Evaluation of the Kansas Department of Commerce

Prepared by the Institute for Policy & Social Research
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Executive Summary

This report presents the findings from a comprehensive evaluation of the Kansas Department of Commerce (hereafter "Commerce") business assistance activities. The evaluation was designed to answer the overall question of whether Commerce business assistance activities are achieving their stated mission of "advancing prosperity for all Kansans." To answer this question we spent 12 months – from October 2006 through September 2007 – collecting a variety of information about Commerce programs. We reviewed thousands of pages of Commerce documents; interviewed 52 Commerce staff across the six divisions that deliver the majority of the agency's traditional business assistance services; spoke with other personnel across state governments who coordinate with Commerce; reviewed business assistance programs in five other states; surveyed nearly 1,200 Kansas businesses to gather their perceptions of Commerce; held focus groups with local business and community leaders in five different communities across the state; and interviewed more than two dozen executives in the business and site location communities.

Our evaluation reached three basic conclusions. First, we found a preponderance of evidence that Commerce business assistance programs are achieving their stated mission. Virtually all of its key stakeholders, both inside and outside of Kansas, are positively impressed by Commerce's programs and staff. The vast majority of businesses that receive Commerce assistance were satisfied with the experience of working with Commerce, and virtually all businesses that have interacted with Commerce said its assistance enabled them to hire new employees, increase profits, or expand other opportunities. Most of the evidence we collected suggests Commerce programs are generally well-run and make accountable, effective use of public dollars. Executives in both the business and site location communities consistently called Commerce staff some of the best, most professional economic development personnel in the country.

Our second conclusion is that Commerce's organizational capacity is eroding, which might jeopardize its ability to achieve that mission in the future. By capacity we mean three things. The first is human capital, which as mentioned, is clearly one of Commerce's most valuable assets. Business assistance is a "relationship business," and current Commerce staff have well-established relationships throughout the business community. But those relationships are more closely tied to individuals than to positions or institutions, and the agency stands to lose that advantage absent an effective transition of new individuals into those same relationships. A second concern is leadership. We found much evidence that changes in executive-level leadership, regular modifications to the agency's structure and organization, and a slow but steady increase in responsibilities have harmed perceptions of Commerce throughout Kansas. Those changes, along with the recent shift of the Workforce Development function to Commerce from the former Department of Labor, have contributed to a sense of "mission drift" and disconnect among some of the agency's key stakeholders. A third aspect of capacity is information technology. We found little evidence of effective communication across divisions within Commerce, and stakeholders consistently said they do not feel as though they are well-informed about the agency's people and programs. We suggest policy options for addressing these concerns in our conclusions.

And third, we found evidence of a growing incongruence between the programs and assistance Commerce offers, and the state's economic development needs. Across the state, and in developing areas in particular, stakeholders envision Commerce providing a broader palette of more flexible economic development tools designed to have "real time" influence on business decisions. In rural areas this incongruence has to do with scope; Commerce stakeholders envision a much broader role for the agency, including expanding its programs to assist existing businesses and broader involvement in economic development-related needs like housing and workforce training. We also make recommendations that might help to mitigate this concern.

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Background and Evaluation Methodology

This report outlines findings from an evaluation of the Kansas Department of Commerce (hereafter "Commerce") business assistance activities.[1] This evaluation was conducted from October 2006 – September 2007 by staff from the Institute for Policy & Social Research (IPSR) at the University of Kansas (KU).[2] Dr. Justin Marlowe of the Department of Public Administration at KU served as Principal Investigator, and Pat Oslund of IPSR served as co-investigator. Dr. Joshua Rosenbloom of IPSR and the KU Department of Economics also participated in the project. Genna Hurd, Susan Mercer, and Dane Hanson from IPSR provided key staff support. Doug Norsby, a doctoral student in the Department of Public Administration at KU served as the principal research assistant. Rob Nye, also a doctoral student in the Department of Public Administration at KU, also made important contributions. John Arnold served as an independent consultant on the project. He is a former city manager and currently President of the John E. Arnold Company, an independent consulting firm with expertise in economic development and human capital issues. Xanthippe Wedel of the IPSR staff developed the website for the Commerce client survey.

Our evaluation was designed to address four basic questions:

1) How is business assistance delivered across the state in terms of population, geography, industry codes, and business size/market share?
2) How do Commerce activities affect the lifecycle of a Kansas business?
3) Do stakeholders perceive Commerce services as integrated and effective?
4) Do Commerce business assistance activities place the state in a strong position to compete for economic development activities, relative to other states that define and carry out business assistance in similar ways?

This chapter describes the evaluation process and methodology, including how previous evaluations of these same business assistance activities shaped our assumptions and analytical methods. It presents: 1) a brief history of business assistance in Kansas; 2) the challenges to evaluating business assistance in general, and Kansas business assistance in particular; 3) how those challenges shaped our evaluation questions and research methods, and 4) the research

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[1] This is pursuant to KSA 74-8010, which outlines Kansas, Inc.'s statutory charge to periodically evaluate Commerce.

[2] Prior to the actual evaluation work we conducted an "evaluability assessment." An evaluability assessment is a systematic examination of a program to determine whether a full evaluation of its outcomes is warranted. For that assessment we interviewed 24 division and sub-division level staff in all eight Commerce divisions. We also interviewed the current and immediate past presidents of Kansas, Inc, reviewed the most recent Commerce annual reports, analyzed trends and policies outlined in the *Governor's Budget Report* for the previous five years, and reviewed all evaluations of Kansas business assistance activities carried out within the past 20 years. From that assessment we concluded a full review of Commerce business assistance activities was necessary and possible. Insights gained from that assessment also informed the assumptions, structure, work plan, and other important aspects of this evaluation. The evaluability assessment was especially helpful in identifying some of the key challenges to identifying the outcomes associated with Commerce's efforts, and in turn evaluating whether those outcomes are evidence of effectiveness.

methods we used to address those questions. Discussion of our findings begins in the next chapter.

A Brief History of Commerce Business Assistance

The state of Kansas has provided formal business assistance services since the founding of the Kansas Industrial Development Commission (IDC) in 1939. That Commission, which can be considered the forerunner to the current Department of Commerce, was charged with recruiting new industry to the state. The state's economic development strategy has since expanded far beyond recruiting new business to include:

- promoting development of existing Kansas businesses,
- workforce development programs to meet Kansas businesses' labor needs,
- community development and tourism promotion programs designed to leverage commercial activity into improved quality of life for Kansas communities,
- venture capital programs designed to develop new businesses in targeted sectors,
- value-added agriculture programs that promote non-food uses for key Kansas crops,
- an international trade initiative designed to promote exports of Kansas products and to promote international investment in Kansas,
- and a multitude of other initiatives designed to advance the present day Department of Commerce's formal mission of "helping Kansans achieve prosperity."

As the state's menu of economic development initiatives has changed, so too have the state-level economic development agencies. The former IDC became the Department of Economic Development (DED) during the mid-1950s. This change reflected the state's new emphasis on aggressively recruiting manufacturing and other heavy industry. DED was later selected to administer the community development and public housing programs created as part of the federal government's Great Society initiatives of the 1960 and 1970s. The agency's name was changed to the Department of Commerce, and eventually to the Department of Commerce and Housing, to reflect these changes. But despite those changes, business assistance has been and will likely remain one the agency's core activities.

The recessions of the late 1970s and early 1980s forced a fundamental reconsideration of the state's economic development philosophy. The state experienced severe unemployment and other recession-related problems during this period, and those problems were attributed in large part to the lack of a strong, diversified industrial base. The Kansas legislature responded by commissioning a comprehensive review of the state's economic development apparatus. That review was conducted by the Institute for Public Policy and Business Research (IPPBR)[3] at the University of Kansas, and culminated in a document titled the *Kansas Economic Development Strategy*.

That study, commonly known as the Redwood-Krider report after its principal authors Professors Anthony Redwood and Charles Krider of the School of Business at KU, laid the foundation for the state's current economic development strategy. It proposed, and the legislature and governor

[3] IPPBR was the forerunner to the Institute for Policy and Social Research. Pat Oslund, Co-Investigator on this evaluation, also participated in the 1986 IPPBR evaluation.

eventually adopted, a strategy that emphasized a balanced approach to economic development. The state would allocate its efforts equally across attracting, retaining, and developing Kansas businesses, across different sectors of the economy, and across the state's various geographic regions. That emphasis on balance was reflected in its prescribed "three-legged" organizational structure. Two new agencies were created as public-private partnerships. The first – Kansas, Inc. – was charged with providing strategy and analysis on economic development policy, and to occasionally evaluate the other economic development agencies and programs. The second – the Kansas Technology Enterprise Corporation (KTEC) – was designed to promote start-ups and expansions of high-technology business. The Department of Commerce would continue to provide its slate of business assistance programs, and would coordinate the other agencies' efforts. Successful coordination of the state's entire economic development apparatus remains one of Commerce's most important and challenging tasks. For that reason coordination has received explicit attention in every previous evaluation of business assistance activities. We continue this practice in the analysis presented here.

This new economic development structure was made possible in large part by the establishment of the Kansas Lottery. Since 1986, more than three-quarters of the Lottery proceeds have been diverted from the State Gaming Revenues Fund (SGRF) to the Kansas Economic Development Initiatives Fund (EDIF), which in turn funds most of Commerce's traditional business assistance activities. This use of lottery proceeds was and remains one of the most innovative aspects of the Kansas Economic Development strategy. Of the 41 states that have lotteries, only Arizona, Iowa, Oregon, and Washington use lottery funds for explicitly economic development purposes, and none divert nearly as large a portion of the lottery proceeds to economic development activities as Kansas.[4]

The late 1980s and early 1990s also marked the first major expansion of the state's workforce development programs. Industry-identified labor needs motivated the creation of the Kansas Industrial Training/Retraining programs, which quickly became a key component of the state's business development strategy. A few years later, Kansas, Inc.'s first statewide economic development strategic planning process produced a series of recommendations also related to workforce development. Principal among them was the desire to attract high-paying employers in cutting-edge industries, which led to the creation of the High Performance Firms Incentive Program in 1993. The tax credits outlined in that program, most notably the High Performance Incentive Program (HPIP), are among Commerce's most widely known business assistance tools.

The business assistance mission expanded into other areas as well, and the agency was reorganized to reflect that expansion. These division-level changes are illustrated in Table 1.[5] The former Industrial Development division was renamed Business Development to reflect a new, more inclusive focus on businesses outside of manufacturing and other traditional industries. In 1992 the Housing division, which had been removed from Commerce in the late

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[4] See National Association of State and Provincial Lotteries (2007). *Cumulative Lottery Contributions to Beneficiaries from Start-up to June 30, 2006.* http://www.naspl.org/UploadedFiles/File/Cumulative_Lottery_Contributions06.pdf - accessed June 2, 2007.

[5] Several divisions appear for less than two years, including Liability Concerns, Research and Publications, Small Business Development. Also not noted here is the Legal Services Division, which was added in 2006.

1980's, was brought back. The agency's name reverted back to the Department of Commerce and Housing to reflect this change. Concerns about deficiencies in local public infrastructure to support business relocation and expansion led to the creation of the Kansas Partnership Fund, which provides loans to local governments to improve business-related infrastructure. The agency also expanded its emphasis on non-traditional agricultural enterprise. These programs, which were formerly part of several different divisions, were consolidated into the new Agricultural Products division, the centerpiece of which was the newly created Kansas Value Added Center. A new focus on promoting exports, imports, and other international trade opportunities for Kansas businesses brought about establishment of the new Trade Development division. The Travel and Tourism division, long part of the basic Commerce structure, was also identified as a potential driver of economic development. This basic structure allocating key business assistance duties across four Commerce divisions – Business Development, Travel and Tourism, Community Development, and Agricultural Products Development – has remained relatively stable since then.

In 1992, in accord with its statutory mandate, Kansas, Inc. conducted its first comprehensive evaluation of the Department of Commerce programs. That evaluation concluded those programs were working, and that no extensive changes were needed. Its principal recommendations were that Commerce expand its data collection and analysis capacities, and that all divisions within Commerce institute formalized strategic planning to improve their overall effectiveness. But by and large, there was consensus that the state's first comprehensive economic development strategy was a success. That claim was further evidenced by the fact that the Kansas Economic Development Strategy had been recognized by numerous business and trade associations as a model of strategic, prudent, and innovative economic development policy.

Kansas, Inc. completed its second comprehensive evaluation of business assistance programs in 1996. That analysis covered all business assistance programs including those outside Commerce's administrative purview. It echoed the basic finding from previous evaluations that business assistance programs were generally effective and accountable. It did, however, identify two emerging problems. Most important, there was evidence of substantial fragmentation and insularity across each of the system's individual agencies and programs. Kansas, Inc. recommended correcting this problem by developing a comprehensive, integrated economic development budgeting process to mitigate a potential "zero-sum game" across agencies and programs, and to facilitate creation of "return on investment" indicators for the entire economic development system. Second, there was also little evidence, in spite of the recommendations from the 1992 study, of comprehensive data collection and analysis on program performance. The report concluded with a series of organizational and procedural changes designed to address these issues. In our evaluation we revisit the basic question of whether resource allocation and performance measurement have improved in the 11 years since the 1996 report was issued.

Table 1: Divisions Within the Kansas Department of Commerce or Its Equivalent, 1983-2006

	General Administration	Industrial Development	Trade Development	Business Development	Housing	Travel and Tourism	Minority Business Development	Planning and Community Development	Community Development	Existing Industry	Agricultural Products	Office of Advanced Technology
1983	X	X			X	X	X	X				
1984	X	X			X	X	X	X				
1985	X	X			X	X	X	X				
1986	X	X			X	X	X		X			X
1987	X	X				X	X		X			X
1988	X	X				X			X	X		X
1989	X	X	X			X			X	X		
1990	X	X	X			X			X	X		
1991	X	X	X			X			X	X		
1992	X	X	X		X	X			X	X		
1993	X	X	X		X	X			X	X		
1994	X		X	X	X	X			X			
1995	X		X	X	X	X			X			
1996	X		X	X	X	X			X			
1997	X		X	X	X	X			X		X	
1998	X		X	X	X	X			X		X	
1999	X		X	X	X	X			X		X	
2000	X		X	X	X	X			X		X	
2001	X		X	X	X	X			X		X	
2002	X		X	X	X	X			X		X	
2003	X		X	X	X	X			X		X	
2004	X		X	X	X	X			X		X	
2005	X		X	X	X	X			X		X	
2006	X		X	X		X			X		X	

Source: *Kansas Governor's Budget Report* for Years Identified

The late 1990's and early 2000's brought several small but significant changes to the state's comprehensive economic development policies and organization. They are presented in Table 2, which lists all statutory changes affecting Commerce since the state established the present economic development structure in 1986. Changes with "Administrative" implications resulted in a direct expansion of Commerce's workload by expanding clients eligible for a program or service, requiring additional certification for new or existing clients, or establishing new programs or services. Changes with "regulatory" implications produced an indirect change in Commerce's business assistance-related workload by expanding its oversight obligations, requiring additional staffing for boards and commissions under its purview, or imposing other new requirements. As the table indicates, since 2000 most of the agency's most popular programs have been expanded to include a broader array of potential clients (Table 2).

Table 2: Statutory Changes Affecting Commerce, 1986-2006

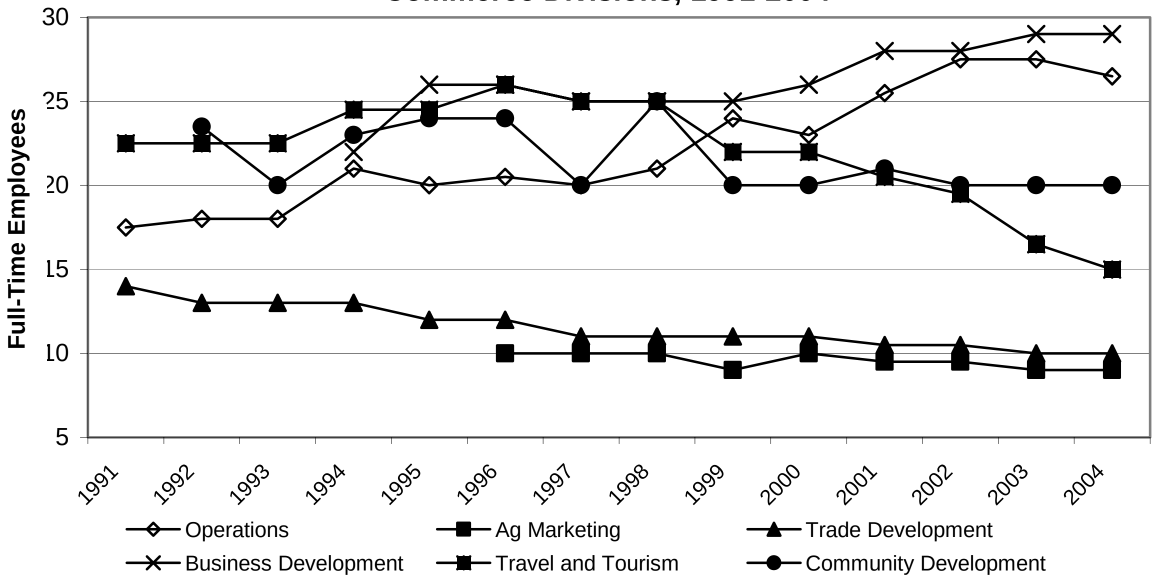
Year	Description	Implication
2006	STAR Bond Authority expanded	Regulatory
2006	Rural Business Development Tax Credit expanded	Regulatory
2006	Affordable Airfare Fund established	Regulatory
2005	Film Services Commission expanded	Regulatory
2005	Tax Confidentiality/Coordination with Dept. of Revenue	Regulatory
2005	IMPACT program expanded	Administrative
2005	Angel Investor Tax Credit established	Regulatory
2005	KDFA bonding authority expanded	Regulatory
2005	Downtown Redevelopment Act expanded	Administrative
2005	STAR Bond Authority expanded	Regulatory
2004	Kansas Athletic Commission amended	Regulatory
2004	Kansas Center for Entrepreneurship established	Administrative
2004	Agri-Tourism Promotion Act	Regulatory
2004	Tax Increment Financing Act amended	Regulatory
2004	IMPACT program expanded	Administrative
2004	Rural Development Tax Credit established	Administrative
2004	Kansas Downtown Redevelopment Act	Administrative
2003	STAR Bond authority expanded	Regulatory
2003	Income Tax Withholding Bonds created	Regulatory
2003	Council on Travel and Tourism reorganized	Regulatory
2002	Authorized Loan to Kansas Sports Hall of Fame	Regulatory
2002	Workforce Development Loan Program created	Administrative
2002	IMPACT program expanded	Administrative
2000	Enterprise Zone eligibility expanded	Administrative
2000	HPIP expanded	Administrative
2000	KEIOF expanded	Administrative
1999	HPIP expanded	Administrative
1999	Kansas Community Service Program Act amended	Administrative
1999	KIT/KIR eligibility expanded	Administrative
1999	STAR Bond authority expanded (NASCAR track)	Regulatory

Table 2: Statutory Changes Affecting Commerce, 1986-2006		
Year	Description	Implication
1998	TIF authority expanded (Oz Theme Park)	Regulatory
1998	HPIP expanded	Administrative
1998	Lake Resort Development authorization	Regulatory
1998	Economic Development Investment Incentives expanded	Administrative
1998	KIT/KIR eligibility restricted	Administrative
1997	State Tourism Fund	Administrative
1997	TIF authority expanded	Administrative
1997	Enterprise Zone eligibility expanded	Administrative
1997	HPIP eligibility modified	Administrative
1996	Agriculture Products Development Division created	Administrative
1996	Enterprise Zone Act amended	Administrative
1996	Vocational Education Instructional Equipment Aid	Administrative
1996	Service priorities for former state employees	Administrative
1996	Consolidation of agency reports	Administrative
1995	HPIP eligibility expanded	Administrative
1995	Main Street Development Grants created	Administrative
1994	Enterprise zone eligibility expanded	Administrative
1994	HPIP eligibility expanded	Administrative
1994	Community Strategic Planning Grants amended	Administrative
1994	Agency's mission expanded to include coordination	Administrative
1994	KEIOF created	Administrative
1994	Kansas Community Services Program Act	Administrative
1993	High Performance Incentives Program (HPIP) created	Administrative
1992	Enterprise Zone Act expanded	Administrative
1990	Kansas Film commission established	Regulatory
1989	Targeted Industries program created	Administrative
1989	Enterprise Zone authority expanded	Regulatory
1989	Export Loan Guarantee Review Committee created	Regulatory
1989	International Trade Show Assistance Program created	Administrative
1988	Kansas Partnership Fund established	Administrative
1988	KIT/KIR established	Administrative

Source: *Economic Development Legislation in Kansas: A Chronological History* (Topeka, KS: Kansas, Inc., 2004); also see the FY 2005 and FY 2006 updates to this same publication.
Note: Does not include changes affecting the former Commerce Division of Housing, which was transferred to the Kansas Development Finance Authority in 2003

Contrast this expansion with Figure 1, which was developed from *Governor's Budget Report* for selected years, which presents the full-time equivalent employees allocated to the six divisions within Commerce with primary responsibility for delivering business assistance programs between 1991 and 2004. The trend suggested here, which was confirmed in interviews with Commerce staff, is that expansions of the agency's regulatory and programmatic requirements created a demand for new personnel in the operations and business assistance division. But in most cases those personnel were not new FTE allocations, but rather FTEs shifted from other divisions whose programs had not experienced a similar statutory expansion.

Figure 1: Full-Time Employees within Selected Department of Commerce Divisions, 1991-2004



A series of recent executive actions and statutory changes have ushered in a new era at Commerce. The agency's basic mission and core business assistance activities have remained the same, but much of the organizational structure and funding for those activities have undergone substantial changes. Principal among those changes was passage in 2004 of the Kansas Economic Growth Act. This legislation crystallized Kansas' commitment to the 21st Century economy by establishing a state-run biosciences initiative and mechanisms for the existing economic development organizations to coordinate with the Kansas public education system to meet that future economy's labor needs. It also created capacity to promote business growth within the state through the Center for Entrepreneurship (now called NetWork Kansas) the Entrepreneurship Fund (now called StartUp Kansas), and the Kansas Small Business Development Centers, which are conducted through state-university partnerships.

Governor Sebelius further pursued this goal with Executive Reorganization Order 31, which shifted the workforce development programs administered by the former Department of Human Resources (now the Department of Labor, following this change) into the Department of Commerce. Prior to this shift workforce development programs were largely designed to mitigate the effects of shifts in the economy that had left or would soon leave workers unemployed or underemployed. Moving these programs to Commerce followed the argument that workforce development programs should be proactive and strategic. Rather than assist workers whose jobs had been changed or eliminated, the logic suggests workforce development resources should facilitate partnerships between employers that need or anticipate needing skilled employees, employees seeking those skills, and schools that can provide those skills. That philosophy was further advanced with the Kansas 1st Initiative, an additional legislative change designed to fund workforce training partnerships with vocational, community, and four-year colleges designed to meet the needs of new industries.

The net effect of these changes is effectively illustrated in the Commerce organization chart (as of 2005) presented in Appendix G. It shows the current six division structure with a large number of programs falling within the Business Development division. Consider that prior to the addition of the workforce development function, large categories of Business Development programs – namely the Kansas 1st Assessment & Labor Exchange Services and all programs under the Kansas 1st heading – were administered outside of Commerce.

