

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON GOVERNMENTAL ORGANIZATION, Room 531-N
Statehouse, at 1:30 p.m. on March 16, 1994.

Approved: _____
Date

MINUTES OF THE SENATE COMMITTEE ON GOVERNMENTAL ORGANIZATION

The meeting was called to order by Chairperson Al Ramirez at 1:30 p.m. on March 16, 1994 in Room 531-N of the Capitol.

All members were present except:

Committee staff present: Julian Efird, Legislative Research Department
Fred Carman, Revisor of Statutes
Jackie Breymeyer, Committee Secretary

Conferees appearing before the committee: Ron Green, Legislative Post Audit
Carol Morgan, Deputy Director, Department of Commerce
and Housing
Mikel Filter, Kansas Inc.

Others attending: See attached list

HB 2760-Reorganization of Department of Housing and Commerce
Chairman Ramirez called the meeting to order and called on Ron Green, Legislative Post Audit.

Mr. Green was present to give an overview of the Performance Audit Report (Attachment 1) The report was entitled "Reviewing Economic Development Activities: A K-GOAL Audit of the Kansas Department of Commerce and Housing". Mr. Green went through the audit page by page and answered questions of the committee.

Staff provided the committee with a sheet which gave the FY95 appropriations for the Department of Commerce and Housing which is contained in HB 2731 (Attachment 2)

Before calling on the next conferee, Chairman Ramirez welcomed the Southern Leavenworth County leadership group to the committee.

Carol Morgan, Deputy Director, Department of Commerce and Housing, distributed copies of her testimony on **HB 2760** (Attachment 3) and stated the Department supports the bill. The proposed reorganization would eliminate the Divisions of Industrial Development and Existing Industry Development and combine the programs administered by them into a single Division of Business Development. Ms. Morgan read her testimony which gave the benefits of merging the two divisions and stated there was no significant fiscal note on the bill. She referred to the charts at the back of the testimony. Ms. Morgan answered questions with regard to transferring budget monies to different areas or divisions within the department without legislative oversight. She replied that the Department has limited latitude in doing this.

The ad run in the "Kansas" magazine and resulting response resulting in depletion of funds was discussed. The issue was resolved when federal money became available due to a change in federal regulations.

Mikel Filter, Kansas Inc., was last to testify on the bill. (Attachment 4) Ms. Filter stated the distinction between business retention and industry recruitment has become increasingly blurred and stated the advantages the merging of the two divisions would produce, and, after further comments, ended her testimony urging the Committee to report the bill out favorably.

After a discussion on some of the audit recommendations the Chairman took action on the bill.

Senator Papay moved to amend **HB 2760** on page 1, line 18 after the word industry by inserting the words "in rural and urban Kansas". On page 2, line 8 by deleting the word 'farming' and adding "agriculture". Senator Harris gave a second to the motion. The motion carried.

Senator Papay moved to pass **HB 2760** out favorably as amended. Senator Harris gave a second to the motion. The motion carried.

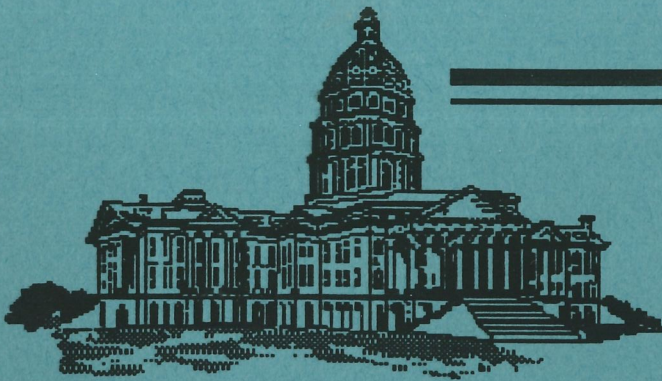
The meeting was adjourned. The next meeting is scheduled for March 17, 1994.

Senati

Governmental Organization

DATE:

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PERFORMANCE AUDIT REPORT

Reviewing Economic Development Activities:

**A K-GOAL Audit of the Kansas
Department of Commerce and Housing**

**A Report to the Legislative Post Audit Committee
By the Legislative Division of Post Audit
State of Kansas
February 1994**

94-32

*Senate Gov. Org.
Attachment 1
3/16/94*

Legislative Post Audit Committee

Legislative Division of Post Audit

THE LEGISLATIVE POST Audit Committee and its audit agency, the Legislative Division of Post Audit, are the audit arm of Kansas government. The programs and activities of State government now cost about \$6 billion a year. As legislators and administrators try increasingly to allocate tax dollars effectively and make government work more efficiently, they need information to evaluate the work of governmental agencies. The audit work performed by Legislative Post Audit helps provide that information.

We conduct our audit work in accordance with applicable government auditing standards set forth by the U.S. General Accounting Office. These standards pertain to the auditor's professional qualifications, the quality of the audit work, and the characteristics of professional and meaningful reports. The standards also have been endorsed by the American Institute of Certified Public Accountants and adopted by the Legislative Post Audit Committee.

The Legislative Post Audit Committee is a bipartisan committee comprising five senators and five representatives. Of the Senate members, three are appointed by the President of the Senate and two are appointed by the Senate Minority Leader. Of the Representatives, three are appointed by the Speaker of the House and two are appointed by the Minority Leader.

Audits are performed at the direction of the Legislative Post Audit Committee. Legislators or

committees should make their requests for performance audits through the Chairman or any other member of the Committee. Copies of all completed performance audits are available from the Division's office.

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PERFORMANCE AUDIT REPORT

REVIEWING ECONOMIC DEVELOPMENT ACTIVITIES:

A K-GOAL AUDIT OF THE KANSAS DEPARTMENT OF COMMERCE AND HOUSING

This audit was conducted by Ron Green, Nancy Case, Kelan Kelly, and Murlene Priest, of the Division's staff. If you need any additional information about the audit's findings, please contact Mr. Green at the Division's office.

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REVIEWING ECONOMIC DEVELOPMENT ACTIVITIES: A K-GOAL AUDIT OF THE KANSAS DEPARTMENT OF COMMERCE AND HOUSING

Summary of Legislative Post Audit's Findings

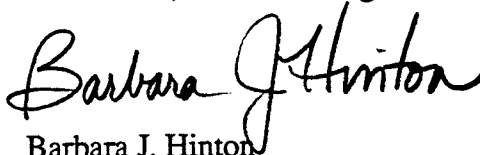
The Kansas Department of Commerce and Housing is charged with the creation of wealth and jobs by facilitating the growth, diversification, and expansion of business enterprises in Kansas. In addition, the agency seeks to provide Kansans with affordable housing opportunities. The Department's seven divisions collectively spent \$47.3 million in fiscal year 1993.

Is the Department of Commerce and Housing achieving its economic development goals? The Department has established programs in line with its mission, and it can demonstrate economic results in accord with that mission. However, in many cases the Department has not established specific criteria or gathered the kinds of data it needs to determine whether specific programs are achieving the intended results. Programs for which the Department had meaningful outcome data generally showed positive results, although in several cases those results appeared to be overstated. The Department is working on a computerized system to collect the types of information it needs to assess program results, but development of that system has been slowed by several problems.

What effect has creating the Division of Housing within the Department had on economic development activities of the other divisions? Creating the Division of Housing has had little effect on the economic development activities of other divisions. When the Division of Housing was created in July 1992, several programs and positions were transferred from the Community Development Division. In one case, Department officials legally reallocated State General Fund money from the Division of Housing to another division. Most of the Department's employees indicated that having the new Division of Housing has had no impact on the activities of other divisions. For the most part, Kansas' organizational structure for housing programs was similar to the structure in other nearby states.

Did the Department give proper notice of a public hearing held to consider possible amendment of the State Community Development Block Grant plan? In September 1993, the Department did not follow its normal procedures for providing notice of a public hearing. Notice was not published in the newspaper or in the Kansas Register, and most local governments that had applied for grants were not notified of the hearing. Ultimately, the proposed amendment was not adopted, because additional federal money became available for flood relief purposes.

This report contains several recommendations for the Department and the Legislature. We would be happy to discuss these recommendations or any other items in the report with any legislative committees, individual legislators, or other State officials.


Barbara J. Hinton
Legislative Post Auditor

Reviewing Economic Development Activities:

A K-GOAL Audit of the Kansas Department of Commerce and Housing

The Kansas Governmental Operations Accountability Law (K-GOAL) requires the Legislative Division of Post Audit to conduct a performance audit of specified State agencies each year on an eight-year cycle. The purpose of these audits is to periodically review the operations of the selected agencies; determine the necessity, propriety, and legality of their operations; identify areas of inefficiency and ineffectiveness; and provide information to allow the Legislature to take action to retain appropriate and effective governmental operations, and terminate inappropriate or obsolete governmental operations.

To fulfill the requirements of the law, the Legislative Post Audit Committee directed the Legislative Division of Post Audit to review the operations of the Kansas Department of Commerce and Housing, the primary State agency responsible for promoting economic development in Kansas. The Committee was interested in knowing whether the Department was meeting its economic development goals and what impact creating the Division of Housing has had on other divisions in the Department. Specific concerns also were expressed about whether certain Department expenditures or transfers were in accord with legislative guidelines, and whether the Department followed required procedures in regard to possible use of Community Development Block Grant Funds for flood relief in 1993.

This audit addressed the following questions:

1. **Is the Department of Commerce and Housing achieving its economic development goals?**
2. **What effect has creating the Division of Housing within the Department had on economic development activities of the other divisions?**
3. **Did the Department give proper notice of a public hearing held to consider possible amendment of the State Community Development Block Grant Plan?**

To answer these questions, we reviewed State law and regulations, reports prepared by the Department of Commerce and Housing, and evaluations of the Department issued by Kansas, Inc. We summarized and analyzed changes in the Department's expenditures and authorized positions since fiscal year 1987. We interviewed officials of the Department and Kansas, Inc., and contacted officials in five nearby states. We reviewed economic trends and indicators for Kansas and surrounding states. We surveyed employees of the Department to obtain information

about any problems related to the new Division of Housing. In some instances, we also surveyed members of advisory boards for specific Department programs. In conducting this audit, we followed all applicable government auditing standards set forth by the U.S. General Accounting Office.

In general, we found that the Department often cannot determine whether its programs are achieving the intended results. In some cases, the Department has not gathered any information about the economic impact of its programs. In programs for which the Department has gathered meaningful data, we found the programs generally showed positive results. Overall, four of the five divisions we reviewed could demonstrate economic results in accord with their missions. Also, we found that creation of the Division of Housing has had little effect on the activities of the other divisions. In terms of staffing and programs, the Community Development Division has been affected most by the creation of the Division of Housing. In one instance, State funds originally intended for use in the Division of Housing were legally reallocated to the Division of Travel and Tourism Development. Finally, we found that the Department did not give proper notice about a public hearing in September 1993, but the Department did not take any action to implement the flood-relief proposal that prompted the hearing.

These and related findings will be discussed in more detail following a brief overview of the Department of Commerce and Housing.

Overview of the Kansas Department of Commerce and Housing

The 1986 Legislature made major changes in the State's economic development efforts in response to the Kansas Economic Development Study (commonly called the Redwood-Krider Report) issued by the University of Kansas' Institute for Public Policy and Business Research. By statute, the Department of Economic Development was changed to the Department of Commerce effective January 12, 1987. The legislation creating the Department of Commerce also required the Department to include five divisions: Community Development, Existing Industry Development, Industrial Development, Trade Development, and Travel and Tourism Development.

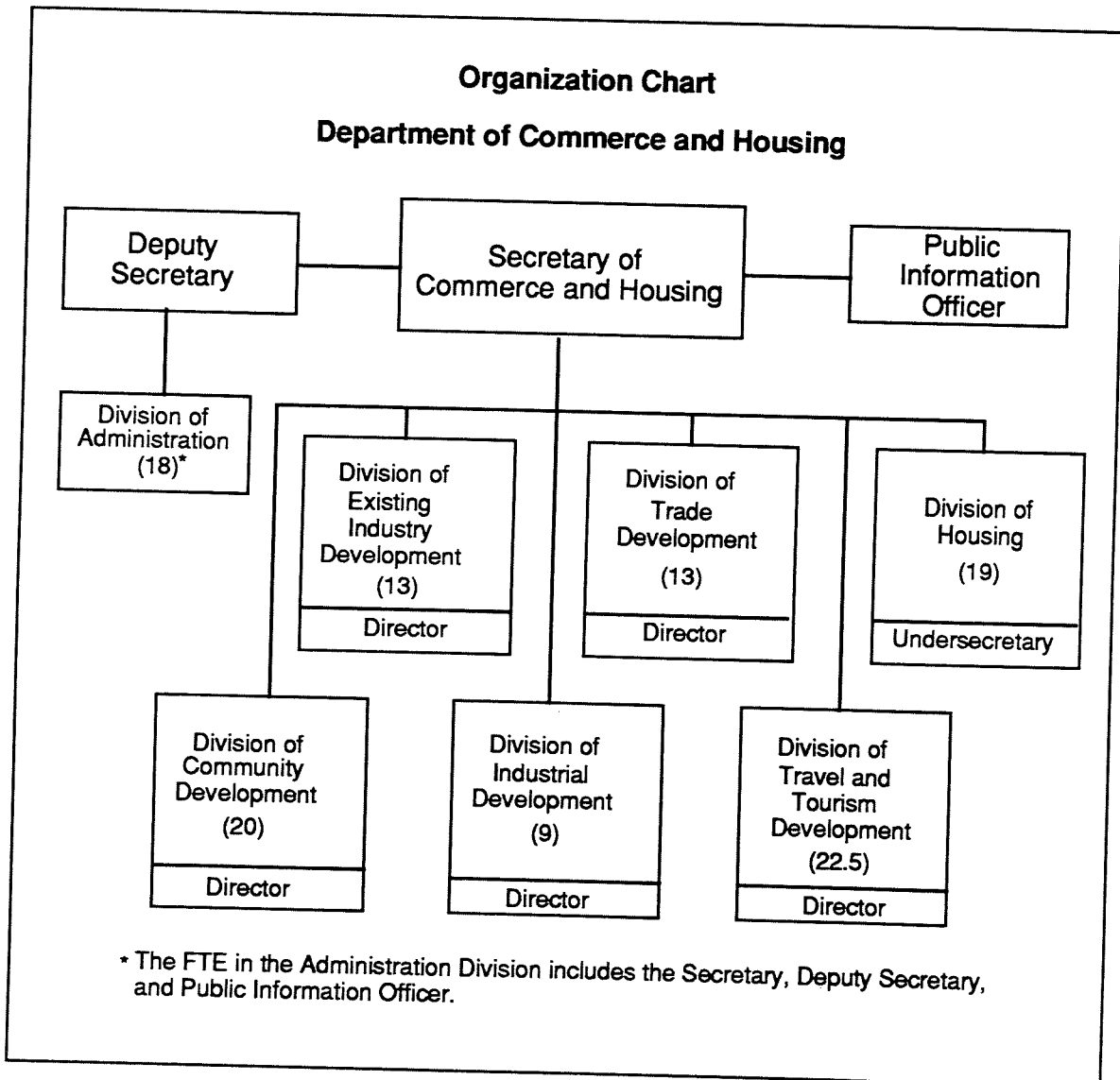
In January 1992, Governor Finney reorganized the Department of Commerce through an executive reorganization order, renaming it the Department of Commerce and Housing, and creating the Division of Housing. This reorganization took effect on July 1, 1992. The Governor's executive order also transferred three housing programs operated by the Department of Social and Rehabilitation Services, along with more than \$8 million dollars in federal funding, to the new Division of Housing.

