

MINUTES

JOINT COMMITTEE ON ECONOMIC DEVELOPMENT

November 14-15, 2002
Room 123-S—Statehouse

Members Present

Senator Nick Jordan, Chairman
Representative William Mason, Vice Chairman
Senator Jim Barone
Senator Karin Brownlee
Senator U. L. "Rip" Gooch
Representative Jerry Aday
Representative Carol Edward Beggs
Representative Mary Compton
Representative Annie Kuether
Representative Margaret Long
Representative Vern Osborne
Representative Valdenia Winn (November 14 only)

Staff Present

April Holman, Kansas Legislative Research Department
Deb Hollon, Kansas Legislative Research Department
Renaë Jefferies, Revisor of Statutes Office
Norman Furse, Revisor of Statutes
Judy Swanson, Committee Secretary

Conferees

Sherry Brown, Acting Secretary, Kansas Department of
Commerce and Housing
Jim Bruner, Chairman, Quad County Enterprise Facilitation Program
Betty Melson, Treasurer, Quad County Enterprise Facilitation Program
Jack Newcomb, Facilitator, Quad County Enterprise Facilitation Program
Steve Kelly, Director of Business Development, Kansas Department of
Commerce and Housing

Christy Caldwell, Vice President Government Relations, Greater
Topeka Chamber of Commerce
Lucky DeFries, Kansas Tax Coalition
Mitch Caddell, Tax Manager, Allen, Gibbs & Houlik
Jeff Mercer, Director of Travel and Tourism Development Division, Kansas
Department of Commerce and Housing
Cris Collier, President, Travel Industry Association of Kansas
Marci Penner, Executive Director, Kansas Sampler
John Castillo, Assistant Manager, Cabela's, Kansas City, Kansas
Ron Hein, Kansas Restaurant and Hospitality Association

**Thursday, November 14
Morning Session**

The meeting was called to order by Chairman Nick Jordan at 10:10 a.m. on November 14, 2002, at the Statehouse, Room 123-S.

Sherry Brown, Acting Secretary, Kansas Department of Commerce and Housing (KDOCH), testified on the status of rural development programs and an overview of rural development activities of KDOCH (Attachment 1). She focused her testimony on a new program, Enterprise Facilitation. It was started and is being facilitated by the Sirolli Institute in Sacramento, California. The demonstration projects have been funded using Community Development Block Grant technical assistance funds. It is expected that each of the first three demonstration projects will be able to add 15 new businesses, 40 to 45 jobs, and at least \$800,000 of new investment in their first full year of operation. She included a map of the new project locations.

Jim Bruner, Chairman of the Quad County Enterprise Facilitation program, reviewed that program. Quad County has an executive committee and a 52-member board that meet monthly. They had 126 applications for the job of facilitator. The State of Kansas is the first in the nation to implement the Sirolli program (Attachment 2).

Betty Melson, Treasurer of the Quad County Enterprise Facilitation program, said she attended a conference given by the Sirolli Institute which gave her the inspiration to get this program started. She explained that she rallied the four counties to work together and participate in the program. The Sirolli Institute is obligated to each program for two and one-half years.

Jack Newcomb, Facilitator of the Quad County Enterprise Facilitation program, explained how the Board operates. He summarized the clients he has worked with (Attachment 3). He noted that he has met with 45 clients to date. There is an equal mix between starting new businesses and expanding existing businesses, also an equal mix between male and female clients. He told the Committee that the diversity of clients and their ideas is amazing and the boards cohesiveness has been phenomenal. He explained that each county is responsible on a population basis for their pro-rata share of the program.

These funds were pledged, and they received 186 pledges ranging from \$5 annually to \$4,000 annually for a three-year period. They will fund the program on their own after the federal funding runs out. They are the four poorest counties in the state.

Discussion about the program was held. Senator Jordan said he was excited about the success of the Quad County program. Representative Aday said the real challenge will begin after the first three-year period. Mr. Newcomb said they do whatever needs to be done to help clients develop a good business plan. The 52 board members all sign a confidentiality agreement. The program services are free to clients. Sirolli has been in business for 18 years. Representative Mason congratulated them on their success, and cautioned them not to become a paper shuffling and grant-seeking group, but to keep their group where they are now, doing it on their own and not depending upon government funding. Mr. Newcomb said he works with local chambers of commerce and economic development committees. He attends economic development meetings in each county monthly, which keeps him aware of what is available in their geographic area. The Quad County group provides "hands-on" assistance to clients. Mr. Bruner thanked the Committee for the opportunity to participate in this program.

