

Approved: 3/21/94  
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 March 15, 1994 in Room 423-S of the Capitol.

All members were present except:

Representative George Dean, excused  
Representative Richard Lahti, excused

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

Conferees appearing before the committee:

Representative Walker Hendrix  
Mark Matese, SRS  
Scott Lambers, City Manager, Ottawa  
Don Moler, League of Kansas Municipalities  
Carole Morgan, Deputy Secretary, Department of Commerce and Housing

Others attending: See attached list

Chairman Mead opened hearings on HB 3056, creating a summer youth employment program.

The first conferee to speak in support of HB 3056 was Mark Matese from the Department of Social and Rehabilitation Services who spoke for Carolyn Hill, Commissioner of Youth and Adult Services. He told the committee that jobs provide an opportunity for youth to contribute to the community, to develop self esteem, and to learn important life skills. It was his feeling that with the establishment of HB 3056 and the summer youth employment program, some Kansas youth would have an excellent opportunity to learn valuable work experience and be productive members of the community and maybe avoid the pitfalls of the street. He concluded by saying the department fully supports efforts to provide Kansas youth an opportunity for positive, productive and responsible choices. (Attachment 1)

The Chair next called on Representative Walker Hendrix. He told the committee about the summer job program in Ottawa last summer. He stated under the Joint Training Partnership Act Ottawa was able to obtain funds for summer employment in the public sector and employed 62 youth in its summer job program in 1993. However, because of deteriorating revenue at the federal level and the growing national debt, the program was severely cut back and the funding is not there for 1994. Lacking these funds, it was suggested that Kansas institute a summer jobs program which would be administered by the Department of Commerce and Housing and HB 3056 was introduced. He continued by saying with the many problems the youth of our society face, nothing could be more important than assuring our young people stay out of trouble and on the job and support of this private enterprise/government program would be appreciated. He concluded that without opportunity and hope, there can be no tomorrow.

Scott Lambers, City Manager of Ottawa, spoke next on behalf of the City Commission of the City of Ottawa. He shared with the committee that Ottawa sponsored a summer youth employment program in 1993 which involved over 60 underprivileged youths at a cost of \$70,000 and they plan to continue this program in 1994, however it will be necessary to reduce this program to approximately 19 youths. He stated HB 3056 would not only expand the number of participants in the program but would extend these employment opportunities to the private sector and this in turn would provide greater transferability of acquired skills and knowledge from the program and thereby increase the likelihood of future long-term employment for the participants. (Attachment 2)

The Chair next called on Don Moler, General Counsel for the League of Kansas Municipalities. He stated the League's governing body had identified, as part of the six legislative priorities of the League, the importance of the state enacting a comprehensive summer job training and employment program for youth, in partnership

## CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT, Room 423-S  
Statehouse, at 3:30 p.m. on March 15, 1994.

with cities and the private sector, as one method for reducing juvenile crime and violence and providing skills for juveniles to use throughout their lifetimes. However, he did offer one amendment which would change the words "rules and regulations" to "guidelines" which he stated the League felt would give the Secretary of Commerce and Housing more flexibility which would be necessary for a new program of this type. (Attachment 3)

Upon questioning from the committee regarding the use of the word "guidelines" rather than "rules and regulations" staff will confer with Bill Wolff regarding an earlier opinion he made on another bill.

The last conferee to appear before the committee was Carole Morgan, Deputy Secretary of the Department of Commerce and Housing. She gave an overview of how the department would be involved in this program and stated this concept includes what should be a very dynamic public/private partnership between city government and companies wherein youth would be identified for participation in summer jobs with local companies funded by a 50% state matching grant for wages and fringe benefits. She did offer an amendment on page 2, line 14 which would delete "shall" and replace it with "may" stating the department preferred to have the option to establish guidelines for the demonstration program rather than rules and regulations because of the short time frame between passage of the bill and the summer employment season. (Attachment 4)

The conferees stood for questions from the committee afterwhich Chairman Mead closed hearings on HB 3056.