By law, the Department of Commerce and Housing is charged with the creation of wealth and jobs by facilitating the creation, growth, diversification, and expansion of business enterprises in Kansas. In addition, the agency seeks to provide Kansans with housing opportunities, to provide special assistance to distressed rural and urban areas of the State, and to forge supportive partnerships with various government and private-sector agencies and economic development groups. The Department's mission statement establishes the following goals and objectives:

- to increase the number of visitors to Kansas by promoting the State as a travel opportunity to both Kansans and non-Kansans, and to attract film and video production to the State.
- to provide grants, loans, and technical assistance to Kansas communities to stimulate and support economic development activity.
- to increase sales of Kansas-manufactured products worldwide, thereby creating jobs, bringing new money into the State, and enhancing the growth and expansion of the State's economic base.
- to provide technical assistance and outreach to develop, diversify, and strengthen business throughout the State.
- to identify, pursue, and bring out-of-State business facilities to Kansas, which will add jobs and capital investment to the economic base of the State and its communities.

- to provide all Kansans the opportunity to secure decent, safe, affordable, energy-efficient housing, to offer appropriate technical assistance and supportive services, and to promote economic development through public/private partnerships.
- to work together with all appropriate public and private sector entities through a cooperative, quality, professional staff in order to make Kansas an outstanding place to live, work, and visit.

To accomplish the Department's economic development goals, it is organized into seven divisions. The following organization chart shows each of the divisions, along with the number of positions each division was authorized in fiscal year 1993.



The Department had a total of 114.5 authorized positions in fiscal year 1993. The next table shows the change in staffing levels for each division in the Department of Commerce and Housing since fiscal year 1987. It includes staffing levels at three points—fiscal years 1987, 1992, and 1993—to more clearly show the impact of adding the Division of Housing to the Department.

**Full-Time-Equivalent Positions in the
Department and its Divisions
FY 1987 to FY 1993**

<u>Division</u>	<u>FY 1987</u>	<u>FY 1992</u>	<u>FY 1993</u>	<u>FTE change 87 to 93</u>	<u>Percent change 87 to 93</u>
Administration	10.0	18.0	18.0	8.0	80.0%
Existing Industry Development	13.0	13.0	13.0	0.0	0.0
Trade Development	7.0	13.0	13.0	6.0	85.7
Industrial Development	15.0	9.0	9.0	(6.0)	(40.0)
Travel and Tourism Development	19.0	22.5	22.5	3.5	18.4
Community Development	18.0	28.0	20.0	2.0	11.1
Housing	NA	NA	19.0	19.0	NA
Department Total	82.0	103.5	114.5	32.5	39.6
Total excluding the Division of Housing	82.0	103.5	95.5	13.5	16.5

As the table shows, the Department has added 32.5 full-time-equivalent positions since fiscal year 1987, an increase of nearly 40 percent. A large number of these additional positions were due to the addition of the Division of Housing. Excluding the Division of Housing, the number of positions increased by 13.5 positions, or 16.5 percent.

When the Division of Housing was created, five positions were transferred from the Community Development Division to the Housing Division. Outside of the Division of Housing, the largest increase in the number of positions occurred in the Division of Administration. Over the years, eight positions were added to the Division of Administration as it established a centralized research function, increased its technical and policy staff, and added a public information officer and a receptionist.

The Department of Commerce and Housing spent nearly \$47.4 million on housing and economic development programs in fiscal year 1993. More than \$29.8 million (63 percent) of that came from federal sources. Those federal funds are

handled by two divisions—Community Development and Housing—that together accounted for 69 percent of the Department's fiscal year 1993 expenditures. The table below shows how the Department's expenditures have increased during the last seven years.

**Expenditures by the Department and its Divisions
FY 1987 to FY 1993**

<u>Division</u>	<u>FY 1987</u>	<u>FY 1992</u>	<u>FY 1993</u>	<u>\$ Change 87 to 93</u>	<u>% Change 87 to 93</u>
Administration	\$1,014,742	\$1,308,336	\$1,436,005	\$421,263	41.5%
Existing Industry Devel.	1,094,470	1,347,773	1,400,990	306,520	28.0
Trade Development	106,148	1,535,110	1,771,179	1,665,031	1,568.6
Industrial Development	2,207,422	3,264,554	6,660,766	4,453,344	201.7
Travel and Tourism Devel.	1,191,973	2,503,124	3,376,007	2,184,034	183.2
Community Development	15,337,357	17,248,879	15,829,332	491,975	3.2
Housing	NA	NA	16,880,497	NA	NA
Department Total	20,952,112	27,207,776	47,354,776	26,402,664	126.0
Total excluding the Division of Housing	20,952,112	27,207,776	30,474,279	9,522,167	45.5

As the table shows, the Department's expenditures increased by 126 percent from fiscal year 1987, the year the Department of Commerce was created, to fiscal year 1993, when it became the Department of Commerce and Housing. The main reason for this increase in expenditures was the addition of the Division of Housing in fiscal year 1993.

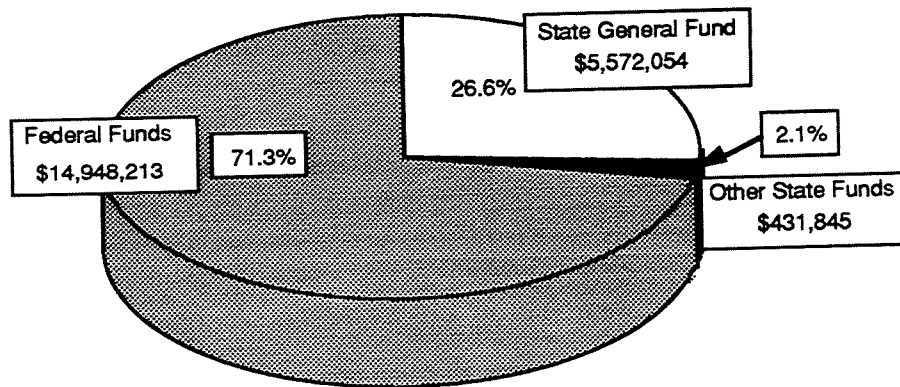
With expenditures for the Division of Housing excluded, the Department's spending increased by 45 percent over the six-year period, an average of 6.5 percent per year. To put this 45 percent increase into context, the consumer price index rose by 28.3 percent during the 1987-93 period.

The table also shows that expenditures in all six divisions (excluding Housing) increased over the period. In fact, three divisions—Trade Development, Industrial Development, and Community Development—experienced substantial expenditure increases. The Industrial Development Division showed the largest increase in expenditures, increasing by more than \$4.5 million. The main reason for that increase was the addition of a significant new workforce training program in fiscal year 1993.

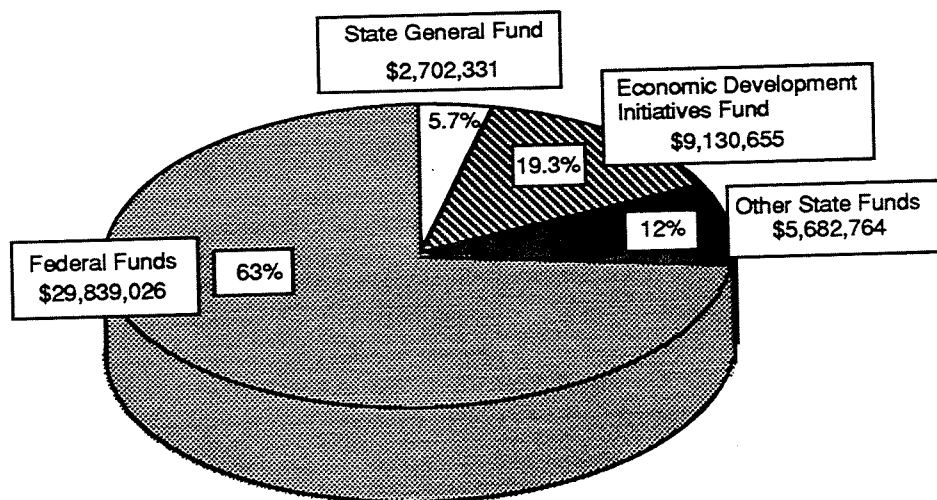
Most of the Department's funding comes from federal sources. The pie charts below show how the sources of funding for the Department's activities changed between fiscal years 1987 and 1993.

Department Expenditures by Funding Source FY 1987 and FY 1993

FY 1987 Expenditures = \$20,952,112



FY 1993 Expenditures = \$47,354,776



Federal funding doubled from FY 1987 to FY 1993, increasing from \$14.9 million to \$29.8 million. Total State funding increased 192 percent from \$6 million in FY 1987 to \$17.5 million in FY 1993.

The charts show that both federal and State funding for the Department increased substantially from fiscal year 1987 to fiscal year 1993. Federal funding doubled, while total State funding nearly tripled. As a result, the percentage of the Department's budget coming from federal sources declined from 71.3 percent to 63 percent.

All of the increase in State spending came from the Economic Development Initiatives Fund and other State sources. The Economic Development Initiatives Fund was established in fiscal year 1988, when the Kansas Lottery started generating revenue. State funding for the Department from the State General Fund actually decreased by more than 50 percent since fiscal year 1987. Appendix A contains more details about the sources of funds used by the Department.

Each of the Department's divisions operates a number of different programs related to its particular mission. Appendix B includes a complete list of the Department's budgetary programs. In addition to its headquarters in Topeka, the Department has field offices in Garden City, Hill City, Lawrence, Manhattan, Pittsburgh, and Wichita. The Department also operates four Travel Information Centers in Kansas City, Goodland, South Haven, and the State Capitol Building in Topeka.

Is the Department of Commerce and Housing Achieving Its Economic Development Goals?

By reviewing a sample of programs in five different divisions, we found that in most cases the Department has not established specific criteria or gathered the kinds of data it would need to determine whether the programs are achieving the intended results. The Department is working on an improved information system to allow it to collect the types of information it needs to assess the results of its programs, but development of that system has been slowed by problems such as personnel changes and difficulty in hiring a programmer. For programs that the Department did collect meaningful outcome information, we found the programs generally showed positive results. In several instances, however, those results may be overstated.

Despite the problems highlighted above, four of the five divisions we reviewed can demonstrate economic results in accord with their missions. These and related findings are discussed more fully in the sections to follow.

The Department Has Established Programs That Appear to Be in Line with Its Mission, but Often Has No Data about the Economic Results of Those Programs

State law requires Kansas, Inc. to complete an independent performance review of the activities of the Department of Commerce and Housing at least once every three years. (Kansas, Inc. is a public/private organization created by the Legislature to plan for the economic development of the State of Kansas.) In January 1992, an evaluation of the Department by Kansas, Inc. and the University of Kansas' Institute for Public Policy and Business Research included the following statement:

"Given the goals and directions outlined by the Kansas, Inc. economic development strategy, the Department's current structure is appropriate. No major modifications or extensive reworking of programs are recommended at this time."

The evaluation report said that the Department's most significant shortcoming was the lack of a formal information system to track both the performance and impact of its programs. (The Department's progress on that system is discussed later in this report.) Our findings are consistent with the Kansas, Inc. report, based on the sample of programs we reviewed. The programs in place within these divisions appear to be appropriate, given the mission and statutory authority of the Department. However, measuring the actual results of the programs is often difficult.

We reviewed programs in five of the seven divisions within the Department. We did not review programs in the Division of Housing, because it is relatively new and the great majority of its programs are federally funded. Also, we did not review the Division of Administration, because its purpose is to support and guide the efforts of the other divisions.

Programs Specifically Reviewed During This Audit

Travel and Tourism Division

- General Promotion (\$2,230,656)

Leisure Marketing
Media Promotions
Group Tour Promotions
Tourism Development

Community Development Division

- Community Assistance Programs (\$887,414)

Kansas Main Street
Kansas PRIDE
Enterprise Zones
Kansas Partnership Fund
Community Strategic Planning

Trade Development Division

- Trade Services, Marketing, and Promotions (\$1,544,407)

Trade Shows
Trade Missions
Foreign Offices
Trade Show Assistance

Industrial Development Division

- Workforce Training Programs (\$5,671,141)

Ks. Industrial Training
Ks. Industrial Retraining
Investment in Life-long Learning

Existing Industry Division

- Business Development Programs (\$1,082,881)

First Stop Clearinghouse
Kansas Match
Operation Strongest Link
Liaison with CDC's & SBDC's
Venture/Seed Capital
Kansas Business Retention & Expansion
High Performance Incentive Program

	goals are consistent with the Department's mission	measurable criteria to determine economic outcome	data gathered on economic outcomes	program can demonstrate positive economic results	uses surveys to gauge impact or satisfaction
✓	✓	✓	✓	✓	
✓	✓				
✓	✓				
✓	✓				
✓	✓	✓	✓ (b)	✓	
✓				✓	
✓					
✓	✓	✓	✓ (c)		
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✓	✓	✓ (a)			
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✓					
✓	✓				
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✓					

a) The Department has tried to gather data on matches between buyers and sellers, but none have been reported recently.

b) Reliability of the reported benefits may be questionable.

c) Benefits are based on projections, not on the actual number of jobs created.