These recent legislative changes – the Economic Growth Act, ERO 31, and the Kansas First initiative – are consistent with the state's tradition of forward-looking economic development strategy and organization. Our research shows that only the state of Idaho has done a restructuring of its business assistance function on this same scale, but many states have already begun looking to Kansas as a model for a 21st century business development strategy that includes an effective workforce development component. That said, the impact of these changes on Commerce's structure, funding, and organizational culture cannot be understated. These new programs roughly doubled the resources attributed to Commerce, and have required the merging of two organizations, each with very different missions and largely foreign to each other. Whether the agency can effectively pilot that merger is perhaps the most important question with respect to its future competitiveness.

Challenges to Evaluating Business Assistance

Decades of experience and academic research have shown that evaluating economic development programs is complex and challenging work. Throughout this report we have tried to make these challenges clear, and to identify the assumptions and analytical tools we used to overcome those challenges.

Defining Effectiveness

There are several ways to think about the effectiveness of state business assistance activities. Some view evidence that economic development outcomes – usually private sector capital investment, job creation, or job retention – that would not have happened without business assistance activities as evidence of effectiveness. This "but for" concept is central to most contemporary thinking on economic development policy.[6] Others equate effectiveness with outputs. If, for instance, business assistance programs can document positive growth over time in job creation, capital investment, and other indicators, the assistance should be considered a success. Still others equate effectiveness with a particular form of accountability. They assume business assistance programs follow from well-crafted policies that if properly implemented will ensure successful economic development outcomes. The challenge is ensuring compliance with program requirements, which will ultimately ensure success of the overarching policy/policies.

[6] For a good summary of this perspective see Timothy J. Bartik (2002). *Evaluating Local Economic and Employment Development: How to Assess What Works among Programs and Policies* (Paris: Organization for Economic Cooperation and Development).

Effectiveness, according to this philosophy, is evidenced by participants meeting program requirements, including stated job creation, capital investment, and other output targets.[7] Each of these perspectives has advantages and disadvantages. The “but for” style of analysis is advantageous because it most directly answers the key question in economic development policy. But it is problematic for several reasons. Arguably the most important concern is that it rarely accounts for the quality of assistance. The analysis simply identifies whether a firm participated in an assistance program or not, and then evaluates its subsequent performance. Variations in the quality and delivery of state and local public services like public safety, education, and basic infrastructure also call this assumption into question.[8] This approach is also limited by the fact that it demands sophisticated tools from statistics and economics to properly implement, and many of those tools require assumptions about individual and firm behavior that many consider unrealistic. It also tends to require highly detailed, firm-specific data that are difficult to collect and maintain.[9]

Outputs are much easier to collect, maintain, and analyze over time, but they often neglect a program’s broader impact. For instance, new jobs attributable to a particular business assistance grant are a useful metric, but say nothing about whether those jobs remain in a community over time, whether the jobs would have been created without state assistance, whether those jobs pay higher than prevailing market wages, whether those jobs represent a net increase in quality of life for the workers who take them, and many other issues.[10] It is further complicated by the fact that many business assistance programs are designed to prevent or mitigate certain outcomes. An example is enterprise facilitation programs, which provide technical and other assistance to individuals considering starting a business. At some level these programs are successful if they prevent individuals who lack the capital, expertise, or other assets from starting a business without adequate preparation and support. These sorts of non-outcomes are difficult to capture with this style of analysis.

In Kansas, analysis of outputs is further complicated by the fact that Commerce receives the majority of its annual funding in an annual operations block grant from the EDIF. Both Commerce staff and analysts from both the legislative and executive sides of state government said this block grant tends to shift policy-level discussions about Commerce resources away from individual programs and initiatives and toward agency-wide service levels and outcomes. As described later in this report, this promotes bundling of individual programs into packages of

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[7] Some have suggested the targeted nature of many economic development policies renders them impossible to compare, and thus impossible to systematically evaluate in terms of relative effectiveness. But as we show later, many of Kansas’ primary economic development tools are more alike than unlike tools found in other states. For that reason, we consider this perspective valuable but not necessarily applicable in this context. For a broader discussion of comparability and its implications for evaluating economic development policies see Timothy J. Bartik and Richard D. Bingham (1997). “Can Economic Development Programs Really be Evaluated?” In Richard D. Bingham and Peter Maier (eds.) *Dilemmas of Urban Economic Development* (Thousand Oaks, CA: Sage).

[8] Ronald C. Fisher (1997). “The Effects of State and Local Public Services on Economic Development.” *New England Economic Review* (March/April): 53-82.

[9] As Bartik (2002) notes, “The ideal – but impossible – study of a government program would borrow a time machine…go back in time, and eliminate the program but make no other direct intervention, and then compare the outcomes of this induced alternative world without the program to the outcomes in the original world with the program” (8).

[10] See, for instance, Timothy Bartik Laura A. Reese and David Fasenfest (1997). “What Works Best? Values and the Evaluation of Local Economic Development Policy.” *Economic Development Quarterly* 11(3): 195-207.

assistance offered to individual businesses. These bundled arrangements allow Commerce to more effectively leverage its resources to meet client needs, but inhibit our ability to attribute outputs to particular programs. For a concise illustration of this practice of bundling, see the case study of Company A in Appendix C. It also clouds any attempt to determine an allocation of resources across the entire economic development structure that optimizes its overall return on investment.

The compliance perspective assumes the policies that drive programs are the best possible strategy for achieving the state's economic development goals, and that each program plays a unique role in advancing those policies. In fact, stakeholders often disagree with the state's current economic development policies, and consider effectively implementing those policies counterproductive to the state's future economic well-being. Moreover, if an emphasis on compliance is viewed by businesses as an unnecessary reporting burden, a compliance focus might in fact harm economic development prospects.

As mentioned below, we attempt to address this problem of different definitions of effectiveness by collecting evidence pursuant to each definition, and then integrating that evidence into a pragmatic, holistic perspective on Commerce's effectiveness.

Commerce as Broker

Methods for delivering business assistance in Kansas, and indeed across the United States, have shifted dramatically in the past several years. Traditionally, business assistance was delivered through discrete state and local government programs designed to create a pro-business climate. Businesses interacted directly with state and local government employees who helped to identify and train new workers, find new markets for existing businesses, develop new products, and provide other assistance.

In Kansas, like many states, most business assistance is now delivered through a variety of formal and informal partnerships among local governments, county and regional economic development associations, site location consultants, secondary and post-secondary schools, other state agencies like the Departments of Revenue or Health and Environment, local non-profit organizations, and other stakeholders.[11] The success of any business assistance activity is often determined by the trust and cooperation within these complex "networked" arrangements. Commerce staff are most often in the center of these networks. Their unique vantage point affords them great influence over how other network members define their goals and objectives, how the network members communicate, the resources available to the network, and other critical considerations.

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[11] There is a growing literature that attempts to describe these networks, and to outline effective strategies for managing within them. See, for instance, Michael McGuire (2006). "Collaborative Public Management: Assessing What we Know and How we Know It." *Public Administration Review* 66(1): 33-44; Robert Agranoff (2003). *Leveraging Networks: A Guide for Public Managers Working Across Organizations* (Washington, DC: IBM Endowment for the Business of Government); Eugene Bardach (1998). *Getting Agencies to Work Together: The Practice and Theory of Managerial Craftsmanship* (Washington, DC: Brookings Institution Press); Stephen Goldsmith and William D. Eggers (2004). *Governing by Network: The New Shape of the Public Sector* (Washington, DC: Georgetown University Press); Brinton H. Milward and Keith G. Provan (2003). "Managing the Hollow State: Collaboration and Contracting." *Public Management Review* 5(1): 1-18.

These networks present a unique management challenge. Because Kansas is so diverse with respect to labor pools, geography, infrastructure, and other economic development concerns, business assistance networks in different parts of the state often have similar structures but function in different ways. Commerce staff must respond by playing different roles in each network depending on its location and the types of assistance required. For instance, our research indicates that in the state's metropolitan regions Commerce staff play a basic advisory role. Networks in these regions are comprised of highly professionalized local economic development personnel who have clearly formulated goals, substantial resources, and a wealth of industry-specific knowledge. They expect Commerce staff to remain largely uninvolved in the process of recruiting and siting new businesses, or in expansions of existing businesses. Instead, they expect Commerce staff to keep them informed of recent statutory, policy, and regulatory changes, to communicate their concerns to Commerce leadership and/or state legislators, and to facilitate access to business assistance programs relevant to a particular project.

But in other regions, particularly those with part-time local economic development staff, Commerce staff play an almost entirely different role. They are often heavily involved in the day-to-day administration of these exact same assistance activities. They provide technical assistance and market analysis to individual businesses, assist local governments on permitting and regulatory issues for new businesses, help regional economic development organizations to identify federal grants and other outside resources, and become involved in the direct administration of business assistance in a variety of ways. But regardless of their level of involvement, Commerce staff attribute all credit for positive outcomes to the other network members. As one site location consultant put it – "Commerce staff make it known that they are the escorts, and the local folks are the VIPs."

In reality, Commerce staff spends dozens of hours "setting the stage" for a potential business location. They provide the business or its agent information about industrial sites, environmental permitting processes, applicable tax credits and incentives, the labor pool in the prospective community, capacity of local utilities, and other factors essential to any business location decision. They also provide information about the prospective business to the local economic development staff, city/county administration, and elected officials in the prospective community. If the location is successful, these "throughput" activities are connected to an output, and vice versa. A similar dynamic is noted for international trade promotion, where business assistance staff often spend substantial amounts of time preparing Kansas businesses to participate in international trade shows, and planning international trade missions to showcase Kansas businesses in other markets. In some cases these efforts result in new exports or foreign investment in Kansas businesses, but in other cases they do not. Defining the connection between throughputs and outputs becomes even more complex when, as we noted several times in our review, location or investment prospects are often unsuccessful, but set the stage for future success by providing a business or investor the chance to become familiar with the Kansas business climate.

In short, from an evaluation standpoint, this variation in the relationship between Commerce staff inputs and business assistance outcomes presents a substantial challenge.

Emphasis on Entrepreneurship

Entrepreneurship is one of the most popular trends in contemporary state and local economic development policy. Most states, including Kansas, have bolstered their efforts to promote small new businesses by adding entrepreneurship education, small business development centers, microloans, and other programs to their palette of business assistance tools. In Kansas most of this assistance is provided by the eight Kansas Small Business Development Centers, which are state-university-federal-private sector partnerships designed to provide established and prospective businesses with basic tools in marketing, finance, hiring practices, and other essential business skills, and through the NetWork Kansas (formerly the Kansas Center for Entrepreneurship) which is principally responsible for helping businesses navigate the business assistance programs available through Commerce, the federal government, and other sources. Both are considered part of the state's economic development apparatus, and thus part of Commerce's coordination responsibilities.

Start-up business growth, while clearly one of the state's key economic development policy goals, is difficult to evaluate for two principal reasons. First, start-ups often take months or years to reach the point where they engage in the two behaviors – job creation/retention and capital investment – most widely associated with Commerce effectiveness. Until a business grows to the point of needing new employees or investment, it is essentially not included in the data that allow us to determine whether the Commerce assistance had any effect on those outcomes. Second, the Kansas Small Business Development Centers and NetWork Kansas are the organizations with primary responsibility for small business assistance. Since the small business assistance programs are designed to serve a different population than the broader Commerce business assistance programs, most clients will have no basis for comparison between the two. In short, there is no need for us to directly evaluate the effectiveness of Commerce's current efforts to promote entrepreneurship.

That said, we do attempt to address arguably the more important question of how well the small business assistance network coordinates with the broader Commerce organization. For that reason we interviewed staff from the Small Business Development Centers and staff within Commerce who coordinate with those agencies on small business assistance issues.

Organization Change

The staff and mission of the Commerce business assistance function has been relatively stable throughout the past approximately 15 years. However, the organization around that function has been in a state of nearly perpetual change during that same time. The most widely noted change is the previously mentioned ERO 31, which brought to Commerce the Workforce Development programs previously housed in the Department of Labor. That change increased the agency's budget by approximately 70% (from $60 million to over $100 million, most from new federal dollars) and increased its full-time equivalent employees from just over 100 to just over 400. Since that merger the number of employees in the Business and Workforce Development Division has been reduced. Approximately 15 positions were eliminated in the 18 months following the merger, mostly through restructuring of several positions and non-replacement of employees lost through attrition.[12] Approximately 60 positions were then lost when the agencies' federal Workforce Investment Act funding was reduced in early 2007.

Structural changes and personnel losses aside, the Business-Workforce Development merger was problematic because it forced into close proximity two sharply different organizational cultures.[13] While a full discussion of those cultures is outside the scope of this evaluation, the basic problem is simple. The culture of the traditional business development division emphasized close, pro-active relationships with businesses for the purpose of making Kansas as business-friendly as possible. At the risk of oversimplifying, workforce development staff have roughly the opposite view. Many of them view their work through the lens of market failure; they help workers cope with business' inability or unwillingness to effectively address structural or cyclical economic changes that lead to layoffs, downsizing, and other employment reductions. Workforce staff are averse to the idea of partnering with business to more effectively meet its labor needs. Business development staff are averse to the idea of workforce development policies that do not actively involve the business community. Almost without exception, Commerce staff said this "culture clash" was the definitive issue in Commerce today.

Commerce has also experienced higher than average turnover at the Secretary and Deputy Secretary levels. Commerce staff regularly made comments to the effect that "three Secretaries in the past 20 months has made things difficult," particularly in the context of the previously mentioned structural and personnel changes.

We found evidence that these changes have damaged Commerce's relationship with some of its key stakeholders. Moreover, we also found these changes have obfuscated those same stakeholders' understanding of Commerce's interworkings, and which economic development functions for which Commerce is responsible. The following focus group comments illustrates these concerns:

> *It's just been kind of odd. I just don't know who's in charge.*
>
> *Are they advertising for those jobs or are they just having a difficult time – or have they decided what to do with those positions?*
>
> *If you're gonna get a top leader to take your economic development to the next level, then you're gonna have to say, 'first let me go out and find who I want, and then within reason, I'm gonna pay them'. …If you want a true business leader to run that, you're gonna have to pay a lot more than ninety to a hundred thousand.*

Similar focus group comments indicate personnel turnover and vacancies have been a problem for several years, particularly in some of the state's rural areas.

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12 These changes were documented and discussed in a 2007 KS Legislative Post-Audit report titled *Department of Commerce: Personnel Practices Related to Employees in the Divisions of Business and Workforce Development.*

13 For a broader perspective on the concept of organizational culture see Edgar H. Schein (1992). *Organizational Culture and Leadership* (San Francisco: Jossey Bass)

A written city manager comment captures one key element of the confusion about roles and responsibilities across the statewide economic development apparatus.

> *I think that with the emphasis in bioscience, there is a bit of confusion with the roles of DoC versus the Kansas Bioscience Authority. Also, I believe that state institutions, such as state universities, should be part of the state's package to a prospect and not left to navigate or be leveraged by the local jurisdictions. This coordination has become very important with the bioscience prospects.*

These perceptions illustrate the core problem in attempting to gather stakeholder perceptions of Commerce in this recent change environment – stakeholders' uncertainty about how Commerce works and whether to attribute economic development outcomes to it or some other agency diminishes the reliability of their perceptions.

Evaluation Methods and Assumptions

We attempted to address these challenges several different ways.

Multiple Perspectives on Effectiveness

First, we cataloged evidence consistent with multiple perspectives on effectiveness. We took account of the "but for" concept in several ways. We include a statistical analysis that allows us to directly compare trends in two key indicators – job creation and wage growth – for a sample of Kansas businesses that have and have not received Commerce assistance. Our discussion of that analysis in Appendix D makes clear the requisite assumptions and inherent limitations of that analysis. Confidential interviews were conducted with leaders of fourteen businesses – seven based in Kansas and seven based outside of Kansas but with some portion of their business activity in Kansas – to determine how Commerce assistance has affected their business. Those interviews illuminated how the "but for" question was addressed within particular businesses. We also interviewed city managers/administrators and local economic development staff to gather their perceptions on whether recent economic development projects in their communities that would have occurred "but for" the assistance Commerce provided. And finally, we interviewed representatives from seven site location consulting firms. Some of these firms had recently located businesses in Kansas, and others had considered Kansas for recent projects that were ultimately sited in other states. Those interviews helped clarify what role Commerce assistance played in these location decisions. Although these techniques do not completely address the "but for" issue, they substantially reduce the possibility of false claims about program effectiveness.

We took account of the outputs perspective by gathering and presenting Commerce's self-reported output measures. Trends in those outputs over time are analyzed. But perhaps more important, we included in the previously mentioned survey a group of questions asking businesses to evaluate Commerce's degree of follow-up and oversight during and after the provision of assistance. Those questions specifically probed whether Commerce staff had requested documentation on jobs created, capital investment, and other promised outcomes. This approach follows from previous findings[14] and from our own initial assessment that Commerce's practice of relying on businesses' self-reported output figures is not inherently problematic, so long as staff periodically verifies that businesses had met their intended job creation targets.

We took account of the compliance perspective by asking businesses, in the previously mentioned survey, to assess the level of "red tape" present in key programs to determine whether they consider those regulatory requirements are burdensome. Similar questions about the regulatory burden were asked in the interviews of business leaders, site location consultants, and in the focus groups.

Exclusion of the Workforce Development Programs

Commerce's future success will be defined in large part by its ability to effectively integrate the workforce development programs into the agency's prevailing business development function. The agency's management of that transition has been subjected to broad scrutiny, in particular a KS Legislative Post-Audit Report released in February 2007 titled *Department of Commerce: Personnel Practices Related to Employees in the Divisions of Business and Workforce Development* that was critical of how Commerce had managed the transition of the former workforce development employees into the new Commerce. Losses of federal Workforce Investment Act funds have also forced the agency to cut back approximately 65 employees in the workforce function. These actions have been met with similar criticism.

There is some evidence that the merger has hindered the agency's long-term ability to provide effective business assistance. The previously mentioned LPA audit speaks directly to a variety of morale issues arising from the merger, and our conversations with both Commerce staff and stakeholders echoed those concerns. Nonetheless, we believe it is simply too soon to determine how this merger will affect Commerce's long-term effectiveness. That conclusion is based on two main pieces of evidence.

First, to our knowledge, this sort of integration of workforce development staff and programs into a business assistance strategy is unprecedented, and thus we are without a reasonable benchmark against which to compare Commerce's piloting of this merge. Nonetheless, the limited available evidence indicates the Kansas experience is not unique. For instance, a few states have consolidated programs funded by the federal Workforce Investment Act into a single agency. Conversations with former workforce development staff in Utah, which has been

[14] The previously mentioned 1992 Kansas, Inc./IPPBR study recommended Commerce begin tracking performance and output measures. The 1996 Kansas Inc. evaluation noted performance information was being collected, but was not effectively stored, monitored, and analyzed in ways that informed key programmatic decisions. A 2004 KS Legislative Post-Audit review titled *Job Expansion Programs: Determining Whether State Agencies are Collecting the Information Needed to Know Whether These Programs are Successful* reviewed the Kansas Existing Industry Expansion Program (KEIEP), Kansas Economic Opportunities Initiatives Fund (KEIOF), Kansas Industrial Training (KIT) and Investments in Major Projects and Comprehensive Training (IMPACT) programs. It concluded that Commerce's practice of relying on job creation figures reported from businesses was not inherently problematic, but that potential problems could be mitigated by more frequently verifying that businesses had met their intended job creation targets.

developing an integrated "one-stop" workforce development model since the mid-1990's,[15] revealed that it had experienced substantial coordination and other problems that took several years to fully resolve. Idaho appears to be the only state that has attempted a workforce development-business development merger similar to that attempted in Kansas. Informal conversations with staff involved in that initiative - known as IdahoWorks – revealed it had encountered similar challenges and did not expect to fully resolve those challenges for some time. Therefore, although ERO 31 was enacted more than 3 years ago, it is premature to consider its long-term organizational impact on Commerce.

That said, in the course of our evaluation we did encounter clear evidence of success for the new combined workforce development-business assistance strategy. One of those instances is highlighted in case study E in Appendix C, which documents how Workforce Investment Act resources facilitated new partnerships among industry, Kansas community colleges, and state government to provide skilled labor for targeted industry needs. Participants in these networks considered this model highly successful, and said they looked forward to its application in other industries. But in the absence of additional evidence on its application elsewhere, it is simply too soon to consider this hybrid perspective a success or a failure. Therefore, throughout our evaluation "business assistance" programs refers to assistance programs and incentives in place before ERO 31.

We did choose to make one important exception to this strategy of excluding workforce development programs. That exception is the Kansas Industrial Training/Retraining (KIT/KIR) grants, which did receive explicit attention in our analysis. KIT/KIR funds are direct programmatic business assistance offered by the Workforce Development area of Commerce. They are often packaged with other business assistance incentives. For that reason, we surveyed businesses that received KIT/KIR funding from 2002-2006 to gather their perceptions about the program's effectiveness and its impact on their business. We also identify case studies where KIT/KIR funding play in achieving key outcomes, and we discussed the impact and effectiveness of KIT/KIR in the business leaders and site location consultant interviews.[16]

Coordination Effectiveness

Finally, we attempted to directly assess the effectiveness with which Commerce coordinates with other stakeholders in business assistance services and programs. This was accomplished with three different techniques. First, we conducted five focus groups in Kansas communities including representatives from the local chambers of commerce, municipal government, convention and visitor bureaus, community development experts, and other key stakeholders.

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[15] The Utah Department of Workforce Services began developing this model with state funding approximately five years before the federal Workforce Investment Act was created in 1998. For more on Utah's efforts in this area see Christopher King and Dan O'Shea (2004), ""Utah Case Study" *The Workforce Investment Act in Eight States: State Case Studies from a Field Network Evaluation* (Washington, D.C.: U.S. Department of Labor).

[16] The largest business assistance program in terms of dollars of assistance is the IMPACT program, which is described in more detail in the next section. Despite its size, we do not examine IMPACT here for two reasons. First and foremost, even though it is related to business assistance activities broadly construed, the IMPACT program is fundamentally a Workforce Development initiative and therefore outside the scope of our review. And second, despite the amount of dollars spent on it, only a small number of firms actually receive IMPACT dollars in a given year. It is therefore more of a targeted assistance initiative rather than a broad programmatic effort.

These focus groups facilitated gathering a community-wide perspective on how well Commerce coordinates across each of its respective stakeholders. Second, questions about coordination effectiveness were also included in the survey of business assistance recipients. And third, those same questions were asked during the interviews of business leaders and site location consultants. Evaluating coordination effectiveness is more possible now than ever before because of a burgeoning literature on the determinants of success in “networked” or “collaborative” arrangements like economic development. That literature provided clear criteria against which to evaluate Commerce’s ability to coordinate with its stakeholders.

Thus, our data collection effort was both qualitative and quantitative, attempted to speak to multiple notions of effectiveness, and incorporated perspectives from virtually every stakeholder with whom Commerce regularly interacts. We believe it provides as comprehensive as possible an assessment of the agency’s current and future effectiveness.

Evaluation Methods

Given the questions, challenges, and constraints mentioned above, our data collection effort included several components.

Review of Agency Materials. We reviewed approximately 3,000 pages of Commerce documents, the previous 10 years of Commerce annual reports, and twenty years of the Department of Commerce (or it’s predecessor) sections of the *Governor’s Budget Report*.

