testimony to House Economic Development Committee on Kansas
Economic Opportunity Initiatives Fund

January 11, 1994

Richard A. Bendis, Acting President

Kansas Technology Enterprise Corporation

* Support for passage of the legislation codifying the Kansas
Economic Opportunity Initiatives Fund.

* Inability to predict economic development opportunities that
will arise within or outside the state.

* Some Examples: Seal-Rite Corporation--during the typical budget
cycle, no one could have anticipated this need, considered
leaving the state; saved jobs.

Example: a major high tech company narrowed its search down to
Kansas and a few other locations. A significant package needed
to be put together in a short period of time.

* Good mechanism is in place for making awards from the fund,
with appropriate checks & balances--

(KEY ECONOMIC DEVELOPMENT ENTITIES)

- KTEC president & chair;
- Kansas Inc. president & chair;
- KDOCH secretary
- Finance Council makes award

* Funded by EDIF, monitored by Budget Division & Legislative
Research to protect funding of existing EDIF programs. Won't
jeopardize other programs.

* Good mechanism for economic development agencies to work
together in creative ways, to create or save jobs in Kansas.

Testimony on

House Bill 2576

-by-

MARVIN L. WYNN

Chief Operating Officer

WICHITA/SEDGWICK COUNTY PARTNERSHIP FOR GROWTH, INC. (WI/SE))

January 11, 1993

My name is Marvin Wynn. I'm Chief Operating Officer of the WI/SE Partnership in Wichita, the county-wide economic development agency which is a partnership of the City of Wichita, Sedgwick County, The Wichita Area Chamber of Commerce, USD 259, Wichita State University, the rural mayors association of Sedgwick County (ALARM), organized labor and business at large.

I want to speak in favor of the passage of House Bill #2576 which would create a permanent Kansas Economic Opportunity Initiatives Fund.

The availability of a state fund to assist local communities in the attraction and retention/expansion of new business is invaluable and will assist in the development of new jobs in the State of Kansas.

Sedgwick County experienced a very mixed economic development situation in 1993 in regard to the creation of new jobs. Early in 1993 there were several very negative announcements about layoffs at Boeing and Beech, the closure of the Sears Telecatalog Center, Coastal Refinery, etc. During the year, thirteen companies announced new expansions which will result in over 3000 new jobs when they all come on line. The layoffs at Boeing were not quite as severe as originally announced. A large number of local companies quietly added employees (An example is Fourth Financial which added new employees locally to service new business around the state and in Oklahoma and Missouri which they acquired through purchase and mergers.). The net result is that we ended the year in much better shape than we anticipated earlier in the year. At the end of November, the last month we have statistics available, total employment in Sedgwick County was down 5300 (2.1%) from a year earlier. Nevertheless, we face continued challenges in our efforts to develop new jobs for our community and for the State, sometimes just to replace the jobs we already have.

Local units of government in Sedgwick County, i.e. The City of Wichita and Sedgwick County, have supported economic development projects that have a potential benefit to the community and State. Two examples of what I am talking about were (1) Multimedia Security Division (1000 new jobs by 1998) which was offered very competitive incentive programs by Kansas City, Missouri and Oklahoma City. In order to compete, Wichita had to offer a competitive package. It was also to the community's

*Economic Development
January 11, 1994
Attachment 2*

advantage to locate the new headquarters in downtown Wichita to help support the downtown revitalization efforts. The City incurred costs to clear a suitable site, develop parking and make street improvements. (2) In order for Wichita to be considered for a major expansion of Coleman Company's warehousing and manufacturing, Wichita had to commit to major street improvements to improve access on and off I-135 to handle increased truck traffic at the expanded facility. Both of these projects had to be funded from un-budgeted sources.

No community knows when these types of opportunities are going to arise. It is impossible to budget for them. A growing number of states are providing funding sources at the state level to work in concert with local governments to be able to take advantage of opportunities which will benefit the State as well as local jurisdictions and give economic developers another tool to develop a competitive package which can be committed quickly while the opportunity is "hot".