For a majority of the programs we reviewed, the Department did not have data to demonstrate economic results. For each of the five divisions, we reviewed the goals, performance measures, and results within the budgetary group that spent the most State money in fiscal year 1993. We had intended to select specific programs based on the amount of State money they spent. However, the Department does not account for its expenditures at the individual program level, so we had to select program groups as they are shown in the Department's budget.

As the table on the facing page shows, the Department has not gathered economic outcome data for more than half of the listed programs. In some cases, the programs are relatively new or the nature of the programs means that economic results will be difficult or impossible to measure.

A brief description of the 23 programs is included in Appendix C. The next sections of the report outline our findings about the programs in each of the five divisions, given the objectives established for each division.

Some Programs in the Travel and Tourism Development Division Have Demonstrated an Impact on The Number of Visitors and The Amount Spent in Kansas

The stated purpose of this Division is to increase the number of visitors to Kansas by promoting the State as a travel opportunity to both Kansans and non-Kansans, and to attract film and video production to the State. Based on our review, it would appear the Division has achieved its goal to some extent, but has no data to measure the impact of several of its programs.

The Kansas Economy Is Keeping Pace with Neighboring States

In our assessment of the State's economy, we compared Kansas with five neighboring states—Colorado, Iowa, Missouri, Nebraska, and Oklahoma. The Kansas economy generally has kept pace with neighboring states in recent years. However, in 1993 the growth of the State's economy was somewhat dampened by cuts in aircraft manufacturing, closures of major firms, and extensive flood damage.

Kansas' employment growth rate lagged the regional and national rate for the five years before 1990. From 1990 to 1992, the State employment growth rate exceeded the national job growth rate for three consecutive years, then it slowed to just below the national rate during 1993.

Kansas' unemployment rate generally was lower and more stable than the national and regional rates during the period 1985 to 1990. In 1991 and 1992, this trend continued in Kansas, with rates of 4.4 and 3.9 percent, while the national rates were at least two percentage points higher. The State's unemployment rate rose to 4.9 percent in 1993, but was still well below the national rate of 6.8 percent. In recent years, only one state—Nebraska—in the regional group had a lower unemployment rate than Kansas had.

For average annual pay, Kansas' ranking among regional states remained the same (fourth of the six states) from 1985 to 1991, when Kansas moved slightly ahead of Oklahoma. However, Kansas' national ranking for average annual pay dropped gradually in the same time period, falling from 30th in 1985 to 35th in 1990. The national rate of increase for average annual pay exceeded all six regional states' rates from 1985 to 1990.

Kansas' personal income per capita exceeded all region states except Colorado from 1985 to 1990. For the same period, Kansas' per-capita income growth was in the middle of the group regionally, while Kansas lagged behind the national growth rates. Finally, in 1991 and 1992, Kansas' growth rate exceeded the national rate. However, firm downsizing and closures, along with flooding, slowed the State's personal income growth in 1993.

**Kansas' Economic Performance Rating Has Improved in Recent Years,
According to the Development Report Card for the States**

The data below were taken from The 1993 Development Report Card for the States, written by the Corporation for Enterprise Development, a non-profit organization involved in economic research and development. The "report cards" represent a compilation of more than 50 economic indicators from a variety of government and private data sources. The information shows that Kansas' grade on economic performance has improved since 1988. However, its grades for business vitality and development capacity have stayed the same.

	<u>1988</u> <u>Rank</u>	<u>1988</u> <u>Grade</u>	<u>1993</u> <u>Rank</u>	<u>1993</u> <u>Grade</u>
<u>KANSAS</u>				
Economic Performance (a)	23	C	17	B
Business Vitality (b)	33	C	34	C
Development Capacity (c)	33	C	32	C
<u>COLORADO</u>				
Economic Performance	15	B	15	B
Business Vitality	29	C	4	A
Development Capacity	2	A	4	A
<u>IOWA</u>				
Economic Performance	34	C	9	A
Business Vitality	47	F	43	D
Development Capacity	35	C	29	C
<u>MISSOURI</u>				
Economic Performance	20	B	18	B
Business Vitality	48	F	40	D
Development Capacity	31	C	34	C
<u>NEBRASKA</u>				
Economic Performance	32	C	6	A
Business Vitality	46	F	45	D
Development Capacity	25	C	22	C
<u>OKLAHOMA</u>				
Economic Performance	46	F	46	F
Business Vitality	43	D	40	D
Development Capacity	37	D	39	D

- (a) The Economic Performance Index includes factors such as employment growth, earnings and job quality, and equity of income distribution.
- (b) The Business Vitality Index includes factors such as competitiveness of existing businesses, entrepreneurial energy, and structural diversity.
- (c) The Development Capacity Index includes factors such as human resources, technology resources, financial resources, and infrastructure.

We reviewed four programs in the General Promotions category—Leisure Marketing, Media Promotions, Group Tour Promotions, and Tourism Development. In fiscal year 1993, the four programs in the General Promotions group spent more than \$2.2 million. Our review showed that only one program, Leisure Marketing, could demonstrate success in attracting visitors and increasing the amount spent in Kansas.

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Through surveys conducted by the Department, the promotional efforts of the Division of Travel and Tourism Development were shown to be effective. Among the five divisions we reviewed, the Division of Travel and Tourism Development had the most specific goals and targets to be achieved over a period of years. In two cases, the Division has done extensive surveys that demonstrated the effectiveness of its promotional efforts. First, the Department reported that for every dollar spent on its national advertising campaign, more than \$43 was generated by additional travelers to Kansas. Second, almost two-thirds of the participants in the 1992 Kansas Secrets travel incentive program reported they changed their travel plans because of the program. (In the Kansas Secrets promotion, out-of-State travelers receive a Coleman cooler if they stay overnight, eat in a restaurant, or visit an attraction in Kansas.) As a result, Kansas Secrets participants reportedly spent an additional \$831,000 in Kansas in 1992.

**The Kansas Film Commission
Strives to Attract Film and Video
Productions to the State**

We did not review the Kansas Film Commission because the majority of the dollars spent in the Division of Travel and Tourism Development went to other programs. The Department's Annual Report indicated that the Commission had its best year ever in fiscal year 1993. The Commission assisted 34 productions filmed in Kansas, including a mini-series and four made-for-television movies. The Commission estimated that these productions resulted in more than \$10 million in spending in Kansas.

For the other three programs in the category, the Division had no data about their economic impact. In each case, Division officials said they were planning to gather such data in the near future. In the Media Promotions program, Division officials indicated they were planning to determine the dollar value of the "free press" the State of Kansas receives in fiscal year 1994. In the Group Tour Promotions program, Division officials said it was difficult to gather data on the number of motorcoach tours visiting Kansas, but they were working with a national association to get this information. In the Tourism Development program, Division officials said they were planning to survey the recipients of promotional grants and attraction development grants, to see whether the State grants have actually increased the number of visitors.

**The Community Development Division Appears to Be Accomplishing
Its Goal of Providing Assistance to Kansas Communities,
But Often Has Problems Measuring the Outcomes of Its Programs**

The stated goal for this Division is to provide grants, loans, and technical assistance to Kansas communities to stimulate and support economic development activity. Based on our review, it is clear that the Division has provided grants, loans, and technical assistance to Kansas communities. The difficulty is in determining the results of its efforts.

We reviewed five of the Division's State-funded programs in the Community Assistance budget group. These programs had expenditures of nearly \$900,000 during fiscal year 1993.

Three of the community assistance programs had no measurable economic outcomes. During the period of our audit, the following programs had various measures of their activity, but no measures of their economic impact.

- The Kansas PRIDE Program is a self-help program whose activities include planning, economic development, community and public services, housing, conservation, and quality of life issues. Division officials survey communities participating in the PRIDE program, but the survey doesn't really measure economic results. The survey gets feedback about other things, such as who participated, how the process worked, and whether the community improved in appearance or pride. According to the Department's Annual Report, PRIDE volunteers in 101 Kansas communities accomplished more than 2,200 community betterment projects in fiscal year 1993.
- The Kansas Enterprise Zone Program provides business expansion and development tax incentives on a Statewide basis, in addition to technical assistance in the application and documentation process. The program was revamped through legislation that took effect in fiscal year 1993, and since then the Division has collected data on its activities, not on its outcomes. The Division has begun to collect data on program results because the Department was asked to present a report to the 1994 Legislature regarding effectiveness and impact of the new law. However, that information was not yet available at the time of our audit.
- The Community Strategic Planning Program provides planning and action grants to county-wide or multi-county economic development organizations throughout the State. The result of the program is the creation of an action or planning strategy. However, the Department does not formally gather data about whether the intended economic benefits of the plan were realized.

**Members of Selected Program Advisory Boards
Generally Thought Their Programs Were Effective**

We surveyed members of the PRIDE Board of Directors, the Community Strategic Planning Committee, and the Kansas Main Street Advisory Board to obtain their opinions of their respective programs. The responses were generally positive regarding the effectiveness of the programs at achieving their goals—seven responded "always," 13 responded "usually," and one responded "sometimes." All but one of the 23 respondents said the goal of their programs should not be changed. One respondent said the goal of the Community Strategic Planning program should be expanded to include the

action aspect of the process, not just the planning aspect.

Several suggestions were given to improve the effectiveness of programs, including better communications and increased funding or staffing. Program strengths cited included the involvement of communities, the growth of jobs and investments, and the public-private partnership created in many of these programs. The major weakness identified by several respondents was the need to build multi-county or even multi-state networking for projects and the exchange of ideas.

The other two community assistance programs we reviewed had measurable outcomes, but both had some data problems. The Kansas Main Street Program is a self-help revitalization program which provides technical assistance to communities interested in investing in their downtowns. Main Street officials report the number of new jobs and businesses that come into the downtown areas of participating cities as key outcome measures of the program.

**The Community Development
Block Grant Program
Provides Funding for
Economic Development Projects**

Because our focus was on State-funded programs, we did not review the Division's major federal grant program, the Small Cities Community Development Block Grant program. According to the Department's Annual Report, that program awarded 13 economic development grants in fiscal year 1993. These grants resulted in the creation or retention of 395 jobs and leveraged an additional \$21.8 million in non-grant funds into the State's economy.

To assess the accuracy of the figures provided by the Division, we tried to verify the Department's summary of job growth in 1993. We contacted Main Street managers in participating cities to verify the 118 net new jobs reported for the program, and found discrepancies in the numbers reported by the cities and those reported by the Department. The Department's program administrator later provided us with revised figures which more closely matched our findings, a net figure of approximately 10 new jobs. Inconsistencies in data calculation and collection appeared to account for many of the discrepancies. It also should be noted that the number of new jobs and businesses in Main Street cities is not entirely within the control of the Department; local businesses and community leaders play a major role in implementing strategies for improving their downtown areas.

The Kansas Partnership Fund lends funds to communities that have identifiable infrastructure needs that will lead directly to new jobs. The program makes loans to local units of government that must pay back the loans over a period of time. The Department collects data about the number of new jobs projected from the expenditure (usually an infrastructure or water project). The projected figure is reported by the company benefiting from the project, but the Department does not get data on the actual number of new jobs created.

**The Trade Development Division Has Established Programs to
Help Kansas Businesses Increase Their Worldwide Sales**

The stated purpose of this Division is to increase sales of Kansas-manufactured products worldwide, thereby creating jobs, bringing new money into the State, and enhancing the growth and expansion of the State's economic base. Based on our limited review, it would appear the Division's programs are actually helping Kansas companies to increase their international sales.

We reviewed four programs within the Trade Services, Marketing, and Promotions budgetary category. The programs in this category are Trade Shows, Trade Missions, Foreign Offices, and the Trade Show Assistance Program.

Within the Division of Trade Development, the Trade Show Assistance Program can demonstrate the amount of sales by Kansas companies after international trade shows. Under the Kansas Trade Show Assistance Program, the Department can reimburse Kansas companies for half of their expenses (up to \$3,500 per show or \$7,000 per year) when they attend trade shows outside the United States. For fiscal year 1990 through 1993, the Department has spent more than \$549,000 of State money on reimbursements, and participating companies have reported more than \$41.7 million in actual sales in the six-month period following the trade shows.

The Department uses the ratio between total sales and total reimbursements to measure the program's effectiveness. In the four-year time period, the Department had reported that total sales were 111 times the amount of State reimbursements. However, that figure was based on companies' estimated sales for fiscal year 1993 participants. When actual sales (based on reports received as of January 1994) are used, the return ratio dropped to about 76 to 1. (The ratio for actual sales may increase when reports are received from companies that have been tardy in filing their six-month report of actual sales.)

Regardless of which outcome measure is used, it would appear that the Kansas Trade Show Assistance Program is achieving the intended result of increasing total sales and total exports by Kansas companies. In view of the program's effectiveness, Kansas, Inc. and the Department have recommended a statutory amendment to allow reimbursement of Kansas companies attending domestic trade shows, rather than limiting the program to trade shows held outside the United States.

We noted two weaknesses in the Department's administration of the Trade Show Assistance Program. First, the Trade Development Division does not attempt to determine whether the private company would have attended the international trade show even without the financial incentive offered in this program. If the program is subsidizing an activity that would occur anyway, it has not generated any additional sales in the international markets. Secondly, in a related point, the Division has not placed any limit on the number of times it will approve financial support for the same company to attend the same trade show. Unless the firm is introducing a new product, multiple visits to the same trade show would not open up new markets for Kansas products.

The Division of Industrial Development Has Shown Some Success in Recruiting Out-of-State Businesses And Adding Jobs to the Kansas Economy

The stated goal for this Division is to identify, pursue, and bring out-of-State business facilities to Kansas, which will add jobs and capital investment to the economic base of the State and its communities. Based on our review, it would appear that the workforce training programs operated by this Division are effective in helping new businesses and expanding businesses to add jobs or retrain current workers.