Ms. Brown said the money has been set aside for years 2 and 3 of the program. The initial money spent was paid to the Sirolli Institute to get the programs set up. There might be funding available for one more project. There was an initial reserve of money left from HUD which had not been spent which they used for program set up.

The Committee agreed that an accounting of these programs should be given to the appropriate committees, and urged that additional funding be provided if other funds are available to help with this program. It was agreed that the program should only be offered to communities who want to use it. Information reports are important for new Committee members next session. Other committees should be educated about this program, and educated that this Committee strongly supports the program.

Representative Compton moved that the Committee make a recommendation and conclusion to support the program as it has a real value to a community, and help with financing of the business and finance and support the continuation of the program so the program can become self supporting. Senator Brownlee seconded the motion. A final draft of the Committee Recommendations and Conclusions will be mailed to all Committee members for their approval. The motion passed by consensus of the Committee.

Senator Jordan opened a discussion of the Committee report on Interlocal Cooperatives and Competition with Private Business (Attachment 4).

Representative Mason moved that marketing outside of the interlocal cooperatives should not be done. This would hold the line on entities being in competition with local governments. Representative Beggs seconded the motion. After discussion, the motion failed.

Representative Kuether made a motion that the Committee recommend the issue be referred back to appropriate committees, or at least to the Education Committee, for them

to determine how they want legislation drafted. Representative Compton seconded the motion. After discussion, the motion failed.

Senator Barone made a motion that the report reflect that the Committee studied the issue and did not come to any specific conclusions. Concern was expressed about the long term impact of government competition with the private sector. The Committee recommends further study of the entire subject. Senator Kuether seconded the motion. After discussion, the motion failed.

The Committee concurred that they would like the following remark put into the Committee Report: "Some Committee members expressed a strong concern about marketing outside of the interlocal cooperatives. They fear that government would go into competition with private business, and that this was not appropriate."

Senator Brownlee moved to make the following recommendation and conclusion: Further review by the Education Committee on this particular interlocal agreement situation (Greenbush), and appropriate Committees further pursue the impact of government-sponsored competition with the private sector. Senator Mason seconded the motion. The motion passed.

The Committee recessed from 12:00 noon to 1:40 p.m. for lunch.

Afternoon Session

Steve Kelly, Director of Business Development, KDOCH, answered questions about the proposal for a matrix that would be used to more equitably distribute tax credits. This discussion was continued from the October Committee meeting. Benefits would be scaled according to wages, etc. so benefits could be allowed even beyond the current program under the proposed matrix. Existing tax credits would have to be grandfathered so they could be carried forward. Dave Ross (KDOCH) said the intent is to have the initial approval for the tax incentive based on jobs they plan to create, etc., come through KDOCH for pre-certification.

Christy Caldwell, Vice President Government Relations, Greater Topeka Chamber of Commerce, testified in support for HB 2988 from last session. She said this bill would benefit companies that need cash up front to expand or locate in Kansas (Attachment 5). She further supported HB 2989, which would clarify the definition of a qualified business facility investment for purposes of the Kansas Enterprise Zone and the Kansas High Performance Incentive Program (HPIP). She said that recently the Department of Revenue has determined that the method to calculate the tax credit is no longer correct. According to Ms. Caldwell, the bill is an attempt to codify what is consistent with what everyone using the HPIP law already is doing. They are concerned that the Department of Revenue will go back and audit companies and determine that they did not figure the tax credit correctly, and then force them to pay back some of the HPIP incentive. She said without the bill, the

Department of Revenue's interpretation will leave those who have already received their HPIP certification exposed to a possible audit. This is not the economic development message to send to expanding and relocating companies.

Lucky DeFries, Kansas Tax Coalition, addressed the Committee concerning the HPIP program (Attachment 6). He said that it is essential that the confusion associated with the HPIP program be addressed. Even if some adjustment in the manner in which the credit is calculated is made, he believes it would be unfair to taxpayers who invested in Kansas based on certain representations and what appeared to be a clear understanding as to the scope of this project to now be subject to possible audit by the Department of Revenue which could lead to the recalculation of their income tax liabilities. In many instances, the HPIP is the deciding factor for firms investing in Kansas. He noted that many have taken part in the program, and if it is a good program, things should be done to strengthen the program, not undercut it. He opined that there should not be a fiscal note attached to this bill. The \$29 million fiscal note that the Department of Revenue applied to the bill last year was incorrect. Conceivably, the Department of Revenue could go back to 1993 and recall the tax credits of those who used them. A roster of the Kansas Tax Coalition will be provided to Committee members by Mr. DeFries.

