MINUTES

JOINT COMMITTEE ON ECONOMIC DEVELOPMENT

September 19-20, 2007
Room 519-S—Statehouse

Members Present

Representative Lana Gordon, Chairperson
Senator Nick Jordan, Vice-Chairperson
Senator Jim Barone
Senator Karin Brownlee
Senator Laura Kelly
Representative Barbara Craft
Representative Don Hill (September 19)
Representative Terrie Huntington
Representative Don Myers
Representative Annie Tietze
Representative Jerry Williams
Representative Valdenia Winn (September 19)

Members Absent

Representative Vincent Wetta
Senator David Wysong

Staff Present

Kathie Sparks, Kansas Legislative Research Department
Tatiana Lin, Kansas Legislative Research Department
Jason Long, Office of the Revisor of Statutes
Dianne Rosell, Office of the Revisor of Statutes
Ann Deitcher, Committee Secretary

Conferees

September 19
Chuck Banks, State Director, USDA Rural Development
Tim Rogers, Housing Program Director, USDA Rural Development
Steve Weatherford, President, Kansas Housing Resource Corporation
Michael Snodgrass, Neighborhoods NOW Special Projects, Greater KC Local Initiatives Support Corporation
Leo Hafner, Deputy Director, Legislative Division of Post Audit
Beth Martino, Deputy Secretary of Labor

September 20
Tom Thornton, President and CEO, Kansas Bioscience Authority
Ed McKechnie, Secretary and Treasurer, Board of Directors, Kansas Bioscience Authority
Tracy Taylor, President, Kansas Technology Enterprise Corporation
Stan Ahlerich, President, Kansas Inc.
David D. Kerr, Secretary, Kansas Department of Commerce

September 19, 2007
Morning Session

The meeting was called to order by Chairperson Lana Gordon, who explained what the agenda would be for the Joint Committee.

Representative Gordon then called on Kathie Sparks, Legislative Research Department, who stated that the purpose of the Joint Committee on Economic Development is to maintain and promote economic development in Kansas (Attachment 1). The Committee also is charged with receiving annual reports from the Department of Commerce and Kansas, Inc. in regard to the three referred topics of the Legislative Coordinating Council.

Those referred topics were:

- Workforce Recruitment Issues;
- Refundable Tax Credits; and
- Housing Incentives.

The Chairperson then introduced Chuck Banks, State Director, USDA Rural Development, who addressed the Committee in regard to Kansas rural development housing programs (Attachment 2).

Mr. Banks told the Committee that the USDA Rural Development is the lead federal agency authorized by Congress to support rural community and economic development across the nation.

The agency's three main programming areas, including both funding and technical assistance, covers:

- Infrastructure and utilities—rural water projects, electrical, and telecommunications;
- Housing—single-family and multi-family apartments (very-low, low, and moderate income eligible individuals/families); and
- Business and community facilities—financing of for-profit businesses and community/non-profit facilities/services (rural hospitals, childcare, among other things).

Mr. Banks then explained the programs provided by USDA Rural Development can assist families, communities, businesses and utilities (Attachment 3). The programs are:

- Single Family Housing Programs;

- Multi-Family, Rental Housing Programs;
- Housing Preservation Grants;
- Community Facilities Programs (*i.e.,* Health Care, Fire Rescue and Safety, and Public Buildings);
- Business Programs; and
- Utility Programs.

A news release was offered regarding the announced partnership of the United Way of the Plains and USDA, explaining how the housing program would assist the residents of Greensburg, Kansas (Attachment 4).

A program summary was offered of the USDA Rural Development and its 100 percent low-interest financing for those qualifying (Attachment 5).

Mr. Banks also provided a summary of the agency's repair program (Attachment 6).

Questions and answers followed.

Tim Rogers, Housing Program Director, USDA Rural Development, also was present to answer questions from the Committee.

The Committee recessed the meeting until 1:30 p.m.

Afternoon Session

The Committee meeting reconvened at 1:30 p.m.

The Chairperson introduced Steve Weatherford, President, Kansas Housing Resource Corporation (KHRC), who offered statistical information about housing stock in Kansas (Attachment 7).

In response to a Committee member's question, Mr. Weatherford said that even with implementation of KHRC programs and those of its federal partners, funding gaps and unmet needs remain. He explained the workings of:

Rental Housing—saying that KHRC's biggest tool in rental housing is a federal tax credit program administered by the Internal Revenue Service;

Home ownership—that KHRC is prohibited by state statute from offering a mortgage revenue bond program to finance single family homes in Kansas. Instead, Sedgwick and Shawnee counties jointly manage a program which is available on a statewide basis.

When asked why only these two counties were offering this program, Mr. Weatherford said that one issue with the administration of this program is the high concentration (over 66 percent) of loans in these counties, yet they represent only 23 percent of the state's population. Kansas is the only state in the union which does not offer such a state-administered mortgage revenue bond program.