The Chair next called attention to the cover letter which had been prepared to be attached to the EDIF sub-committee recommendations to be presented to the Chairman of the House Appropriations Committee. The changes to the prioritized list, which is listed as Attachment 1 of the sub-committee report, are noted at the bottom of the attached report. Following discussion by the committee the letter was approved and the Chair will sign the letter and will submit the recommendations. (Attachment 5)

The minutes for the meetings of February 28th, March 8th and March 9th were presented for corrections or approval. Representative Donovan made a motion to approve the minutes as written, seconded by Representative Farmer and the motion carried.

The meeting was adjourned at 5:00 p.m

The next meeting is scheduled for March 17, 1994.

## GUEST LIST

COMMITTEE: HOUSE ECONOMIC DEVELOPMENT DATE: March 15, 1994

[illegible]

KANSAS DEPARTMENT OF SOCIAL AND REHABILITATION SERVICES  
Donna L. Whiteman, Secretary

Economic Development Committee  
Testimony on House Bill 3056

March 15, 1994

\*\*\*\*\*

SRS Mission Statement

"The Kansas Department of Social and Rehabilitation Services empowers individuals and families to achieve and sustain independence and to participate in the rights, responsibilities and benefits of full citizenship by creating conditions and opportunities for change, by advocating for human dignity and worth, and by providing care, safety and support in collaboration with others".

\*\*\*\*\*

TITLE

An act concerning the department of commerce and housing; creating a summer youth employment program; prescribing certain powers, duties and functions for the secretary of commerce and housing; authorizing certain grants; providing for rules and regulations.

TESTIMONY

Mr. Chairman and members of the Committee, on behalf of Secretary Whiteman, I appreciate this opportunity to provide testimony in support of HB 3056. This bill is a positive step in the search for solutions that address juvenile crime and should be considered a model prevention program.

BACKGROUND

Jobs provide an opportunity for youth to contribute to the community, to develop self esteem, and to learn important life skills. With the establishment of HB 3056 and the summer youth employment program, some Kansas youth will have an excellent opportunity to learn valuable work experience and be productive members of the community and maybe avoid the pitfalls of the streets. While they are working they will see the constructive results of their work rather than the destructive results of crime and gangs. Research shows that jobs can provide an out for youth who have been involved with gangs.

EFFECT OF PASSAGE

The cost of a prevention-type program is minimal as compared to the staggering costs of crime in the United States. According to the Urban Policy Institute Joint Center for Political and Economic Studies, violent crime costs \$425 billion a year -- \$125 billion more than the defense budget. In addition, the institute estimates that it costs over \$50 billion for various forms of urban decay, including job loss, resident disinvestment and flight. We must begin to redirect our resources to programs that will assist our youth. Real prevention programs will assist us in creating positive changes and help us in establishing productive, contributing members of our communities, our youth.

*Economic Development  
March 15, 1994  
Attachment 1*

Testimony - HB 3056  
page two

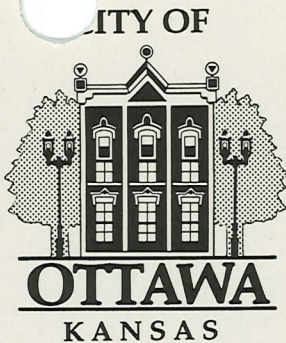
**RECOMMENDATION**

The department fully supports efforts to provide Kansas youth an opportunity for positive, productive and responsible choices.

Carolyn Risley Hill, Commissioner  
Youth and Adult Services  
Department of Social and  
Rehabilitation Services

(913) 296-3284





March 15, 1994

The Honorable Bob Mead  
Chairman, House Economic Development Committee  
State House  
Topeka, Kansas 66613

Dear Mr. Chairman:


On behalf of the City Commission of the City of Ottawa, I would like to express our strong support for HB 3056 which would authorize the establishment of a private/public Summer Youth Employment Program.

In 1993, the City of Ottawa sponsored a Summer Youth Employment Program which involved over sixty underprivileged youths at a cost of almost \$70,000. The City plans to continue with the program in 1994 at a reduced level (approximately 19 youths) with an anticipated cost of \$30,000. This program is in the more traditional fashion of summer employment with the participants working in the City's Public Works and Parks Departments.