Review of Existing Findings. We reviewed all previous evaluations of Commerce. We also reviewed the scholarly journal articles, books, and reports on various aspects of economic development including tax incentive effectiveness and implementation, agriculture value added programming, lottery funding of state economic development, economic development networks, and other areas relevant to our evaluation work.

Commerce Staff Interviews. We spoke with 52 Commerce staff across the six divisions that deliver the majority of the agency’s traditional business assistance services. This figure includes staff at the in-state regional field offices, out-of-state field offices, and international contract representatives.

Partner Agency Interviews. We interviewed staff at the Department of Revenue that coordinate with Commerce to deliver the High Performance Incentive Program (HPIP), and with staff at the Department of Transportation who work with Commerce on specific projects’ infrastructure needs. We also spoke with staff at the Small Business Development Centers, which coordinate with Commerce to assist start-up and small businesses.

Trends in Business Assistance. Comprehensive data were collected from businesses that have participated in several key agency programs including the High Performance Incentive Program, the Kansas Economic Initiative Opportunity Fund, the Kansas Partnership Fund, and the Kansas International Trade Show Assistance Program.

Comparative State Analysis. We reviewed the organization, funding, and types of business assistance activities in five states – Arizona, California, Colorado, Missouri, and Idaho. Each of these states defines its business assistance function in ways similar to Kansas. California was selected because while it defines its mission similar to Kansas', it has taken recent steps to restrict the use of certain kinds of economic development incentives for in-state business relocations. Arizona was chosen because in addition to sharing function role definition like Kansas, it funds some of its economic development activities through lottery funds. The comparison to Idaho was important because, similar to Kansas, Idaho is a small, largely rural state with a strong and aggressive commitment to economic development. Furthermore as Kansas has done, it has attempted to incorporate its workforce development programs into a broader business development policy framework. Colorado and Missouri were selected because they are border states often identified as key Kansas competitors on economic development opportunities.

Survey of Kansas Businesses. A survey of 1,600 Kansas businesses was administered through the Institute for Policy & Social Research's website.[17] Roughly half these businesses received some form of Commerce assistance between 2001 and 2006, and the other half, which were similar to those businesses with respect to number of employees and industry classification, did not receive business assistance. A total of 87 businesses completed the survey. Of those 87 respondents, 74 (or 85%) received some form of Commerce assistance.

Focus Groups. Evaluation team members conducted on-site focus groups in five Kansas communities. These communities were chosen to represent Kansas communities broadly construed. Their populations ranged from less than 2,000 to regional population centers. More than 40 business leaders, local economic development professionals, local government staff, and community leaders participated in these structured conversations about Commerce activities. The focus groups allowed us to develop insights into the many different roles Commerce staff play in economic development networks across the state, and to better understand how different stakeholders in different parts of the state and in different types of communities evaluate Commerce's effectiveness.

Executive Interviews. We interviewed leaders from 14 businesses selected to reflect the overall make-up of the Kansas economy. In most cases the chief financial officer and/or chief operations officer gave the interview. These interviews revealed important insights and trends into Commerce's current and future effectiveness. Many of the firms interviewed also have established or have considered establishing operations in other states, thus providing a valuable comparative state perspective. All businesses employed at least five employees, had been in business at least five years, and had received some form of program-based Commerce assistance in the past five years. Roughly one-third are publicly traded. They include:

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[17] This survey process began by collecting data on participants in key Commerce programs including the KEIOF, HPIP, KPF, CDBG, KIT, KIR, and Main Street programs. Commerce staff provided contact information on those recipients. We then used the Dun & Bradstreet Global Database to identify all non-retail Kansas businesses with more than 9 employees, and a random sample of non-retail businesses with 9 or fewer employees. This search procedure produced a sample of firms comparable in size and industry to the group of businesses that received Commerce assistance during the sample period.

- Two food processing companies - one national and one international - both based outside of Kansas
- An international biosciences research and manufacturing company based in Kansas
- An international heavy construction company based outside of Kansas
- An international health care products manufacturer based in Kansas
- An international specialty retail provider based in Kansas
- An international specialty manufacturing company based in Kansas.
- A national specialty manufacturing company based in Kansas
- A national light manufacturing company based outside of Kansas
- A national light manufacturing company based in Kansas
- A national telecommunications provider based outside Kansas
- A national telecommunications provider based in Kansas
- A national information technology services company based outside of Kansas
- A national logistics company based outside of Kansas
- A regional specialty food products company based in Kansas

City Manager/Administrator Survey. We surveyed and/or interviewed 16 Kansas city/county managers/administrators. Responses were broadly representative of Kansas communities with respect to geography, population, and relationships with Commerce. These survey responses provided an important local perspective on Commerce's current and future effectiveness. Many administrators have also worked in other communities in Kansas or in other states, which affords them an important comparative perspective on Kansas business assistance.

Site Location Consultant Interviews. We interviewed representatives – most often the President or head associate – from eight site location consulting firms. These consultants provide a variety of services to businesses seeking to expand or relocate their operations including researching and identifying potential sites, analyzing the impact of tax incentives and other assistance on the cost of doing business in a particular location, and in most cases recommending the most cost-effective site for an expansion/relocation. They are a critical stakeholder in state and local economic development. The information they do or do not provide clients has noteworthy effects on Kansas' ability to succeed in business recruitment and retention. Moreover, the fact that most consultants conduct regional or national site selection searches provides them with a unique perspective on the comparative effectiveness of Commerce staff and programs. We attempted to speak to a variety of consultants currently doing location work for businesses consistent with Kansas' stated economic development objectives. All but one of these firms had considered Kansas for at least one site location within the past five years. Three site consultants had located multiple projects in Kansas in the past five years; two contractors were involved in projects where a Kansas site was a finalist but the location occurred in another state, two agencies considered but ultimately recommended against Kansas for a particular project; and two companies claimed familiarity with Kansas business assistance but have had no recent interactions with Commerce staff. Those firms included:

- An international firm specializing in locations of corporate professional services companies
- An international firm specializing in locations of life sciences manufacturing, chemical manufacturing, and other specialized manufacturing companies

- A national firm that provides specialized location management services for biosciences firms
- A national firm specializing in locations of corporate headquarters and call centers
- A national firm specializing in locations for logistics and transportation facilities
- A national firm specializing in location work for traditional manufacturing, aircraft manufacturing, and food processing
- A regional firm specializing in heavy manufacturing locations
- The local office of an international location firm that represents the majority of the Fortune 500 companies

Case Studies. We developed case studies of seven businesses to demonstrate the role of Commerce assistance in various stages of business development. Those case studies are presented in Appendix C.

Statistical Analysis. We analyzed trends in the performance of businesses that recently received Commerce assistance compared to those that had not recently received assistance. A detailed discussion of the methodology for that analysis is presented in Appendix D.

Major Findings

In this chapter we present our findings organized in terms of the original four evaluation questions.

Our basic conclusion is simple: Commerce business assistance activities generally achieve their stated mission of "advancing prosperity for all Kansans." Almost all the evidence we collected suggests Commerce makes effective, accountable use of public resources, and that its activities closely associate with a variety of highly desirable economic development outcomes. That said, we also note several threats to its current and future effectiveness.

A few general themes bear mention at the outset:

- The array of business assistance programs, services, and incentives that Kansas offers is generally perceived as neither highly competitive nor highly uncompetitive relative to other states.
- Although it offers an "average" palette of business assistance programs and incentives, Kansas has three main sources of competitive advantage relative to business assistance offered by other states: 1) the effectiveness with which its assistance is administered, 2) an economic development strategy that, in the opinions of key external stakeholders, effectively capitalizes on the state's location attributes, and 3) strong working relationships among state business assistance staff and local/regional economic development networks.
- Kansas assistance programs and incentives are viewed as particularly well-suited for projects with stable and predictable business plans such as regional distribution hubs, call centers, and corporate headquarters. Businesses considering projects with a higher degree of risk or uncertainty are less likely to access this assistance because they consider themselves less likely to meet job creation, capital investment, and other targets.
- Many observers have argued that Kansas has two economies – Northeast Kansas, which has and will likely continue to experience robust growth, and the rest of the state, which by many definitions is economically depressed.[18] This phenomenon is fully reflected in how stakeholders perceive the effectiveness of business assistance programs. Perhaps more important, it is also evident in how stakeholders in each region think about what Commerce ought to do.
- Communities view Commerce as a valuable resource and an important partner in their economic development efforts. In most cases, they would like to see more involvement from Commerce, but recognize its resources are limited.
- Communities expect Commerce leadership to set the agenda for the state's economic development direction. Recent changes in organizational structure and top-level leadership at Commerce have caused substantial "mission drift," and have left many stakeholders unclear on the state's strategic direction.

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[18] For more on this phenomenon see Arthur P. Hall and Peter F. Orazem (2005). *A Brief Economic History of Kansas, 1969-2003* (Topeka, KS: Kansas, Inc.)

1) How is business assistance delivered across the state in terms of population, geography, industry codes, and business size?

This section describes recent trends in the delivery of particular types of Commerce business assistance. We present those trends by year, geography, and firm characteristics. We also describe how key assistance programs are often bundled into larger assistance packages. Tables 3-10 summarize individual records of assistance provided by Commerce. The raw data are not included because of concerns about confidentiality.

Commerce offers firms and communities a wide array of assistance. Some of that assistance takes the form of grants, loans, or tax credits: examples include Kansas Industrial Training, the Kansas Partnership fund, the IMPACT program, and the High Performance Incentive Program. Firms that qualify for and receive such assistance are recorded by program staff in numerous spreadsheets and databases. Other types of assistance such as education on trade opportunities or identification of potential building sites do not often involve a monetary exchange. These interactions may be recorded and tracked by program staff; however, there are no uniform and easily summarized data on the extent of these transactions. Therefore, this chapter confines itself to a discussion of the use of formal Commerce programs. Other “non-monetary” interactions with Commerce are covered in the discussion of our survey results and in the case studies.

Commerce provided us with data from 2002-2006 for all major monetary assistance programs. In a very few cases, Commerce was not able to provide us with data for a specific program for a specific year. For example, FY 2006 data for HPIP are incomplete and cover only about half of the year. We were unable to obtain updated information. In most cases, Commerce provided a Federal Employee Identification Number (FEIN) so that we could track whether the same firm benefited from multiple programs. The FEIN also allowed us to identify firms assisted by Commerce in a micro-level database maintained by Professor John Leatherman at Kansas State University. The Leatherman data provided us with the size and industry code of assisted firms.

During the time period examined by this study, Commerce recorded well over 1000 instances of assistance to Kansas firms (Table 3). In dollar terms, assistance totaled over $112 million, of which about $89 million was distributed through the IMPACT program (Table 4). In some cases (such as the Kansas Partnership Fund) assistance actually is provided to a community or to an economic development agency: however, the intention of the assistance is to attract or increase business employment, sales, and investment.[19]

It should be pointed out that the IMPACT program provided the majority of distributed funds during the 2002-2006 period. IMPACT is designed to assist both new and established firms that expand or retain significant numbers of employees in the state. IMPACT funds are used primarily for training, but sometimes for recruitment and equipment. The assisted firms are large, and funds distributed to a single firm may exceed $10,000,000.

[19] In these tables a blank cell indicates that program provided no assistance for that year. Cells identified as “missing” indicate Commerce staff were not able to provide data for that year.

An examination of the data shows no clear time trends in assistance during the 2002-2006 time period for programs other than IMPACT. However, IMPACT has grown dramatically over the study period, topping $48 million in 2006. IMPACT is directed towards large firms; hence an increasing proportion is flowing to large businesses.

Table 3
Business Assistance by Program and Year (Number of Grants, Credits, Loans) 2002-2006

Program Name	**FY2002**	**FY2003**	**FY2004**	**FY2005**	**FY2006**	**Total by Program**
Community Capacity Building Program	15	12	7			34
From the Land of Kansas		1	3	5	13	22
High Performance Incentive Program	22	27	27	97	14	187
Incentives Without Walls	16	28	26	34	24	128
Kansas Economic Opportunity Initiative Fund	13	17	10	18	14	72
Kansas Existing Industry Expansion Program	6	4	3	5	2	20
Kansas International Trade Show Assistance	47	36	39	missing	6	128
Kansas Industrial Retraining	60	68	56	40	52	276
Kansas Industrial Training	43	48	41	52	37	221
Metropolitan Community Capacity Building		1		18		19
Kansas Partnership Fund			1	2	2	5
Subtotal without IMPACT	222	242	213	271	164	1,112
IMPACT	6	9	6	9	11	41
Total By Year	228	251	219	280	175	1,153

Source: Data were provided by Ed Gray, Nadira Patrick, and David Bybee of the Kansas Department of Commerce. Data were summarized by the report authors. Individual firm-level data have not been included due to confidentiality concerns. Note: High Performance Incentive Program data are incomplete for 2006.

Table 4
Business Assistance by Program and Year (Dollars of Assistance) 2002-2006

Program Name	**FY2002**	**FY2003**	**FY2004**	**FY2005**	**FY2006**	**Total by Program**
Community Capacity Building Program	179,500	156,748	108,500			444,748
From the Land of Kansas		250	1,231	840	4,554	6,875
High Performance Incentive Program (tax credits: no precise monetary payment)						0
Incentives Without Walls	190,975	265,640	264,978	349,499	196,727	1,267,819
Kansas Economic Opportunity Initiative Fund	1,885,000	2,073,000	1,489,500	1,639,000	1,136,500	8,223,000
Kansas Existing Industry Expansion Program	265,000	100,000	80,000	136,500	325,000	906,500
Kansas International Trade Show Assistance	89,840	66,834	78,485	missing	16,923	252,082
Kansas Industrial Retraining	1,843,471	1,696,546	1,590,000	1,061,681	1,699,709	7,891,407
Kansas Industrial Training	1,660,069	1,974,632	1,425,141	1,874,072	1,034,693	7,968,607
Metropolitan Community Capacity Building		15,000		677,180		692,180
Kansas Partnership Fund			343,000	335,745	213,694	892,438
Subtotal without IMPACT	6,113,855	6,348,650	5,380,835	6,074,517	4,627,800	28,545,657
IMPACT	3,263,018	5,206,785	8,825,000	17,390,000	48,937,384	83,622,187
Total By Year	9,376,873	11,555,435	14,205,835	23,464,517	53,565,184	112,167,844

Source: Data were provided by Ed Gray, Nadira Patrick, and David Bybee of the Kansas Department of Commerce. Data were summarized by the report authors. Individual firm-level data have not been included due to confidentiality concerns. Note: High Performance Incentive Program data are incomplete for 2006.

Often the assistance received by a firm is bundled into a package that includes funding from several different programs (see for example case studies C and H in Appendix C. During the 2002-2006 time span, 1003 unique firms received assistance. Of these, 722 received assistance only once, 180 received assistance twice (generally from two separate programs), 55 firms received assistance three times (generally from three separate programs), and 46 firms received assistance four or more times. Most commonly, a firm receiving multiple incentives qualified for a combination of HPIP, KEOIF, and KIT or KIR or for a combination of HPIP, KEOIF, and IMPACT. Clearly the Commerce programs work together to provide for the multiple needs of Kansas businesses.

An important question is whether all areas of the state receive their "fair share" of Commerce assistance. Commerce serves a state-wide mission. For the most part, assistance is provided to qualified firms regardless of their geographic location. As a result, the bulk of Commerce assistance flows to the densely populated areas of East Central Kansas (including Johnson County), North Central Kansas (including Topeka) and South Central Kansas (including the Wichita area).

The distribution of assistance for programs *other than* IMPACT corresponds roughly to the distribution of population in the state. In other words, there is no evidence that Commerce investment is targeted toward smaller communities or toward communities in more rural parts of the state. There also is no evidence that assistance flows to areas of the state with the greatest need for economic development. The IMPACT program is open only to firms with large numbers of employees. These firms are most often located in the Kansas City or Wichita areas. Hence the distribution of funds is skewed towards urban areas when IMPACT is included.

Table 5
Distribution of Population and Assistance Dollars
2002-2006

Region	**Percent of Population**	**Percent of Assistance Dollars not including IMPACT**	**Percent of Assistance Dollars including IMPACT**
East Central	33.1%	35.9%	69.1%
North Central	10.7%	11.2%	3.7%
Northeast	9.7%	9.2%	3.4%
Northwest	3.4%	3.4%	1.2%
South Central	27.9%	26.8%	18.3%
Southeast	7.3%	8.4%	2.9%
Southwest	7.9%	5.0%	1.3%

Source: Commerce data were provided by Ed Gray, Nadira Patrick, and David Bybee of the Kansas Department of Commerce. Population data are taken from the US Census Bureau. Data were summarized by the report authors.

Table 6
Business Assistance by Region (Number of grants, loans, credits) 2002-2006

Program Name	**Unknown**	**East Central**	**North Central**	**Northeast**	**Northwest**	**South Central**	**Southeast**	**Southwest**	**Total**
Community Capacity Building Program		3	10	2	6	9	3	1	34
From the Land of Kansas			7	6		9			22
High Performance Incentive Program	8	88	13	10	3	49	12	4	187
Incentives Without Walls	1	13	44		10	37	14	9	128
Kansas Economic Opportunity Initiative Fund		30	8	5	3	19	3	4	72
Kansas Existing Industry Expansion Program		7	1	1		6	2	3	20
Kansas International Trade Show Assistance		67	7	7	2	25	14	6	128
Kansas Industrial Retraining	6	96	24	17	14	75	33	11	276
Kansas Industrial Training		106	18	11	4	41	28	13	221
Metropolitan Community Capacity Building	1	1	4	2		11			19
Kansas Partnership Fund			1	2				2	5
Subtotal without IMPACT	16	411	137	63	42	281	109	53	1,112
IMPACT		29	1	1	1	8	1		41
Total By Region	16	440	138	64	43	289	110	53	1,153

Source: Data were provided by Ed Gray, Nadira Patrick, and David Bybee of the Kansas Department of Commerce. Data were summarized by the report authors. Individual firm-level data have not been included due to confidentiality concerns. Note: High Performance Incentive Program data are incomplete for 2006.

Table 7
Business Assistance by Region (Dollars of Assistance) 2002-2006

Program Name	**Unknown**	**East Central**	**North Central**	**Northeast**	**Northwest**	**South Central**	**Southeast**	**Southwest**	**Total**
Community Capacity Building Program		37,500	135,500	20,500	79,248	122,000	35,000	15,000	444,748
From the Land of Kansas			2,731	1,490		2,654			6,875
High Performance Incentive Program									
Incentives Without Walls	15,000	125,325	509,480		98,489	328,659	166,320	24,546	1,267,819
Kansas Economic Opportunity Initiative Fund		2,938,500	424,500	1,215,000	363,000	2,330,000	360,000	592,000	8,223,000
Kansas Existing Industry Expansion Program		180,000	25,000	50,000		477,500	125,000	49,000	906,500
Kansas International Trade Show Assistance		146,092	8,053	15,619	1,348	48,660	19,814	12,496	252,082
Kansas Industrial Retraining	69,073	2,502,348	822,605	617,583	288,632	2,699,106	764,508	127,552	7,891,407
Kansas Industrial Training		4,282,284	709,332	394,168	149,838	1,150,053	933,377	349,555	7,968,607
Metropolitan Community Capacity Building	150		213,400	2,750		475,880			692,180
Kansas Partnership Fund			343,000	291,238				258,200	892,438
Total By Region	84,223	10,212,049	3,193,601	2,608,348	980,555	7,634,512	2,404,019	1,428,349	28,545,656

Source: Data were provided by Ed Gray, Nadira Patrick, and David Bybee of the Kansas Department of Commerce. Data were summarized by the report authors. Individual firm-level data have not been included due to confidentiality concerns. Note: High Performance Incentive Program data are incomplete for 2006.

Many Commerce databases do not track the size of assisted firms or their industrial classifications on a systematic basis. Therefore, we had to rely upon the previously mentioned database constructed by John Leatherman of KSU to analyze the industrial structure of assisted firms. We used the FEIN number (when available) to match Commerce data with the Leatherman database. This procedure posed two difficulties. First, many firms in the Commerce databases do not have a listed FEIN number. These firms appear for the most part to be small retail and service establishments. Second, even some Commerce firms that do have an FEIN number cannot be found in Leatherman data. The second problem may arise because a single firm may have multiple FEIN numbers, and those used in the two data sources may differ. For these reasons, the information on industrial structure should be viewed with caution. Using the FEIN matching mechanism, we were able to match 597 of 1003 assisted firms.

A goal of economic development is to create well-paying jobs. Assisted firms paid a median wage of $38,150 and an average wage of 43,700 as of 2006. Most Commerce-assisted firms pay wages above the statewide average wage of $35,700 (Kansas Labor Market Information, http://www.dol.ks.gov/LMIS/ALMIS/qcew/aew2006/aew2006.pdf). The great majority of assisted firms pay between $25,000 and $45,000 annually. Some Commerce programs, in particular HPIP, are targeted toward high wage jobs. The evidence points out that most Commerce assistance flows to firms that pay wages on the higher end of the pay scale (Table 8). Whether these firms are able to pay high wages because of Commerce assistance is an open question.

Most of the assisted firms fall into the midsize range, with between 10 and 99 employees. Only about 14 percent of firms are very small (Table 9). However our matching methods may have been biased against small firms because FEINs were not recorded for these businesses. As pointed out earlier, the IMPACT program directs large packages of assistance to a few large firms. Hence the flow of Commerce dollars is heavily weighted towards large businesses.

Assistance is also heavily weighted towards manufacturing. Manufacturing comprised more than 55 percent of assisted firms during the 2002-2006 time period. Service firms and wholesale trade operations also received a substantial amount of assistance (Table 10).

Table 8
Wages per Employee for Firms Receiving Assistance in 2002-2006

Annual wage range	number of firms	percent
$1-14999	33	5.5
$15000-24999	62	10.4
$25000-34999	148	24.8
$35000-44999	248	41.5
$45000-59999	58	9.7
$60000-74999	25	4.4
$75000-high	22	3.7
Total matched firms	597	100.0

Source: Commerce data were provided by Ed Gray, Nadira Patrick, and David Bybee of the Kansas Department of Commerce. Wage data were provided by John Leatherman, Kansas State University. Data were summarized by the report authors.

Table 9
Employees per Firm for Firms Receiving Assistance in 2002-2006

Employment size range	number of firms	percent
1-9	81	13.6
10-49	164	27.5
59-99	102	17.1
100-249	134	22.4
250-499	67	11.2
500-high	49	8.2
Total firms	597	100.0

Source: Commerce data were provided by Ed Gray, Nadira Patrick, and David Bybee of the Kansas Department of Commerce. Employment data were provided by John Leatherman, Kansas State University. Data were summarized by the report authors.

Table 10
Industry Distribution of Assisted Firms (2002-2006)

wage range	number of firms	percent
Agriculture, Forestry, and Fishing	9	1.5
Mining	4	0.7
Construction	11	1.8
Manufacturing	332	55.6
Transportation, Communications, Utilities	12	2.0
Wholesale Trade	77	12.9
Retail Trade	30	5.0
Finance, Insurance, and Real Estate	24	4.0
Services	98	16.4
Total firms	597	100.0

Source: Commerce data were provided by Ed Gray, Nadira Patrick, and David Bybee of the Kansas Department of Commerce. Industry distribution data were provided by John Leatherman, Kansas State University. Data were summarized by the report authors.