Mr. Weatherford continued with his explanation of what the agency offered:

Homeless and Supportive Services—to assist individuals and families experiencing homelessness in Kansas, KHRC provides Emergency Shelter Grants (ESG) to fund homeless shelters across the state. Funds for this program are provided by the U.S. Department of Housing and Urban Development (HUD).

Michael Snodgrass, Greater Kansas City Local Initiatives Support Corporation (LISC), addressed the topic of funding for the Housing Trust Fund which was recently discussed in a Legislative Post Audit report. (He said that a copy of this report could be obtained from the Legislative Division of Post Audit.)

Mr. Weatherford offered one final explanation of the agency's offerings:

Foreclosures – saying that the entire presentation would take longer than the Committee had available today, he had enclosed a presentation (written only) on this issue by Kelly D. Edmiston, a Senior Economist with the Federal Reserve Bank of Kansas City (Attachments 7-45 through 7-72).

Mr. Snodgrass explained to the Committee how his organization was dedicated to revitalizing urban core and rural neighborhoods (Attachment 8). Mr. Snodgrass said that over the years, Greater Kansas City LISC has supported 17 Community Development Corporations (CDCs) in developing $180 million worth of affordable housing. In addition, Greater Kansas City LISC has helped CDCs develop:

- 5,593 single family new and rehabilitated homes;
- 4, 809 minor home repairs;
- 1,404,075 square feet of retail and commercial facilities; and
- 317,645 square feet of community facilities and sports fields.

He said that the Kansas Housing Policy Network has been working for the past year to secure a permanent funding source for the Housing Trust Fund. They have formed three subcommittees as follows:

- Language Subcommittee—Has been reviewing the current statutes and suggesting any potential changes, as well as working on communicating the need for the Housing Trust Fund.

- Revenue Source Subcommittee—Has been researching the permanent funding streams of other states, and discussing the pros and cons of each potential source.

- Legislative Subcommittee—Has been working with legislators to discuss the need and search for potential sponsors of a bill.

Leo Hafner, Deputy Director of Kansas Legislative Division of Post Audit (LPA), addressed the Committee in regard to the Review of Error Rates for Unemployment Benefit Payments audit completed earlier in the year (Attachment 9).

Mr. Hafner gave examples of errors by both the agency as well as applicants, saying that failing to follow the instructions was the most frequent cause of error.

Following a performance audit by the LPA, required by the Kansas Governmental Operations Accountability Law (K-GOAL), the following questions were answered.

What factors have contributed to the high overpayment rate for Kansas unemployment benefits reported by the Department of Labor?

> Almost all of Kansas' unemployment benefit overpayments in 2005 occurred because unemployed workers did not register for job services, as required by state law, and therefore were not considered to be eligible for the unemployment benefits they received. The Department of Labor historically has not enforced the requirement to register for job services, and the U.S. Department of Labor does not impose any sanctions for failing to comply with State law. The increase in the number of people not registering for job services has coincided with the phase-out of in-person applications, and the advent of telephone and Internet-based applications. The online process of applying for unemployment benefits and registering for job services can be time consuming and confusing to some.

What actions have Kansas and other states taken to reduce overpayment rates and have those steps been effective?

> The Department of Labor has adopted a new regulation that eliminates the requirement to register for job services for more than 90 percent of the unemployed Kansans who previously were required to register. Effective November 2006, this registration requirement will now apply only to the "highest-need" unemployed workers. Because the Department historically has cut off this group of workers' unemployment benefits for not keeping such appointments, this action should <u>significantly</u> decrease the overpayment error rate. However, it will be much less helpful to the large numbers of other unemployed workers who need to find new jobs. The Department had considered updating its computer system so that workers automatically would be registered for job services when they applied for unemployment benefits, but dropped that approach after deciding to adopt the new regulation.

Beth Martino offered a brief update on several projects within the Kansas Department of Labor (<u>Attachment 10</u>). Ms. Martino said that since the Legislature has approved funding to rewrite their unemployment insurance (UI), this has provided them the opportunity to make their operations simpler and more competitive, a key part of their strategic plan. She pointed out that their current UI computer system was more than 30 years old and has reached the limit of its ability to be modified to meet changing requirements.

She said that this modernization project will replace their antiquated system and also will improve their overall operations by implementing a reorganization of their UI business units. They now have consolidated their three UI call centers into one location. The new UI Call Center is located in Topeka. This was a cost saving action taken to address continued reduced federal funding for UI operations.

George Hubka, also of the Department of Labor, was in attendance.

Mr. Hafner offered the Committee an overview of the Kansas Housing Resources Corporation and the Section 42 Housing Tax-Credit Program (<u>Attachment 11</u>).

Following a performance audit by the Legislative Division of Post Audit, the following questions were answered.

How many and what types of housing developments have been funded in Kansas through the Section 42 Housing Tax Credit Program?