HB 3056 would not only expand the number of participants in the City's program, but would extend these employment opportunities to the private sector. This, in turn, would provide greater transferability of acquired skills and knowledge from the program and thereby increase the likelihood of future long-term employment for the participants.

I thank you for the opportunity to speak to you today and urge your favorable consideration of HB 3056.

Very truly yours,

  
Scott Lambers  
City Manager

*Economic Development  
March 15, 1994  
Attachment 2*



**THE LEAGUE  
OF KANSAS  
MUNICIPALITIES**

**Municipal  
Legislative  
Testimony**

AN INSTRUMENTALITY OF KANSAS CITIES 112 S.W. 7TH TOPEKA, KS 66603-3896 (913) 354-9565 FAX (913) 354-4186

**TO:** House Economic Development Committee  
**FROM:** Don Moler, General Counsel  
**DATE:** March 15, 1994  
**SUBJECT:** HB 3056, Summer Youth Employment Program

The League appears here today to support HB 3056, a bill which creates a summer youth employment program within the department of commerce and housing. The League believes this legislation to be an important first step in countering youth crime and violence at the source. Specifically the League's governing body has identified, as part of the six legislative priorities of the League, the importance of the State of Kansas enacting a comprehensive summer job training and employment program for youth, in partnership with cities and the private sector, as one method for reducing juvenile crime and violence and providing skills for juveniles to use throughout their lifetimes. (See attached) We see this as a win-win-win situation. Specifically the State, cities and youth can all be winners through the use of this program. We sincerely hope that this committee will agree and favorably report HB 3056.

The League would like to offer one amendment to this legislation. Since this is a new program and will develop over time, we would suggest that the secretary of commerce and housing be allowed to formulate the program pursuant to guidelines rather than rules and regulations. We have attached a balloon of HB 3056 which accomplishes this amendment. We do not believe that formal rules and regulations are necessary at this time and would offer that the amendments we have outlined would give the secretary the flexibility which would be necessary for a new program of this type.

Thank you for allowing the League to comment on this legislation.

*Economic Development  
March 15, 1994  
Attachment 3*



# League of Kansas Municipalities

PUBLISHERS OF KANSAS GOVERNMENT JOURNAL 112 S.W. 7TH TOPEKA, KS 66603-3896 (913) 354-9565 FAX (913) 354-4186

## Key 1994 Legislative Priorities League of Kansas Municipalities

Each year the Governing Body of the League of Kansas Municipalities establishes a short list of legislative priorities to guide staff and member advocacy efforts during the legislative session. The following key legislative priorities for 1994 session were established by the Governing Body at its meeting on November 12, 1993 in Lindsborg, Kansas. The officials of League member cities are urged to discuss these priorities with their legislators at their earliest opportunity.

**1. Reduce Mandates:** We urge the legislature to enact specific statutory or constitutional procedures which will inhibit the enactment of future unfunded state mandates and to amend the property tax law to specifically exempt unfunded state and federal mandates.

**2. Restore State Aid.** Between state FY 1992 and FY 1994 the legislature approved diversion of approximately \$6.5 million in formula aid to local governments (i.e., demand transfers) to other purposes. We urge the legislature to recognize the vital importance of local police, fire, street maintenance, park and recreation and other services and to restore the historical formula for state aid to cities from the state general fund.

**3. Preserve the Property Tax Base.** The property tax remains a vital source of revenue to most local governments in Kansas. We urge the legislature to reject proposals to reduce the property tax rate on motor vehicles and exempt other properties from the property tax unless other alternative sources of revenue are made immediately available to cities.

**4. Expand Alternative Revenue Sources.** In this era of expanding mandates and growing demands for public services, cities vitally need alternatives to the property tax. As a matter of principle we support the enactment of legislation providing cities with a wide range of new revenue options. In 1994 we urge the legislature to enact legislation authorizing a local option earnings tax, subject to voter referendum, on payroll earnings from jobs with a situs in the city imposing such tax.

