

MINUTES OF THE HOUSE COMMERCE AND LABOR COMMITTEE

The meeting was called to order by Chairman Steve Brunk at 9:20 A.M. on March 6, 2008 in Room 784 of the DSOB.

All members were present except:

Mario Goico-excused  
Lana Gordon-excused  
Joe Humerickhouse-excused  
Kasha Kelley-excused  
Brenda Landwehr- excused  
Ronnie Metsker-excused  
Candy Ruff-excused  
Louis Ruiz-excused  
Anna Tietze-excused

Committee staff present:

Jerry Ann Donaldson, Kansas Legislative Research Department  
Jill Wolters, Office of Revisor of Statutes  
Renaë Jefferies, Office of Revisor of Statutes  
Stephen Bainum, Committee Assistant

Conferees appearing before the committee:

Joseph L. Lawhon, Legislative Division of Post Audit  
Barbara J. Hinton, Legislative Division of Post Audit

Others attending: See attached list.

The Chairman introduced Joseph Lawhon of Legislative Division of Post Audit. He said that the Performance Audit Report was divided into three parts indicated by three questions. The report covers only the first two questions and is available from the Legislative Division of Post Audit.

The first question was: "How much State, federal, and local money has been spent on economic development programs during the past five years?" The short answer is at least \$1.5 billion. Page 5 of the report supplied the definition of economic development and set limits on the data they collected.

The costs were made up of two parts—expenditures and forgone tax revenues. The expenditures listed on page 7 were collected from state agencies, such as, the Kansas Department of Commerce, Kansas Technology Enterprise Corporation, the Kansas Small Business Development Center, Kansas Bioscience Authority and Kansas, Inc. They collected information from 10 units of local government as shown on pages 8 and 9. For the forgone revenues they used information from the Departments of Revenue and Commerce plus additional data from 60 units of local government.

The expenditures made up about \$630 million of the \$1.5 billion and the forgone taxes were about \$860 million. The expenditures are broken down on pages 12 by funding source. About two-thirds of the amount spent was federal funds and about one-fourth was State funds.

The discussion of forgone revenues starts on page 13 of the report. Page 14 provides a breakdown of the forgone tax revenues. Industrial revenue bonds account for about 40% of the forgone revenues.

Beginning on page 16 the report shows where the money is going on a county level. The money tends to follow the population so that most of the money is going to counties in the eastern part of the state. When looked at on a per-county per-capita basis it appears to spread more evenly over the state. This is shown by a map on page 17.

Representative Grant ask if the highways system should be included in the report. Joseph Lawhon replied that if you include everything the numbers become too big and it begins to appear to be a state budget.

Representative Quigley asked how they picked the communities for the report. Joseph said they tried to get a mix of urban and rural communities. It is a judgment call.

## CONTINUATION SHEET

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Representative Grange asked if the report was available on the web. Joseph said yes and the information can be manipulated.

Representative Roth asked if the future foregone revenue was broken down by county. Joseph said that it was not broken down by county.

Part 2 which starts on page 20 of the report asks the question, "What have past audits and studies shown about the effectiveness of Economic Development programs?" The short answer is that oftentimes evaluators find negative or inconclusive results but there are some success stories.

In conducting the work for this question they reviewed prior audits conducted by Post Audit and read lots of articles and publications about economic development. This literature suggested that there are a number of problems in trying to assess the effectiveness of economic development programs and activities. These problems are listed on page 23 of the report. Negative and inconclusive results are far more numerous than positive findings. Some of the positive results are listed on page 27. The literature suggests that governments must offer economic development incentives to remain competitive. Many companies consider them to be entitlements.

Representative Garcia asked if there was any data on Workforce Development as listed on page 30. Joseph said that this came out of the Kansas Inc. strategic plan so that report would provide the data. Their data is very comprehensive and this is just a summary of it.

Representative Grant asked if there was any data on businesses within the state that shift locations for tax abatement? He also asked what about giving the long term businesses an incentive to stay in Kansas. Joseph said that this audit did not get down to those details on any particular company. The scope of the report was much broader than that.

Representative Grange asked how do you calculate the effect of forgoing taxes. Joseph said that there is no way for us to know on a transaction by transaction basis. We had to take a global look at the results. Those are questions to ask the Department of Commerce & local officials.

Representative Kiegerl suggested that they use "opportunity costs" rather than the term "foregone revenue".

Barbary Hinton, Post Auditor, gave an explanation of the Scope Statement found on pages 33 and 34. This part of the audit is estimated to take 12 to 15 weeks to complete.

Representative Brunk asked if economic development money was a contributing factor for the companies being in Kansas and continuing to be in Kansas. Barbara said that the trouble is in attributing the companies success to the money. There are too many other factors involved.

Representative Garcia asked if there is a uniform criteria for the businesses to reply back on. Barbara said that no, the data comes from the Department of Labor and it is compiled from their records.

Representative Brunk mentioned the competition from other states offering companies in Kansas huge incentives to move to their state. It is difficult to compete with.

The Chairman called for approval of the minutes that had been distributed by e-mail and by copy. Representative Pauls made a couple of corrections and made a motion that they be approved as corrected. Representative Huntington seconded the motion and the committee gave their approval.

The Chairman reminded the committee about next weeks meetings starting on Wednesday March 12th. The meeting adjourned at 10:30 A.M.