If you have been following some of the "high profile" economic development projects in recent months such as Mercedes Benz in Alabama and BMW in South Carolina, you know that it has been a combination of state and local incentives which have attracted these new jobs for those states. I'm not advocating that Kansas create a fund large enough to compete on projects of that size. I'm using them as an example. Smaller projects require incentives just like the large ones and we have to be able to put together competitive packages for smaller projects like Multimedia Security, Coleman and even smaller ones. To have a state fund such as the proposed Kansas Economic Opportunity Initiatives Fund will give Kansas communities a source to seek state funding to match local resources and compete when the opportunities exist.

The word that best describes what I think would be good for the overall economic development and job creation throughout the State is **partnerships**, i.e. a local-state partnership similar to what other states are developing to be able to compete in the high stakes game of economic development

The other word that I would emphasize is **competition**. I just read an Analysis of A Survey conducted by Area Development Magazine of upper management primarily in manufacturing firms with 500 to 1000 employees. I'd like to read a few sentences from that survey:

*"Location of new business operations has been limited, mainly due to worldwide economic sluggishness and the natural tendency of companies to delay investment in additional facilities until a strong economic recovery is in full swing.....Few companies plan to relocate. Since earnings are already under severe pressure, many companies will delay relocation decisions, **even if they make economic sense**.....This is not surprising, as relocation costs must be reported as a charge-off to earnings in the year a move is announced. Manufacturers are looking to minimize one-time costs associated with starting up in a new location. Hence the high ratings for*

financing, tax exemptions, and (other) incentives. Due to cost-minimization forces, the recent 'incentive phenomenon' is likely to remain prominent in many facility siting projects."

I urge you to approve HB 2576 and create the Kansas Economic Opportunity Initiatives Fund.

**Testimony of
Charles R. Warren, President
Kansas Inc.**

House Bill 2576

Kansas Economic Initiative Opportunity Fund

House Economic Development Committee

The Kansas Legislature

January 11, 1994

*Economic Development
January 11, 1994
Attachment 3*

INTRODUCTION

I would like to commend the Chairman and the Committee for its early action on House Bill 2576 to establish the Emergency Opportunity Fund with EDIF. This Fund, as you know, was created in the 1993 Session by an appropriation proviso, after House Bill 2507, to establish the K.E.E.P. program was passed by both the House and Senate, but vetoed by the Governor. This fund has already demonstrated its value. Bill Thompson, Director of the Division of Industrial Development, has provided the committee a report on FY 1993 expenditures from the Fund. I will update the Committee on an additional application in Wichita to respond to the layoffs in the aviation industry.

The State of Kansas has been limited in its capacity to respond to major opportunities or economic emergencies. We do not have a source of flexible funds that are immediately available to address the needs of business locating in Kansas, the expansion of a major employer, or the loss of jobs from a major employer. We have a limited set of state and local tax incentives that can be provided, and we have funds for job training and retraining that can be offered to companies through the KIT/KIR and SKILL programs.

We lack funds that can be used for unique or individual situations that can fill critical gaps when developing a package of incentives and assistance to a major employer. For example, we have lacked the ability to provide financial grants for operating costs, private infrastructure, or relocation expenses. We have also found it difficult to secure state matching funds for federal grants of assistance. In most cases, a financial response from the state is required within a fairly short period of time for these emergencies or opportunities. Presently, we have no alternative but to wait until the Legislature convenes in full session.

THE WICHITA EXAMPLE

The WI/SE Partnership has applied for \$372,000 in EDIF funds under the existing Economic Initiative Opportunity Fund for three separate projects to help the community respond to the layoffs of approximately 5,000 workers in the aviation industry. Their funding request is now before the Senate Ways and Means Committee. This application illustrates well the need for, and the purpose of, the proposed emergency fund under House Bill 2576.

In response to the Wichita layoffs, the Governor established a task force of state, local and private agencies to develop responses to the major employment loss. Three proposals were developed and brought to the Governor's task force. The first is the establishment of a micro-loan program for entrepreneurs wishing to start their own business. The Small Business Administration has made \$750,000 available to the South Central Kansas Economic Development District for loans up to \$25,000. However, a loan loss reserve fund is required to access these SBA monies. The reserve fund of \$112,000 is being set up with \$40,000 local dollars and \$72,000 from the State of Kansas. In past layoffs, many skilled workers have started new businesses and this fund will assist them.