**5. Reform the Property Tax Foreclosure Process.** Cities and counties in some parts of Kansas are experiencing extremely high property tax delinquency rates due to serious deficiencies in the tax foreclosure process. We urge the legislature to enact property tax foreclosure reforms which: (a) authorize cities to commence tax foreclosure litigation on eligible properties within their jurisdiction and, along with counties, to recover all costs of such foreclosure actions; and (b) provide incentives for the "bulk sale" of tax delinquent properties at foreclosure proceedings and the privatization of the foreclosure process through the public sale of real estate property tax liens prior to the commencement of foreclosure proceedings.

**6. Juveniles and Violence.** The League shares the concerns of local, state and federal leaders about the growth in violence among the juvenile population of our state. We urge the legislature to enact legislation to deal seriously with violent acts by juveniles which threaten the safety of the public and which create incentives for stronger families and community institutions. The state of Kansas should seriously consider the enactment of a comprehensive summer job training and employment program for youth in partnership with cities and the private sector.



## HOUSE BILL No. 3056

By Committee on Appropriations

2-21

8 AN ACT concerning the department of commerce and housing; cre-  
9 ating a summer youth employment program; prescribing certain  
10 powers, duties and functions for the secretary of commerce and  
11 housing; authorizing certain grants; providing for ~~rules and~~  
12 ~~regulations~~-----[ guidelines.  
13

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

15 Section 1. (a) There is hereby established a summer youth em-  
16 ployment program within the department of commerce and housing.  
17 Subject to the provisions of appropriation acts, the secretary of com-  
18 merce and housing shall administer such program and provide grants  
19 to eligible cities for the purpose of creating summer jobs for eligible  
20 youths with private businesses in Kansas.

21 (b) A city shall be eligible to receive a grant under this act if it  
22 makes application to the secretary of commerce and housing in ac-  
23 cordance with ~~rules and regulations of the secretary and provides~~ [ guidelines  
24 evidence of the following:

25 (1) A plan for creating summer employment opportunities for  
26 eligible youths in private businesses in the city;

27 (2) a commitment by the city or private businesses in the city,  
28 or any combination thereof, to pay not less than 50% of the wages  
29 and related fringe benefits of eligible youths in jobs with participating  
30 private businesses in the city;

31 (3) an administrative commitment from the city to receive, dis-  
32 burse and ensure compliance with the ~~rules and regulations of the~~ [ guidelines  
33 secretary of commerce and housing relating to the expenditure of  
34 grant funds provided for the summer youth employment program  
35 under this act;

36 (4) agreement to provide a written report to the secretary of  
37 commerce and housing at the end of the employment period, re-  
38 porting on the experiences of the participating youths and businesses,  
39 and accounting for all expenditures under the city's plan, including  
40 all grant funds received under this act; and

41 (5) such other information as the secretary of commerce and  
42 housing may require.

43 (c) An individual shall be eligible for employment under the

1 summer youth employment demonstration program if the individual  
2 is attending a secondary school and meets the income and other  
3 eligibility criteria established by ~~rules and regulations adopted by~~ \_\_\_\_\_ [guidelines  
4 the secretary of commerce and housing for at-risk youth after con-  
5 sulting with the secretary of social and rehabilitation services.

6 (d) A city shall be eligible for state matching grants under the  
7 summer youth employment demonstration program if each partici-  
8 pating private business agrees to comply with all guidelines estab-  
9 lished by ~~rules and regulations adopted by the secretary of commerce~~  
10 and housing and agrees to assign an officer or employee of the  
11 business to serve as a mentor or advisor to each youth employed  
12 by the business under the summer youth employment demonstration  
13 program.

14 (e) The secretary of commerce and housing shall adopt ~~rules and~~  
15 ~~regulations for the administration of this act.~~ \_\_\_\_\_ [ guidelines

16 Sec. 2. This act shall take effect and be in force from and after  
17 its publication in the Kansas register.

Testimony on House Bill 3056  
before the  
House Committee on Economic Development  
on  
Carole L. Morgan, Deputy Secretary  
Kansas Department of Commerce & Housing  
March 15, 1994

House Bill 3056 creates a summer youth employment program intended as a crime prevention program designed for at-risk youth. The program concept includes what should be a very dynamic public/private partnership between city government and companies wherein youth would be identified for participation in summer jobs with local companies funded by a 50% state matching grant for wages and fringe benefits.