Mitch Caddell, Tax Manager, Allen, Gibbs & Houlik, testified that he represents both manufacturers and service firms which are located across the entire State of Kansas (Attachment 7). The calculation of investment is done on a K-59 form from the Department of Revenue, but it does not have a lot of instructions with it. He wants to protect those who have already filed their taxes. They have had no good guidance from the Department of Revenue. To the best of his knowledge, the way they are calculating the tax is the same as all accounting firms in Kansas.

Senator Jordan made a motion to make the following Committee conclusions and recommendations: We recognize and we had hearings on using the matrix system to streamline programs to get companies to locate in Kansas. It appears attractive, but would like to leave the decision to the new Administration. The Committee refers to the appropriate committees in the House and Senate the task of looking at HPIP interpretation, and find a remedy or way to clarify that issue. Senator Barone seconded the motion, and the motion passed.

The Committee considered conclusions and recommendations on the Venture Capital issue (Attachment 8). It was suggested to add a sentence at the beginning saying that the Committee had looked at both the investigation into Kansas Venture Capital, Inc., and the implementation of HB 2505 which provides for the creation of capital formation companies in Kansas.

Representative Beggs made a motion to accept the conclusions and recommendations as written, but add, that the Committee recommends the Legislature seek alternatives to assist in the implementation of the bill. Representative Aday seconded the motion, and the motion passed.

The Workplace Safety issue was discussed, and several changes recommended (Attachment 9). Representative Beggs would like a summary of workforce accidents and what caused them. Representative Osborne suggested universities have a safety day. Senator Brownlee said she understands there are several groups who rate Kansas on how they stand with occupational injuries, and she would like to see which study is most correct.

Representative Mason moved to accept the conclusions and recommendations as written in the original report on Workplace Safety. Representative Kuether seconded the motion, and the motion passed.

Representative Osborne made a motion to accept the conclusions and recommendations as written in the original report on Unemployment Compensation (Attachment 10). Representative Mason seconded the motion, and the motion passed.

The meeting adjourned at 3:15 p.m.

Friday, November 15

The meeting was called to order by Chairman Jordan at 9:15 a.m. in Room 123-S, Statehouse, on Friday, November 15, 2002.

Jeff Mercer, Director of Travel and Tourism Development Division, KDOCH, presented an overview of the travel industry in Kansas (Attachment 11). The travel industry is improving, but recovery is not complete. Travel habits have changed due to a combination of concerns relating to travel safety issues and concerns about the US economy in 2002. Kansas must support the development, enhancement, and recruitment of special events, provide more research data to industry partners so that they can make more informed decisions regarding product development and marketing efforts, update promotional materials, conduct and/or support more travel conferences/workshops, and promote trade shows. He noted that the biggest challenge is limited funding.

Committee discussion ensued. It was noted that supporting laws that are already on the books is a way to assist with legislation to help tourism in Kansas.

Discussion was held on marketing tourism to people of color.

It was noted that the present overall advertising budget for Kansas is \$300,000 which ranks 50th in the Nation while Missouri's budget is \$12 million. Representative Osborne noted that highway signage in Kansas appears to encourage people to get through Kansas instead of stopping in Kansas. It was noted that Kansas needs to focus on initiatives that have the strongest pull factor, and one of the initial efforts should be placed on the I-70 corridor because of the amount of traffic that highway carries.

Mr. Mercer explained that Kansas constantly reviews brochures, etc., from other states to get ideas. The Tourism website has been updated, and has gone from 7,000 to 21,000 hits each month. The Tourism Department has 14 employees.

Senator Jordan urged the Tourism Department to be involved with other programs within KDOCH, *i.e.* Enterprise Facilitation program. KDOCH, the legislature, and the travel industry should work together as a team to create strategies.

Cris Collier, President of Travel Industry Association of Kansas (TIAK), presented an overview of travel in Kansas (Attachment 12). She expressed concern with the low budget that the Tourism Department must work with. She invited Committee members to the Juneteenth Celebration in Dodge City in 2003. TIAK is working on niche marketing partnerships, such as hunting. International visitors to Kansas prefer to rent cars and drive rather than touring on a bus. Kansas should not try to be all things to all people, but should develop more niche markets.