The second proposal is to provide \$250,000 in state matching funds for a grant award of \$1.7 million from the National Institute of Standards and Technology to the Kansas Manufacturers' Association, a consortium of 21 small companies. This federal grant was obtained through a highly competitive process and will enable these small aviation contractor companies to jointly develop new products and diversity their business opportunities. These companies have been affected by the downturn in aviation.

The third proposal is to provide \$50,000 from the state to match \$100,000 of local funds being used to establish a task force on employment and training. This new task force comprised of private business leaders, university and educational representatives, and state and local training officials will coordinate the training resources in Wichita and develop strategies to train and retrain unemployed workers.

The WI/SE proposal from Wichita provides a contemporary example that fits directly with two of the major purposes of House Bill 2576 and its precedent: "The award of a significant federal or private sector grant which has a financial matching requirement," and "the departure from Kansas or the substantial reduction of the operations of a major employer." The loss of 5,000 jobs from the largest private employer in Kansas is clearly an economic emergency that deserves a state response. Without this program, no funds would be available to underwrite these proposals.

CONCLUSION

The process that was established under the appropriations proviso has worked very well. We have a five member panel composed of: the president and private sector chairman of Kansas Inc., the president and private sector chairman of Kansas Technology Enterprise Corporation, and the Secretary of Commerce. This committee has met and reviewed and approved each of the applications for funding. In the three cases to-date, approval has been unanimous. Two applications have gone to the State Finance Council and have also been approved unanimously.

I urge your prompt approval of House Bill 2576. It meets an urgent need of the State and will enable us to respond in an affirmative and expeditious manner to emergencies and opportunities.

Economic Development Initiatives Fund
Its History and Use for Economic Development

Charles R. Warren, Ph.D.
President, Kansas Inc.
632 S.W. Van Buren Street
Topeka, Kansas 66603

January 10, 1993

*Economic Development Comm.
January 11, 1994
Attachment 4*

Economic Development Initiatives Fund

Its History and Use for Economic Development

♦ ♦

Statutory Authority for the Economic Development Initiatives Fund

❑ Initial Establishment of State Gaming Revenues Fund

In 1986, the Kansas Legislature approved S.C.R. 1609 and H.C.R. 5024 which provided for a popular vote on the establishment of a state-administered lottery and pari-mutuel racing. The voters overwhelmingly approved both referenda. The Legislature also approved H.B. 2789 which created the State Gaming Revenues Fund (SGRF). This legislation was approved as an indication of how revenue generated by the lottery and pari-mutuel racing would be used.

The bill that established the SGRF also created three funds to which gaming revenues would initially be credited. The funds and their initial share of revenues were:

- ♦ Country Reappraisal Fund (30 percent)
- ♦ Juvenile Detention Facilities Fund and Correctional Institutions Building Fund (10 percent), and
- ♦ Economic Development Initiatives Fund (60 percent).

Reappraisal This fund was created for the purpose of "paying a portion of the costs incurred by counties in carrying out the program of statewide reappraisal of real property." [K.S.A. 79-4802]. The reappraisal fund was designed to be a temporary allocation to help pay for statewide reappraisal; it was not intended to reimburse counties for the on-going maintenance of reappraisal. This temporary nature was stated clearly and explicitly in statute [K.S.A. 79-4802]:

"No such transfer shall be made after June 30, 1990."

"On July 1, 1990, the county reappraisal fund is hereby abolished. The provisions of this section shall expire on July 1, 1990."

Corrections The Legislature created two funds to finance the construction and maintenance of correctional facilities. The original statute stated that these funds should be for the "use and benefit of state correctional institutions." These funds are subject to annual legislative appropriations.

Economic Development The Legislature also created the Economic Development Initiatives Fund which had as its purpose

"the financing of such programs supporting and enhancing the existing economic foundation of the state and fostering growth through the expansion of current, and the establishment and attraction of new commercial and industrial enterprises."

❑ Changes in Use of Gaming Revenues

Elimination of County Reappraisal Fund and Increase in Economic Development The distribution formula of the gaming revenues fund, as originally created, was designed to change as of July 1, 1990. At that date, the County Reappraisal Fund was sunset and its 30 percent share of gaming revenues transferred to the Economic Development Initiatives Fund. From fiscal years 1991 through 1994, the Kansas Legislature has nevertheless appropriated \$3,000,000 annually from the EDIF for county reappraisal. No statutory authority exists for the appropriation or expenditures of EDIF monies for this purpose.