Governor Finney has expressed her interest in the potential of this program for addressing issues currently before the recently appointed Task Force on Crime involving at-risk youth and believes the local partnership between cities and companies to be a valuable component.

The Department's cooperation was requested in administering this demonstration program by the originators of this program. We would be pleased to cooperate in this innovative effort to make a difference, to test this intervention program, and to provide quality on-the-job training for future members of the Kansas workforce. We will administer the demonstration project with current staff and look forward to providing program criteria which will assure a quality program with a minimum of state-imposed requirements allowing for innovation and creativity by the local partners. We value the concept of company mentors for each youth employed and the potential for learning valuable job skills. Eligibility criteria will be developed in consultation with the Secretary of Social and Rehabilitation Services. We would hope to solicit program proposals from cities for the 1994 summer employment season.

We request an amendment to HB 3056 on page 2, line 14 which would delete "shall" and replace it with "may". We prefer to have the option to establish guidelines for the demonstration program rather than rules and regulations because of the short time frame between passage of this bill and the summer employment season.

We encourage your favorable consideration of this bill as an intervention concept worthy of attempts to test its potential for success.

Thank you for the opportunity to make comments on this bill.

*Economic Development  
March 15  
Attachment 4*

**D R A F T**  
**March 15, 1994**

March 15, 1994

Representative Rochelle Chronister, Chairman  
House Appropriations Committee  
Room 514-S -- Statehouse  
BUILDING MAIL

Dear Representative Chronister:

In this letter, I would like to share with you the Committee's view on the most appropriate use of the Economic Development Initiative Fund (EDIF). The recommendations below and Attachment 1 are the product of a subcommittee I appointed to consider this issue. The entire House Committee reviewed the subcommittee's recommendations and suggested further modifications.

**Background.** In 1988, the Legislature adopted a resolution, based on a report by Kansas Inc., which identified three criteria to govern the allocation of EDIF moneys:

1. expenditures from the EDIF should not be used for salaries;
2. the EDIF should not replace the State General Fund (SGF) as a source of financing for ongoing economic development programs; and
3. expenditures from the EDIF should be applied to only those programs and policies which clearly relate to components of the economic development strategy, as articulated by Kansas Inc.

In 1989 and 1990, the House Economic Development Committee reviewed recommended expenditures from the EDIF and relayed to the House Appropriations Committee priorities for the use of the EDIF. During the 1990 interim, the Joint Committee on Economic Development briefly reviewed state agency requests for FY 1992 funding from the EDIF and established priorities for EDIF expenditures, based on certain strategic foundations: human capital, technology/innovation, capacity, business environment, financial capital, and quality of life. Expenditures not considered suitable for EDIF funding were listed accordingly.

*Economic Development*  
*March 15, 1994*  
*Attachment 5*

**1988 Resolution Revisited.** As you can see, the House Economic Development Committee is renewing an earlier tradition by formulating EDIF priorities. Moreover, the same concerns that were raised in the 1988 resolution continue to be raised.

**Salaries and Wages.** The Governor continues to recommend, and the Legislature continues to fund, salaries and wages from the EDIF. The Committee believes this is not an appropriate source of funding for this purpose and recommends that the practice be discontinued. The Committee's position is reflected in Attachment 1.

**EDIF Should Not Replace SGF.** The EDIF was originally conceived to fund initiatives, as the name suggests, and not ongoing programs that were historically financed by the SGF. A perfect example of an improper offset is \$11,850,000 recommended for AVTS postsecondary aid. Public broadcasting grants were historically funded from the SGF and in recent years have been funded from the EDIF. In contrast, as Attachment 1 indicates, appropriate initiatives include literacy grants and proposed funding for the Economic Opportunity Initiative Fund. The Committee believes that ongoing expenditures (other than core economic development programs) should not be funded from the EDIF. This principle particularly applies to basic education programs that must rely on a stable revenue stream.