In summary, the analysis of assisted firms reveals:

- The amount of assistance provided by Commerce has grown substantially during the fiscal year 2002-2006 time period. Almost all of that growth has been in the IMPACT program.
- For programs other than IMPACT, the geographic pattern of assistance matches the Kansas population closely. IMPACT dollars flow primarily to the Kansas City and Wichita urban areas.
- Commerce provides assistance appears to target higher-wages jobs in the state.

- Most of the firms assisted by Commerce are medium-sized. However, the bulk of dollars flows towards large firms.
- Assistance is heavily weighted towards manufacturing.

2) How do Commerce activities affect the lifecycle of a Kansas business?

We approached this question by analyzing the over time performance of groups of Commerce assisted firms relative to groups of similar firms that did not receive assistance. We were able to carry out that analysis in sixteen different “bundles” of similarly-sized firms in similar industries. For each bundle of firms that received Commerce assistance we identified a comparable bundle of firms that did not receive Commerce assistance. We then compare the performance of those different bundles of firms with respect to total jobs, total wages, and average wages for each quarter from 2002-2006. We are principally concerned with quarter-to-quarter changes in each of these indicators. If the bundle of firms that received assistance had higher quarterly job growth, higher quarterly wage growth, or a higher quarterly increase in its average wage, that bundle was said to outperform its comparison bundle for that particular quarter. We average the differences between these bundles for each quarter over the period of analysis. A full discussion of the assumptions, data collection procedures, and other information relevant can be found in Appendix D.

Table 11 presents the findings from that analysis. From the left, the first five columns report the characteristics of the businesses included in each bundle. We find that with a few exceptions, the bundles of firms are generally comparable with respect to the number of firms included the bundle, and the average employees for each firm included the bundle. The last three columns present the differentials in wage growth, job growth, and changes in average wages. A positive figure in these columns indicates that the assisted bundle outperformed the unassisted bundle, and by how much. A negative figure indicates the unassisted firm outperformed the assisted firm, and by how much. Please exercise great caution in interpreting these figures. These differentials should not be interpreted as precise estimates of return on investment, but rather as general indicators of the performance trend in each industry.

The results of this analysis indicate the assisted firms perform comparatively well. We observe higher wage growth among ten of the 17 groups in the analysis, and in four instances where non-assisted firms outperform assisted firms the difference between them is less than two percent. A similar trend is observed for job growth. In this case the assisted firms created jobs at a faster rate in eight out of 17 comparisons, and in four instances where non-assisted firms outperform assisted firms the difference between them was less than two percent. Similar, albeit slightly weaker trends are observed for the average wage growth differentials. We also note that some of the clearest performance advantages for assisted firms are in industry groups with the largest employers, such as Food and Kindred Products and large Industrial Machinery and Equipment firms.

Taken together, these findings suggest a clear association between Commerce assistance in a particular segment of the business population, and that segment’s ability to create jobs and increase wages faster or nearly as fast as similar but non-assisted firms. Association should not be taken to mean causation. These results do not allow us to attribute these performance differences to Commerce assistance. Nonetheless, these general trends suggest Commerce has a presence in certain growing segments of the Kansas economy.

Table 11: Wage Growth, Job Growth, and Average Wage Growth Differentials for Assisted vs. Non-Assisted Firms, 2000-2006

Industry "Bundle"	Assisted Firms	Average Size of Assisted Firms	Non-Assisted Firms	Average Size of Non-Assisted Firms	Wage Growth Differential	Job Growth Differential	Average Wage Differential
Food and Kindred Products	11	755	15	664	2.52%	1.43%	-0.45%
Lumber and Wood Products	3	31	5	89	2.38%	-0.29%	0.42%
Lumber and Wood Products	4	344	3	250	-9.54%	-8.81%	-3.68%
Paper and Allied Products	4	124	4	186	4.61%	0.81%	5.97%
Chemical and Allied Products	8	50	7	32	37.58%	4.89%	-4.59%
Chemical and Allied Products	6	293	8	205	-0.04%	-2.62%	-3.15%
Stone, Clay, and Glass Products	4	39	4	90	-20.01%	-7.73%	3.09%
Industrial Machinery and Equipment	12	31	12	38	4.28%	7.56%	3.19%
Industrial Machinery and Equipment	15	50	10	43	1.52%	2.24%	0.33%
Industrial Machinery and Equipment	14	90	16	87	-27.89%	-3.21%	-19.21%
Industrial Machinery and Equipment	14	321	10	287	6.59%	2.54%	-1.10%
Electronic and Other Equipment	7	36	5	65	2.07%	-0.92%	0.97%
Transportation Equipment	9	33	14	12	26.83%	11.39%	0.09%
Transportation Equipment	8	48	5	52	-0.86%	-0.76%	-2.16%
Transportation Equipment	11	100	5	96	-0.98%	-4.46%	-5.45%
Instruments and Related Equipment	6	79	9	91	0.39%	1.19%	6.87%
Membership Associations	3	9	3	11	-1.47%	-1.52%	-3.58%

3) Do stakeholders perceive Commerce services as integrated and effective?

In general, yes. Of the 16 city manager responses, all but one rated Commerce staff “highly effective” or “somewhat effective.” Of the 14 executive interviews, all but 2 considered Commerce staff effective. A comment from an out-of-state executive effectively summarizes a widely held perspective on the agency’s overall business assistance effort.

> *The way Commerce does things capitalizes on Kansas’ strengths – it’s large enough to offer big opportunities and competitive markets/assistance, but small enough that you get personalized attention from professional, effective staff.*

Survey responses from members of the business community echo this assessment of effectiveness. When asked to rate their level of agreement that "assistance from KDOC allowed us to increase our profits more than we would have been able to otherwise," 67 percent either agreed or strongly agreed. As will be seen in subsequent sections, the business leaders indicate that this company profitability translates into broader gains for the Kansas economy.

Responses on particular aspects of effectiveness and integration follow in four parts - the “but for” perspective, output indicators, compliance, and general perspectives on integration.

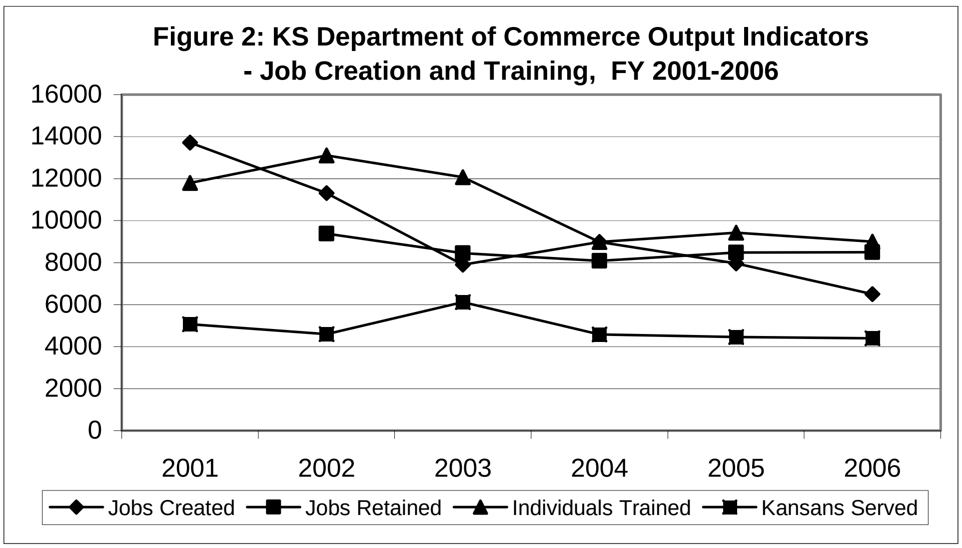
The “But For” Perspective

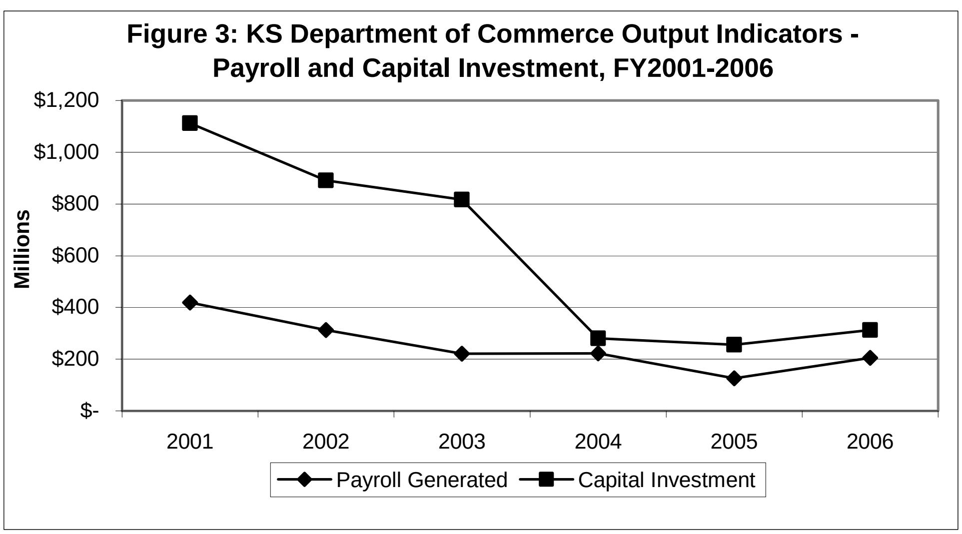
In addition to the statistical analysis results previously discussed, the qualitative evidence on this perspective is strong. We asked the city managers to indicate whether Commerce involvement in their most recent economic development project made a difference, or if the project would have happened successfully without Commerce? Of the 15 respondents, 12 said Commerce assistance made a difference, and only three said the project would have happened even without Commerce assistance. A common theme among the three who said the assistance did not matter was that the business location/relocation/expansion decision was most affected by local tax incentives, and that state assistance was not necessary.

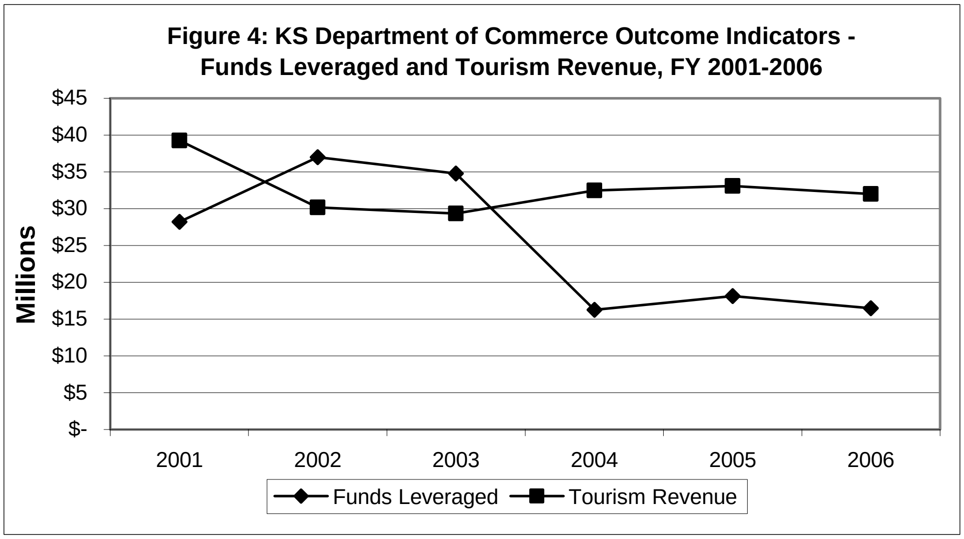
The same question was asked of the business executives. Of the 14 respondents, nine said Commerce assistance made a difference, and five said it did not. Four of the five executives who said Commerce involvement did not matter attributed the lack of influence to the fact that although Kansas assistance made the state comparable to other states on overall cost-of-business, some other, idiosyncratic factor was decisive in choosing another state. Those “other factors” included pre-existing relationships between company personnel and state elected officials, a higher “comfort factor” in another state, and access to particular recreation opportunities for key company personnel.

The Output Perspective

Commerce has reported some form of output indicators since the late 1970's. These indicators tended to be program or division-specific. But since 2001 Commerce has reported a series of agency wide outputs that inform our understanding of the business assistance function's performance. Those indicators include jobs created, jobs retained, and individuals trained, which are largely attributable to the KIT/KIR programs; payroll generated and capital investment, which are most closely associated with the KEIOF grants, HPIP, and other commonly used business assistance tools; funds leveraged indicates private sector capital investment for which Commerce assistance was considered a catalyst; and tourism revenue. Figures 2-4 present trends in these indicators from 2001-2006.







It is important to note that these sorts of output data are notoriously difficult to collect, analyze, and audit. Critics of performance measurement often argue that front line workers, in this case the program analysts, field representatives, and others who administer business assistance programs, have strong incentives to overstate their performance output in some circumstances, and to understate that output in other circumstances. For that reason, these and any output indicators should be interpreted with extreme care. A further complication, as previously mentioned, is that Commerce staff tends to view program delivery in terms of packages of assistance to individual businesses. This bundling process obfuscates any attempt to determine which new jobs, wages, and other outputs can be meaningfully attributed to particular programs or to particular time periods. For that reason, we do not attempt to quantify any aspect of Commerce's overall output. These complications are not unique to Commerce, and are commonly encountered issues throughout contemporary public administration.

That said, we observe a downward trend in most of these performance indicators resulting from the economic downturn that occurred in late 2001 and throughout 2002. But in general, agency-wide performance has been consistent over time, especially in light of the previously mentioned declining resources.

Agency numbers are supported by survey responses from the business community. Of the 87 businesses that completed the survey, fully 66 percent agreed or strongly agreed that "assistance from KDOC allowed us to retain workers that we would not have been able to retain otherwise," and another 65 percent stated that "assistance allowed us to increase our employment in Kansas more than we would have been able to otherwise." The property tax exemption on business machinery and equipment appears to be particularly effective. Following the two-thirds trend in response, 66 percent of survey respondents agreed or strongly agreed that "assistance allowed us to increase our investment in plant and equipment more than we would have been able to otherwise." Unlike the responses to most questions, these responses weighed more heavily toward 'strongly agree'.

The Compliance Perspective

Our evidence shows that, in general, Commerce effectively carries out the challenging task of making programs accessible while maintaining reporting and oversight sufficient to guarantee accountability for public funds. Survey results indicated that of the 87 businesses that responded, 59 percent had been asked for estimates of job creation and sales growth due to KDOC assistance, and 51 percent reported that Commerce staff followed up to verify job and sales growth estimates. An additional 12 percent responded that they "do not know" if they had been asked for job creation and sales growth estimates, while 15 percent stated they did not know if Commerce had followed up to verify their estimates.

We found some evidence that the prospective burden of compliance may inhibit a firm or community from fully participating in Commerce programs. In surveys directed across specific programs (HPIP, KIT/KIR, KEOIF, and KITSAP), only 7 percent felt that oversight was excessive. However, the actual process of paperwork compliance may factor into a company's decision to pursue assistance. HPIP presents the strongest example. Of those survey respondents who did not use the assistance, 12 percent selected "too much paperwork" as at least one reason for not participating. This number rose to 17 percent among only those companies sharing an established relationship with Commerce. When recipients within specific programs were asked whether they felt the required paperwork was reasonable, it varied widely from 100 percent in KITSAP, to 81 percent in KIT/KIR, and down to 64 percent and 59 percent for the more complex programs of KEOIF and HPIP.

Despite this finding, only one of the 14 executive interviewees said they had ignored a potential project in Kansas because of onerous reporting requirements, and all but one of the site location consultants rated reporting requirements in Kansas average or below average relative to other states.

Commerce staff are able to strike this balance between accessibility and accountability, it seems, by taking the compliance requirements as given and providing clients the necessary support to navigate those requirements. This strategy seems successful in most cases, but with important occasional exceptions. A focus group comment captures this dynamic well.

> *And when you do utilize any of their programs, there [is] a lot of paperwork you have to get in place, hoops you have to jump through. But they're very good at assisting you to do that. And I feel like they are very upfront about saying, 'to get this, you have to do this, this, and this.'*

4) Do Commerce business assistance activities place the state in a strong position to compete for economic development opportunities, relative to other states that define and carry out business assistance in similar ways?

Yes. However, as we discuss here, Commerce stands to lose its competitiveness if certain current trends continue. Our response follows in four parts – a review of Kansas business assistance relative to other states, current sources of competitiveness, factors currently inhibiting competitiveness, and future threats to competitiveness.

State Comparisons

There is a vast literature that attempts to analyze the effectiveness of state and local economic development activities. At the moment, it presents mixed evidence on whether these activities are "effective" by any definition. Virtually all states provide assistance in some form or another, and most research shows firms considering a relocation or expansion almost always evaluate how state economic development assistance might affect their total cost of doing business in a particular location.[20] It then follows that to remain competitive, a state must offer grants, program-based support, tax incentives, and other assistance at least comparable to other states in its region. That said, there is far less evidence of a one-to-one relationship between the scope of incentives and support a state makes available, and its competitiveness in economic development. For instance, there is a variety of evidence that tax incentives have no relationship or only a marginal relationship with economic development outcomes.[21] A related body of literature finds they do matter, but their relationship to economic growth is tempered by local economic conditions before the incentive was activated,[22] by the presumption that growth resulting from those incentives is not equally distributed,[23] by perceived quality of life in the

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[20] See Roger W. Schmenner (1982). *Making Business Location Decisions* (San Francisco: Jossey Bass); Timothy Bartik (1985). "Business Location Decisions in the United States: Estimates of the Effects of Unionization, Taxes, and Other Characteristics of the States." *Journal of Business and Economic Statistics* 3(1): 14-22; Robert Ady (1997). "Taxation and Economic Development: The State of the Economic Literature." *New England Economic Review* (March/April); Robert Tannenwald, Katherine L. Bradbury, and Yolanda K. Kodrzycki (1997). "The Effects of State and Local Public Policies on Economic Development: An Overview." *New England Economic Review* (March/April); Terry Buss (2001). "The Effect of State Tax Incentives on Economic Growth and Firm Location Decisions." *Economic Development Quarterly* 15(1): 90-105; William Fox and M. Murray (2004). "Do Economic Effects Justify the Use of Fiscal Benefits?" *Southern Economic Journal* 71(1): 78-92; also see Joseph Aistrup, Brett Zollinger, and Michael Walker (2003). "Defining the Available Labor Pool: The Kansas Labor Force Survey." *Economic Development Quarterly* 17(3): 220-239.

[21] Timothy Bartik (1991). *Who Benefits from State and Local Economic Development Policies?* (Kalamazoo, MI: Upjohn Institute for Employment Research); Michael Wayslenko (1997). "Taxation and Economic Development.: The State of the Economic Literature." New England Economic Review (March/April): 37-52; A. Peters and P. Fischer (2004). "The Failures of Economic Development Incentives." *Journal of the American Planning Association* 70(1): 27-37.

[22] E. Goss and J. Phillips (2001). "The Impact of Tax Incentives: Do Initial Economic Conditions Matter? *Growth and Change* 32(Spring): 236-250; M. Luger and S. Bae (2005). "The Effectiveness of State Business Tax Incentive Programs: The Case of North Carolina." *Economic Development Quarterly* 19(4): 327-345.

[23] E. Goss and J. Phillips (1999). "Do Business Tax Incentives Contribute to a Divergence in Economic Growth?" *Economic Development Quarterly* 13(3): 217-228.

proposed location community,[24] and by many other factors. That said, the basic point is simple: states must offer some package of economic development tools to compete, but more aggressive tools alone do not necessarily make a state more competitive.

We kept this finding in mind when comparing the palette of business assistance available in Kansas to that offered by Arizona, California, Colorado, Idaho, and Missouri. A detailed comparison is presented in Appendix F. Each offers essentially the same core types of assistance. Principal among them are industrial revenue bonds or their equivalent for major capital investments underwritten by the state, worker training reimbursements, some version of enterprise zones, small business assistance, tax credits connected to employee earnings, abatements of local property and sales taxes, and programs specifically designed for rural development. Idaho has the most coherent and planned set of incentives ranging from small to large and urban and rural, targeted at their strengths. Kansas is less targeted, but at the moment appears competitive with the comparison states.

The evidence supports the claim that Kansas is currently competitive relative to other states. First, in general, the incentives and other assistance Kansas offers are neither highly competitive nor highly non-competitive. When asked to provide their overall perception of Kansas assistance relative to other states, business leaders and site location consultants commonly gave responses such as “middle of the pack” or “good enough.” Some singled-out the HPIP and KEIOF programs as particularly useful for businesses with well-defined capital needs and market analysis. But in general, we found little evidence that Kansas assistance is itself a source of competitive advantage.

Kansas’ Competitive Advantage

Given that most states offer roughly the same core of business assistance services, there is substantial debate over why some states are more competitive than others in attracting and retaining business. Explanations range from labor supply, to intangible attributes such as a more desirable climate or cultural amenities, to “clustering” strategies that locate similar businesses in concentrated geographic areas designed to facilitate creation of industry-specific efficiencies, to high quality infrastructure and public services.

None of our analysis indicates Kansas is perceived as having a particular, traditional competitive advantage. Some site location consultants and business executives noted the state has effectively capitalized on its location by seeking out the logistics industry, corporate headquarters locations, and other projects for which a centralized geographic location is desirable. But outside of that, little mention was made of a natural attribute or strategic initiative that sets Kansas apart. In fact it seems Kansas’ success in business recruitment and development is most closely linked to two factors – excellent staff and effective coordination.

Survey responses about perceived coordination in Commerce from the business community built upon this finding in two ways. When asked to answer a series of questions related to intra-

[24] David Salvesen and Henry Renski (2002). “The Importance of Quality of Life in the Location Decisions of New Economy Firms.” Economic Development Administration, US Department of Commerce.

agency coordination and staffing, one-half to two-thirds of all respondents felt that they were not familiar enough with coordination in Commerce to be able to respond. While this may indicate that businesses are not working closely with Commerce, it also may suggest that such activities are being effectively managed out of the public view. This latter interpretation is supported by looking at the responses of those remaining individuals who did comment on coordination within Commerce which indicated that 75 to 86 percent of respondents felt that programs were coordinated well, regional and state offices were coordinated well, and both offices were well staffed.

We heard repeatedly that Commerce staff clearly understand and reflect in their work the widely held view that economic development is a "relationship business." We found evidence that staff in the Business Development division are known nationwide for their professionalism, expertise, and exceedingly long tenures relative to comparable staff in other state economic development agencies. One of the international leaders in the site location industry remarked – "(Commerce Staffer) is the most effective state economic development professional I've ever worked with." Business leaders and economic development professionals across the country recognize these characteristics and consider them a source of competitive advantage for Kansas.

Business leaders and site location consultants alike noted that coordination between the state and local economic development networks is especially effective. A site location consultant who recently worked on a location in rural Kansas noted:

> *If I'm working with a small town in Kansas or anywhere in the Midwest I need to know that everything's going to run smoothly, from the permitting to the utilities to getting health care for our employees. A lot of other states leave local governments to fend for themselves. Kansas treats this as a partnership. If there's (sic) things the local people don't do well, the state people will step up. And what's really interesting is that the state people give all the credit to the local people.*

A leading site location consultant with extensive experience in the Kansas City region said:

> *A big part of Johnson County's growth is because the Commerce people work with the Economic Development Corporation of Kansas City, MO, Think KC, and the regional economic development councils within (Johnson) county. They really think in terms of a regional partnership. It doesn't always work perfectly, but they make it work as well as any other metro economic development environment*

Where Kansas Lags

We identified three main areas where Kansas stands at a competitive disadvantage – the tactical nature of its main business assistance tools, marketing and differentiating those tools, and a perceived lack of leadership and focus in its strategy following ERO 31.