State Water Plan In 1989, the SGRF authorizing statute was amended to provide for an annual transfer of \$2,000,000 from the EDIF to the State Water Plan Fund created by K.S.A. 82a-951. This fund supports the management, conservation, and development of the state's water resources as required under the State Water Resources Planning Act (K.S.A. 82a-901 et seq.). The Kansas Water Office is responsible for the development of a statewide water resources plan.

❑ Existing Gaming Revenues Distribution

Under existing state law, the authorized purposes for state gaming revenues and the respective allocations are:

- ♦ Economic Development – 90 percent of funds minus State Water Plan allocation
- ♦ State Water Plan Fund – \$2,000,000 annually from the EDIF
- ♦ Corrections and Juvenile Detention – 10 percent of funds

Appropriations and expenditures outside of these three major purposes are not within the statutory authority of the gaming revenues fund.

These allocations have been reaffirmed by vote of the Kansas Legislature. In 1991, Governor Finney submitted H.S. 2455 to the Legislature to modify the allocation of gaming revenue funds, reducing the amount available for economic development from 90 percent to 65 percent. This bill was defeated by the House.

Definition of Economic Development

The EDIF has been used to fund a wide variety of programs and projects that have had little relationship to economic development. This allocation of funds occurs principally because of differences in opinion over the definition of economic development.

❑ Statutory Attempts to Define "Economic Development"

No exact definition of economic development exists in statute. The legislation that established the EDIF does not specifically outline what programs or initiatives qualify as "economic development." The law does state the EDIF is to be used to finance programs that:

- ♦ support and enhance the existing economic foundation of the state, and
- ♦ foster growth through the expansion of current, and the establishment and attraction of new commercial and industrial enterprises.

The first phrase is a particularly vague and general definition and has been used by legislators to justify a wide range of expenditures, many of which have little, if any, direct relationship to economic development.

The enacting legislation attempted to provide a mechanism for distinguishing economic development initiatives from other expenditures. The legislation includes provision for three accounts into which all monies credited to the EDIF are to be deposited. These three accounts and their respective purposes are the:

- ♦ *Kansas Capital Formation Account* - "to provide, encourage and implement capital development and formation in Kansas"
- ♦ *Kansas Economic Development Research and Development Account* - "to promote, encourage and implement research and development programs and activities in Kansas and technical assistance funded through state educational institutions under the supervision and control of the state board of regents or other Kansas colleges and universities."
- ♦ *Kansas Economic Development Endowment Account* - "to provide an ongoing source of funds which shall be used for economic development activities in Kansas [including]... specific community infrastructure projects in Kansas that stimulate economic growth."

In 1988, Kansas Inc. prepared a report for the Legislature that outlined basic guidelines by which EDIF monies should be allocated. These criteria were approved by the Legislature through the adoption of H.C.R. 5326. The three criteria are:

- ♦ "expenditures from the state economic development initiatives fund should not be used for salaries of permanent personnel,
- ♦ the EDIF should not replace the state general fund as a source of financing established economic development programs since the purpose of the EDIF is to provide financing for economic development 'initiatives' and to enhance economic development in the state, and
- ♦ expenditures from the EDIF should be applied only to those programs and policies which clearly identify with a pillar of the economic development strategy of the state"

The three accounts and their stated purposes along with the adopted resolution provide the clearest window to the legislative intent of EDIF distribution.

□ Definition as Outlined in Economic Development Strategy

The 1986 "Redwood/Krider Report" provided a relatively clear outline as to what activities constitute "economic development." This outline was developed through a year-long research program that included the active support and involvement of the Kansas Legislature. This plan states that "the task for Kansas state government is to identify those limited but important areas where state involvement is *essential for economic success and establish the preconditions for business growth* [emphasis added].

The plan contains 52 specific recommendations which are intended to achieve the following objectives:

- ♦ foster competitiveness of Kansas industry through innovation
- ♦ foster productive interrelationships and linkages among Kansas institutions but particularly the private sector, the state, and the universities
- ♦ encourage entrepreneurship in Kansas business
- ♦ establish a favorable business climate and infrastructure
- ♦ remove barriers to business development

A clear review of the specific recommendations defines quite clearly what constitutes the primary or core economic development activities in which the state should act to fulfill this specific state role.