**Programs Should Relate to Economic Development Strategy.** Since the EDIF was established in 1986, there has been an ongoing effort to finance activities that are not directly related to the state's economic development strategy. Although Committee members might disagree on funding priorities for individual projects, one would be hard pressed to justify the use of the EDIF for county reappraisal aid. It is important to ensure that the EDIF retain its integrity. Yet, if one accepts the Committee's categorization of core economic development programs (Priority No. 1) using the Governor's FY 1995 recommendation as a basis, one would realize that only 59.4 percent of total recommended EDIF expenditures apply to core programs. K.S.A. 79-4801 provides that no more than \$50 million may be credited to the State Gaming Revenues Fund in any one fiscal year (excess revenues are transferred to the SGF). K.S.A. 79-4804 provides that 90 percent of all moneys credited to that Fund (up to \$45 million) are then transferred and credited to the EDIF. Therefore, it is imperative for the Legislature to safeguard the use of the EDIF for justifiable purposes. The amount to be credited to the EDIF in any given fiscal year is, in effect, limited by statute, and the state is rapidly approaching that limit.

Although the Committee recognizes that the House has already made recommendations on the use of the EDIF for FY 1995, I would nonetheless urge you to distribute this letter to all Appropriations Committee members for future use in conference committee, in deliberations on the omnibus appropriations bill, and in budget reviews in future fiscal years.

For your information, I am attaching a report on the EDIF, that was written by Charles Warren, Kansas Inc. (January 10, 1993).

Thank you for your attention.

Sincerely,

Representative Bob Mead, Chairman  
House Economic Development Committee

Enclosure

9310.01 03/15/94/LYN



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 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 &amp; Parks</i>	
Capital Improvements	1,393,511
<i>Total</i>	<b>\$14,119,268</b>

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.

