

MINUTES OF THE SENATE COMMERCE COMMITTEE

The meeting was called to order by Chairperson Karin Brownlee at 8:30 A.M. on March 18, 2008 in Room 123-S of the Capitol.

All members were present except:

Jean Schodorf- absent

Committee staff present:

Jennifer Thierer, Kansas Legislative Research Department

Kathie Sparks, Kansas Legislative Research Department

Jason Long, Revisor of Statutes

Jackie Lunn, Committee Assistant

Conferees appearing before the committee:

Joe Lawhon, Legislative Post Audit

Others attending:

See attached list.

To read testimony submitted by conferees go to

<http://skyways.lib.ks.us/government/KansasSenateCommerceCommittee>.

Chairperson Brownlee introduced Joe Lawhon, Legislative Post Audit, to review the *Economic Development Post Audit dated February 2008*. A copy of the Post Audit report can be found in the office of Legislative Post Audit and the Senate Commerce Committee Assistant's Office.

Mr. Lawhorn stated this audit contains two of a three questions audit and the third question would be out soon.

Mr. Lawhorn began his review with **Question 1. How much state and federal and local money has been spent on economic development programs during the past five years.**

Mr. Lawhon stated the estimated cost of economic development in Kansas during fiscal years 2003 through 2007 is at least \$1.5 billion, which includes both governmental spending and forgone tax revenues. During that period, Kansas' State and local governments spend about \$630 million. The Kansas Department of Commerce spent the vast majority of that amount. About 70% of total spending came from federal moneys, 25% was State, and 5% was other. During this period, Kansas' governments also waived about \$860 million in projects. The largest portion (\$350 million) was attributable to economic development projects funded using industrial revenue bond exemptions. In addition to any established economic development spending in the future, Kansas governments could forego about \$404 million in revenue because of the repeal of the Business Machinery, and Equipment (BM&E) Property tax.

A question and answer session occurred while Mr. Lawhon was reviewing the report. It was noted that there are nine items that are in the wrong category and they will be moved from the federal expenditures to the State expenditures. Foregone revenues were discussed with the Committee having some confusion on the subject. During the question and answers, reference was made to the *Kansas Department of Commerce Audit Original Funding Source (Attachment 1)*; *Kansas Department of Commerce Economic Development Audit Funding Sources Revised by Commerce, (Attachment 2)*; and the *Kansas Department of Commerce IMPACT FY03-07, (Attachment 3)* which were handed out to the Committee by the Department of Commerce. It was noted during the question and answers that when the third question to the audit was ready the changes would also have been made on this audit, moving the nine expenditures from the federal to the State and a revision of the audit would be offered. The Committee has concerns regarding the audit. It was noted by post audit that the Department of Commerce would have to provide more specific information to improve the accuracy of the audit.

Upon the completion of Mr. Lawhon's review of question one, there was a lengthy questions and answer discussion session with the Committee and Mr. Lawhon. The Committee has concerns and is confused somewhat by the information in this audit. It was noted that the Department of Commerce would need to give more detailed information to Post Audit for the revision of this audit. Senator Jordan suggested that Chris

CONTINUATION SHEET

MINUTES OF THE Senate Commerce Committee at 8:30 A.M. on March 18, 2008 in Room 123-S of the Capitol.

Courtwright, Legislative Research, send a memo or come before the Committee to explain information he gave to Post Audit which confuses the Committee. During this discussion, it was suggested by the Committee that all the questions and concerns be cleared up regarding this audit and a revision offered before releasing the audit on question 3. Barbara Hinton, Legislative Post Auditor, joined the discussion and stated that they are using information given to them from several different agencies. She stated, in order for them to get the information the Committee is referring to it would require an individual audit on each agency and that would take years and she does not know what to do with this audit. Senator Emler suggested that Ms. Hinton should consult the chairs of this Committee along with Representative Wilke on the revision of this post audit and the post audit to be out in June.

Due to the time restraints, Chairperson Brownlee asked Mr. Lawhon to quickly review question two very briefly. **Question 2: What have past audits and studies shown about the effectiveness of economic development programs.**

Mr. Lawhon stated that State and local governments can offer economic development assistance in several ways, including tax abatements and cash assistance. When assistance is offered, it's often very difficult to measure the effectiveness or success of that assistance. One item that frequently hinders meaningful analysis is the lack of good data. When data are available, evaluators often find that most traditional economic development programs or incentives show negative or inconclusive results, such as promised jobs haven't been created, or states have received little to no return on their investments for the State. Nevertheless, there are some success stories based on economic development assistance; both traditional and technology based. However, one commonly held belief is that states must offer assistance to remain competitive, regardless of the cost or overall effectiveness of that assistance.

Chairperson Brownlee asked Jeff Conway, Department of Commerce, if he had the information regarding the descriptions on the titles and he stated they are still working on that.

Chairperson Brownlee adjourned the meeting at 9:30 a.m. with the next meeting being scheduled for March 19, 2008 at 8:30 a.m. in room 123 S.