Stakeholders consistently made comments to the effect that Kansas incentives are useful in a "no-surprises environment." Firms that have clearly identified expansion plans and ready access to established markets find some of the state's key programs, particularly HPIP and KEIOF, far more useful than anything offered in a neighboring state. These incentives are especially applicable for distribution centers, logistics and transportation, food processing, and other related operations. But these programs can have the opposite effect when a venture's future is less certain, as businesses might be hesitant to commit to creating particular types of jobs, investing capital in particular areas, and the other objectives these programs require. This attitude was common among city managers, business leaders, and site location consultants.

A related finding was that stakeholders across the board see some value in establishing more flexible business assistance tools. The missing piece of many location and retention opportunities is an infusion of less restricted or unrestricted public capital into the project.[25] On that point, city managers made comments such as:

> *I think we need to have some additional war chest funds that we can place on the table when competing for projects. Many communities in Kansas are limited to what cash we have to offer to make a deal work.*
>
> *Maybe the bottom line is to put more flexibility into the programs which allows some discretion on the part of both local officials and state officials. If we can justify the subsidy because of the benefits and sell the state official on the merits of the project, maybe there could be something like entitlement dollars available to small cities. Larger cities have entitlement monies under CDBG whereas it is a competitive process for smaller cities.*

This basic finding is further supported by a related set of insights from the site location consultants. Without any reference flexibility or other characteristics, we asked these consultants to describe tools or incentives they've encountered in other states that might improve Kansas' overall competitiveness. The vast majority of the programs mentioned emphasized flexibility. The following were mentioned by more than 3 of those consultants:

- Florida maintains a highly publicized $40 million "closing fund" that provides cash payments to businesses nearing completion of a site location in Florida. According to one consultant, this fund allows Florida to "stay in the game for much longer" than without it.
- Several states, including New Jersey, Oklahoma, and South Carolina, allow companies to reinvest state income tax paid by employees toward a variety of purposes. Several consultants view these programs as an effective way to address the accountability issues that surround flexible credits. By using flexible capital as an incentive, rather than an up front investment, businesses are assured some degree of future flexibility and stability, and the likelihood the state will recover its minimum return on investment greatly increases. Surprisingly, none of the site location consultants or business leaders mentioned a program offered by the Kansas Development Finance Authority that allows businesses to pledge employees' future state income taxes as collateral on a bond issue.
- Several business leaders and site location consultants touted the success of aggressive tax abatement programs. One frequently mentioned program was Pennsylvania's Keystone Opportunity Zones, which provide a full abatement (i.e. a full "tax holiday") on all state

[25] Access to capital is widely noted throughout the literature as a key factor in business location decisions. For a discussion of access to capital in the context of Kansas businesses, see Mark A. Glaser and Samuel J. Yeager (1990). "All Things are Not Equal: The Value of Business Incentives." *Policy Studies Journal* 18(3): 553-572.

and local sales, local property, state corporate income tax, and local income tax for up to 10 years.

- Business leaders and site location consultants also mentioned the value in allowing businesses to sell unused portions of tax credits back to the state, or to trade those credits with other firms. This flexibility affords businesses the opportunity modify the business plan upon which the credit was based without incurring a loss. Several Commerce Regional Field Representatives confirmed that businesses in their regions had also suggested the state consider these tools.

This is not to suggest that greater flexibility is easy or even desirable. Strong arguments in both the academic and practice-oriented literature caution against these sorts of active state and local government investment strategies. Those arguments are rooted in everything from empirical evidence that the return on venture capital investments does not outweigh the risk to public capital, to keen observations about the difficulty in defining and ensuring accountability for those funds, to philosophical disagreements about government's proper role in the economy.

We also found evidence that Commerce does not effectively market the business assistance tools it has available, or how those tools foster a business climate that is different from similar states in the region. This sentiment was expressed several ways. Comments to the following effect were made in most of the focus groups:

> *I still go back to perceptions of the state itself, you know I still just think it's underfunded. I don't think that piece is probably being funded well enough to actually make an impact. …[W]e need more people out talking about the state of Kansas and what we have to offer. …[Otherwise] you're not gonna know that the state of Kansas now has no property tax on equipment, you're just not gonna…and five people aren't going to be able to cover that.*

> *On their website, Commerce doesn't list that much in the news department. It's a ribbon-cutting mostly. What I usually see [on website] are usually passed events in the last week, month.*

And in a pithy comment from an out of state business executive:

> *Sunflowers don't resonate with people on the East Coast.*

Several city managers also mentioned that prospective businesses often did not know business machinery and equipment was exempt in Kansas. Anecdotally, a site location consultant claimed to have thoroughly reviewed Commerce's materials in preparation for a potential relocation project, but did not learn of the KEIOF program until it was mentioned by a college roommate.

While it may be that regional staff filter out impractical programs before discussing opportunities for assistance with businesses, the number of survey respondents who had never heard of specific programs was fairly high. Among those with an established relationship with Commerce, 57 percent had not heard of HPIP, 53 percent had not heard of KEOIF, 32 percent had not heard of KIT/KIR, and 29 percent had not heard of KITSAP. When all responses were included, the number of people who had not heard of HPIP and KIT/KIR further rose to 66 percent and 41 percent respectively.

Survey responses indicate that regular communication has been rare. Even among those with an established relationship with Commerce, few business survey respondents reported contact with a Commerce representative as occurring "often." The preferred method for conveying information appears to be the U.S. Mail, but 25 percent of respondents indicated that they had never received information via this medium. Email, telephone, and personal contact proved even less reliable as more than 50 percent of respondents stated that they have never received contact through these communications.

Although many of the staff and priority changes apparently were related to the change in administration in the 2002 election, there was evidence that staff changes have been an ongoing issue for some time, with some positions remaining unfilled long-term.

> *They don't have field staff out here for community development…they haven't filled positions out here for years.*
>
> *…[they need to] remember that the last third of the state does exist.*
>
> *...I realize there's not a lot of people but there's a lot of ground and a lot of area, and there is population that pays their taxes and would enjoy some services.*
>
> *They consider Salina and Wichita western Kansas, and that's a long ways from western Kansas.*

Future Threats – The "Two States of Kansas"

A sharp divide has emerged in the core normative principles behind many economic development programs. Throughout the 20th century the dominant theoretical perspective was known as "supply-side" theory.[26] It follows from the claim that free markets can allocate financial resources more effectively than government intervention. According to this philosophy, government can stimulate certain kinds of economic growth by reducing corporate tax burdens through tax credits or incentives, providing grants to train new workers, ease regulatory burdens, and provide other assistance designed to promote a more efficient allocation of corporate capital.

Contemporary thinking on business assistance has recently shifted away from this supply-side tradition and toward what might be called the "market failure" perspective.[27] Businesses may insufficiently train their employees due to fears that those employees will leave to work for other employers. Rural areas may have grown too fast and now face rapid depopulation. The skilled

[26] For a broader discussion see Peter K. Eisinger (1988). *The Rise of the Entrepreneurial State: State and Local Economic Development Policy in the United States* (Madison: University of Wisconsin Press).

[27] For a broader discussion see Paul N. Courant (1994). "How Would You Know a Good Economic Development Policy if you Tripped Over One? Hint: Don't Just Count Jobs." *National Tax Journal* 47 (4): 863-81.

labor supply might fall short of that needed to support existing business. This philosophy assumes business assistance, particularly tax credits and incentives, can create new incentives for businesses to invest in initiatives that would otherwise be too risky. By underwriting that risk, the public stands to benefit from correcting a market failure and improving quality of life for all citizens.

Perceptions of the effectiveness of Commerce assistance seem to follow this basic split between supply-side and market failure. Growth areas, particularly in northeast Kansas, tend to want a limited Commerce role. They understand and will readily access key Commerce assistance, particularly in areas like tax incentives and regulatory guidance, but they have little interest in any direct involvement by Commerce staff. By contrast, depressed areas perceive a mismatch between their needs and where the state currently targets its business assistance efforts. Consider these comments from focus group participants.

> *I think right now…our contact quite honestly feels almost embarrassed to come and talk to us because he's always talking about how there's really no programs for places …there's really nothing for poor communities, and…I don't hear much from that contact … I think because of that. …You kind of get the feeling that there's two different states, east of Wanamaker Road and west of Wanamaker Road.*

> *…they say, 'yeah, we understand that two jobs in a small community like [edited] is the same as 200 jobs in Wichita,' but what they say and what they do are two different things. I mean, when you look at their newsletter and they talk about their business recruitment and business development, it's all in the big cities with the big numbers. You know, they don't ever devote any resources, either human resources or financial resources, for business recruitment in small communities.*

And these comments from city managers:

> *Out here in rural central Kansas we need the State to be actively involved with fairly significant incentives on the State level and maybe broaden the types of businesses they'll help. In the last 4 years we had a new motel built, an assisted living home/house, a couple of businesses built new buildings, a new car wash, a new department store .... and I don't believe any of these received incentives other than what we gave them locally in terms of property tax rebates, waiver of permit fees, free or discounted utilities for a set amount of time, waiver of utility connect charges, minor infrastructure like sidewalks*

> *I like the agricultural related and bio-sciences initiatives. I also think we should focus on trades based industry that utilizes the farm based abilities of our residents. Over the past several years, I am constantly amazed by the individuals I have met in Kansas that can build just about anything out of scrap metal and other junk. The abilities of these individuals comes from the farmer mindset of finding a way to make it work. We need to harness those energies and abilities. Many of them can do the work, but could never make a living at it because they don't have the financial mind to turn it into a profitable business. Instead, they end up working in other businesses where their talents are wasted.*

Ironically, smaller communities view the congruence between the state's prevailing economic development philosophy and actual economic development patterns in Northeast Kansas as the result of an "entitlement status."

> *You know there are the large communities that are entitlement communities where that money just automatically flows to them. With us, we have to apply for that money. You know we have to, in doing a CDBG application whether it's for a sewer grant or whether it's for industry, [it] is very time consuming. …The paperwork's deep.*
>
> *Well, it's a numbers game too. You have to play their [Commerce's] numbers. Not being an entitlement city, you have to have the right ratio for everything they monitor.*

This divergence places Commerce staff at the center of several difficult policy trade-offs. For instance, some have called for expansions of its most popular and effective business assistance tools as a way to broaden those tools' appeal in rural areas, despite the fact that those policies and tools follow from a targeted economic development strategy. Others have suggested the state expand its arsenal of flexible economic development tools – such as venture capital pools, refundable and transferable tax credits, direct cash assistance to businesses, etc. – even though these programs are difficult to monitor and to ensure accountable use of public resources. Others demand broader use of non-programmatic efforts like tax credits and abatements, which further erode the state's arguably over-abated tax base.[28] The key problem is that stakeholders, particularly in rural Kansas, are not necessarily aware of these trade-offs, and can in some cases view Commerce staff as unresponsive. This ultimately harms the state's business climate.

Recommendations

In the aggregate, our findings suggest Commerce generally achieves its mission and makes effective use of public dollars. We recommend no major changes in structure, organization, or objectives at this time. That said, we provide here several recommendations designed to increase the likelihood that Commerce will continue its success in the future.

1) Continue to upgrade information technology throughout the agency, particularly that which enhances the agency's ability to collect and share information across its divisions and regions. Our research indicates that Commerce lags far behind several of its peer states on this issue. There is little evidence of concerted efforts to share information across programs and divisions about businesses that have or could receive Commerce assistance, or across Commerce's various regions. There was evidence of efforts to create informal intranet-type communication within certain sub-agency functions, but those efforts were largely employee-driven and did not receive any additional agency resources. We also experienced delays of several weeks on certain requests to Commerce staff for data on numbers of participants and dollars spent on particular programs. Those delays resulted not from staff's inability to fill those requests, but rather from

[28] See, for instance, Glenn W. Fisher H. Edward Flentje, W. Bartley Hildreth, and John D. Wong (2007). "Sizing Up Kansas Public Finance." Kansas Policy Review 29(1). Available at http://www.ipsr.ku.edu/publicat/kpr/kprV29N1/kprV29N1A3/shtml.

the fact that many of those requests required collecting and organizing piecemeal data from a variety of sources, which took a great deal of time.

Consider that in other states, such as Oklahoma, most agency personnel who interact with businesses considering a relocation or expansion to the state have desktop computer access to information about businesses in the same size and industry classifications that have received state assistance, potential relocation sites, data on the regional workforce including individuals who have received state-funded workforce development assistance, and other information relevant to business decision making. The same applies to agency staff serving individual workers and small businesses. Individuals seeking workforce assistance are provided immediate information about potential employers in the area, with a particular emphasis on those employers who have received past agency business assistance. Commerce lags far behind other states in its ability to provide its staff “real-time” information relevant to its clients and their actions.

Our conversations with Commerce staff indicate the agency is aware of these deficiencies and has begun to chart a corrective course. We encourage this effort. Our results indicate improvements in communication among stakeholders both within and outside the agency could be value-added for Commerce going forward.

2) In addition to Commerce’s current array of programs and incentives, consider developing new economic development tools that allow business assistance staff to more closely tailor that assistance to the unique needs of individual businesses, while nonetheless maintaining accountable use of the public dollars behind that assistance. We identified several potential models Commerce might consider in developing those tools, which are described throughout the comparative state analysis in Appendix E.

Among the states we examined, we found Idaho has a particularly well-developed and balanced set of tools along these lines. In Kansas and many of its peer states economic development tools are designed to bring about certain types of stylized outcomes such as job growth in particular industries, creation of jobs that pay a particular wage, growth in exports or foreign direct investment, and others. Idaho has a similar overall economic development mission, but has defined the objectives for one group of its economic development tools in much broader terms. For instance, it offers full property tax exemptions on broad categories of inventory and capital investment, which is intended to incentivize capital investment opportunities that are unforeseen, have a short window of opportunity, or are not included in other incentive programs. For the same reason, it offers large income tax liability offsets for broad categories of capital investment. Idaho also offers operating loss carry-backs and carry-overs, which assist all businesses in roughly the same way, even though the reasons behind the loss might vary tremendously across businesses. In addition to training and other opportunities for particular industries, it provides customized workforce training for individual businesses and groups of businesses, again to meet business needs that might fall outside of existing programs.

The simple point is that Idaho and Kansas have roughly the same framework of business assistance objectives and tools, but the added flexibility of one group of Idaho’s tools provides it the chance to more effectively respond to targeted, strategic, short-term, and unique business assistance opportunities. In the hyper-competitive economic development environment, and in particular in high technology, biosciences, and other industries, the ability to respond to these unique opportunities is a potential source of competitive advantage for Kansas.

3) Explore possibilities for broader partnerships with regional economic development organizations. Our results indicate strong, active, and highly specialized activity among regional economic development personnel. Commerce is actively engaged in these partnerships, and should consider broadening its involvement with these stakeholders. Undoubtedly, some might view broader regional involvement as diluting or even weakening Commerce's ability to pursue its statewide economic development mission. But our findings suggest the level of differentiation and specialization across the regions is so great, and that "advancing prosperity" means such different things in different parts of the state, that closer regional partnerships and strategies will ultimately prove worthwhile. Potential initiatives to this effect could include:

- Work with municipalities and local economic development organizations to streamline and expand the information presented on local government websites.
- Assist local governments and regional economic development personnel with their own succession planning efforts.
- Develop and provide formalized training to localities on the technical aspects of economic development (what to expect when hosting a site visit, how to negotiate with prospective businesses, how to vet prospective businesses, etc.).

4) Within the bounds of the current state civil service system, establish a formal succession planning system to ensure a successful hand-off of all Commerce activities, and in particular the business assistance function. Economic development is a "relationship business," and any attempt to institutionalize Commerce's current relationships will promote its present and future success.

5) Work to more effectively involve site location consultants in continuing disclosure elements of key business assistance programming. Participating businesses, site location consultants, and to some degree Commerce staff agreed that site location consultants are often in the best position of all to navigate the technical aspects of reporting to the state whether a business is achieving its promised outcomes.

6) Seek legislative approval to lift the $50 million cap on the transfer from the State Gaming Revenues Fund to the Economic Development Initiatives Fund. Commerce programs affect an incredibly broad range of businesses, communities, and individuals, but the demand for those programs far outstrips the current supply. Since Commerce appears to make effective use of its current investment of public dollars, any attempt to increase that investment will likely yield the same or greater public benefits.

Appendix A: Survey Findings

The following number of respondents thought that the state of Kansas should focus its economic development efforts either “strongly” or “somewhat” on each of the following approaches:

	Assisted Only (n = 74)	Entire Sample (n = 87)
Expanding existing businesses	96%	94%
Assisting new business startups	95%	93%
Expanding exports from Kansas businesses	93%	93%
Assisting local communities with economic development projects	89%	86%
Attracting businesses from other states	85%	85%
Providing job-related training for the Kansas workforce	81%	84%
Marketing the products and services of Kansas businesses	78%	79%
Attracting businesses from other countries	74%	70%
Promoting tourism in Kansas	65%	64%

When asked to prioritize emphasis for focus, the following were identified as 1st Priority:

	Assisted Only (n = 74)	Entire Sample (n = 87)
Expanding existing businesses	42%	41%
Assisting new business startups	14%	13%
Marketing the products and services of Kansas businesses	12%	11%
Assisting local communities with economic development projects	9%	9%

When asked to prioritize emphasis for focus, the following were identified as 2nd Priority:

	Assisted Only (n = 73)	Entire Sample (n = 86)
Expanding existing businesses	19%	19%
Assisting new business startups	19%	19%
Providing job-related training for the Kansas Workforce	15%	14%
Attracting businesses from other states	14%	14%

When asked to prioritize emphasis for focus, the following were identified as 3rd Priority:

	Assisted Only (n = 73)	Entire Sample (n = 86)
Providing job-related training for the Kansas Workforce	21%	19%
Attracting businesses from other states	14%	12%
Assisting new business startups	12%	13%
Expanding existing businesses	11%	9%

An index of the responses weighted by priority yields the following:*

	Assisted Only (n = 73)	Entire Sample (n = 86)
Expanding existing businesses	54.25	52.75
Assisting new business startups	26.50	25.75
Providing job-related training for the Kansas workforce	19.75	19.75
Assisting local communities with economic development projects	16.50	17.50
Marketing the products and services of Kansas businesses	16.25	16.25
Attracting businesses from other states	14.50	13.00
Expanding exports from Kansas businesses	11.25	12.00
Attracting businesses from other countries	5.75	5.25
Promoting tourism in Kansas	4.25	6.00

*Priorities were weighted by assuming that priority 1 was favored twice as highly as priority 2 and priority 2 was favored twice as highly as priority 3. Priority 1 would then be favored 4 times as highly as priority 3.

Do you think that the state should target specific industries for development?

	Assisted Only (n = 70)	Entire Sample (n = 82)
Yes	43%	43%
No	57%	57%

Suggestions for targeting industries did not appear to vary between organizations with a history of assistance from Commerce and the rest of the sample respondents. Suggested industries for economic targeting included technology, energy, alternative fuels, agriculture, manufacturing, aerospace, warehousing and distribution, and services.

When asked for their perception of how the Kansas Department of Commerce currently divides up its assistance between small towns and cities, they responded:

	Assisted Only (n = 58)	Entire Sample (n = 68)
Most assistance is directed to small towns	2%	3%
Some assistance is directed to large cities, but more goes to small towns	9%	7%
Equal assistance is directed to both types of locations	31%	32%
Some assistance is directed to small towns, but more goes to large cities	45%	44%
Most assistance is directed to large cities	14%	13 %

When then asked for their view on how the Kansas Department of Commerce should be divided geographically, they responded:

	Assisted Only (n = 64)	Entire Sample (n = 75)
Most assistance is directed to small towns	6%	5%
Some assistance is directed to large cities, but more goes to small towns	11%	9%
Equal assistance is directed to both types of locations	52%	56%
Some assistance is directed to small towns, but more goes to large cities	28%	25%
Most assistance is directed to large cities	3%	4%

Survey questions on business assistance:

Assistance by category:	Requested Assistance	Received Assistance*	Sample (n)**
To train your company's workers	55%	52%	83
To find financial assistance	27%	26%	80
Other***	26%	26%	69
To acquire necessary permits and licenses	21%	22%	77
To obtain general development advice	15%	15%	78
To facilitate new business contacts	10%	11%	79
To facilitate business to business negotiations	8%	9%	78
To conduct a market analysis	6%	9%	79
To generate creative marketing ideas	5%	6%	77

*Some respondents claimed receipt of assistance without requesting for it.
**The sample size varies by category because some respondents felt the category did not apply to their business.
***Other includes managing business relocations, obtaining information about programs or paperwork, coordinating trade shows, aiding in overseas recruitment, and assistance with overseas credit checks.

Satisfaction rates by category could not be determined due to the extremely small group of users in each area of assistance. However, overall 88 percent of those who received assistance felt that the assistance that they received was very or somewhat valuable (n = 121).

The following respondents agreed or strongly agreed with these statements regarding the impact of the Kansas Department of Commerce on their business:*

Assistance from the Kansas Department of Commerce has allowed us to ...	Strongly Agree or Agree	Sample (n)
retain Kansas workers that we would not have been able to retain otherwise.	66%	(50)
increase our employment in Kansas more than we would have been able to otherwise.	65%	(55)
increase our investment in plant and equipment more than we would have been able to otherwise.**	66%	(53)
increase our profits more than we would have been able to otherwise.	67%	(52)

*Responses are only from those businesses that reported receiving assistance from Commerce.
**Responses for material investment were numerically balanced between agree and strongly agree. All other categories had approximately two agree per one strongly agree response.

Survey questions on operations:

How frequently does the Kansas Department of Commerce contact you with updates and other announcements?

	Often		Never	
	Assisted by Commerce	Entire Sample	Assisted by Commerce	Entire Sample
Email	13% (n = 72)	11% (n = 85)	50% (n = 72)	53% (n = 85)
U.S. Mail	4% (n = 73)	5% (n = 86)	26% (n = 73)	28% (n = 86)
Telephone	3% (n = 72)	2% (n = 85)	68% (n = 72)	69% (n = 85)
Personal Contact	6% (n = 72)	5% (n = 85)	57% (n = 72)	61% (n = 85)

Kansas Department of Commerce staff have...

	Strongly Agree or Agree	Do Not Know
asked us to provide estimates of job creation and sales growth due to KDOC assistance.*	59% (n = 51)	12% (n = 51)
followed up to verify our job and sales growth estimates.*	51% (n = 55)	15% (n = 55)

*By not asking about formal processes, paperwork, and verification, these questions may be overstating the degree of oversight taking place. In addition, there may be some responder bias related to a preference for maintaining a lower level of oversight from Commerce. Nonetheless, these results offer an encouraging "top-end" for perceptions of oversight.

The following respondents "agreed" or "strongly agreed" that:	Strongly Agree or Agree	Sample (n)*
Programs seem to be well coordinated within Commerce.	77%	29
There is sufficient staff presence at the regional offices.	79%	28
There is sufficient staff presence at the state office in Topeka.	81%	37
The regional offices coordinate well with the state office in Topeka.	86%	39

*Even among recipients, one-half to two-thirds of respondents did not feel familiar enough with intra-agency coordination to comment. Most responses were agree rather than strongly agree (approx. 1:7). Specific Coordination problems mentioned included lack of knowledgeable staff in specific programs, inter-agency coordination problems, uncertainty about the correct contact people to address problems, inability of Commerce to act quickly, information sharing with local economic development directors, and integration of rigid program requirements across programs.