We reviewed three workforce training programs administered by the Division of Industrial Development. The Kansas Industrial Training program helps new and existing firms train new employees for newly created jobs. The Kansas Industrial Retraining program helps retrain existing employees of companies that are modernizing and incorporating new processes and technologies. The State of Kansas Investments in Lifelong Learning (SKILL) program allows the Department to fund large-scale training projects to attract new jobs from both new and existing companies. While the first two training programs use moneys from the Economic Development Initiatives Fund, SKILL is funded from issuance of public-purpose bonds that are retired by a portion of Statewide employer withholding taxes. In total, these three workforce training programs spent more than \$5.6 million in fiscal year 1993 to train more than 13,200 workers.

Within the Division of Industrial Development, two workforce training efforts have shown positive results. For both the Kansas Industrial Training program and the Kansas Industrial Retraining program, the Department conducts surveys of businesses which have had employees trained through the programs. We reviewed those surveys, and found that more than two-thirds of the businesses said the training programs were important or very important in their decision to expand their business or retain current employees. Another positive indicator was that employees' average salary levels were higher after they received the training. On the other hand, surveys of businesses served by the Kansas Industrial Training program in two time periods indicate that effectiveness may have declined, as seen in the table below.

**Outcomes of the Kansas Industrial Training Program,
Based on Surveys of Participating Companies**

	<u>FY 1987</u>	<u>FY 1992</u>
Percent rating training as important or very important	83%	70%
Percent of trainees still employed by the same company	79%	49%
Employees' average salary increase following training	21%	14%
Percent of employers rating trainees as "above average"	40%	20%

As the table shows, each of the percentages fell for the fiscal year 1992 group of trainees in comparison to those trained in fiscal year 1987.

Another problem pointed out recently by Kansas, Inc. is that both programs—Kansas Industrial Training and Kansas Industrial Retraining—have been operated on a "first-come, first-served" basis, without regard to the type or quality of jobs involved. In August 1993, a Kansas, Inc. report suggested the programs should be targeted toward higher-wage jobs as part of the overall State strategy. As of January 1994, Department officials told us they were developing specific criteria for determining which applicants would be approved for job training programs.

**The National Marketing Program
Attracts New Industry to Locate in
Kansas Communities**

We did not review the National Marketing program because the majority of the money spent in the Division of Industrial Development is spent on workforce training programs. According to the Department's Annual Report for fiscal year 1993, the marketing program attracted 14 companies that located or expanded in Kansas, creating more than 3,100 jobs and investing more than \$105 million. Two of the 14 companies reportedly located facilities in Kansas as a result of the Kansas Cavalry's efforts.

Another workforce training program, State of Kansas Investments in Lifelong Learning (SKILL), has not been formally evaluated by the Department. Initiated in 1991, this program funds multi-year training programs, and thus far no project has been completed. However, Department officials reported that the SKILL program has been an important tool in the recruitment of large firms. Five companies told the Department that they would not have located in Kansas if the State had not offered the level of training assistance found in the SKILL program.

**The Division of Existing Industry Development
Provides Assistance to Kansas Businesses, but Generally
Cannot Measure the Results or Impact of Its Programs**

The stated goal for this Division is to provide technical assistance and outreach to develop, diversify, and strengthen business throughout the State. Based on our review of seven programs, we could not tell whether any of the Division's programs had any economic impact. The Director of the Division admitted there was currently no way to measure the Division's performance, based on actual outcomes or results.

In the Division of Existing Industry, we reviewed the seven programs in the Business Operations budgetary group. In fiscal year 1993, the Division spent nearly \$1.1 million for the seven programs.

Three programs could not be assessed in terms of their outcomes. One of these is a very new program, the High Performance Incentive Program, which the Legislature established in 1993, so the Department has no data yet. This program is intended to encourage "qualified" firms to invest more than two percent of the firm's total payroll costs in employee training and education. (A "qualified" firm must have fewer than 500 employees and either pay above-average wages compared to similar firms in the county, or be the only firm of that type in the county.) If a qualified firm makes the investment in employee training and education, the firm may qualify for the sales tax exemptions or income tax credits as allowed by the new law.

The other two programs are clearly informational and educational programs, which would be difficult to link with any specific economic outcomes. They are the First Stop Clearinghouse, which helps businesses by providing copies of all State business forms in one location, and Operation Strongest Link, a comprehensive seminar program that outlines the local, State, and federal assistance available to

communities and businesses. Only one Operation Strongest Link seminar was held in fiscal year 1993.

The Kansas Match program can show activity with potential buyers and sellers, but no actual matches have been reported recently. The Kansas Match program is designed to match Kansas businesses that need to purchase particular products with Kansas suppliers of those products. The Kansas Match program began in June 1992 as a pilot project. It was unstaffed from April 1993 through June 1993, when the current staff person took over. The Department has developed a database which contains information on companies that supply goods and services as well as companies looking to purchase particular goods or services. This database currently contains information on more than 600 companies.

In the Existing Industry Division, the Kansas Match program is the only one that has attempted to gather data on its impact. When a company registers with the Kansas Match program, it is asked to report back to the Department if a "match" is made with another company that results in an actual transaction. In addition to asking companies to report back with details about matches, program staff conduct follow-up phone calls and send out quarterly letters to obtain information about any matches. To this point, Department staff have not received much information from companies. Since June 1993, no matches have been reported.

The Division has not gathered data on the economic results of three other programs in this group. The Business Retention and Expansion program is primarily a survey effort to diagnose the needs and trends of local businesses. This program assisted two counties in fiscal year 1993. Thus far, the Division has not attempted to follow up to determine whether the program has resulted in any changes or improvements at the local level. The two remaining programs are primarily designed to provide referral and coordination to help new business and small businesses find sources of financing. Neither of these programs (Venture/Seed Capital and Liaison with Certified Development Companies and Small Business Development Centers) had any data on the results of the Department's efforts. Division officials said they were working with Kansas, Inc. to develop specific performance measures for Certified Development Companies and Small Business Development Centers. In fiscal year 1993, the Department provided a total of \$800,000 to help support Certified Development Companies and Small Business Development Centers.

The Department Could Be More Effective in Reaching Its Goals If Two of Its Divisions Were Merged

In August 1993, the staff of Kansas, Inc. recommended merging the Division of Existing Industry and the Division of Industrial Development to create a new Division of Business Development. The new Division would be responsible for both assistance to existing Kansas businesses and the recruitment of new firms to Kansas.

The primary reasons given were that business retention and industry recruitment have become intertwined; the same tools often can be used for both purposes. According to the Kansas, Inc. report, merging the two divisions would produce these advantages:

- Facilitate the formation of departmental teams that can provide an array of assistance to new and existing firms, including workforce training, business financing and incentives, site location, and infrastructure.
- Enable the field office staff to be more directly involved in both business retention and the coordination of local industrial recruitment activities.
- Clarify the responsibility of the Office of Workforce Training in serving both existing and new industry, as it does currently.
- Enable greater coordination and application of business financing programs available through the Department to the recruitment function.
- Allow the Kansas Cavalry to play a role in retention of existing Kansas companies as well as in recruitment of new industries.

In December 1993, the Kansas, Inc. Board of Directors endorsed the merger proposal, and recommended the Legislature amend State laws to authorize the two divisions to be merged into a single Division of Business Development.

After reviewing selected programs in the Division of Existing Industry and the Division of Industrial Development, we agree with the recommendation to merge the two divisions. Our review of programs in the Division of Existing Industry showed that it was difficult to quantify the results of its efforts or to determine whether the programs were meeting expectations. In most cases, the programs in the Division of Existing Industry provided information and other services that might be helpful to existing businesses, but had no measurable outcomes. When we reviewed the workforce training program in the Division of Industrial Development, we found it provided employee training for existing businesses, expanding businesses, and new businesses in the State. Overall, we see little practical distinction in the techniques and tools used for business retention and business recruitment.

The Department Has Experienced Delays in Establishing A Computerized System to Track the Results of Its Programs

In 1991, Kansas, Inc. and the Institute for Public Policy and Business Research at the University of Kansas performed a comprehensive evaluation of the programs in the Department of Commerce. The study, published in January 1992, indicated the Department lacked adequate information with which to assess the Department's performance and the impact of its programs. The study indicated the Department needed an integrated data base that would allow program performance to be monitored and tracked in a systematic manner. In response to this suggestion and the general lack of good information, the 1992 Legislature appropriated \$100,000 for fiscal year 1993 for the Department to develop an integrated database for all programs in the Department.

The Department has made slow progress in developing the information system. Department officials have attributed the delay in developing the system to a number of things, including difficulty in defining the project, changes in personnel within the Department, and problems in hiring programming staff.

The Department had a difficult time defining "performance monitoring and tracking" in relation to individual programs and the Department as a whole. Part of the focus of an integrated system is that people or businesses who contact the Department are not clients of a single program, but clients of the Department as a whole and should be tracked through all contacts with the Department. As well, many programs within the Department did not have established performance measures to track. The Department was faced with identifying appropriate performance measures as well as determining what type of information was needed to monitor the programs.

The Department also experienced internal personnel changes during fiscal year 1993. The project has been coordinated and implemented mainly by the research section within the Department's Division of Administration. The head of the research section left the agency in October 1992, and a new research director took over in early 1993.

The Department interviewed candidates for the programmer position in March and April 1993 and offered the position to four candidates before one accepted the offer. Three of the candidates declined the job offer because of salary considerations. In late May 1993, the Department hired an individual with good credentials but little experience in the language and computer hardware the Department used, so a training period was needed.

During 1992 and 1993 the Department contacted several groups, including the Legislative Research Department, Kansas, Inc., Kansas Technology Enterprise Corporation, and software vendors to obtain varying perspectives on the issues the Department needed to address. However, the Department had not clearly defined its own expectations of what information the database would contain or how it would benefit the Department.

The table on the following page illustrates the Department's actions through January 1994, and its timetable for completing the computer project.

As the table shows, the Department had just two programs—Industry Prospects and Kansas Match—on-line as of January 1994. However, as additional programs are completed, they can be added without waiting on other parts to be finished. This format—integrating each program as it is completed—should allow many of the programs to be in the database system by the end of 1994, if the Department keeps to its projected timetable.

Timetable for the Department's Computer Project 1992 through 1995

Early 1992	The Legislature approved \$100,000 funding for fiscal year 1993. The existing Kansas Manufacturers Directory was expanded to become the core of the new system. The Industrial Prospects module was largely completed by Department staff.													
June 1992	The Department started preliminary planning for the new project.													
October 1992	Division personnel started defining the specific expectations for the new system. They interviewed Division directors to identify the data needs of various programs, information availability, activities associated with the various programs, and what impacts could be identified.													
March 1993	The Department interviewed candidates for the programmer position and offered the position to three of the candidates. All declined the offer because of salary constraints.													
April 1993	The Department reopened the programmer search.													
May 1993	The Department offered the position to one of the candidates who did accept.													
June 1993	The new programmer was on-staff. The Department sent a preliminary survey to businesses in order to test the survey the Department intended to use to build the business database.													
August 1993	The Department completed the programming rewrites on the portion of the computer program that would run the entire system, and integrated one of the departmental programs—Industry Prospects—into the system.													
September 1993	A second departmental program—Kansas Match—was integrated into the main system.													
January 1994	The Department should have the Trade Show Assistance program integrated into the main program by the end of January or in early February.													
June 1994 (projected)	The Department hopes to have the following programs integrated into the computer system: <table><tr><td>Certified Development Company Grants</td><td>PRIDE Program</td></tr><tr><td>Kansas Industrial Training Program</td><td>Administration Planning</td></tr><tr><td>Kansas Industrial Retraining Program</td><td>Main Street Program</td></tr><tr><td>Industrial Development Contract Offices</td><td>Kansas Secrets Program</td></tr><tr><td>Tourism Promotion Matching Grant Program</td><td>Export Loan Guarantees Program</td></tr><tr><td>Small Business Development Center Grants</td><td></td></tr></table>		Certified Development Company Grants	PRIDE Program	Kansas Industrial Training Program	Administration Planning	Kansas Industrial Retraining Program	Main Street Program	Industrial Development Contract Offices	Kansas Secrets Program	Tourism Promotion Matching Grant Program	Export Loan Guarantees Program	Small Business Development Center Grants	
Certified Development Company Grants	PRIDE Program													
Kansas Industrial Training Program	Administration Planning													
Kansas Industrial Retraining Program	Main Street Program													
Industrial Development Contract Offices	Kansas Secrets Program													
Tourism Promotion Matching Grant Program	Export Loan Guarantees Program													
Small Business Development Center Grants														
January 1995 (projected)	The Department hopes to have finished the second phase of programming which includes the following programs: <table><tr><td>Community Strategic Planning Grant Program</td><td>Assisted Housing Programs</td></tr><tr><td>Community Development Block Grant Program</td><td>Low Income Housing Tax Credits</td></tr><tr><td>Private Activity Bond Allocation Act Program</td><td>SKILL Program</td></tr><tr><td>Community Services Block Grant Program</td><td>Weatherization</td></tr><tr><td>Trade Development Contract Representation</td><td>HOME Program</td></tr><tr><td>Tourism Attraction Matching Grant Program</td><td>Trade Missions</td></tr></table>		Community Strategic Planning Grant Program	Assisted Housing Programs	Community Development Block Grant Program	Low Income Housing Tax Credits	Private Activity Bond Allocation Act Program	SKILL Program	Community Services Block Grant Program	Weatherization	Trade Development Contract Representation	HOME Program	Tourism Attraction Matching Grant Program	Trade Missions
Community Strategic Planning Grant Program	Assisted Housing Programs													
Community Development Block Grant Program	Low Income Housing Tax Credits													
Private Activity Bond Allocation Act Program	SKILL Program													
Community Services Block Grant Program	Weatherization													
Trade Development Contract Representation	HOME Program													
Tourism Attraction Matching Grant Program	Trade Missions													

Conclusion

Measuring the results of economic development programs is not an easy task. In many cases, it is not possible to show that the activities of a specific program caused an improvement in economic performance because of the multitude of other factors, agencies, and organizations that can play important roles. Nevertheless, the Department of Commerce and Housing--like any other State agency--has a responsibility to determine whether its programs are serving the State well and meeting the needs of its people, its businesses, and its communities.