This objective and strategies have been refined over the past several years to meet

the current challenges to business development. Kansas' current strategy similarly provides key goals for the state's economic development activities. The role of state government to aid those areas "essential for economic success" and "preconditions for business growth" still remains.

❑ The Definition's Application to Budget Appropriations

While legislation and the state's economic development strategy provide a fairly clear definition, there is still significant misinterpretation as indicated by EDIF appropriations. Two phrases in the enabling legislation of EDIF have been used to justify funding programs unrelated to economic development. The first is "*economic foundation*" and the second is "*economic development activities*"

The first term, "economic foundation," is excessively vague and has allowed for numerous interpretations. This term referred to the original 1986 economic development strategy prepared by The University of Kansas. This plan included reference to seven basic economic foundations that are:

- ♦ human capital
- ♦ financial capital
- ♦ infrastructure
- ♦ technology
- ♦ institutional capacity
- ♦ entrepreneurial environment, and
- ♦ quality of life.

These phrases, if loosely interpreted, cover most of the activities of state government. The inclusion of quality of life as a foundation, for example, has justified funding of arts and cultural programs and activities, and state historical programs.

A current and long-time senator who chairs a key committee that decides on EDIF appropriations has declared that "economic development is whatever 21 senators says it is." Thus, with no operational definition of economic development, EDIF monies have been used far beyond the original intent of the 1986 Legislature.

❑ Actual Use of EDIF Monies

The result of this misinterpretation is that while economic development was to receive 90 percent of the funds, it has only been allocated an average of 60 percent over the past several fiscal years. Financial support of economic development has been eroded further by the substitution of EDIF monies for state general fund financing of state economic development agencies.

Pressure on the State General Fund (SGF) has been relieved by shifting numerous state programs from that source of financing to EDIF. In Fiscal Year (FY) 1994, the following programs and amounts previously supported by the SGF were shifted to the EDIF:

<i>Dept. of Education</i>	
Innovative grants	\$1,486,000
AVTS Capital Outlay	990,000
AVTS Postsecondary aid	4,982,370
AVTS Matching grants	495,000
<i>Board of Regents</i>	
KSU--Extension	1,355,200
University Research	942,187
<i>Dept. of SRS</i>	
Kanwork	2,475,000
<i>Dept. of Wildlife & Parks</i>	
Capital Improvements	1,393,511
<i>Total</i>	<i>\$14,119,268</i>

The total amount of FY1994 dollars appropriated from the EDIF was \$50,668,027. The amounts shifted from SGF to EDIF represented 28 percent of the total. When reappraisal dollars at \$3 million are added to the SGF shifts, the percentage rises to almost 34 percent.

In Fiscal Year 1994, other beneficiaries of EDIF monies included the following state agencies that have at best, an indirect, role in economic development: Department of Administration (public television), Kansas Arts Commission, Heritage Cultural Center, Foundation for Agriculture, Historical Society, KU Medical Center, School for the Blind, State Fair, and the State Library. The only possible justification for this funding is a contrived assumption that each of the above enhance quality of life and thus contribute to business and job growth. The total FY1994 dollars appropriated to these agencies was \$4,188,254. When funding for these agencies is added to the agency funds shifted from SGF and to the dollars for reappraisal, the total allocated to non-economic development activities rises to \$21,307,522 or 42 percent of the EDIF.

□ Funding of Economic Development Agencies and Programs

The agencies and programs directly involved in economic development are: The Department of Commerce and Housing, the Kansas Technology Enterprise Corporation, Kansas Inc., and the Kansas Development Finance Authority. These agencies were appropriated the following amounts from EDIF in FY 1994:

KDOC&H	11,572,251
Partnership Fund	990,000
KTEC	10,990,241
Kansas Inc.	104,935
EPSCoR	1,485,000
KDFA	
Basic Loan Fund	990,000
Total	\$26,132,427

From this perspective, economic development expenditures represented only 52 percent of the total appropriations from the EDIF in FY 1994.

It should be emphasized that the statute calls for 90 percent of the state gaming revenues to be spent for economic development that amount for FY 1994 was \$50,668,027.