When asked about how the use of third party consultants have affected their relationship with Commerce, 17 of 21 replied that it does not affect their relationship at all. The remaining 4 respondents all replied that third parties improve their relationship with Commerce by helping direct them toward multiple sources of resources and leveraging contacts.

Survey questions for specific programs:

HPIP

	Use	Do Not Know
Respondents using HPIP (assumes an existing relationship with Commerce)	47% (n = 70)	10% (n = 70)

Reasons for respondents NOT using HPIP:	Assisted Only (n = 30)	Entire Sample (n = 41)
Have not heard about the program	57%	66%
The program does not fit my company's need	27%	20%
Too much paperwork	17%	12%

Survey respondents who have applied to the HPIP program agreed or strongly agreed that:

	Strongly Agree or Agree	Sample (n)
The required paperwork was reasonable.	59%	34
The Kansas Department of Commerce provided adequate assistance with the application process.	85%	33
The process for selecting recipients was fair.	100%	33
It was difficult to meet the requirements to receive this assistance.	48%	33
The program provided an incentive for the retention of our business.	80%	30
The program led us to increase training for our workers.	82%	34
The program served as a reward to our company for generating additional economic development around us.	77%	31
The program is integrated into our decisions regarding future profitability.	62%	34
This program provided valuable assistance to the development of my company.	79%	33
The Kansas Department of Commerce followed up regularly to ensure we were meeting program goals.	61%	33
The program oversight provided by Kansas Department of Commerce was excessive.	6%	32

KIT/KIR

	Use	Do Not Know
Respondents using KIT/KIR (assumes an existing relationship with Commerce)	48% (n = 67)	14% (n = 67)

Reasons for respondents NOT using KIT/KIR:	Assisted Only (n = 25)	Entire Sample (n = 34)
Have not heard about the program	32%	41%
The program does not fit my company's need	29%	36%

Survey respondents who have applied to the KEOIF program agreed or strongly agreed that:

	Strongly Agree or Agree	Sample (n)
The required paperwork was reasonable.	81%	32
The Kansas Department of Commerce provided adequate assistance with the application process.	97%	32
The process for selecting recipients was fair.	97%	32
It was difficult to meet the requirements to receive this assistance.	34%	32
The program provided an incentive for the retention of our business.	97%	32
The program led us to increase training for our workers.	97%	32
The program served as a reward to our company for generating additional economic development around us.	90%	30
The program is integrated into our decisions regarding future profitability.	53%	32
This program provided valuable assistance to the development of my company.	77%	30
The Kansas Department of Commerce followed up regularly to ensure we were meeting program goals.	75%	32
The program oversight provided by Kansas Department of Commerce was excessive.	3%	32

KEOIF

	Use	Do Not Know
Respondents using KEOIF (assumes an existing relationship with Commerce)	17% (n = 69)	11% (n = 69)

Reasons for respondents NOT using KEOIF:	Assisted Only (n = 49)	Entire Sample (n = 59)
Have not heard about the program	53%	54%
The program does not fit my company's need	31%	25%
Not interested	14%	12%

The sample size of those using KEOIF was too small to adequately evaluate the impact of the program.

KITSAP

	Use	Do Not Know
Respondents using KITSAP (assumes an existing relationship with Commerce)	13% (n = 68)	6% (n = 68)

Reasons for respondents NOT using KEOIF:	Assisted Only (n = 55)	Entire Sample (n = 65)
Have not heard about the program	29%	32%
The program does not fit my company's need	44%	40%
Not interested	20%	18%

The sample size of those using KEOIF was too small to adequately evaluate the impact of the program.

SAMPLE DEMOGRAPHICS*

Businesses were overwhelmingly corporations (52 percent) or S-Corporations (37 percent).

61% were single establishment in Kansas
35% were multiple establishments in Kansas AND other states or countries

Businesses categorized themselves widely using 14 different industries, but manufacturing (63 percent) dominated the sample.

57% of the sample respondents have been in Kansas for more than 25 years
2% of the sample respondents have been in Kansas for less than 2 years

Business Size:

0 to 19 employees	14%
20 to 99 employees	33%
100 to 249 employees	29%
250 to 499 employees	14%
500 or more employees	10%

Location for the address of the survey respondent:

South Central Region	31%
East Central Region	30%
Southeast Region	13%
North Central Region	8%
Northeast Region	6%
Southwest Region	5%
Out of State	4%
Northwest Region	2%

*Sample demographics are given for the overall sample only. The matching process for selecting businesses without an established relationship with Commerce appeared to be effective. Variation between the overall sample and the assisted sample was minimal.

Appendix B: Focus Group Methodology and Findings

Methodology
The Kansas Department of Commerce provided the IPSR research team with a list of potential communities and the contact persons to consider as focus group participants. This list included 16 community economic development networks. Care was taken in the selection process to diversify participating communities by considering the following criteria: community size, geographic region, project size, project success, and the extent of Commerce's involvement. Seven communities were contacted about participating in the study. Two were unable to participate due to time and availability constraints. The remaining five communities elected to participate. The table below provides descriptive information about the communities:

Focus Group Communities - General Information

	Location		Approximate Population (nearest 500's)				
FG	**Region**	**Descriptive**	**City**	**% Change 00-05**	**County**	**% Change 00-05**	**City/Co**
X-1	SE	reg'l ctr, w/ cc	11,000	-3%	22,000	-3%	0.5
X-2	NE-NC	reg'l ctr, w/ 4-yr c & atc	48,500	8%	63,000	0%	0.8
X-3	NC	near regional center	2,000	-2%	6,000	1%	0.3
X-4	SW	remote, western Ks	1,500	-10%	2,500	-9%	0.6
X-5	C-SC	near urban area	13,500	-1%	29,500	0%	0.5

For each community, the local contact worked with IPSR to determine a location for the focus group and to solicit participants. IPSR asked the local contact to select participants who had been active in community economic development activities.

The local contact provided IPSR with a list of confirmed participants, including contact information. About one week prior to each focus group session, IPSR followed up with participants to confirm their participation, to provide general information about the purpose of the study, and to outline expectations for the focus group sessions. The letter included:

> *This important study is being conducted for Kansas, Inc. by the Institute for Policy & Social Research (IPSR) at the University of Kansas. The purpose of the Commerce evaluation is to identify areas of success, highlight potential areas for improvement, and provide suggestions for how to make those improvements. We are holding the focus groups to draw out shared perceptions of Commerce's overall business assistance effort and assess what role Commerce is perceived to play in economic development efforts and how effectively it executes that role. The information gathered in the focus groups will inform the development of additional surveys along with being incorporated directly into the evaluation.*

Over two weeks, five focus groups were conducted with 41 participants in communities across Kansas. Participants ranged from city clerks, mayors, convention and tourism directors, city/county economic development directors, and chamber leaders to business owners/managers.

Each focus group session lasted 90 minutes to two hours. The sessions were digitally recorded and each recording was professionally transcribed. The transcriptions were used for analysis.

Report Contents
This report summarizes the overall findings, organizing the results topically, including both converging and contrasting views between communities and community types. The report includes many verbatim quotes, illustrating the various participant points of view. Verbatim quotes are indented and italicized. Paragraph breaks indicate a different speaker.

Care should be taken in generalizing the findings, since the number of participants is too small to be fully representative of the general population. However, the ideas expressed by focus group participants often provide important insight that can lead to greater understanding of a particular issue or subset of issues.

Overview
The economic conditions and business climate varied among the participating communities. All communities we visited appeared to have proactive, engaged leaders. The smaller communities appeared to be having at least modest success in their economic development efforts. The larger communities appeared to be having greater success in their efforts and had well-organized community networks for economic development activities. However, all communities are facing challenges in their economic development efforts.

All participating communities had some knowledge of the Kansas Department of Commerce (Commerce) programs and initiatives, and had worked with Commerce at least once. In all communities, there was one person identified by community members as the primary liaison for their community with Commerce. This was typically the director of the economic development entity. In the case of larger communities with a Convention and Visitor's Bureau, this person was an additional direct link with Commerce. And communities with Main Street programs had an additional direct link. While most interactions with Commerce initially flowed through these individuals, frequently other community leaders had also interacted directly with Commerce as a project progressed.

Community members and business leaders look to these one or two individuals to assist with identifying appropriate Commerce programs and contacts. The primary contact with economic development receives most information about Commerce through their regional field representatives or by attending Commerce conferences and meetings. In the smaller communities, a regional center is an additional source of information about Commerce activities and resources. For a few, the Commerce website is a source for information.

Community/Commerce Interactions
Some communities are very proactive about making and maintaining contacts with Commerce staff. One community in particular insisted that it was their responsibility to do so.

> *…[I]t's up to individual communities to get to know those folks. …to be one-on-one with [mention several Commerce staff] …knowing who those people are and what areas are their specialties so that you can have… that direct contact with them.*

…[K]nowing who the secretary is and being involved with them. …we have never sat back and waited for them to say, 'I want to come tour your community.' …I think a lot of communities don't take advantage of the opportunity. But we have not been bashful about that.

You have to be an active, proactive community and interact with the Department of Commerce. You have to go to the recruitment dinners. You have to go with them to meet with site selectors. You have to…participate in trade shows. And you can't just sit back and expect them to do everything.

Another community feels that its relative success with Commerce has a lot to do with the longevity of their community economic development leader.

[Person] knows a lot of the programs out there, and I don't think a lot of communities have somebody who is as knowledgeable…

We've had a consistency for them a lot of communities, especially in development directors [don't have]. I'm the old timer in [regional descriptor] Kansas. I mean most people have been in their jobs for less than three years, and they have turnover all the time. …I get calls all the time from other communities asking…'we want to do this, who helps you with that?'

Participants found Commerce helpful and generally easy to work with.

…it was the first time that I had ever written a grant, so it was like, 'oh, how do you start this process,' but I found those folks to be very, very helpful to me as I did it.

We've had an excellent relationship.

I've always thought that they were accessible and that was what was important to me.

I think they are very helpful…It's helped us get some companies here and maintain [others], and have the company's interest in coming. …[They] provide a lot of events that I can go to make contacts. …just providing opportunities for us to make contacts that may pay dividends years down the road. I guess its really hard to quantify a lot of that because you just keep doing it…

[F]or us the Department of Commerce has been for the most part very easy to deal with. They help … lead you through the right paperwork and what you need to get done.

Paperwork and reporting requirements were a common source of frustration among multiple communities participating.

It just seems like it is just form after form after form. And a lot of them seem like it's just a repeat of what you have on the front of the form…I really think that paperwork could be more concise and not have so much detail.

Several communities believe Commerce to be too rigid as well.

It just seems like the Department of Commerce sends a lot of paperwork… they're always gathering information. … I'm not saying that's good or bad, but that seems to be our main working with them is that they're kind of keeping tabs on how money's spent, and … where its going, the size of the community, different aspects of that [type of information.]

And when you do utilize any of their programs, there [is] a lot of paperwork you have to get in place, hoops you have to jump through. But they're very good at assisting you to do that. And I feel like they are very upfront about saying, 'to get this, you have to do this, this, and this.'

When savings were realized on Commerce-funded community projects, two communities had very different experiences when they attempted to re-budget the project to allow additional work to be completed.

In the case that follows, the community was initially told they could make the project changes, but at final approval, were told they had to return the money.

They had told us yes all the way, but one person in Commerce…said no and really there was no reason for it at the time. …[We] felt like the rules were made up as they go or how well they liked you. And it seems really odd that someone could have that much power…That got a lot of cities really frustrated.

A different community found Commerce to be very flexible. Instead of requiring the community to return the unused funds, Commerce worked with them to re-budget the remaining funds so other community projects could be completed.

We actually had a time frame within which to do the demolitions and there were a lot of projects and a lot of things going on in the city that kind of got things off track and put us to where we were looking at really having to push to be able to spend all the money. And [Commerce] partnered with us and [regional center] to organize us with all the paperwork so that we could do what was needed to use every penny that we could from them. …[A]ll our dealings have been very professional … I haven't had the kind of contacts like they're talking about where you work with someone all the time and you get real comfortable – mine has been more very much on a professional level. It's a different person every time…

In several cases, Commerce was praised for helping communities determine if a program would fit their needs before they spent time and resources on a proposal.

You might not like all the stuff you have to do, but I think they are upfront with you, and you know what you're doing and you know pretty much right out of the box whether this is something you want to spend any time and energy looking into.

At the same time, at least one community felt more could be done to make the programs more accessible or to increase the follow-through.

[Commerce person] will come at the drop of a hat to go out to an industry to talk about the different benefits that Commerce has to offer…I'd say we do at least ten a year. …I called [Commerce contact to ask] out of all the different presentations that we've done, how many of those businesses have actually taken advantage of all those different incentives that are out there. And we couldn't think of a one. And I think that needs to be looked at…why aren't people following through? Is there too much paperwork? Is it too difficult? Are there too many strings attached? Can I only hire low to moderate income people? I mean why are these programs there and why aren't there more people taking advantage of them?

Changes in administrator certification requirements were also discussed frequently by participants as being excessive or burdensome. Testing methodology was also questioned since there were errors in the certification test administrators were required to pass.

[Commerce] created a grant administrator program that you have to take a test and be certified…which I think is a really good thing, but I think they need to understand how to give a test… told me that 75 percent of the people would have failed it if she hadn't gone back and …given people credit for some wrong answers, and I'm thinking, 'how is that helping you. Are you there to get us[through the program] or are you there to teach us how to do this so we can do it right?'…The goal is to run the program, not to get people [out].

Other participants spoke about the time required to attend trainings as well as the frequency of trainings.

I think the requirements placed on CDBG administrators, the licensing administration program, are just ridiculous. For us to have to send a staff for a whole week to pass a class…to me it seems like it's become restrictive to the point that you have to go out and hire an outside consultant. And when you do that, you pay them ridiculous amounts of money that could be used in your own communities. …so you've got to have three or four people trained so you always have someone covered, or you've gotta go out and pay someone ten percent for your project for them to administer. …And I don't think there were that many problems before there was an administrative program. I think that the person that was running it wanted it done a certain way and said let's go out and administer the program…so that I can have it done exactly like I want rather than…making it accessible for these small communities.

Impact of Commerce
Several communities credited Commerce with helping their communities accomplish things that would not have been possible otherwise. Community Development Block Grants (CDBG) and Main Street programs were frequently cited. For several communities, these projects led to a renewed sense of pride and cooperativeness within a community.

> *There's no one in this room who wouldn't drop everything to be there tomorrow if that was necessary [to make a presentation or show community support.] …And when Commerce can see that kind of camaraderie and unity within a community, it's hard for them not to make the investment. Because if we're fighting that hard together, why wouldn't they be our partner…?*

> *Main Street would never have been open, and if it was, it would be that ugly-looking thing with the street right through it and that would have been it.*

> *People just didn't care enough about it to want to do anything different.*

> *We had about an 80 percent vacancy rate down there. And now it is at 99 percent occupancy.*

From a larger community:

> *…I think some of the programs the Department of Commerce provides are the sparks that help us. We don't have big enough city staffs, we don't have big enough chamber staffs to have those kinds of programs, so it does provide at least the spark and someplace to go that has the resources to help us if we want to work on our downtown, we want to do [specific project], if we want to do economic development…*

Communities lauded Commerce with helping to secure new businesses.

> *It's a partnership. I think there are some companies that are in our community today, that if we hadn't been able to leverage some training dollars or other monies from the Department of Commerce for businesses that actually relocated here from another state…We would not have gotten [company] if we hadn't had the state dollars because that was a big training grant that went through the technical college here. And that was a key component for them.*

Commerce has also helped with employee training and retention.

> *Commerce was allocating funds to help us locate and retain scientists. And that's been very successful. Our turnover in scientists has gone to almost zero.*

KIT and KIR programs were cited as being especially helpful to employers.

> *We held a series of small group luncheons and brought in…a few representatives from the Department of Commerce just to explain two or three of the training programs to*

> *small groups…we probably held one a month…we went clear through our industry directory…they found out how simple it was to use and they make great use of it…We've had excellent cooperation in that regard from Commerce.*

Economic Development Cycle

When new businesses are considering relocation, the first contact often comes through the city, or in the case of larger communities, the Chamber of Commerce, with the business inquiring about the types of programs and incentives available. Participants acknowledged that attracting new firms from outside the community or state is the rare exception, and that it is also risky.

Participants noted that Commerce field reps have made referrals to communities for businesses interested in relocating in the state. This is an important activity and led to a successful venture for one city, however some aspects of the process could be improved, according to participants.

For example, it was recommended that Commerce take a more active role in coordinating proposals when multiple sites are responding and other agencies are involved. In this case, more than one site was making a proposal and the capacity of a state university was cited as an important resource component in multiple site proposals.

> *KDOC left it up to the community to sort of work with the University to put together some questions that… I almost think that KDOC should have been the ones to coordinate the University leverage – as a state institution.*

The participants believed that there should have been one universal point of contact to the university coordinating the responses from the university for the various sites.

> *…[It] put us in kind of an awkward position and I thought potentially could have stayed in an awkward position if one community has a different contact with the university…and we say different things about what the community can offer. I thought that would be really bad for the state. Now everything worked out okay, but it was just odd to me that as a state institution they would have the communities be the ones that have to put that together.*

Even in cases where the business referral did not work out, communities appreciate the involvement from Commerce to bring in entities considering relocation.

> *[The organization] flew him down. We had a mini van and we toured the area. They listened to all the state incentives. [Commerce was] very helpful. …then [relocation] didn't happen just because the [organization] changed their [plan]. But that was a great example of where Commerce really connected all the dots for us. We just basically had to be good hosts as a community.*

The above scenario is one that communities would like to see more often. In preparation for these "windshield tours," smaller communities in particular would like to know how to present their communities to prospective businesses. What changes do they need to make now, in preparation for a site visit? What are the relative strengths and opportunities of their community and region?

> *What things are they looking for? You ask the Department of Commerce and they can't tell you that…if they could put together some type of training… 'these are the things that you've got to have in place and these are the things that they're looking for.'*

Communities would also like the opportunity to decide for themselves if an opportunity is right for them.

> *I would really like to see the Department of Commerce send out their prospects to everybody and let us be the judge whether we could support that or not support it. They pre-screen everything…I think that may take people out of the game before and maybe we might have something that they're not aware of.*

At the same time, if Commerce presents a community with an opportunity for exploring a new business opportunity, the community wants to know that the business has been properly vetted. One community learned a difficult and costly lesson and believes the situation was preventable.

The community had been working with the Business Development division of Commerce, but after significant investment, the Community Development division discovered the problem. In this particular case, by the time the problem with the company was identified, the community had already invested significant financial resources in the business.

> *They did credit checks on … the community development side of Commerce, but the business development side apparently hadn't done it.*
>
> *That was pretty devastating to know that we go through this whole process, they bring us the contact and then…it just made it increasingly difficult to even think about bringing a business in here and having the community invest in them because they got burned. And you know the perception was, 'well Commerce was a part of that.' So it becomes very difficult to bring other businesses in, and I've discussed that with our local guy and it kind of went on deaf ears I think a little bit. I just wish there was a process that would say, 'we're taking care of this piece, we're gonna do the background checks for you, we're gonna make sure who's stepping up has no felonies, has no history, no credit history, has no issues in the past,' or 'no, we're not doing that, you guys are,' – you know that there was a clear line. And I don't know if there is a clear line.*

The community was also concerned it could happen again in a nearby community.

> *…[A]s soon as they were done with us, they were traveling around to other small towns, you know trying to do the same thing.*

Smaller communities in particular need assistance with separating the legitimate businesses from those looking for a handout. They often lack the resources to do this on their own.

[W]e get calls all the time, they're looking for the free ride. And we gotta be able to analyze that. I mean I'll get a phone call probably every other week and so I've got to figure out, 'are these guys real? Are they just coming here to get a free ride?' Obviously we don't want to go down that path. So that kind of support would be great. If I could turn it over and say to whoever, 'can you please check this business out or this gentlemen out?' that would help us.

Despite having a bad experience, the community did not believe that Commerce was solely responsible for properly vetting a business or individual.

As Commerce … I don't think you should say, 'we think there's no problem.'

Even if they had a clean background, I think you ought to be able to say, 'here's what we found out, make your own judgment.'

Communities understand that business development is risky too.

I guess you have to take a calculated risk at some point and say, 'this is worth investing in…'

They would also like to see Commerce help them develop strategies for identifying potential businesses. Particularly in smaller communities, Commerce is viewed as having expertise and knowledge otherwise unavailable to them.

Another community indicated it was prepared to think differently about how to attract new business.

In order to make a facility like that successful, we're gonna need help from people all over the country, not just people here in the state to come up with a use for that facility. Help us come up with something a little outside the box, I mean…we're not most likely going to attract the run of the mill type industry to come locate here. So we're gonna need people, creative people, thinking about what's gonna be the best deal.

This particular community sees the initiative as a benefit to the entire state, through significant job creation, increase in wages, increased property taxes, increased income tax revenue, and decreased reliance on SRS support.

One community criticized Commerce for not seizing an opportunity to attract businesses looking to relocate from New Orleans after the Katrina hurricane. This leader sent an inquiry to Commerce about programs available to help businesses identify locations.

…[Businesses] need to be up and running. The comment I got back was, 'we aren't gonna do that because that would be encroaching.' When I saw that…I was astounded that that comment was made because we do that every day. I mean we're constantly pulling businesses from Missouri to Johnson County. I mean it happens every day. It wasn't the lower tier level [Commerce staff], it was the higher tiered. I thought to myself,

'why in the world would you make a comment like that?' …They're not running, they're not operating, we've got buildings all over the place… I was really floored when that comment was made and thought, 'wow, we lost.'

Smaller communities recognize that their business development efforts need to be strategic in order to maintain a balance with existing businesses. Competition threatens survival.

Ten public accountants in the city of [edited] are not going to make it. …[Y]ou've just got so much base to draw from and there can't be a lot of competition to make it.

…Commerce a lot of times wants to see those numbers, how many new businesses have you started. Well, out here you can't really add new business to fuel the economy, it's gonna put someone else under. …our focus…is how do we help the people that are in business now get better? Maybe Commerce could kind of take that approach with us out here too…what can we do to help these struggling surviving businesses grow stronger to support new business.

…they say, 'yeah, we understand that two jobs in a small community like [edited] is the same as 200 jobs in Wichita,' but what they say and what they do are two different things. I mean, when you look at their newsletter and they talk about their business recruitment and business development, it's all in the big cities with the big numbers. You know, they don't ever devote any resources, either human resources or financial resources, for business recruitment in small communities.

Communities also know they need help identifying strengths within their communities and region, and look to Commerce as a potential source of assistance with this.

We need help somehow identifying what kind of industries would be a good match for western Kansas. …helping our areas identify what would be good fits for types of industries and then help us find those trade shows or those industries to try to recruit to come here.

…identify the assets and then identify industries or businesses that would fit with that and help us market ourselves.

The "large site inventory" initiative was discussed where larger communities identify 100 acres for industrial development. One smaller community suggested trying this on a smaller scale for 20-40 acre plots.