Our review of a sample of the Department's programs showed that some programs have apparently succeeded in achieving their intended results. In fact, four of the five divisions we reviewed had one or more programs that could demonstrate measurable progress toward accomplishing the divisions' missions.

For a few of the programs we reviewed, the Department was able to demonstrate measurable progress toward achieving program goals. But for a significant number of the programs we reviewed, the Department had little or no information about the programs' economic outcomes. Department officials often told us they were aware of the lack of meaningful data about their programs, and were taking steps to gather more information about the programs' effectiveness. In making decisions about gathering impact data, the Department needs to consider the cost of gathering the data and the total amount spent on the programs.

It appears the Department is headed in the right direction to improve the measurement of program results. Many of the program weaknesses pointed out in this report can be addressed in part through the Department's new computerized tracking system, which the Department has been developing over the past two years.

Recommendations

1. To allow the Kansas PRIDE, Enterprise Zone, and Community Strategic Planning programs to better determine the economic results of their efforts, the Division of Community Development should develop measurable economic objectives for these programs and collect data to determine whether the intended economic results of the programs are realized.

2. To ensure that the Kansas Main Street and Partnership Fund programs report accurate data regarding their program outcomes, the Division of Community Development should develop a consistent method for tracking the actual number of additional jobs in communities aided by the programs.
3. To ensure that the efforts of the Trade Show Assistance program are producing new sales opportunities for Kansas companies, the Division of Trade Development should:
 - a. develop criteria to target financial assistance primarily to firms that otherwise could not have attended international trade shows.
 - b. consider placing a limit on the number of times a company can receive financial assistance to attend the same trade show.
4. To support the Kansas, Inc. strategy for high-wage/high-skill jobs, the Kansas Industrial Training and Kansas Industrial Retraining programs should develop written criteria for selecting businesses that seek training for higher-wage jobs, rather than operating on a "first-come, first-served" basis.
5. To ensure that the Division of Existing Industry can measure its performance toward its economic goals, the High Performance Incentive, Business Retention and Expansion, Venture/Seed Capital, and Liaison with Certified Development Companies and Small Business Development Center programs should:
 - a. establish measurable criteria to determine the economic outcomes of the programs.
 - b. collect data on the efforts and results of the programs.
6. To ensure that the Department is more effective and efficient in its efforts to recruit, develop, and improve Kansas businesses, the Legislature should consider amending State law to allow the Department to merge the Division of Existing Industry Development and the Division of Industrial Development.
7. To improve the tracking of program results, to help improve services to its clients, and to facilitate many of the above recommendations, the Department should proceed to establish the

computerized database system as rapidly as possible. When deciding how to measure the results of its programs, the Department should keep in mind these principles:

- a. Greatest emphasis should be placed on measuring the economic benefits achieved by the programs, rather than on measuring activity levels within the programs. Economic benefits generally would include increases in the number or quality of jobs, increases in sales by Kansas companies, increases in visitors to the State, or increases in spending within the State.
- b. Programs should consider as "successes" only those businesses or clients that indicate that the program's services contributed to the positive outcomes. The Department should use caution in any claims that its programs have "created" jobs, especially when other agencies, local officials, or private firms have made significant contributions to the final result.
- c. If programs cannot directly measure their economic results, the Department should consider surveying clients to determine whether they were satisfied with the quality of services provided and whether those services influenced their actions or decisions.
- d. When baseline economic outcomes are available, they can be tracked and compared over time. If appropriate, they can be compared with other states' results or national indicators.
- e. Whenever possible, the Department should set specific performance goals to be achieved within a specific period of time. (For example, the Travel and Tourism Development Division has set a goal of increasing total domestic travel expenditures in Kansas by 50 percent by the year 2000.)

What Effect Has Creating the Division of Housing Within the Department Had on Economic Development Activities of the Other Divisions?

In general, we found that creating the Division of Housing within the Department of Commerce and Housing has had little effect on the economic development activities of the other divisions. The Community Development Division has been affected most by the creation of the Division of Housing in terms of staffing, expenditures, and programs. The creation of the Division of Housing resulted in the transfer of several housing programs and positions from the Community Development Division. However, the Community Development Division continues to operate the Community Development Block Grant program, which has a housing component. In one case, State General Fund money was reallocated from the Division of Housing to the Division of Travel and Tourism Development. The Department was able to reallocate these funds because of a change in a federal housing program. Most of the Department employees we surveyed indicated that having the Division of Housing within the Department had no impact on the activities of other divisions.

In Terms of Staffing, Expenditures, and Programs, the Division of Community Development Has Been Affected Most by the Creation of the Division of Housing

Before 1992, there was an Office of Housing in the Community Development Division. The Office of Housing was created in fiscal year 1990, and the Department's existing housing programs—two federal Department of Housing and Urban Development Section 8 programs, the Operation Homeless program, and the Emergency Shelter Grant program—were placed in it. In July 1992, the Division of Housing was created by executive reorganization order of the Governor, and those programs became part of the new Division.

Along with these four programs, five positions were transferred from the Division of Community Development to the Division of Housing. These positions included four professional staff—the head of the former Office of Housing and three economic development representative positions—and one secretary.

The Division of Community Development continues to run one program—the Community Development Block Grant program—that has a housing component. The Department's Community Development Block Grant program provides federal funds through the U.S. Department of Housing and Urban Development to Kansas cities (with a population under 50,000) and counties for public service, housing, planning, economic development, and urgent need projects. The program's purpose is to promote community development by providing decent,

suitable living environments and expanded economic opportunities, primarily for low- and moderate-income persons.

Since the State took charge of the Community Development Block Grant program in 1984, the program has been administered by the Community Development Division. When we asked whether it would be feasible to shift administration for the housing portion of the program to the Division of Housing, Department officials made the following points:

- The regional office of the federal Department of Housing and Urban Development looks to the Community Development Division to ensure that all phases of the program are being carried out in accordance with federal laws and regulations. If the housing part of the program were shifted to the Housing Division, it would complicate the lines of responsibility for the program.
- Housing grants make up a relatively small portion of the overall program. In 1993, seven housing applications were funded for a total of \$2.1 million, which was about 11 percent of the total Community Development Block Grant allocation.
- Under the Community Development Block Grant program, only units of local government are eligible. Those are the entities that the Community Development Division works with on a regular basis. The Housing Division works with a wide variety of non-profit groups, advocacy groups, and individuals.

As is the case in Kansas, the five other states we contacted—Colorado, Iowa, Missouri, Nebraska, and Oklahoma—operate their Community Development Block Grant programs in their economic development agencies. With the exception of Missouri, these states have placed the Community Development Block Grant program in the same division with federal housing programs. Missouri's Community Development Block Grant program is located in its economic development department, while its major federal housing programs are located in a separate housing agency.

**By Having the Division of Housing within the Department,
Department Officials Were Able to Reallocate
About \$100,000 Originally Earmarked for Housing
To the Division of Travel and Tourism Development**

When this audit was initiated, legislative concerns were expressed about the propriety of "shifting" appropriated funds from one division to another. When we reviewed this particular case, we found nothing illegal or improper in the Department's actions.

By late in fiscal year 1993, the Division of Travel and Tourism Development needed more money than originally budgeted. Because of higher-than-expected demand for its promotional materials, the Travel and Tourism Development Division needed more money than it had available to respond to requests for informational materials. Department officials developed a plan to fund the additional activity by reallocating State General Fund money from the Division of Housing. Without this reallocation, the Department would have either reduced spending in the last few months of fiscal year 1993, or requested a supplemental appropriation from the Legislature.

State General Fund money became available in the Housing Division because of a change in federal regulations for the HOME Investment Partnerships program. The federal HOME Investment Partnerships program seeks to benefit low-income persons by providing rental assistance, housing rehabilitation assistance, and down-payment assistance for first-time homebuyers. During fiscal year 1993, the U.S. Department of Housing and Urban Development reinterpreted the regulations governing the use of federal money in the HOME program. This reinterpretation allowed states to use part of their federal allocations for administrative costs. This meant the Department of Commerce and Housing could use part of its fiscal year 1993 federal HOME allocation for administering the program, instead of having to use approximately \$100,000 in State General Fund moneys for these administrative costs. The \$100,000 in State General Fund moneys then was "freed up" to use for other purposes.

Department officials said they proposed to use the available federal money instead of State General Fund money to administer the HOME program because of previous legislative directives to use federal money for administration of federal programs whenever possible. The net result of the reallocation was that the Division of Travel and Tourism Development got the additional \$100,000, and the Division of Housing lost \$100,000 that could have been used for HOME grants or other housing purposes.

Department officials informed one legislative committee of their plan to reallocate the money. On March 11, 1993, the Department of Commerce and Housing informed the Senate Ways and Means subcommittee, in writing, of its plan to fund the shortfall in the Travel and Tourism Division by reallocating \$100,000 in State General Fund money from the Division of Housing. Department officials told us they did not inform other Senate or House members about the reallocation of funds because no legislative action was required at that point.

The reallocation of this money was within the Department's legal authority. State officials in the Department of Administration and in the Legislative Research Department told us that the reallocation of funds within an agency is a common practice within the legal authority of State agencies. Given the fact that State funds are appropriated to the Department, not to specific divisions, it seems clear that the Department's reallocation of State General Fund money was legal.

Most Employees of the Department of Commerce and Housing Reported No Impact from the Creation of the Division of Housing

To get their opinions about the impact of the new Division of Housing, we conducted two surveys of employees in the Department of Commerce. One survey went to employees in the Division of Housing, while a similar survey went to employees in the other six divisions. We received responses from 17 of the 20 Division of Housing employees surveyed, for a response rate of 85 percent. For employees in other divisions, we received responses from 67 of the 88 surveyed, for a response rate of 76 percent.

Nearly two-thirds of the employees surveyed either expressed no opinion or said the Division of Housing has had no impact on their divisions. Of the 67 responses from employees outside the Division of Housing, 16 employees (24.6 percent) had no opinion about the Housing Division's impact on their divisions because they were not in the Department before July 1992. Another 40 percent said that the Division of Housing has had no impact on their divisions.

Similarly, when asked about coordination between their divisions and the Division of Housing, a majority of these employees either had no opinion or said they did not interact with the Division of Housing.

Of those who expressed opinions, responses were about equally divided about the impact of the Division of Housing. Of the twenty-three employees who expressed opinions about the impact of the Division of Housing, 12 (18.4 percent) said that the Division of Housing had a negative impact on their divisions, while 11 (17 percent) said the Housing Division's impact had been positive.

Local Housing Authorities Felt No Net Impact From the Creation of the Division of Housing

Our attempt to survey local housing officials to determine their levels of satisfaction with the Division of Housing proved to be somewhat fruitless. Of the 100 surveys mailed out, only 24 were returned, for a response rate of 24 percent.

More than one-third of those who responded said they had no interaction with the Division of Housing. Those who did use the Division's programs had a mixed opinion of the Division in terms of helpfulness, timeliness, and overall assistance. The responses were generally split evenly between excellent/good

and fair/poor. Responses were more positive about the Division's efforts to adequately inform housing officials about public hearings, meetings, and other important events.

Most respondents did not think there was a net impact to their housing programs due to the Division of Housing being created in the Department of Commerce and Housing. Of the nine respondents who expressed an opinion, seven said the impact on their programs was neutral, one said it was strongly positive, and one said it was somewhat negative.

A number of employees both inside and outside the Division of Housing mentioned advantages or disadvantages to having the Division in the Department. Some of the advantages mentioned were:

- the State's housing programs can be better coordinated
- information about housing is now available to other Department programs
- the Department can be more proactive in helping communities
- housing can now be tied to other economic development issues

Some of the disadvantages mentioned were:

- workload was increased for support staff in the Division of Administration
- tension has been caused by "new" employees who are not familiar with agency policies
- some employees now have added responsibilities to learn about or assist with housing issues
- the combination of commerce and housing may be confusing to clients

Most of the employees surveyed from outside the Division of Housing did not think there were problems with coordination of information with the Division of Housing. Of the 67 employees who responded to our question about coordination between their divisions and the Division of Housing when gathering information from outside the Department, only three (4.5 percent) said that coordination was lacking. Of the remaining respondents, 25.4 percent said coordination was good, 34.3 percent said they did not gather information from the same sources, and 35.8 percent expressed no opinion about coordination in this area. On our question about coordination when obtaining or sharing information inside the Department, only eight employees (12.1 percent) said coordination was lacking. Of the remaining respondents, 28.8 percent said coordination was good, 25.8 percent said they did not gather or share existing information on programs or clients, and 33.3 percent expressed no opinion.

Roughly half the Division of Housing employees surveyed cited problems with coordination of information with the other divisions. Of the 17 Division of Housing employees who responded to our question about coordination between the Housing Division and other divisions when gathering information from outside the Department, seven said that coordination was lacking and seven said coordination was good. Of the 17 employees who responded to our question about coordination when gathering or sharing information inside the Department, eight said coordination was lacking and eight said coordination was good. (The remaining respondents either had no opinion or said the question did not apply to them.)

Four people in the Division of Housing indicated problems with coordination in the area of flood relief in 1993. Their common complaint was that it was difficult to get adequate, timely information from the other divisions.

Did the Department Give Proper Notice of a Public Hearing Held to Consider Possible Amendment of the State Community Development Block Grant Plan?

We found that the Department did not follow its normal procedures for providing notice of a September 1993 public hearing concerning the use of Community Development Block Grant funds. The Department sent a publication request to the Topeka newspaper but the notice was not published, apparently because of an error. The Department did not publish notice in the Kansas Register, because of insufficient time. The Department also failed to notify most of the local government units that had grant applications pending. In the end, however, the Department decided not to amend the existing State Plan.

The Department Did Not Give Adequate Notice of a September 1993 Public Hearing on a Proposed Amendment To the State Community Development Block Grant Plan

During this audit, we reviewed the procedures followed by the Department regarding a September 1993 public hearing to discuss a proposed amendment to the State Community Development Block Grant plan. The amendment proposed using Community Development Block Grant funds for flood relief purposes. To conduct our examination of the September 1993 hearing, we had to look back to the summer of 1993 when the events first began.