# ATTACHMENT 1

## REPORT OF THE HOUSE COMMITTEE ON THE ECONOMIC DEVELOPMENT

Bill No.	Agency/Program	Governor's Rec. FY 95	House Rec. FY 95	Economic Development	Note
<b>PRIORITY #1 – CORE ECONOMIC DEVELOPMENT PROGRAMS</b>					
79-4804	State Water Plan Fund	\$ 2,000,000	\$ 2,000,000	\$ 2,000,000	
H.B.2731	Department of Commerce and Housing				
	Salaries and Wages	\$ 1,411,335	\$ 1,705,435	\$ --	a
	Other Operating Expenditures	3,755,737	3,830,737	3,830,737	
	Small Business Development Centers	325,000	325,000	325,000	
	Certified Development Companies	475,000	475,000	475,000	
	Kansas Industrial Training/Retraining	2,227,500	2,727,500	2,727,500	
	Trade Show Promotion Grants	247,420	247,420	247,420	
	Strategic Planning/Action Grants	440,550	440,550	440,550	
	Kansas Quality Improvement Network	65,000	65,000	65,000	
	Capital Resource Network	--	--	--	
	Travel Information Center Repairs	24,000	24,000	24,000	
	Olathe Travel Center	750,000	750,000	750,000	
	Economic Initiative Opportunity Fund	--	--	4,487,000	
	Kansas Partnership Fund	--	--	--	
	High Performance Incentive Grants	--	75,000	75,000	
	Tourism Grants	279,800	279,800	279,800	
	Subtotal – KDCH	\$ 10,001,142	\$ 10,945,242	\$ 13,706,807	
H.B.2731	Kansas Technology Enterprise Corporation				
	Agency Operations	\$ 830,881	\$ 830,881	\$ 355,872	b
	Centers of Excellence	4,267,386	4,267,386	4,267,386	
	Research Matching Grants	1,259,613	1,259,613	1,259,613	
	Business Innovative Research Grants	25,000	50,000	50,000	
	Training Equipment Grants	150,000	150,000	150,000	
	Industrial Liaison Program	300,000	300,000	300,000	
	Seed Capital	1,500,000	1,500,000	1,500,000	
	Special Projects	103,000	103,000	103,000	
	Commercialization	520,218	900,000	900,000	
	Innovative Technology Program (ITEC)	120,000	95,000	95,000	
	Agricultural Value Added Center	880,281	880,281	880,281	
	Mid-America Manufact. Tech. Center	1,000,000	1,000,000	1,000,000	
	Telecommunications Grants	125,000	125,000	125,000	
	Subtotal – KTEC	\$ 11,081,179	\$ 11,460,961	\$ 10,985,952	
H.B.2731	Kansas, Inc.				
	Agency Operations	\$ 116,889	\$ 116,889	\$ 53,811	c
	EPSCoR	2,000,000	2,000,000	2,000,000	
	Economic Impact Model	--	--	100,000	
	Subtotal – Kansas, Inc.	\$ 2,116,889	\$ 2,116,889	\$ 2,153,811	
H.B.2640	State Library – Literacy Grants	\$ 277,200	\$ 277,200	\$ 277,200	
H.B.2701	Department of Education				
	Matching Grants – AVTS	\$ 495,000	\$ 495,000	\$ 495,000	
	Capital Outlay Aid – AVTS	1,500,000	1,500,000	1,500,000	
	Subtotal – Education	\$ 1,995,000	\$ 1,995,000	\$ 1,995,000	
TOTAL – PRIORITY # 1		\$ 27,471,410	\$ 28,795,292	\$ 31,118,770	
<b>PRIORITY #2 – PROMOTION AND MARKETING</b>					
H.B.2753	Board of Agriculture – Market Promotion	\$ 321,707	\$ 321,707	\$ 321,707	
H.B.2753	State Fair – Agency Operations	\$ 99,000	\$ 99,000	\$ 99,000	
TOTAL – PRIORITY # 2		\$ 420,707	\$ 420,707	\$ 420,707	
<b>PRIORITY #3 – QUALITY OF LIFE</b>					
H.B.2640	Kansas Arts Commission – Prog. Grants	\$ 1,024,650	\$ 1,024,650	\$ 1,024,650	
H.B.2640	Historical Society – Agency Operations	\$ 19,700	\$ 19,700	\$ 19,700	
H.B.2640	State Library – Library Grants	\$ --	\$ 429,965	\$ 429,965	
H.B.2640	Dept. of Administration – Public Broadcasting Grants	\$ --	\$ 588,776	\$ 588,776	
	Dept. of Wildlife and Parks				
H.B.2753	Rails to Trails	\$ --	\$ 200,000	\$ 200,000	
Prev. Appro.	Wichita Conser. Education Center	302,337	302,337	302,337	
	Subtotal – Wildlife & Parks	\$ 302,337	\$ 502,337	\$ 502,337	
TOTAL – PRIORITY # 3		\$ 1,346,687	\$ 2,565,428	\$ 2,565,428	
<b>PRIORITY # 4 – SHOULD NOT BE FUNDED FROM THE EDIF</b>					
H.B.2701	Department of Education				
	At-Risk/Innovative Program Assist.	\$ 1,485,000	\$ 1,485,000	\$ --	
	Postsecondary Aid – AVTS	11,850,000	11,850,000	--	
	Subtotal – Education	\$ 13,335,000	\$ 13,335,000	\$ --	
H.B.2640	School for the Blind – Accessible Arts	\$ 150,000	\$ 150,000	\$ --	
H.B.2753	Dept. of Wildlife and Parks – Hillsdale S.P.	\$ 100,000	\$ 100,000	\$ --	
H.B.2731	Department of Revenue – Appraisal Aid	\$ 3,000,000	\$ 3,000,000	\$ --	
TOTAL – PRIORITY # 4		\$ 16,585,000	\$ 16,585,000	\$ --	

- a) – Salaries and wages total \$1,411,335 (Governor's recommendation) and \$1,705,435 (House recommendation) from the EDIF.  
The Committee believes that such expenditures should be financed from the State General Fund.
- b) – Salaries and wages total \$475,000 (Governor's recommendation and House recommendation) from the EDIF.  
The Committee believes that such expenditures should be financed from the State General Fund.
- c) – Salaries and wages total \$63,078 (Governor's recommendation and House recommendation) from the EDIF.  
The Committee believes that such expenditures should be financed from the State General Fund.