Smaller communities tend to look more to the US Department of Agriculture for programs targeted to them, particularly for housing programs.

I just think the USDA's perspective is more focused on rural things.

I even heard from someone at Commerce that said, we were talking about bioscience, and the comment was made, 'well, it's really not designed for rural communities.' And I

> *kind of choked a little bit but then on the other hand, I thought, 'well, that's probably true.'*

However, at least one participant from a small community was unwilling to put the responsibility for success within their community solely on Commerce or any other external entity.

> *I think we have to help ourselves first, I guess. …we have to think of ways on our own.*

Strengthening Existing Business

All communities, regardless of size, acknowledged that their strongest potential for continued economic and business development frequently comes from their existing businesses. Workforce training is an ongoing concern for at least one community, where the workforce is aging rapidly and there simply aren't enough workers in the pipeline to fill the void.

> *We employ about 600 people, and over the next 10 years we are going to have to replace 300 of them. …that's gonna be the problem in the next 25 years, supplying the basic labor force.*

For more than one employer, this not only affects their current operations, but also limits their ability to respond to expansion opportunities. Not only are there fewer individuals entering the workforce, but many leave the community after they graduate and do not return. One community noted that more could be done to encourage students to consider technical training, and joint efforts between Department of Education and Department of Commerce were suggested as a possible solution.

> *…If we want to break ground later this year, we can't do it, because I can't…guarantee a workforce right now. …we want to spend more money in here because the workforce we have is just outstanding, the community is second to none, but I mean resources do have limitations.*

Another participant stated a similar situation.

> *…We have quality levels that far exceed the consensus standards…we have twenty lines available and we can only operate twelve lines and we can't service the market. We have all the equipment we need, but we don't have the people to run them.*

One community which has seen a recent population growth has benefited from Commerce-led support on workforce training and supply issues.

> *Commerce has been real proactive as far as bringing people together … how to deal with this [population] influx – the infrastructure, the jobs that will be needed, and created. I know they have done a lot of recruiting throughout the state and beyond looking for additional workers to help fill the needs. …I just know for the last two years, seems like every meeting I go to there's somebody from Commerce there. They've been very involved…*

Housing was identified as a related issue to workforce supply. The problem includes a lack of builders, lack of affordable housing, and a need to rehabilitate existing structures. Cities face real problems in attracting workers without adequate housing. Commerce has been one resource which has provided meaningful assistance to communities. However smaller communities find US Department of Agriculture programs more helpful for housing projects.

Priorities

Perceptions of Commerce priorities and what those priorities should be varied between small-to-medium and large communities. Larger communities believed they should be rewarded for succeeding by receiving more funds. They believe that the decline of smaller, rural communities is almost inevitable and that strategically, the funds could be better utilized in their communities.

> *I think Commerce helps [small towns] at the expense of larger towns.*
>
> *How does the state perceive [community]? And I say that because this has been a community that has been very prosperous, it's been very independent in many ways too and has not relied on state or federal funding for every single project. Is that taken into account by the Department of Commerce in awarding grants? I mean do they look at the economic environment here and say 'you know [community's] pretty independent, they'll do okay. You know, let's go to some western Kansas county that's faltering and we'll give them the money.'*
>
> *What can the state do for communities like us that have been a shining star for the state from an industrial basis, help us continue that growth, and growing the population and training necessary to support the future?*
>
> *The bias ought to go toward a successful community rather than the ones that, like it or not, are gonna go away in a couple of years.*
>
> *We can't save every city in Kansas. It's impossible to do.*

The above views are contrasted by small- to medium-sized communities.

> *…From the state's perspective they obviously want a bigger bang for their buck, I mean I think we understand that and they're going to invest their dollars where they're gonna get the bigger run for their bucks. And I think that's just a policy issue from the legislature not necessarily with Commerce.*

Smaller-to-mid-sized communities recognize they are stagnating or are in decline, but rely on Commerce funds and resources to some extent to keep their communities competitive. They also believe that they frequently lose out to larger communities for programs.

> *You know there are the large communities that are entitlement communities where that money just automatically flows to them. With us, we have to apply for that money. You know we have to, in doing a CDBG application whether it's for a sewer grant or whether it's for industry, [it] is very time consuming. …The paperwork's deep.*

> *Well, it's a numbers game too. You have to play their [Commerce's] numbers. Not being an entitlement city, you have to have the right ratio for everything they monitor.*
>
> *And the entitlement cities don't have to do that.*
>
> *…We're struggling just to keep our businesses open and people that are in those businesses, economic development…we don't have a plan either. It would be nice to have a plan. What's done is basically done through individuals that get together.*

Small communities believe that there are already limited programs available for them.

> *I think right now…our contact quite honestly feels almost embarrassed to come and talk to us because he's always talking about how there's really no programs for places …there's really nothing for poor communities, and…I don't hear much from that contact … I think because of that. …You kind of get the feeling that there's two different states, east of Wanamaker Road and west of Wanamaker Road.*

At least one community recognized that Commerce's charge was large and that their funding was limited.

> *If we're going to start programs, let's make sure we have enough funding or people on board…[Agri-Tourism program] enthusiasm was there, and then all of a sudden it just dropped off.*

There was encouragement from one community for Commerce to set priorities and allocate resources accordingly.

> *…I think what we intend to do is we try to make everybody happy and then we spread our resources too thin. …what we have to answer as a question in the state first is who do we want to be, and what's our focus gonna be, and then let's allocate the resources towards that. Those are not easy decisions to make. …[determining] what our real assets are and then allocating whatever dollars we have to making that happen so we can have an impact. We can't do everything for everybody.*
>
> *…if we're gonna focus on the Flint Hills, then we need to get some money to the Flint Hills region and say we've decided that this is our tourist thing that we are really gonna hang our hat on, but we're gonna put money and allocate money and we may not be able to promote Boot Hill and Dodge City…and all those things… And the same thing then goes over into economic development. If we decided that manufacturing is gonna be what we're gonna hang our hats on, then we need to not be spread all out over everywhere…and this is where we're gonna put all our workforce training…*

One solution discussed was to focus resources on regional centers that would serve the populations within a 40-50 mile radius and thereby serving the entire state.

I think if we made the tough decisions the people in the little communities would benefit. It's harder for them to see how they'd benefit, but they would benefit.

…we're trying to save every community and everything that's out there and you just can't. There isn't enough money to do it. But we can do it if we can convince people to go in smaller circles, and look at what you could do, what development you can do within that 40-mile radius…we could really change economic development in our state…

Tourism and Promotion

Communities large and small are very positive about their interactions with Commerce's tourism staff.

They're very good marketing folks… I like what they've done with – I call it the tourism atlas, the travel guide – I think it's better than ever and of course the website is very handy and nice.

[Commerce is] very important to us. I work with the Department of Travel and Tourism…and the promotion that they give to each of the communities across the state of Kansas…it's just that hand in glove relationship that we have with the Department of Travel and Tourism.

Communities have creative ideas about promoting their communities, regions, and the state. One idea to improve the state's image includes touting products and technologies widely used that were developed here in Kansas. A few examples included the yellow first down line used in football game broadcasts and the laser sight light that is used on tools such as Sears Craftsman cordless drills.

The discussion turned to state of Michigan national promotions using famous citizens and how impressive the campaign was.

One group of participants really liked the efforts being made through the five regional people who were located strategically throughout the country to help attract business to Kansas. They felt this effort should be increased.

I still go back to perceptions of the state itself, you know I still just think it's underfunded. I don't think that piece is probably being funded well enough to actually make an impact. …[W]e need more people out talking about the state of Kansas and what we have to offer. …[Otherwise] you're not gonna know that the state of Kansas now has no property tax on equipment, you're just not gonna…and five people aren't going to be able to cover that.

Communities want to see the strength of the Kansas workforce highlighted in marketing efforts.

I think the recognition too that even though the population isn't huge here, every large industry or …business knows that the Midwest is the backbone, they're the work ethics, they're the people that are loyal and trustworthy, and you know how to work, and you

> *know there are things that could be out here that could be computer-based…that people wouldn't all have to commute into one building. …I think that there's a lot of things western Kansas and our community would be willing to do outside of the box to bring those [types of businesses] to us.*

> *I think they're trying to change the image of the state and that's something that definitely needs to be continued. We get calls from all over the country…about our community, and you can definitely tell that there's a perception out there about Kansas. It's not great.*

> *Well when you see pictures about Kansas and I hate to say it but there's usually a windmill, and a prairie, and a barn.*

The smaller communities recognize that image is a key component to attracting businesses from outside the state and region. They understand that they are at a significant disadvantage to larger communities within and outside of Kansas. However, they also see Commerce's role as important to fighting the image issue.

> *I think we're all on the same page. I'd love to see the state continue to grow and I think Commerce's role – a lot of the stuff that we take as rural—that we definitely know that we have to take care of—we've got to do our plan. And then we just go out and find programs and make the contact…I know they're trying to change our [image] but if they could do even more, I think that's critical to Kansas. Kansas is in all this, not just [here], but we want Kansas to be successful…I would like to see more time and efforts on that.*

Communication

Communication issues were often cited when problems with Commerce were identified. Many problems related to not knowing who to contact as a result of staffing changes and positions remaining unfilled. Where personal contacts existed, fewer communication problems were noted.

> *We're on lists and we get notified of the programs. They just know who we are, in my case…I have relationships with all of them…*

> *I think communication from Commerce has improved whether it's electronic or through their magazine newsletter, or website. But that's not a personal communication, its directed. It's an easy way to communicate. …And certainly they have a lot of hearings, workshops and public forums to receive more details if you'd want. I think they're one of the better agencies that do that in the state.*

Some opportunities to improve communications were identified.

> *…I guess if I knew what they provided in a quick easy reference, that maybe that might be helpful. I could look at it and say, 'well, you know, I'm gonna call them for this,' either yes or no.*

> *It seems like the Department of Commerce is the best kept secret out there. And they need to, I hate to say come to us, but they need to somehow set up some piece of availability,*

be it meetings that are held across the state or something, where you could go and get information.

One participant suggested the website could be improved by including news and upcoming events.

On their website, Commerce doesn't list that much in the news department. It's a ribbon-cutting mostly. What I usually see [on website] are usually past events in the last week, month.

The individual was on the website looking for information on an upcoming training but ended up having to call someone because it wasn't posted on the site.

Businesses often see state and quasi-state agencies as one unit. There was frequent confusion about the roles of each and where responsibility for a program rested. The Kansas Bioscience Authority, Department of Commerce, Housing, Department of Agriculture, the Governor's Office, and even state universities were seen as essentially one unit.

Businesses were also less likely to have a clear understanding about programs. They would like to know more, but are unsure of how best to get the information to them.

…I don't want to get a monthly e-mail…It'd be nice to have some kind of very periodic review of what they do and how we can work together.

I think there's a tendency throughout the United States to push everything toward the internet, it's all online instead of personal contact. Our website is such and such, go to that. Rather than a personal contact, and you know once they get re-established with people, you know filling all these slots.

Small group sessions were suggested as an alternative to e-mail contact for letting businesses know about Commerce programs.

It'd be nice to have some kind of very periodic review of what they do and how we can work together…where a representative could come to town and a group would come together and ask questions. Sometimes I don't even know what questions I want to ask, but out of a group, you can get [ideas].

One recipient of Commerce funding had a situation where a piece of equipment that was purchased through a Commerce loan program was potentially jeopardized by a natural disaster. The individual contacted Commerce to let them know that the equipment was not damaged.

The person I was talking to just couldn't figure out why I should call to let them know…and I felt that I needed to do that because…we had a loan and had different [Commerce] programs. But he just couldn't get the drift why I was reporting this.

Staff Changes, Transitions, and Who's in Charge

There was considerable frustration with frequent staffing changes at various levels within Commerce. In several cases, participants learned of departures – or that Housing was no longer part of Commerce – through discussions with other participants at the focus group sessions. Staff changes often led to apparent shifting of program priorities and rules, sometimes during a project already in progress.

Although many of the staff and priority changes apparently were related to the change in administration in the 2002 election, there was evidence that staff changes have been an ongoing issue for some time, with some positions remaining unfilled long-term.

> *They don't have field staff out here for community development…they haven't filled positions out here for years.*
>
> *…[they need to] remember that the last third of the state does exist.*
>
> *...I realize there's not a lot of people but there's a lot of ground and a lot of area, and there is population that pays their taxes and would enjoy some services.*
>
> *They consider Salina and Wichita western Kansas, and that's a long ways from western Kansas.*

One community had a particularly difficult time with getting a new businesses training grant started due to the transition between administrations. Securing the training grant had been a main factor in the company's decision to re-locate in the community.

> *They got the grant, and then to implement, they got sent in circles. And they got frustrated, very frustrated. …they were thrilled with the grant, and then when it went to the implementation of the grant is where the hang-up came. And some of it was that they were caught in the transition between administrations. …they had a new group of people, and they changed the rules, and [company] got very frustrated…it took them over a year before they got the grant.*
>
> *I've done a lot of grants, this was the most difficult, confusing one I had ever done. But the good news is that they have changed it… that's a point in Commerce's favor is that they saw a problem and they have done something to resolve it.*
>
> *…they were so upset that they said if they had known that was gonna happen, they wouldn't have come to the state, period. …They said if they could have gotten out of all their contracts, they would have moved to some other state, because they just felt like the state promised this and couldn't deliver it…*
>
> *...Department of Commerce dropped the ball. And you can't have one set of rules on Friday…and then on Monday change the set of rules, and that's what happened.*

Many questions were raised about who was the current head of Commerce and who was in charge of various program areas. Several communities expressed the desire for strong leadership within Commerce at the highest levels. They want the leadership to be decisive and to set the agenda for Commerce.

> *It's just been kind of odd. I just don't know who's in charge.*
>
> *Are they advertising for those jobs or are they just having a difficult time – or have they decided what to do with those positions?*
>
> *If you're gonna get a top leader to take your economic development to the next level, then you're gonna have to say, 'first let me go out and find who I want, and then within reason, I'm gonna pay them'. …If you want a true business leader to run that, you're gonna have to pay a lot more than ninety to a hundred thousand.*

Conclusion

The overall opinion of Commerce is positive, although some areas for improvement were identified. Generally communities view Commerce as a valuable resource and an important partner in their economic development efforts. In most cases, they would like to see more involvement from Commerce but recognize their resources are limited. Communities expect Commerce leadership to set the agenda for the state's economic development direction. With attention to the noted areas for improvement such as communication, transition, and clarity of purpose – Commerce can continue to be an important leader in the economic development arena for the state of Kansas.

Appendix C: Case Studies of Commerce Assistance

Company A – Durable Luxury Goods Manufacturer
Company A, based in southeastern Kansas, manufactures durable luxury goods. The company has been in operation for over 40 years. It prides itself on a fully integrated operation in which it crafts virtually all parts of its finished products. It has pursued a reputation for providing higher quality products with better fit and finish than its competitors. Shortly after its formation, Company A moved into a former heavy refining facility in a nearby town. The community to which it moved facilitated the relocation.

In 2006, Company A expanded into a vacant facility in central Kansas. The company now uses this facility to build higher quality products via a new and improved manufacturing process. Commerce was able to assist in this move by providing a KIT grant to help train associates in the new production process. Also, Commerce provided a forgivable loan under the KEOIF program for the purchase of equipment associated with the new facility. These incidents of assistance helped Company A successfully complete the expansion, which will strengthen its competitive advantage of crafting higher quality parts from a cutting-edge process.

Company A also recently completed an expansion to its base facilities. To help with this expansion, Commerce provided KEIEP funds. This expansion, as well as the addition of the new facility, has helped increase its employment – five years ago, the company employed roughly 500. Today, that number is over 800.

Company B – Building Materials Manufacturer
Company B, headquartered outside of Kansas, manufactures building materials for residential and commercial property. In 2003 it decided to expand its production capacity in order to compete for a large contract with the federal government. After determining that further expansion in its existing urban site would not be possible, it began looking at sites in more rural locations. Commerce provided help with identifying potential sites for expansion in Kansas. Possible locations were identified in industrial sites throughout the central and eastern regions of the state. After some consideration, an industrial park in central Kansas seemed ideally suited for the company's purposes.

To help encourage the location to that site, Commerce put together an incentive package that included Industrial Revenue Bonds, KEOIF funds, KIT funds, and a waiver for certain relocation-related fees. Company B took the offer, and the move was completed in 2004. It later competed successfully for the desired government contract. Company representatives have stated, however, that Commerce was prepared to support the expansion even if the contract bid had been unsuccessful.

Company C – Food Purveyor
Company C is based outside of Kansas. It purchases overstock from food purveyors and resells the food to wholesale and institutional customers. The company was formed in the East in 1993 and today maintains operations across the country.

Company C's relationship with Commerce began when it started investigating the possibility of acquiring a manufacturing and distribution center in Kansas to reduce the costs associated with shipping products from the East Coast. It eventually acquired a facility in western Kansas in 2003, but the facility needed substantial rehabilitation and retrofitting. Commerce provided KIT funds for workforce training, a KEOIF forgivable loan, available state tax credits and exemptions, and CDBG funds to assist with the construction of a railroad spur to the site. The city also provided assistance. The expansion is expected to create approximately 50 jobs and add five million dollars in investment to the community.

According to its chief operating officer, the incentives and excellent customer service provided by Commerce were important factors in the company's decision to locate in Kansas. However, company representatives have also expressed disappointment. After protracted negotiations with railroad officials, Company C learned that construction of the railroad spur would not be feasible. Company representatives wish that city or Commerce officials would have researched the matter more thoroughly before making the spur seem feasible, since the railroad spur was an important factor in the company's cost of business calculations for the facility.

Company D – Biotechnology Services
Company D provides professional services and solutions to the pharmaceutical, biotechnology, and healthcare industries. It is located outside of Kansas and delivers its services via subsidiaries responsible for clinical research, sales and commercialization, and financial solutions. The company currently employs between 10,000 and 20,000 individuals.

Company D originally operated a campus in Missouri that employed more than 700. However, in 2005, it was recruited to construct a new facility in northeastern Kansas to house all of its Kansas City area operations. The building was set to house 700 employees when it opened in 2007 and may add 300 more in the next few years. According to company officials, Commerce was very helpful in this process. The incentives provided, including local tax abatements and state tax credits, were crucial in determining the site of their relocation.

Company E – Workforce Development Partnerships
The Manufacturing Skills Certification (MSC) Training Program is an example of a workforce development partnership between Commerce and a group of Kansas firms. The program is a three-week basic skills course designed to prepare workers to enter the aircraft manufacturing industry in the Wichita area. It is taught at the four Kansas Institute for Technical Excellence (KITE) schools – Butler Community College, Cowley County Community College, Hutchinson Community College, and Wichita Area Technical College. An advisory committee that included representatives from these schools as well as the aircraft industry created the MSC curriculum between January and June of 2004.

The MSC course is designed to be the precursor to another three-week class on a more specialized area of aircraft manufacturing, such as sheet metal, composites, welding, etc. Those who complete both courses receive an aerostructures certificate, which makes them eligible for a job at most area aircraft manufacturers. Although the idea for the course came from discussions between the KITE institutions and the aircraft industry, the seed money for the program came from a Kansas 1st Workforce Solutions Fund grant from Commerce. This grant provided funds for those developing the program to purchase materials for the class as well as have its content reviewed and tested. The MSC program was responding to an urgent need by the aircraft industry for new sheet metal workers.

A similar collaboration took place around the end of 2005 between Commerce and Company E, a major aerospace manufacturer in the Wichita area. Having already been part of a focus group that reviewed the content of the MSC curriculum, the firm was asked by the consortium of KITE institutions to run a pilot version of the MSC and find out whether it helped increase workers' skill levels. Funding for this pilot program came from a Commerce IMPACT grant. The Direct Training Services within the IMPACT grant allocated funds for Hutchinson Community College to provide three on-site technical trainers to Company E. The company found that those who did not enroll in the MSC program were at a disadvantage compared with those who did. The program turned out to be a cost-effective way to teach basic skills to individuals entering the aircraft manufacturing industry. Officials within the industry estimated that, if the MSC program continues for the next five years, it has the potential to provide training for more than 1,000 aerospace workers in the Wichita area.

Commerce was also instrumental in setting up a workforce development program within the state's oil and gas industry. In response to a shortage of skilled oil and gas workers and state standards that require the industry to re-certify its employees frequently, Commerce gave a $75,000 grant for training and certification to the Kansas Local Area I Workforce Investment Board in July of 2005. The Workforce Investment Board partnered with Pratt Community College to provide classes on topics such as first aid, OSHA compliance, and oil rig operation. Commerce's funding period ended one year later. However, due to the value of the program, the Workforce Investment Board and Pratt Community College have continued to administer the training using Federal Workforce Investment Act funds. This year alone, 300 to 400 workers will receive training through the partnership.

Company F – Heavy Durable Goods Manufacturer

Company F, a heavy manufacturer located in Kansas, received a large IMPACT training agreement from Commerce during a period of high growth in the late 1990s. Under this agreement, the company would be reimbursed for training expenses related to employment increases over the course of the five-year agreement period. However, with the national economy in recession during 2001 and 2002, the company's employment declined to below pre-agreement base employment levels.

According to the terms of the IMPACT agreement, Commerce could have declared the company in default and demanded immediate repayment of the funds that had already been received.

Instead, Commerce worked out a repayment agreement with Company F where, based upon company employment forecasts, repayment would be extended until employment levels would rise above required base levels, allowing the company to repay the training funds. As part of this agreement, half of the money owed would be put into an escrow account during this period. As projected, Company F's employment did recover and the terms of the original IMPACT agreement and repayment agreement were met in 2006.

According to company officials, this was a win-win situation for both sides – the company was not required to make a multimillion dollar default payment, and the agreement's goals were met within the 10-year IMPACT agreement period.

Company G – Non-Durable Goods Retailer

In 2004, Company G was looking at a number of possible sites in the central United States for relocating its corporate headquarters. These included sites in Kansas as well as ones in neighboring states. During the selection process, the company met with Commerce to determine which incentive programs could be utilized if a site in Kansas were chosen. Commerce offered a KEOIF grant for costs associated with setting up the new office as well as an IMPACT training agreement that would reimburse costs for professional conferences and classes.

According to company officials, these incentives played a large part in the company's eventual decision to locate in Kansas. They were not the only factor; however, without the incentives, the company probably would not have chosen Kansas. The only disappointment for the company was the frustrating application process for an HPIP grant. This process involved multiple exchanges with Commerce to determine what information was needed in order to determine the company's eligibility. In the end, the company applied for and received Enterprise Zone sales tax exemptions instead of an HPIP grant. In talking with other companies, Company G has concluded that HPIP is the Commerce incentive with the most difficult application process.

Company H – Communications Industry

Company H, an out-of-state corporation involved in communications, was looking to expand its operations in the central United States several years ago. A site in Kansas was among the locations being considered for a new support facility. As part of the selection process, the company used a third-party real estate advisor to identify applicable business and economic incentives from state and local governments. It viewed the attractiveness of these incentives as a major component of the decision to locate in Kansas or elsewhere.

Commerce's incentive package included sales tax exemptions, a forgivable loan, and funds for industrial training and retraining. The forgivable loan was particularly attractive to company officials since it would help offset capital costs associated with the construction. Ultimately, this package was a major factor in the corporation's choice to build its facility in Kansas. In fact, had the incentive package not been as attractive, the company probably would not have chosen the Kansas site. The facility is now in operation and has resulted in an employment gain in the range of 500 to 1,000 for the state.