The summer of 1993 saw damaging floods strike many parts of the country. In July, President Clinton attempted to address the problems of flood-stricken areas at a meeting in Iowa, where he announced his approval to use federal Community Development Block Grant funds for flood relief. With this announcement, the Kansas Department of Commerce and Housing began to look at various options available for flood relief measures, including the reallocation of uncommitted Community Development Block Grant moneys that had been reserved for housing and other types of grants. In late July, the Department had about \$5.4 million in uncommitted block grant moneys, out of the total allocation of about \$19.1 million.

To amend the State Plan so uncommitted funds could be used for flood relief, the Department had to comply with federal regulations requiring that citizens and local officials be given an opportunity to comment. Department officials said they had regular contact with the Governor's Office to discuss the various options available in August and early September, then they proceeded with plans to hold a public hearing.

The Department did not publish notice of a public hearing in the newspaper or the Kansas Register. The Department's normal procedures include publication of notice in The Topeka Capital-Journal and in the Kansas Register. On September 8, the Community Development Division sent the Topeka newspaper the

notice of the public hearing to be held September 16. Apparently because of an error by newspaper staff, the notice was not published. Division officials did not become aware of the lack of notice until after the public hearing was held. The Division did not attempt to publish notice in the Kansas Register because the Register (issued once a week) would not have been published in time. The Division failed to comply with its normal procedures for publishing notice, thus not allowing those affected citizens the usual amount of time to plan to attend the hearing and make comments.

The Department failed to comply with the “reasonable notice” requirement in the federal regulations. When a state is considering an amendment to its adopted state plan, federal regulations require the state to provide citizens and units of local government with reasonable notice of and an opportunity to comment on the amendment. In this particular case, most local units that had applied for housing grants were not notified. Only 18 of the 43 counties and cities with pending housing grants were notified, and some of those were given only one-day notice. Notice was not given to the public or units of local government in writing, either, because publishing the notice is the Division’s normal procedure.

The Department ultimately decided not to amend its existing State Plan. About a week after the public hearing was held, the Department received information that additional federal funds were to become available for flood relief, thus removing the need to reallocate Community Development Block Grant funds.

Recommendation

To ensure that all affected citizens are given notice of a public hearing and to ensure compliance with the “reasonable notice” requirement in federal regulations, the Department should develop and follow written procedures for giving notice of a public hearing concerning the Community Development Block Grant program.

APPENDIX A

The table below shows how the sources of funding for the Department's economic development activities changed between fiscal years 1987 and 1993.

Department Expenditures by Funding Sources FY 1987 to FY 1993

<u>Source</u>	<u>FY 1987</u>	<u>FY 1993</u>	<u>\$ change 87-93</u>	<u>% change 87-93</u>	<u>\$ change without Housing Division</u>	<u>% change without Housing Division</u>
State General Fund	\$5,572,054	\$2,702,331	\$(2,869,723)	(52)%	\$(3,078,719)	(55)%
Economic Devel. Initiatives Fund	0	9,130,655	9,130,655	NA	9,130,655	NA
Other State Funds	<u>431,845</u>	<u>5,682,764</u>	<u>5,250,919</u>	1,216	<u>3,587,742</u>	831
Subtotal, All State Sources	6,003,899	17,515,750	11,511,851	192	9,639,700	161
Federal Funds	14,948,213	29,839,026	14,890,813	100	(117,533)	(1)
Department Total	20,952,112	47,354,776	26,402,664	126	9,522,167	45

APPENDIX B

Budgetary Program Groups within the Divisions of the Kansas Department of Commerce and Housing

Division of Travel and Tourism Development

**General Promotions
Travel Information Centers
Film Services Unit
KANSAS! Magazine**

Division of Community Development

**Community Assistance
Community Development Block Grants**

Division of Trade Development

**Trade Services, Marketing, and Promotions
Export Finance
International Industrial Development**

Division of Industrial Development

**Workforce Training
Recycling
Marketing**

Division of Existing Industry Development

**Business Development
Minority and Women-Owned Business Development
Regional Field Offices**

Division of Housing

**Policy Analysis
Weatherization Assistance
Community Services Block Grants
HOME Investment Partnership Program
Section 8 Program
Emergency Shelter Grant Program
Low Income Housing Tax Credit Program
Rental Rehabilitation Program**

Division of Administration

**Public Information
Personnel
Fiscal
Research
Management Information Systems**

APPENDIX C

Programs Reviewed by Legislative Post Audit

Division of Travel and Tourism Development: **General Promotions Programs**

Leisure Marketing - This program involves a coordinated advertising campaign to encourage the traveling public to visit Kansas' recreational, historical, cultural, and special attractions. It includes the publication and distribution of several brochures to help fulfill requests for information. This program also includes the Kansas Secrets travel incentive program, which allows out-of-State residents to receive a Coleman cooler if they stay overnight, eat or shop at a participating establishment, and visit an attraction. In 1994, Kansas residents will become eligible to participate in Kansas Secrets.

Media Promotions - This program seeks to increase the number and quality of "free" media articles written or broadcast about Kansas. The Division has developed a press kit to respond to media requests for information on Kansas for articles to be published in travel publications. The Division also conducts familiarization tours and escorted individual visits for those media writing about or photographing Kansas as a travel location.

Group Tour Promotions - This program encourages and promotes group tour operators to include Kansas as a destination. It conducts familiarization tours for group tour promoters, and conducts direct mail and trade show promotions of group tour possibilities in Kansas.

Tourism Development - This program provides promotional grants to local units of government, convention and visitors bureaus, and not-for-profit organizations that want to improve their marketing efforts and draw more visitors to their attractions. In addition, starting in fiscal year 1993 the Division began awarding development grants to help improve the quality of the attractions in Kansas. For both types of grants, recipients must match State funds at least dollar-for-dollar.

Division of Community Development: **Community Assistance Programs**

Kansas Main Street - This program provides technical assistance to communities wanting to invest in their downtowns. The program tries to build public and private-sector partnerships in participating communities, building upon existing local assets. The program concentrates on the areas of organization, design, promotion, and economic restructuring. About 20 Kansas cities are participating in one of the four program stages.

Kansas PRIDE - This program is jointly administered by the Department and the Kansas

State University Cooperative Extension Service. This community self-help program encourages communities to implement a comprehensive approach to community development. This may include planning, economic development, community and public services, housing, conservation, and quality of life issues. More than 100 Kansas communities are participating in a variety of certification and award activities.

Enterprise Zones - This program provides various state-supported tax credits and exemptions to businesses which create new jobs. These vehicles work to encourage businesses to locate in Kansas communities, and to help existing businesses make it feasible to create new jobs. The Department provides assistance to business groups, local officials, accountants, and regional economic development organizations by explaining the advantages, impact, and procedures of the program.

Kansas Partnership Fund - This program provides financial assistance to Kansas cities and counties by providing low-interest loans for infrastructure projects needed to create new jobs, through relocation of new businesses and expansion of existing businesses. Local government units repay the loans from revenues generated by the projects.

Community Strategic Planning - This program provides planning and action grants to county-wide or multi-county economic development organizations throughout the State. The grants provide assistance to local groups in the formulation and implementation of strategic economic development plans.

Division of Trade Development:

Trade Services, Marketing, and Promotion

Trade Shows - This program promotes Kansas and its companies and products domestically and internationally by attending organized trade promotion events. Participating Kansas companies fill out a written survey right after the trade show and Division officials do a telephone survey about six months later, to determine the amount of sales generated as a result of contacts made at the trade show.

Trade Missions - This program assists Kansas businesses in developing international trade opportunities, promoting products and services, and contacting foreign buyers by conducting visits to foreign countries or hosting visitors from foreign countries.

Foreign Offices - This program seeks to develop and improve overseas markets for Kansas products by providing marketing and sales information to Kansas firms, assisting in introducing and adapting Kansas products to foreign markets, developing leads for firms, and providing business assistance to business officials who travel internationally. The Department's foreign representatives are located in Belgium, Japan, Canada, and Australia.

Trade Show Assistance - This program provides financial assistance to Kansas companies wanting to market their products at foreign trade shows. Qualifying companies can be reimbursed for up to 50 percent of their travel expenses up to a maximum of \$3,500 per show and \$7,000 per company per year. Participating companies fill out surveys right after the trade shows and six months later, allowing the Division to determine the amount of sales generated as a result of contacts made at the trade show.

Division of Industrial Development:
Workforce Training Programs

Kansas Industrial Training - This program helps new and existing firms train new employees for newly created jobs. The program pays for direct training expenses such as instructor salaries and travel, materials, supplies, instructional videos, training manuals, facility rental and the like.

Kansas Industrial Retraining - This program helps retrain existing employees of companies that are modernizing and incorporating new production processes and technologies. The program pays for training expenses similar to the Kansas Industrial Training program. The company must provide matching funds.

State of Kansas Investment in Lifelong Learning - This program funds large-scale training projects for new and expanding businesses to help the State attract new jobs.

Division of Existing Industry Development:
Business Development Programs

First Stop Clearinghouse - This program provides a single source for information and State business forms needed by business owners in Kansas.

Kansas Match - This program promotes economic development by trying to match Kansas buyers with Kansas suppliers.

Operation Strongest Link - This program provides seminars for community development leaders and chamber of commerce executives that outline what local, state, and federal business assistance is available

Liaison with Certified Development Companies and Small Business Development Centers - This program provides base-level funding or grants to a network of local and regional Certified Development Companies to provide financial packaging services to businesses. It also provides financing to Small Business Development Centers which assist small businesses through free consultation services, seminars, business planning, and the like.

Venture/Seed Capital - This program helps to increase the availability of risk capital to Kansas businesses by maintaining a network of venture and seed capital sources to assist small businesses in locating potential sources of venture capital financing.

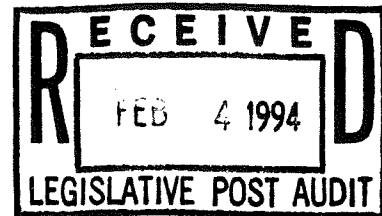
Kansas Business Retention & Expansion Program - This program conducts surveys of businesses and organizations in Kansas counties to identify economic barriers that exist that need to be corrected in order to retain existing business or garner new businesses.

High Performance Incentive Program - This program provides sales and income tax credits to qualified firms that invest in training for their employees. Qualified firms are those that have fewer than 500 employees and either pay above-average wages compared to similar firms in the county or be the only firm of that type in the county. This program was established by legislation passed in 1993.

Appendix D

Agency Response

On January 28, we provided copies of the draft audit report to the Department of Commerce and Housing. The Department's response is included as this appendix.



KANSAS

Joan Finney
Governor

DEPARTMENT OF COMMERCE & HOUSING

Bob Knight
Secretary

February 4, 1994

Barbara J. Hinton
Legislative Post Auditor
Legislative Division of Post Audit
Merchants Bank Tower
800 SW Jackson, Ste 1200
Topeka KS 66612-2212

Dear Ms. Hinton:

The Kansas Department of Commerce & Housing is pleased to have the opportunity to respond to the Kansas Governmental Accountability Law (KGOAL) audit performed by the Legislative Division of Post Audit.

I would take this opportunity to commend the staff of The Legislative Division of Post Audit. All of the auditors performed their tasks in a highly professional and efficient manner. Generally, KDOC&H agrees that the audit report is an accurate characterization of the department and its programs.

KDOC&H acknowledges the recommendations made in the audit report as they relate to the need to develop appropriate economic impact measures. The audit report accurately identifies the problems associated with developing economic impact measures for the programs administered by the department.

KDOC&H has been working toward this objective. A year ago the department began the development of the Program Tracking System. The design of the Program Tracking Data base incorporates specific economic impact measures. The programs cited in the audit report will be included in the Program Tracking data base system when it is fully implemented.

The Program Tracking System has been designed to provide a historical base of information which may be used to develop longitudinal studies of program effectiveness. When program areas are added to the system, impact data associated with the program is identified and included in the data base. As data is collected, it will be correlated with independent surveys of economic impact in order to provide verification of the impact data collected by the program administrators. Economic information included in the data base will also be electronically available to our economic development partners throughout the state and to the general public.

KDOC&H is also working with the Legislative Appropriations Committee to develop and refine economic impact and performance measures. These refinements will be incorporated in the Program Tracking System.

There are several additional findings presented in the audit that may benefit from further analysis and explanation. A brief response to these findings follows.

The audit report identifies the Kansas Industrial Training (KIT) and Kansas Industrial Retraining (KIR) Programs as effective programs which help businesses add jobs or retain new workers. The report found that more than two-thirds of the surveyed businesses responded that the KIT and KIR programs were important or very important in their decision to expand their business or retain current employees.

The same survey also revealed that the employee's average salary levels were higher after they received training. These measures show the effectiveness of the programs in both the creation and retention of jobs and the increased value of trained workers to the participating companies.

In response to the finding that the effectiveness of the KIT program may have declined, a point must be made. The survey responses provided to the audit team for FY 1992 were incomplete. As information continues to be provided by participating firms a more accurate analysis will become available. Currently the responses indicate that 75% of the firms rated training as important or very important and 100% of the respondents rated trainees as either above average or equal to other workers.

The level of funding provided to participants is related to the skill level, wages and the types of jobs being trained. In the next fiscal year, a new performance standard relating to wages will be implemented. It will measure the percentage by which the average trainee wage exceeds the average Kansas employee wage for new or existing jobs. This will provide an additional impact measure for the program.

The audit recommends the combination of the Industrial Development and Existing Industry Divisions into one division that will administer programs aimed at business recruitment, development, and retention. Kansas, Inc. and the Department support this recommendation. House Bill # 2760 has been introduced to achieve this reorganization.

The Kansas Trade Show Assistance Program(KTSAP) is designed to assist Kansas businesses open new markets for their products. The Trade Development Division has revised the KTSAP survey instrument to capture information that will indicate the importance of KTSAP funding in the participant's decision to attend specific trade shows. Guidelines for administering the program will also be revised to assure that companies are provided assistance in line

with the program goals to encourage companies new to export, to attend trade shows and expand markets for Kansas products.

The audit report includes some information about the Kansas Main Street Program that could use additional clarification. The Main Street program collects information from participating communities on new jobs created by firms expanding or relocating in the central business district. An apparent discrepancy in the number of new jobs reported by program administrators is the result of different areas of focus in the program.