Marci Penner, Executive Director, The Kansas Sampler, addressed tourism in rural counties of Kansas (Attachment 13). The Kansas Sampler is a non-profit organization with one employee. She stressed that marketing is what is needed for the unique sights there are to be seen in the small Kansas communities. Tourism is a very young industry for Kansas. She is currently writing a guidebook for Kansas small towns, and it will be ready for Christmas 2003. Senator Gooch said airports in small towns should be marketed.

John Castillo, Assistant Manager, Cabela's, Kansas City, Kansas, presented information about the new Cabela's store. He explained that the company is 41 years old. Cabela's mails 61 million catalogs, annually. They have had 1.8 million people come through their doors since they opened in Kansas City two and one-half months ago. It is expected that Cabela's will be the number one tourist attraction in Kansas next year. More than half of their customers drive over 100 miles to shop at their store daily. Inside their store they have over 50,000 gallons of aquariums, a mule deer museum, etc., which people come to see as well as to shop. It was noted that the Cabela's website has a link to the Kansas Wildlife Department. The store location was chosen because the site is located across the street from the Kansas Speedway. Demographics show that NASCAR fans and Cabela's customers are very similar.

Ron Hein, representing the Kansas Restaurant and Hospitality Association, presented remarks concerning how tourism affects the restaurant business (Attachment 14). He said 47 percent of food consumed is purchased away from the home, and that percentage is growing. Tourism funding is a complex problem, and he offered to work with the appropriate legislative committees to help with solutions.

Senator Jordan made a motion to give conclusions and recommendations stating that the Committee strongly supports the industry and recognizes the importance of travel and tourism in Kansas and urges and encourages the new administration to look at long term planning in Kansas, to support the \$900,000 received from the sale of the Olathe Travel Center being spent with \$200,000 going to two other travel centers and the remaining money to be spent on the advertising and marketing of travel and tourism in Kansas, and

further support looking at other means to fund travel and tourism in Kansas, especially after the year 2003. Senator Brownlee seconded the motion, and the motion passed.

Norm Furse, Revisor of Statutes, reviewed the Constitutional issues associated with multi-dwelling units and cable communications with the Committee (Attachment 15). He said an Attorney General opinion would be beneficial before enacting this type of legislation. The multi-dwelling unit topic was then discussed (Attachment 16).

Senator Brownlee made a motion for the following conclusion and recommendation: The Legislature should request an attorney general opinion of KSA 58-2553 and encourage the appropriate committees to respond accordingly to the Attorney General's opinion. Senator Barone seconded the motion, and the motion passed.

Broadband deployment was taken under consideration.

Senator Brownlee made a motion that: The Legislature working in partnership with the KCC could adopt legislation clarifying that broadband networks of the incumbent telephone provider would not be opened up to competitors. Senator Barone seconded the motion. The motion failed.

Senator Brownlee made several minor suggestions to the report, and by Committee consensus, the changes will be made.

Representative Aday made a motion to add "after consultation with KCC" to the report. Representative Mason seconded the motion, and the motion passed.

Senator Barone made a motion to delete "If it is decided that intramodal competition is not necessary then there would be no need for the incumbent provider to make its broadband network available to carriers", and insert in lieu thereof, "The question of intramodal competition is currently being considered by KCC and FCC, and those decisions will ultimately impact legislation that would be considered." Representative Kuether seconded the motion, and the motion passed.

Senator Barone moved to approve the Conclusions and Recommendations as amended by the Committee. Representative Mason seconded the motion, and the motion passed.

The following corrections were made to the minutes of the September and October meetings:

- Representative Osborne's name to be spelled correctly in both September and October minutes:
- Senator Steffes' name to be spelled correctly on pp. 3 of the October minutes; and

- On pp. 4 of October minutes, paragraph 2, lines 2 and 3, change the word "supply" to "demand" and change the word "demand" to "supply."

Representative Long made a motion to approve the minutes of the September and October Committee meetings as corrected. Representative Compton seconded the motion, and the motion passed.

Chairman Jordan thanked the Committee and staff for their hard work and efforts during the interim. April Holman reminded Committee members that their Committee notebooks will be kept until the first week of the legislative session.

The meeting adjourned at 12:35 p.m.

Prepared by Judy Swanson
Edited by April Holman

Approved by Committee on:

December 10, 2002