The shift from SGF to EDIF has also affected the economic development agencies. While funding generally increased during the first few years of gaming revenues, recent growth has been marginal as support is shifted from general funds to the EDIF. In FY1990, economic development activities received approximately \$9.6 million in state general fund monies and \$18.9 million in gaming revenues. By FY1993, the gaming revenues had increased to approximately \$22.6 million but the SGF contribution dramatically declined to slightly over \$2.5 million. Kansas Inc., Kansas Technology Enterprise Corporation (KTEC), and the Kansas Department of Commerce and Housing (KDOC&H) have had significant portions of their general operating budgets shifted from SGF to EDIF. KTEC is now solely funded by the EDIF and KDOC&H receives nearly all their salaries and wages and other operating expenses budgets from EDIF. Kansas Inc.'s budget, which has dropped in real terms over the past several years, has shifted from solely general fund monies to an equal split between SGF and EDIF.

EDIF As An Investment Account

As gaming revenues continue to increase and if "economic development activities" are more narrowly defined, is it reasonable to assume that the core state agencies and programs need annual support of \$50 million? It can be argued that the state's economic development

agencies, strictly defined, do not require such a large annual funding to perform their role effectively. Most would probably agree that if that amount were appropriated for expenditures in FY 1994 for economic development it could be a wasteful and inefficient allocation of resources.

The legislators who designed the EDIF were challenged by the fact that lottery and parimutuel revenues could not be estimated accurately and that the revenues were highly uncertain. For that reason, the economic development endowment account was created so that funds would be "accumulated and invested ... to provide an ongoing source of funds which shall be used for economic development activities in Kansas."

K.S.A. 79-4804 authorizes the Pooled Money Investment Board to invest and reinvest the funds in U.S. treasury notes and bonds, in interest-bearing time deposits in Kansas banks, other U.S. government insured accounts, or in government guaranteed loans or debentures.

These investments were envisioned as providing a growing endowment fund whose principal might be preserved and the earnings from the fund then used to support annual and one-time economic development expenditures. While EDIF monies have been invested and interest earned, the endowment account has never been allowed to accumulate any significant principal. EDIF monies have been expended almost entirely each fiscal year, with only of modest carryover balances from one fiscal year to the next.

If the EDIF had not been viewed as a source of extra or supplemental funding for the on-going activities of state government, by this time, a very significant amount would have accumulated in the economic development endowment account, and significant investments in activities that would stimulate economic growth and job expansion in Kansas would be possible today.

Suggestions for EDIF Reform

The predominant practice of using lottery and pari-mutuel funds has been to:

- ♦ finance state programs that are not related to economic development,
- ♦ supplant revenues from the state general fund,
- ♦ finance activities explicitly unauthorized in the EDIF statute, i.e., county appraisal, and
- ♦ provide financing for activities that cannot be justified for expenditure from other revenue sources.

This is poor public policy and disdains the state's commitment to support and enhance its

economic development agencies and programs.

The hypocrisy of the present arrangement is obvious. Kansas elected policy makers continually cite the "fact" that gaming revenues support economic development and job creation. Few among the Kansas public are aware that only little more than half of the funds are used directly for those purposes.

An obvious reform that would end the hypocrisy is to simply abolish the EDIF, transfer all of the gaming revenues into the State General Fund, and allow the programs now receiving funds from this source to compete with other state programs for support. To those who argue on general principle against dedicated funds, this reform has considerable merit. Since there is considerable political and public support for economic development, abolition of the EDIF would likely not have a damaging effect on economic development funding. Current funding levels would probably be maintained, but the likelihood of program enhancements or substantial one-time investments would be diminished.

Another possible avenue of reform would be to create more specific language defining economic development and setting criteria for EDIF appropriations. Some suggested changes might include:

1. Requiring that appropriations from the EDIF be used only for the purposes of fulfilling *A Kansas Vision: The 1993 Economic Development Strategy* prepared by Kansas Inc.
2. Providing a statutory definition of economic development as: *Those programs and activities funded by Kansas state government that assist in the expansion, attraction, or retention of business or provide the conditions essential to the growth of private sector jobs and businesses*
3. Specifying the agencies and programs to which appropriations are authorized, for example:
 - ♦ The Kansas Department of Commerce and Housing
 - ♦ The Kansas Technology Enterprise Corporation
 - ♦ Kansas Inc.
 - ♦ The Kansas Development Finance Authority
 - ♦ State matching funds for university research and development.
 - ♦ Capital outlays for research and training equipment utilized in Kansas universities, colleges and vocational-technical institutions
 - ♦ Supplemental or enhanced funding of economic development programs of Kansas universities, community colleges and vocational-technical institutions
 - ♦ Adult basic education and literacy programs of the State Board of