Communities participating in the Main Street Program report several categories of job gain and job loss to the program administrators. This information may be summarized in terms of net jobs for the downtown area or net jobs for the state. The 118 net new jobs reported in the audit report is for the state. The number of net jobs to downtown areas is actually 11 rather than the 10 reported in the audit report.

The final item is the finding that the department did not give adequate notice of a public hearing on a proposed amendment to the State Community Development Block Grant (CDBG) Plan. The department agrees that, due to a variety of factors, the scheduling of the public hearing was mishandled. Due to haste in attempting to respond to emergency conditions resulting from the flooding, adequate notice was not provided to all affected entities.

Our concern for the lack of public notice led to the decision to not ammend the CDBG State Plan at that time. Subsequently amendments to the CDBG State Plan have been implemented after following appropriate "reasonable notice" procedures, which include publication of notices in the Kansas Register and other public media.

The department has developed appropriate procedures to insure that all affected citizens are provided with "reasonable notice" for all public hearings associated with the CDBG Program.

Thank you for this opportunity to respond to the KGOAL audit report.

Sincerely,


Bob Knight

STATUS OF THE ECONOMIC DEVELOPMENT INITIATIVES FUND

Bill No.	Agency/Program	Governor's Rec. FY 94	Governor's Rec. FY 95	House Rec. FY 95	Senate Rec. FY 95
H.B.2731	Department of Commerce and Housing				
	Salaries and Wages	\$ 1,364,250	\$ 1,411,335	\$ 1,705,435	\$ 1,411,335
	Other Operating Expenditures	3,693,640	3,755,737	3,830,737	3,870,737
	Small Business Development Centers	321,750	325,000	325,000	325,000
	Certified Development Companies	470,250	475,000	475,000	475,000
	Kansas Industrial Training/Retraining	2,227,500	2,227,500	2,727,500	2,727,500
	Trade Show Promotion Grants	272,420	247,420	247,420	247,420
	Strategic Planning/Action Grants	440,550	440,550	440,550	440,550
	Kansas Quality Improvement Network	64,300	65,000	65,000	65,000
	Capital Resource Network	5,000	--	--	--
	Travel Information Center Repairs	--	24,000	24,000	24,000
	Olathe Travel Center	267,300	750,000	750,000	750,000
	Economic Initiative Opportunity Fund	1,485,000	--	--	1,500,000
	Wichita World Trade Center	--	--	--	100,000
	Booth Hill Tourism Grant	--	--	--	100,000
	Rural Economic Development Enhancement	--	--	--	250,000
	Kansas Partnership Fund	990,000	--	--	--
	High Performance Incentive Grants	--	--	75,000	75,000
	Tourism Grants	1,029,600	279,600	279,600	429,600
	Subtotal - KDCH	\$ 12,631,560	\$ 10,001,142	\$ 10,945,242	\$ 12,791,142
H.B.2731	Kansas Technology Enterprise Corporation				
	Agency Operations	\$ 764,736	\$ 830,681	\$ 830,681	\$ 830,681
	Centers of Excellence	4,392,333	4,267,386	4,267,386	4,267,386
	Research Matching Grants	1,259,613	1,259,613	1,259,613	1,259,613
	Business Innovative Research Grants	25,000	25,000	50,000	25,000
	Training Equipment Grants	150,000	150,000	150,000	150,000
	Industrial Liaison Program	300,000	300,000	300,000	300,000
	Seed Capital	1,500,000	1,500,000	1,500,000	1,500,000
	Special Projects	173,000	103,000	103,000	103,000
	Commercialization	500,000	520,218	900,000	900,000
	Innovative Technology Program (ITEC)	50,000	120,000	95,000	95,000
	Agricultural Value Added Center	875,048	880,281	880,281	880,281
	Mid-America Manufact. Tech. Center	990,000	1,000,000	1,000,000	1,000,000
	Telecommunications Grants	125,000	125,000	125,000	100,000
	EPSCoR	See Kan Inc	See Kan Inc	See Kan Inc	2,000,000
	Subtotal - KTEC	\$ 11,104,730	\$ 11,081,179	\$ 11,460,961	\$ 13,410,961
H.B.2731	Kansas, Inc.				
	Agency Operations	\$ 104,935	\$ 116,889	\$ 116,889	\$ 123,480
	EPSCoR	1,500,000	2,000,000	2,000,000	See KTEC
	Subtotal - Kansas, Inc.	\$ 1,604,935	\$ 2,116,889	\$ 2,116,889	\$ 123,480
H.B.2731	Department of Revenue - Appraisal Aid	\$ 2,970,000	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000
H.B.2753	Board of Agriculture				
	Market Promotion and Development	\$ 321,744	\$ 321,707	\$ 321,707	\$ 321,707
	Equine Industry Survey	--	--	--	45,000
	Hog Marketing	24,750	--	--	--
	Subtotal - Agriculture	\$ 346,494	\$ 321,707	\$ 321,707	\$ 366,707
H.B.2753	State Fair - Agency Operations	\$ 99,000	\$ 99,000	\$ 99,000	\$ 134,000
H.B.2753	Dept. of Wildlife and Parks - Cap. Improv.	\$ 1,393,511	\$ 402,337	\$ 602,337	\$ 602,337
H.B.2701	Department of Education				
	At-Risk/Innovative Program Assist.	\$ 1,485,000	\$ 1,485,000	\$ 1,485,000	\$ --
	Matching Grants - AVTS	495,000	495,000	495,000	495,000
	Postsecondary Aid - AVTS	4,962,870	11,850,000	11,850,000	11,850,000
	Capital Outlay Aid - AVTS	990,000	1,500,000	1,500,000	1,500,000
	Cultural Arts Center	24,750	--	25,000	25,000
	Foundation for Agriculture	24,750	--	25,000	25,000
	Subtotal - Education	\$ 7,982,370	\$ 15,330,000	\$ 15,380,000	\$ --
H.B.2640	School for the Blind - Accessible Arts	\$ 148,500	\$ 150,000	\$ 150,000	\$ 150,000
H.B.2640	Kansas Arts Commission - Prog. Grants	\$ 1,024,650	\$ 1,024,650	\$ 1,024,650	\$ 1,124,650
H.B.2640	Historical Society				
	Agency Operations	\$ 29,700	\$ 19,700	\$ 19,700	\$ 19,700
	Funston Home	--	--	24,500	24,500
	Capital Improvements	682,959	--	--	--
	Humanities Council Grant	--	--	--	80,000
	Subtotal - Historical	\$ 712,659	\$ 19,700	\$ 44,200	\$ 124,200
H.B.2640	State Library				
	Literacy Grants	\$ 277,200	\$ 277,200	\$ 277,200	\$ 277,200
	Library Grants	973,077	--	429,965	973,077
	Talking Book Equipment Grant	105,668	--	--	--
	Operating Grant	3,663	--	--	--
	Kansas Library Catalog Grant	--	429,965	--	--
	Subtotal - State Library	\$ 1,359,608	\$ 707,165	\$ 707,165	\$ 1,250,277
H.B.2640	Dept. of Administration - Public Broadcasting Grants	\$ 420,327	\$ --	\$ 588,776	\$ 588,776
S.B. 590	Board of Regents and Regents Institutions				
	Council on Economic Education	\$ 39,600	\$ --	\$ --	\$ 40,000
	Centers of Excellence	642,391	--	--	664,535
	Subtotal - Regents Institutions	\$ 681,991	\$ --	\$ --	\$ 704,535
79-4804	State Water Plan Fund	\$ 1,980,000	\$ 2,000,000	\$ 2,000,000	\$ 2,000,000
	Other State Agencies (details on back)	\$ 6,346,487	\$ --	\$ --	\$ --
TOTAL TRANSFERS AND EXPENDITURES		\$ 50,806,822	\$ 46,253,769	\$ 48,440,927	\$ 36,371,065
EDIF Resource Estimate					
	Beginning Balance	\$ 12,571,409	\$ 4,183,795	\$ 7,110,380	\$ 7,110,380
	Lottery Transfers	36,506,914	33,971,538	34,871,538	34,421,538
	Facing Transfers	5,266,501	4,860,000	4,471,967	4,471,967
	Other Income	645,793	125,000	125,000	125,000
	Total Available	\$ 54,990,617	\$ 43,140,333	\$ 46,578,884	\$ 46,128,884
	Less: Expenditures and Transfers	50,806,822	46,253,769	48,440,927	36,371,065
	ENDING BALANCE	\$ 4,183,795	\$ (3,113,436)	\$ (1,862,043)	\$ 9,757,819

-- Difference between House and Senate Recommendations

Senate Gov. Org.
Attachment 16-Mar-94
3/16/94

STATUS OF THE ECONOMIC DEVELOPMENT INITIATIVES FUND

OTHER STATE AGENCIES (NO FY 1995 EDIF FINANCING)

<u>Agency/Program</u>	<u>Governor's Rec. FY 94</u>
Dept. of Social and Rehab. Services – KanWork	\$ 2,475,000
KDFA – Enterprise Loan Guarantee Fund	\$ 990,000
Board of Regents and Regents Institutions	
Study of KUMC	\$ 49,500
KSU – ESARP	1,355,200
University General Research	942,187
KUMC Integrated Computer System	346,500
KSU – Forest Survey	188,100
Subtotal – Regents Institutions	\$ 2,881,487
TOTAL – OTHER STATE AGENCIES	\$ 6,346,487

FY 1994 SUPPLEMENTAL APPROPRIATIONS

	<u>Governor's Rec. FY 94</u>	<u>House Rec. FY 94</u>	<u>Senate Rec. FY 94</u>
Department of Commerce and Housing			
Kansas Industrial Training/Retraining	\$ --	\$ 300,000	\$ 300,000
Kansas, Inc.			
EPSCoR	\$ 15,000	\$ 15,000	\$ 15,000

TESTIMONY FOR HB 2760

FOR THE SENATE COMMITTEE ON GOVERNMENTAL ORGANIZATION

March 16, 1994

Thank you for the opportunity to address the Senate Committee on Governmental Organization today.

The Department of Commerce & Housing supports HB 2760 which reorganizes the Kansas Department of Commerce & Housing and empowers the Secretary of Commerce & Housing to structure the activities of the department related to business recruitment and existing industry development. The proposal arose out of meetings with Kansas, Inc. to plan implementation of the Strategic Plan for Economic Development.

The proposed reorganization would eliminate the Divisions of Industrial Development and Existing Industry Development and combine the programs administered by them into a single Division of Business Development.

*Senate Gov. Org.
Attachment 3
3/16/94*

This reorganization would enhance efforts to provide services for retention of existing businesses and support of expansion by successful existing businesses, recruiting new business and assisting business start-ups through a team based approach.

A key factor supporting the proposed reorganization is that the distinction between retention and recruitment is not always precise. For example, we are seeing an increase in site location projects involving existing companies that are evaluating whether to make additional investments in Kansas as opposed to existing facilities in other states. There are also cases where companies are deciding whether to reinvest in the state when replacement facilities are required. In both instances, recruitment techniques and incentives are used to ensure that new investment occurs in the state.

Greater coordination of the programs offered by the department will assure a more efficient use of state resources and provide Kansas companies with more effective access to technical and financial economic development programs.

The merger of the two divisions would also provide constituents with a clearer view of the department and the programs it offers. It would allow greater flexibility in the delivery of programs, providing access to an array of assistance services by new and existing firms and local economic development entities.

As I previously mentioned, job creation and retention activities are increasingly focused on existing businesses. Development efforts in Kansas are being focused on companies that have existing operations in the state of Kansas. Merging the two divisions would provide recognition of the fact that individual programs within the two divisions are utilized by new and existing businesses to aid in job creation and retention.

Finally, the consolidation of the Industrial Development and Existing Industry Development Divisions into a single business development division would also aid in the implementation of the state's long range economic development strategy, as envisioned by Kansas, Inc. This vision emphasizes providing support to existing businesses and providing the resources that these companies need to become globally competitive.

The attached organizational chart shows current divisions' structures and the recommended structure for the new Business Development Division. The division would consist of 6 offices and be headed by an unclassified Division Director.

Passage of this bill would automatically delete one unclassified position; the FTE would become a classified position we propose to serve as the Director of Industrial Marketing continuing to provide professional expertise in our industrial development efforts.