In all, 93 developments were awarded $217 million in tax credits through the Program between 2004 and 2007. These developments provided slightly more than 3,200 housing units. About two-thirds of the developments were newly constructed, and one-third were rehabilitations. These rehabilitated structures tended to have more living units, cost less, and have lower rents. Recently, the Housing Resources Corporation has taken steps to increase the number of rehabilitated developments receiving tax credits, primarily by increasing the number of points awarded to proposed rehabilitation projects. Overall, about two-thirds of the housing units were for families, one-third for the elderly, and less than 2 percent were specifically for the disabled. However, the total number of living units accessible to disabled tenants is likely much higher because new, ground-floor housing units must comply with accessibility requirements in the Fair Housing Act. For 14 of the developments given tax credits for 2004 to 2007, the Corporation did not appear to follow State regulations requiring each proposed development to be compared to its peers in each particular round of tax-credit awards.

Has the program resulted in the location of affordable housing in areas of the State where it is most needed?

Federal requirements and State plans for the Section 42 Low-Income Housing Tax-Credit program identify a number of areas where low-income housing is most needed, including qualified census tracts, rural areas (primarily for the elderly and disabled), and north central, south central, and northeast Kansas. Current waiting lists maintained by <u>public</u> housing authorities pointed to needs in these same regions. Overall, 875 of the housing developments financed with Section 42 tax credits for 2004 to 2007 were located in one of these identified areas. The rest were primarily rural family housing units, which had not been identified as a priority need in three of the four years reviewed. Over the past four years, Section 42 tax credit-financed housing has been proposed and approved in many communities with large waiting lists for <u>public</u> housing, but developers had not proposed any developments for many smaller communities across the State. Corporation officials say it can be difficult to build financially viable developments in such communities. Average rents charged for many of the housing units receiving Section 42 tax credits were well below federal rent limits for the Program and in most regions were below rent limits set for HUD-administered, low-income housing.

How does Kansas compare to other states in its efforts to spur the construction of low-income housing?

Compared to Kansas, several other states contacted have additional programs or funding sources to supplement their low-income housing programs. Both Missouri and Tennessee have <u>state</u>-level tax credit programs to help spur the construction of low-income housing. Four comparison states we contacted have housing trust funds like Kansas does, but their funds have significantly more money available to spend each year. Kansas Housing Resources Corporation officials said they likely could generate additional revenues from issuing mortgage revenue bonds (a type of private-activity bond) if they were allowed to handle these bonds and the resulting mortgages the way most other states do. Finally, all five comparison states have revolving loans funds to help finance low-income housing. Although the Corporation makes a limited number of low-interest loans to developers, those loans are financed by operating funds rather than a revolving fund dedicated for that purpose.

The meeting was adjourned at 4:30 p.m.

September 20, 2007

Chairperson Gordon introduced Tom Thornton, President and CEO, Kansas Bioscience Authority, who spoke to the Committee of the strides made by the Kansas Bioscience Authority (KBA) since he last appeared before the Committee (<u>Attachment 12</u>). He also offered a Program Guide of the KBA (<u>Attachment 13</u>), as well as descriptions of its projects and programs (<u>Attachment 14</u>).

Ed McKechnie, Secretary and Treasurer, Board of Directors, Kansas Bioscience Authority, addressed the Committee regarding the progress of the KBA (<u>Attachment 15</u>).

Mr. Thornton also presented a summary of KBA funds committed and paid through September 20, 2007 (<u>Attachment 16</u>).

Questions and answers followed.

Tracy Taylor, President, Kansas Technology Enterprise Corporation (KTEC), was introduced. Mr. Taylor offered a presentation of the 20 years of innovation of KTEC (<u>Attachment 17</u>).

Questions and answers followed.

The Chairperson referred to a copy of a draft scope statement for a Legislative Post Audit at the request of Representative Kenny Wilk (<u>Attachment 18</u>). The scope statement is in regard to determining the amounts the State has spent on economic development programs and the economic impacts on Kansas counties.

A motion was made by Senator Brownlee and seconded by Representative Craft that Legislative Post Audit approve the amended scope statement (amendment was technical in nature). <u>The motion passed on a voice vote.</u>

A second amendment was requested making the following changes:

On page 2, question 3, line 14, following the word “information” the words “and analysis of tax credits” be inserted.

On the same line, following the word “Revenue” the insertion of “; any work completed by Kansas Inc.;”

Senator Kelly moved that this amendment be made. Senator Brownlee seconded the motion, <u>which carried on a voice vote.</u>

Stan Ahlerich, President, Kansas Inc., gave a power point presentation offering an overview of current Kansas Inc. projects (Attachment 19).

Questions and answers followed.

David Kerr, Secretary, Kansas Department of Commerce, offered a power point presentation giving an update on the use of Sales Tax and Revenue (STAR) Bond Projects (Attachment 20).

The meeting was adjourned at 12:15 p.m. The next meeting is scheduled for Tuesday, October 16, 2007.

Prepared by Ann Deitcher
Edited by Kathie Sparks

Approved by Committee on:

October 17, 2007
(Date)