- Education or State Library
 - ♦ School to work transition programs of the State Board of Education
4. Establishing a binding, statutory commitment for investment of EDIF monies into permanent funds, such as:
- ♦ A *Kansas Economic Emergency/Opportunities Fund* for expenses related to the retention, expansion or attraction of major, private sector commercial enterprises. This fund could be supported under existing authority of K.S.A. 79-4804(d)
 - ♦ A *Futures Fund* for state matching grants to federal research and development grants made to the Regent's universities, for example, National Science Foundation and other federal agency EPSCoR grants. This fund could be supported under existing authority of K.S.A. 79-4804(c)
 - ♦ A *Business Capital and Financing Fund* to provide annual investments in to venture capital funds, seed capital funds, such as Ad Astra, or loan loss reserve and guaranty funds, such as the Basic Enterprise Loan Fund, or the Export Finance Program. This fund could be supported under existing authority of K.S.A. 79-4804(b).
5. Require either the standing economic development/commerce committees or the Joint Committee on Economic Development to recommend the allocation of EDIF monies prior to their appropriation.



KANSAS

DEPARTMENT OF COMMERCE & HOUSING

Joan Finney
Governor

Bob Knight
Secretary

**Kansas Economic Opportunity Initiatives Fund
House Committee on Economic Development
January 11, 1994**

During FY 94, two projects were approved for funding using the Kansas Economic Opportunity Initiatives Fund.

The first project involved Sealright Co., Inc., a firm headquartered in Overland Park, with plants in Kansas City, KS, Fulton, KY and Los Angeles, CA. Sealright is the largest supplier of frozen dairy dessert packaging in North America.

The company has operated in Kansas City, KS for 75 years and presently has 350 employees. The decision was made to close the Kansas City, KS facility because of the inefficient layout of the plant. A site location search began throughout the Kansas City metro area for a 40 acre, rail served site to build a 400,000 s.f. building with a capital investment of \$20 million.

Finalists for the new plant were Kansas City, KS, DeSoto, KS, Lee's Summit, MO, Independence, MO and Kansas City, MO. The company said that Kansas was at a real disadvantage because the state's tax incentive package was geared to the creation of new jobs and did not take into account the retention of existing jobs. However, in Missouri, this was not a problem since all the jobs would be considered new jobs. The outcome was the passage of Senate Bill 73 which provides tax incentives for manufacturers that invest in the state without requiring the addition of new jobs.

On May 4, 1993, Sealright announced that it would locate the plant in DeSoto based on one final condition; that being that state share the cost of extending the rail to the DeSoto site. The total cost for the rail was \$1 million. The Department of Commerce and Housing tried to use the Community Development Block Grant Program (CDBG), but found that it was not feasible because Johnson County and its' communities are not eligible applicants.

The decision was made to seek \$500,000 from the initiatives fund. On July 7, 1993, the Finance Council approved the amount. Sealright has begun construction of the new plant.

*Economic Development
January 11, 1994
Attachment 5*

The second project involved First Brands, a major manufacturer of consumer products under the Glad, STP, Prestone and Simonize names. Their latest site search was for a location to manufacture cat litter. The plant would employ 100 people with a capital investment of \$8 million. First Brands considered over 300 sites in Kansas, Missouri, Nebraska and Iowa.

The selection process came down to a site in Spring Hill, KS and a site near Omaha, NE. During the course of the negotiations with First Brands, the State of Nebraska offered the company, in addition its' standard package of incentives, a \$1 million cash grant to be used at the company's discretion. In addition, Union Pacific Railroad offered the company a special discount rate if they would locate in Omaha.

First Brands said that they would select Spring Hill for the plant if Burlington Northern (the railroad serving the Spring Hill site) would provide a similar discount rate, and if rail was provided to the site at no cost to the company. Burlington Northern provided the necessary rate and \$40,000 for the extension of the rail. It was agreed that a request would be made to obtain the balance of the funds (\$80,000) from the initiatives fund. The Finance Council approved the request on December 13, 1993. First Brands is now under construction on the plant.