The offices as identified in the organizational chart would be:

The Office of Business Assistance

One Stop Clearing House

Kansas Match Program

Business Retention and Expansion Program

Small Business Development Center Program

High Performance Incentive Program

Enterprise Zone Program

Waste Reduction, Recycling and Market Development Coordinator

The Office of Minority and Women Owned Business Development

The Office of Work Force Training

Kansas Industrial Training Program (KIT)

Kansas Industrial Retraining Program (KIR)

State of Kansas Investment in Lifelong Learning Program (S.K.I.L.L)

The Office of Business Finance

Venture & Seed Capital

Private Activity Bonds

Certified Development Companies

Kansas Partnership Fund

Financial & Advisory Network Services

Office of Industrial Marketing

Industrial Recruitment

Marketing Programs

Contract Offices: Chicago & Los Angeles

Kansas Cavalry

Office of Community Liaison

Field Office Representatives

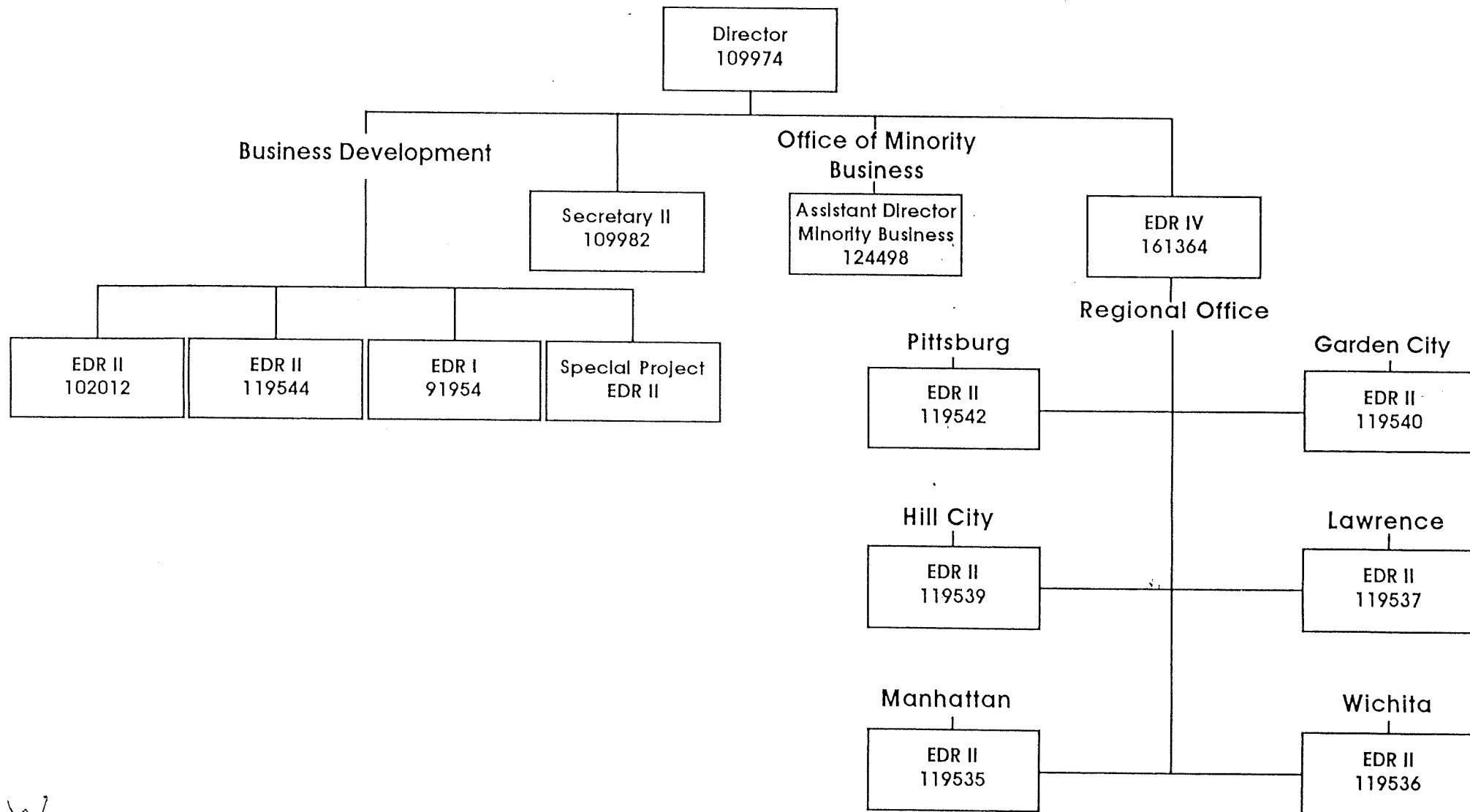
3-5

The fiscal impact of the reorganization is estimated to be minimal. Some salary savings may be realized as part of the reorganization and due to the combination of programs, there may be savings due to economies in the delivery of programs.

Thank you for the opportunity to appear before you in support of this bill. I will be happy to answer any questions that you may have.

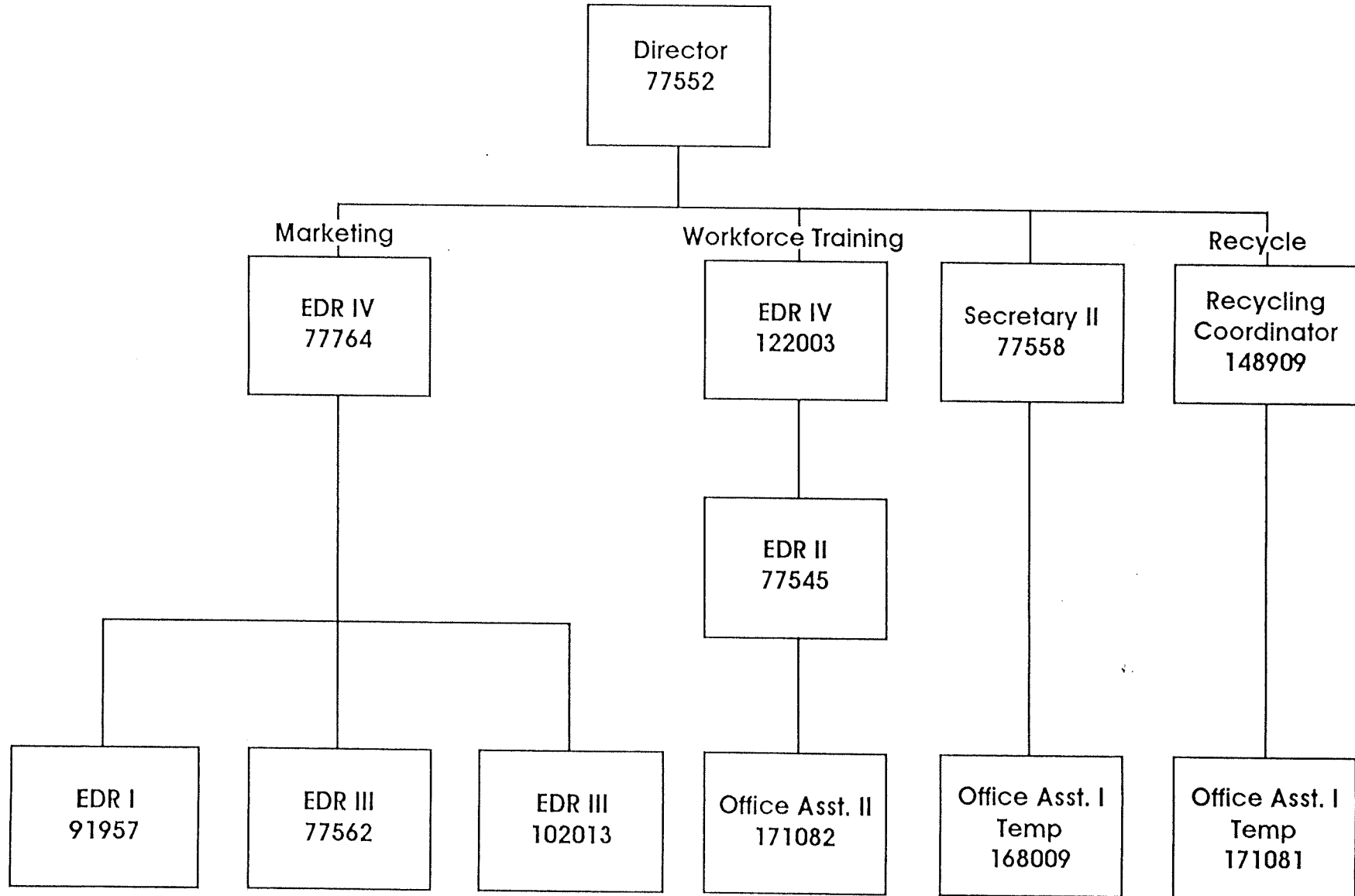
KANSAS DEPARTMENT OF COMMERCE & HOUSING

EXISTING INDUSTRY DEVELOPMENT



KANSAS DEPARTMENT OF COMMERCE & HOUSING

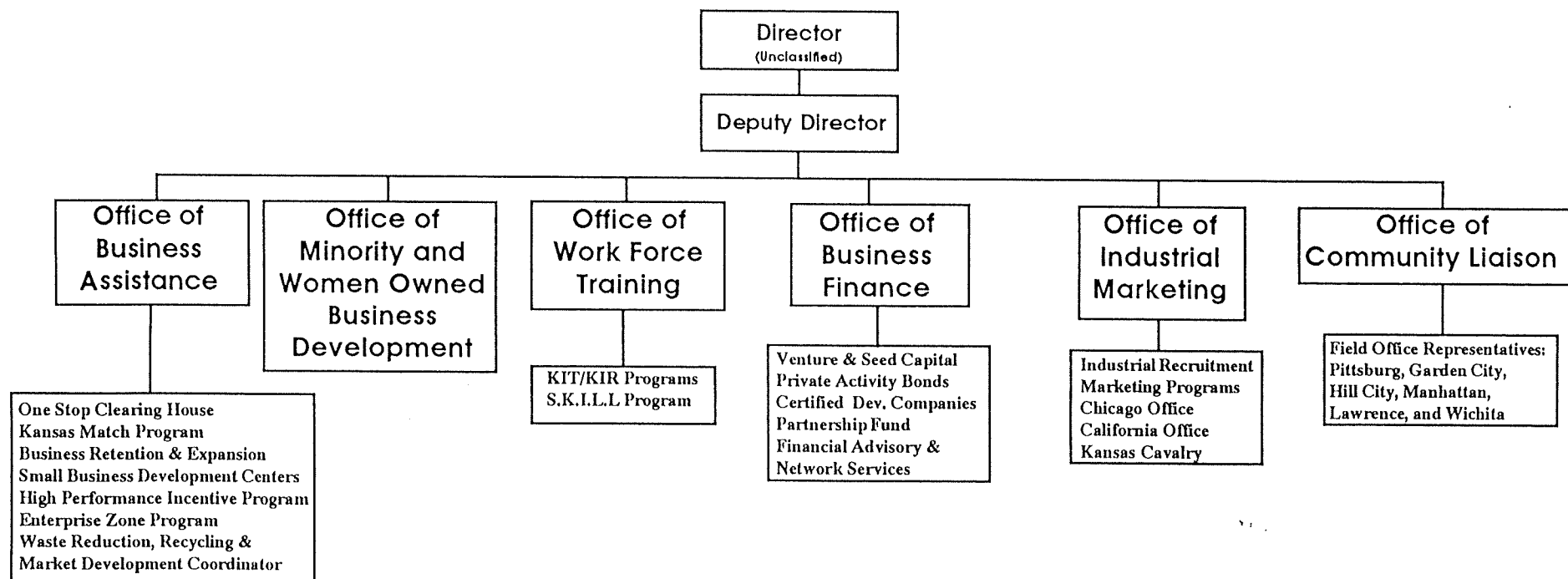
INDUSTRIAL DEVELOPMENT



KANSAS DEPARTMENT OF COMMERCE & HOUSING

BUSINESS DEVELOPMENT DIVISION

(proposed)



**Senate Committee on
Governmental Organization**

**Proposed Division Merger within the
Kansas Department of
Commerce & Housing**

HB 2760

TESTIMONY OF:

**Mikel Filter,
Sr. Research Analyst
Kansas Inc.**

March 16, 1994

*Senate Gov. Org.
Attachment 4
3/16/94*

KANSAS INC. TESTIMONY

House Bill 2760

March 16, 1994

Soon after the release of "A Kansas Vision", the state's economic development strategy, Bob Knight requested that Kansas Inc. conduct a review of the Department of Commerce & Housing and make recommendations to ensure that the efforts of department staff and programs were consistent with reaching goals and objectives of the state's new strategy.

Over the next few months, Kansas Inc. met with the staff of five divisions of the Department, to share information and ideas. The insight gained through these meetings was used to develop a report containing 35 recommendations.

A major recommendation was that the divisions of Existing Industry Development and Industrial Development be merged to form a new Division of Business Development.

The following is an excerpt from Kansas Inc.'s review of KDOC&H dated August 2, 1993.

Recommendation #13, Departmental Restructuring:

Merge the Division of Existing Industry with the Division of Industrial Development, to create a new and unified Division of Business Development. Such a merger would require statutory approval of the Governor and Legislature.

The primary responsibility of the Division of Existing Industry Development is business retention and expansion, however it is debatable whether the Division's present make-up and organization allow for the accomplishment of that mission. Although we found the Existing Industry staff to be committed and highly qualified, they expressed varying levels of frustration. These frustrations seem to arise from the fact that the economic development tools available to carry out the function of retaining and expanding businesses in the state are (with the exception of some forms of financing) available only by accessing programs administered through other Divisions. Without direct access to these tools and the accompanying ability to follow through with a client once referred, the Division staff is left essentially performing only a marketing and resource referral role. Although performance of this referral and marketing role is invaluable to the success of the Department, it has also made it increasingly difficult for Existing Industry to quantify results of efforts in terms of job creation, increased sales, or expanded markets for Kansas businesses. This in-turn has put the Division in a weakened position from the standpoint of budgeting and manpower considerations, staff morale, and overall perceived effectiveness.

The distinction between business retention and industry recruitment has become increasingly blurred. For example: Sealright Corporation's recent relocation decision involved the Department in an urgent and significant business retention effort. Yet, the tools and skills that were brought to bear on this project were essentially the same as those required to recruit a new company to Kansas and were accessed mainly through the Industrial Development Division.

To further demonstrate this close connection between recruitment and retention and expansion, the new High Performance Firms Incentive Program enacted in 1993 was initially developed as a retention and expansion tool. With that in mind, the program administration has been assigned to the Existing Industry Division, yet it can also be used for recruitment, and its administration will require close coordination with the Office of Work Force Training, now in the Division of Industrial Development.

Similarly, the training assistance programs available through the Office of Work Force Training has proven to be a valuable recruitment tool, yet the three major programs, KIT/KIR and SKILL were developed to provide training for both new and expanding or restructuring existing Kansas firms.

This new Division would be responsible for both assistance to existing businesses and the recruitment of new companies to Kansas.

Merging the two divisions would produce these primary advantages:

- a) It would facilitate the ad hoc formation of departmental teams to provide an array of assistance and services to new and existing firms, including work force training, business financing and incentives, site location, and infrastructure.
- b) It would enable the field office staff to be more directly involved in both business retention and the coordination of local industrial recruitment activities.
- c) It would clarify the responsibility of the Office of Work Force Training in serving both existing and new industry, as it does currently.
- d) It would enable greater coordination and application of business financing programs available through the Department to the recruitment function.
- e) It would allow the Kansas Cavalry to play a role in retention of existing Kansas companies as well as in recruitment of new industries.

The distinctions that originally called for organizing separate divisions, one dealing with recruitment, one dealing with retention and expansion of existing businesses are no longer relevant to the economic development of today. At the urging of our

constituency, we have crafted economic development programs that do not distinguish between an existing, relocating, or start-up firm. It is imperative that the organizational structure of the state's lead economic development agency reflect this.

I urge the Committee to report favorably on H.B. 2760.