Appendix D: Technical Brief on Statistical Analysis

A key question in this evaluation is whether key Kansas economic development outcomes would happen without Commerce assistance. An ideal analysis of that question would require a "counterfactual" scenario where we could observe a group of businesses that have not received Commerce assistance over time, and then go "back in time" and observe those same businesses' performance after receiving Commerce assistance. Obviously, this is not realistic. Nonetheless, analysts generally agree that comparing the performance of businesses that have received assistance to similar businesses that did not receive assistance provides some of the same information as a true counterfactual scenario. We apply that basic logic here. By comparing the performance of firms that receive Commerce assistance to similar firms that did not receive Commerce assistance over the same time period we can develop some insights into the difference that assistance makes.

There are several challenges to carrying out this sort of comparative analysis. The first is identifying suitable indicators of business performance. Fortunately, as we have discussed throughout this report, Commerce staff and stakeholders generally agree that job creation and retention are good indicators of progress toward the agencies' mission of helping Kansans achieve prosperity.

The second is reliably measuring the performance of individual businesses. Employment and wage data for small businesses is difficult to collect, expensive, and often unreliable. For that reason, rather than focus on individual firms, we instead analyze trends over time in job growth, total wage growth, and average wage growth among "bundles" of like-sized firms in similar industries. This bundling helps to mitigate any confounding information from data collection problems or idiosyncratic firm behavior.[29] This strategy makes sense because many Commerce programs are designed to affect change in particular industries and among particular segments of the business population, even though actual assistance is delivered to individual firms.

The third challenge is finding appropriate comparison firms that have not received Commerce assistance. Since no two businesses are exactly alike, no matching process will produce exactly the desired counterfactual effect. That said, the sheer number of businesses establishments in Kansas provides a rich and varied dataset from which to find suitable comparisons. We were able to find appropriate comparison groups for 16 different types of businesses. Especially important is that these 16 represent a substantial portion of Commerce's overall assistance effort. This undoubtedly excludes several types of firms for which Commerce provides crucial assistance, but it does provide a good, general overview of difference Commerce makes for those industries in which it has established a strong presence.

The fourth and final challenge is properly attributing differences in performance to Commerce assistance. This analysis simply does not allow us to determine whether assistance is the reason or catalyst for changes in business performance. It is not uncommon, for instance, for growing firms to seek assistance to accelerate their growth, or for firms that might require a reduction in

[29] This includes temporary shut-downs (which are not uncommon among small, single establishments), name changes, ownership transfers, and other phenomena that obscure a firm's performance over time.

their workforce to seek Commerce assistance to mitigate the effects of that reduction. In these and many other circumstances Commerce assistance is part of a broader business strategy dictated by the firm's recent and expected future performance. So even though we can associate differences in performance with the presence of Commerce assistance, this analysis does not allow us to say that Commerce assistance is the reason for those performance differences. This problem is compounded by the fact that we are not able to effectively differentiate performance changes among different types of Commerce assistance. Some programs might be more effective than others at bringing about certain types of performance changes, but those differences are obscured.

That said, this analysis does provide meaningful insights into broad trends in the behavior of assisted and non-assisted firms. Differences in those trends allow us to comment, albeit at a broad level, on the difference Commerce assistance makes.

We conducted the analysis as follows. With the help of Commerce staff, we first identified the entire population – roughly 1000 firms – of businesses that received some form Commerce assistance from 2002-2006. We then purchased data – from Dun and Bradstreet, an international purveyor of data for marketing and business analytics – on all Kansas businesses with at least ten employees. We also purchased a separate sample of manufacturing and service sector businesses with between one and nine employees. This was designed to account for smaller firms, of which there are substantially more. The manufacturing and service sectors were chosen because Commerce has the strongest presence in these industries. If a firm in either the Commerce data or the Dun and Bradstreet data had more than one location in Kansas, we aggregated that firm's data to the state level. This process resulted in a comprehensive dataset of all Commerce-assisted firms for which data were available, and a comparison group of businesses not identified as Commerce-assisted between 2002 and 2006.

We then purchased – from Professor John Leatherman at the Department of Agricultural Economics and the Office of Local Government at Kansas State University – employment and wage data for these businesses. These employment and wage data are collected from the Quarterly Census of Employment and Wages, a report filed with state labor/workforce agencies by all businesses that regularly pay unemployment taxes. Most businesses that employ at least one individual are required to pay those taxes, so these data cover all except the smallest firms. After incorporating the wage and employment figures, the new expanded dataset contained the following data for each quarter from 2002-2006: the firm's most recent primary Standard Industry Classification (SIC) code, whether the firm received Commerce assistance at any point between 2002 and 2006, total employment for the quarter, total wages for the quarter, and the average wage (total wages divided by total employment) for the quarter. We then calculated each firm's change in total employment, total wages, and the average wage from the previous quarter.

The next step was to construct bundles of firms that had received Commerce assistance, and bundles of comparable firms that not received Commerce assistance. We did this by sorting the entire dataset according to two-digit SIC codes. We found that three digit codes were too precise to allow for grouping of more than two or three firms into each industry bundle. The main drawback here is that two digit codes allow for a substantial degree of variation within each bundle. For instance, the SIC code for "Fabricated Metal Products" (#34) contains industries ranging from “Metal Cans and Shipping Containers” to ammunition. But as mentioned, these codes are the most appropriate given the scope of Commerce assistance.

These subsets were then denoted as Commerce-assisted if all their members had received assistance, and not assisted if none of their members had received assistance. We deliberately avoided intermingling assisted and non-assisted firms within the same bundle in order to provide the cleanest possible interpretation of the final results. This sorting process resulted in several dozen “bundles” of comparably-sized firms, some that had received assistance and some that had not, within each two-digit SIC code. An “assisted bundle” was included in the final analysis if contained at least three firms, and if its identical bundle of “non-assisted firms” contained at least three firms. Maintaining roughly the same number of firms in each bundle circumvents any problems of interpreting the magnitude of changes across quarters. A total of seventeen bundles were included in the final analysis, comprising more than 9,100 individual quarterly observations over the period of analysis. Descriptive information on those bundles is reported in Table 11 in this report.

There were two main drawbacks with this matching approach. First, the Dun and Bradstreet data is what we might call a survivor sample. It includes only firms that are in operation today. This creates a bias in the sample toward more successful firms. In the absence of a better dataset, we must simply recognize this as a potential limitation to this analysis. A second drawback is that for some pairs of bundles the average firm size and/or the number of firms included in the bundle are noticeably different. Extra caution is urged when interpreting the performance differences across these different bundles.

The basic analytical strategy was to compare the performance over time of each assisted bundle to the performance of its non-assisted identical bundle. We focus on three performance indicators: quarterly change in total employment, quarterly change in wages, and quarterly change in the firm’s average wage. We calculated these changes for each variable for each quarter for each bundle, and then calculated the difference in those changes between the assisted and non-assisted bundles. So for instance, if wages for a bundle of assisted firms grew by 5% for one quarter, and wages for the comparison bundle of non-assisted firms grew by 3.5% during that same quarter, we would say the assisted bundle outperformed the non-assisted bundle by 1.5% for that quarter. We then computed the average of these quarterly performance differentials for each overall bundle. The figures reported in the last three columns of Table 11 are these performance differentials averaged across every quarter from 2002 to 2006.

The basic intuition behind this analysis is simple – if the assisted firms consistently outperform the non-assisted firms on these key performance indicators, then Commerce assistance is contributing in some way to positive outcomes.

Appendix E: Comparative State Analysis: Economic Development Incentives

Select States: Arizona, California, Colorado, Kansas, Idaho, Missouri

These states were selected as competing most directly competing with Kansas for job creation and economic development.

All states have a combination of cash reimbursement for certain items, usually training, sometimes moving expenses, and tax rebates for certain items, usually property tax, personal property tax, and sales and use tax on certain, specified products, and tax credits to be applied against income taxes, sometimes going back years and often allowing a carry forward for some years. In addition, all states allow publicly issued bonds such as Industrial Revenue Bonds or Pollution Control Bonds.

Since each of these programs were approved by their legislatures, they are variable by how their legislators perceived priorities and dealt with the politics of relative subsidies for urban/rural, manufacturing, high tech, research and development, agriculture. Unique industries and the encouragement of specific industries distinguish the state incentives as well. Idaho, for example, has a 3% Tax Credit for Investment in Broadband Equipment for companies providing broadband service to Idaho customers. California has a unique set of incentives for businesses involved in developing the Joint Strike Fighter, including hiring credits, property credits, and training funds. Arizona provides extensive exemptions and credits for forestry harvesting business, solar energy, and airport capital improvement programs.

Number of Incentive Programs by State					
Arizona	California	Colorado	**Kansas**	Idaho	Missouri
54/36*	34	13	15	24	13
*36 does not include tourism and arts, housing, and energy incentive categories, and are not reflected in the comparative chart below.					

Each of these Incentive programs has layers of detail and discrete thresholds for levels of eligibility. For example, one state has a “$2,000 training reimbursement that is variable based on the salaries to be paid (on a sliding scale) up to $3,000 for jobs paying $12 or more an hour, provided the jobs are located in select rural counties.” Another state has a “Customized training program with grants of $800 to $2,700 per employee, matched 40% by the Employer locating or expanding in urban areas at wage thresholds of $8.50 an hour or in rural areas with thresholds of $7.00 an hour plus health benefits.”

That level of detail makes a clear and simple comparison presentation of apples to apples difficult to impossible.

The best way to make a comparison might be to take a specific industry and see how the incentives might play out one state compared to the other. But that too has it’s pitfalls in that one state might interpret their incentives more liberally or more conservatively than an independent analyst might. And some states have intentionally targeted a particular industry and built incentives for that industry. Colorado seems to target the aircraft industry and biotechnology. Idaho seems to target high tech, manufacturing, and corporate headquarters. Kansas seems to target manufacturing, distribution, and office complexes. Missouri as the example in Kansas City seems to target major development in major cities with a host of incentives similar to Kansas' STAR bonds and Tax Increment Financing. California seems to target manufacturing, military, high technology, agriculture, distribution, and in special zones to stimulate jobs in depressed areas.

What Each State Offers:

There are many similarities between state's incentives. There are only so many ways to provide attraction to new or expanding industries, and this sample of states has used all of them, it seems. Each of the states surveyed offers these programs, some in different, promotional names, but all similar.

1. Industrial Revenue Bonds (IRBs) for federally-defined eligible industrial development, limited to a cap amount, creating competition for land acquisition, plant and equipment investment.
2. Reimbursement of Training Costs, for either pre-employment or on-the-job training. Variable, based on salary.
3. Enterprise Zones with Tax Credits and Hiring Wage Credits.
4. Small Business Development Centers.
5. Tax Credits for Income Taxes based on job creation and investment, variable based on numbers of jobs, wages paid, and amount of investment.
6. Property Tax Rebates, Personal Property tax Rebates, and Sales and Use Tax Rebates, all variable based on type of investment and amount, sometimes capped.
7. Benefits for Small Business and Rural Areas as well as Large Cap and Urban Areas.
8. Business Retention and Expansion benefits and incentives.
9. Attraction and Recruitment of New Business and Industry.
10. Community Development Block Grants from federal money provided for housing, public facilities, and economic development. Larger cities get entitlements directly from the federal government; smaller cities compete for grants administered by the State.
11. Each state has some program or offering to remove bureaucratic barriers and ease the expansion, retention, or attraction of new jobs, including helping local governments with infrastructure.

Other Incentives Offered by Discrete States

- Idaho offers a 5% Income Tax Credit for R & D work done in Idaho. California offers a 15% Credit against Corporation Income Tax Liability.
- Idaho offers Net Operating Loss deductions up to $100,000 a year carried back 2 years and carried forward 20 years. California allows 100% loss carry over for 10 year if loss is in the first year; over 7 years if loss is in the second year; over 6 years if loss is in third year.

- Colorado has two Venture Capital initiatives: Certified Financial Companies (CAPCOs) which may invest from $100,000 to $3.3 million; Venture Capital Authority administers investments of same size but prefers $500,000 to $2 million.
- Idaho caps property tax at $800 million of value in a single county, if the company makes yearly capital investment of $25 million and employs 1,500 FTEs in the county.
- Missouri and Kansas offer Transportation Development Districts with additional sales taxes or assessments to pay for Parking facilities, roads, or other transportation improvements.
- Idaho offers 100% Property Tax Exemption for business inventory, motor vehicles, vessels, and aircraft based on specific product eligibility.
- Idaho offers 100% Goods in Transit Tax Exemption for goods temporarily stored in Idaho for shipment elsewhere and goods purchased and delivered outside of Idaho.
- Colorado offers full rebate of the State's 2.9% Sales and Use Tax on all materials and supplies for Biotech industries.
- Colorado offers $1,200 Tax Credit for each new aircraft industry manufacturing employee over the base-line from the year before.
- Kansas provides forgivable loans for projects that create jobs and invest new capital in the state.
- California has several Foreign Trade Zones, Empowerment Zones, and Enterprise Communities that allow additional tax credits and hiring credits, along with enhanced IRBs.
- California has several other incentive areas called Manufacturing Enhanced Areas, Targeted Tax Areas, and Local Area Military Base Recovery Areas.
- Arizona and Kansas' Main Street programs help foster economic vitality of small city downtowns.
- Arizona is the only state allowing an 80% reduction in state real and property taxes in free trade zones and sub-zones.
- Arizona has 8 programs for improving transportation access, with several designed for rural communities, low income and the disabled.
- Arizona provides extensive tax credits and exemptions for forestry harvesting business
- Arizona programmed $40m for motion picture tax credits for CY 07.
- Arizona employs the super weighted sales factor.

The Kansas Department of Commerce operates other programs that can be used by business to enhance expansion or relocation or even start-up activities. While not directly considered "incentives" in the strict sense that we are comparing, these programs have the effect of being of significant help to entities working to create or sustain jobs in smaller communities. As a major example of these programs is the Main Street Program. These programs are listed on the website under Community Development and Community Assistance, rather than business assistance. They include:

- *Kansas Main Street Program* is a self-help, technical assistance program that targets preservation and revitalization of historic downtown districts. Communities become designated Main Street cities through a competitive application process. The program offers management training, consulting, program evaluation, design assistance, business enhancement strategies, incentive dollars, and training opportunities to designated communities of less than 50,000 in population. The Incentives Without Walls fund provides financial support to these cities to stimulate private investment and create jobs in the downtown districts. It adheres to the National Main Street Center's four approaches to downtown revitalization:

1. Organization means getting everyone working toward the same goal by combining a volunteer-driven program, an organizational structure of a board of directors and committees, and a financially strong organization.
2. Promotion means selling the image and promise of Main Street by marketing the district's unique characteristics to shoppers, investors, and visitors.
3. Design means enhancing the visual quality of downtown through attention to all elements of the physical environment.
4. Economic Restructuring means bolstering the existing economic assets of the district while diversifying its economic base. By helping existing businesses expand and recruiting new ones to respond to today's market, Main Street programs help convert unused space into productive property and sharpen the competitiveness of business enterprises.

- *Incentives Without Walls* is available to designated Kansas Main Street downtown areas, funds are available in two competitive rounds and one open round each year. Funding maximum is $15,000 per community, per round. Funds may be used for a variety of downtown business needs. Loans are encouraged over grants.

- The *Kansas Small Towns Environment Program* (KANSTEP) is a non-competitive, self-help program for communities to address water, sewer, and public building needs through greater initiative and fewer dollars. Communities must demonstrate readiness (perception of the problem and willingness to take action to solve it), capacity (human resources to solve the problem), and documented costs savings. These grants require the use of volunteers to match CDBG funds. A 40 percent savings must be demonstrated to be eligible. The maximum amount for this grant is $300,000 with a funding ceiling of $2,000 per beneficiary. The funding is an open cycle. Funding is targeted to professional services and materials.

- The *Kansas Downtown Redevelopment Act* encourages entrepreneurs to locate their businesses and invest in central business districts, as well as distressed neighborhoods, by offering property tax relief in areas designated by local governments, which are subsequently reviewed and approved by Commerce.

- *Kansas Enterprise Facilitation* is designed to utilize the intelligence found in communities, train a broad spectrum of local citizens, and generally increase local capacity to help themselves develop new small businesses. Community Development Block Grant technical assistance and State EDIF funds have been used to train local citizens, hire an Enterprise Facilitator, and build capacity within a large community enterprise board. The board ranges from 35 to 50 citizens who are engaged in finding confidential management resources for entrepreneurial businesses. The objective is to build management capacity by using local knowledge to form a team of equally passionate people who love the product, who to market the product, and who love financial management.

- The *Rural Business Development Tax Credit Program* provides an estimated $7 million in tax credits over three fiscal years to encourage individuals and businesses to invest in regional foundations in each of seven Kansas economic development regions (Northwest, North Central, Northeast, East Central, Southeast, South Central, and Southwest) This investment worth $14 million in cash donations, will provide equal capital for entrepreneurial efforts in rural communities, ensure regional determination for the usage of funds, and encourage local investment in the region's economic future.

- The *Community Development Block Grant Program* allows Commerce to distribute federal funds to Kansas cities and counties looking to improve their community. One of three national objectives must be met in order to receive funds: 1) benefit to low-and-moderate-income individuals, 2) removal or prevention of slum or blight conditions, or 3) elimination of an urgent need created by a severe natural or other disaster when local funds are not available. These funds may be used in a variety of activities to expand or improve community capacity.

  The CDBG program gives grants in the following categories: I) Annual Competitive Round Community Improvement and Housing, II) Economic Development, III) CDBG Urgent Need, and IV) Kansas Small Towns Environment Program (KAN STEP)

  Community Improvement projects include, but are not limited to:
  - Water and Sewer Grants. The maximum award is $400,000 with a funding ceiling of $2,000 per beneficiary. Applicants are encouraged to appear before the Kansas Interagency Advisory Committee (KIAC) prior to application submittal.
  - Community Facilities. Projects may consist of, but are not limited to, fire protection, bridges, community/senior centers, streets, architectural barrier removal, natural gas and electrical systems, health, mental health, and other public facilities projects. The maximum award is $400,000 with a funding ceiling of $2,000 per beneficiary.
  - Housing Rehabilitation Grants. These rehabilitation funds are awarded to local units of government (cities and counties) and the maximum amount awarded is $400,000. Homeowner and rental properties must be brought up to code using these grants. Up to $18,000 per unit may be used for rehabilitation.

  Economic development grants are made to cities or counties are then loaned to provide gap financing for private businesses that create or retain permanent jobs. Eligible activities include infrastructure, land acquisition, fixed assets, and working capital. At least 51 percent of the jobs created or retained by the for-profit entity must meet HUD's low- and moderate-income (LMI) standard. Some repayment is required for all economic development activities. The funding ceiling is $35,000 per job created or retained with a maximum of $750,000. Match is required.

Urgent Need Grants address an immediate threat to health or safety resulting from a sudden and severe emergency. These awards assist in meeting community needs created by a severe natural or other disaster. The need must be certified by the state agency that has regulatory oversight. Applications are reviewed on an as-needed basis throughout the year. The maximum amount awarded is $400,000 per grant. Applications must be received within six months of the occurrence.

The Kansas Small Towns Environment Program (KAN STEP) is an ongoing, non-competitive, self-help program for communities to address water, sewer, and public building needs through greater initiative and with fewer dollars. Communities must demonstrate readiness (perception of the problem and willingness to take action to solve it), capacity (human resources to solve the problem), and documented cost savings. These grants require the use of volunteers to match CDBG funds. A 40 percent savings must be demonstrated to be eligible. The maximum amount awarded for this grant is $300,000, with a funding ceiling of $2,000 per beneficiary. The funding is an open cycle. Funding is limited to professional services and materials.

Communication of Incentives to Prospective Clients

One of the tools we explored to evaluate how well Kansas does in providing incentives comparatively is to look at the websites of the target states and surf around to see how customer-friendly and easy it was to learn of the offerings. We know that business looking to relocate seek out user-friendly and predictable incentives, without hoops to jump through and voluminous documentation. So we looked at California, Idaho, Colorado, Missouri, as well as Kansas. Someone suggested that Oklahoma was a good model, so we also looked at Oklahoma.

What we found was that the Kansas website was less friendly to obtain information on incentives from than the others compared to, with the possible exception of Missouri. Missouri's website has a matrix of incentives with print so small, and unable to be increased in size easily and quickly--the definition of user friendly—that it was impossible to read. Information was obtained on Missouri incentives from the Kansas City, Missouri website, which of course is one of the chief competitors of Kansas for economic development.

One iteration of the Kansas website (http://kdoch.state.ks.us/public/resources/businesses/list.jsp) leads the visitor to "Business Programs/Resource List" and then that says, "The List Below Shows All Programs," and then there is "Limit by Assistance Type" with a drop-down box. That implies that everything that Kansas offers is right there on that page, but it's not true. If the visitor clicks on "Community Development" then there is a listing of "Community Assistance" and the above programs open up. They each are expandable and that allows the visitor to learn more about each and adds to the offerings of Kansas. Programs such as Main Street are on that page, found after a little scrolling around. It just seems to the investigators that such could be made easier.

The Oklahoma website is a good model. On the initial page there are many incentives mentioned and many incentive and economic development programs, including such as Main

Street. It is easy and fast to click on a program and be taken to detail. There are FAQ pages of Frequently Asked Questions, a common convention on the Internet for various programs.

It was a little concerning that on the Kansas website there was no mention of Network Kansas, originally called the Center for Entrepreneurship, the central portal for economic development created by the Economic Growth Act of 2004 and funded by the Department of Commerce through the EDIF monies. Along with Network Kansas is StartUp Kansas, originally the Fund for Entrepreneurship, with tax credits, and the ability to help find resources for startups or expansion operations. These are major additions to the economic development tools of Kansas and not mentioning them is not keeping the website up to date and that is a flaw of note. In fact, the website mentions the $7 million provided to the Regional Foundations as generating $14 million in cash investment, but that was the amount when the 2004 law was passed with tax credits authorized at 50%. The tax credits have since been increased to 75% in the 2006 session of the Legislature.

Conclusions

California has the most sprawling, comprehensive set of incentives as might be expected as the largest, most populous and diverse state in our sample. California provides layers of tax credits, tax rebates, reimbursements, loans, and grants and provides overlays of specific areas of the state to be targeted.

Colorado has a strong program that targets the existing industry for retention and allows attracting new business as well.

Kansas has a good set of programs but doesn't appear to be as targeted to specific industries or existing industries and areas of the state, as say, Idaho. That's not to say that Kansas has weak tools for economic development. The set of tools look to be competitive and the experience we've heard backs that up.

Idaho has the most coherent and planned set of incentives ranging from small to large and urban and rural, targeted at their strengths, it appears. The Idaho package should allow a solid base to negotiate deals with industries looking at Idaho and with helping retain and expand existing business.

Missouri allows KCMO to build a strong set of incentives to challenge the Kansas side in attracting, retaining, and expanding business and industry. The package that allows the equivalent of Kansas' STAR bonds on any major project is a powerful tool.

Arizona appears to have packaged incentives designed to improve the state's infrastructure, transportation networks, energy, and housing development as an integrated strategy. The state also provides targeted support for high technology development and partnerships with state universities. Numerous programs target support rural development outside of Phoenix and Tucson, the state's two large urban areas.

Program	California	Colorado	Idaho	Kansas	Arizona
Enterprise Zone Tax Credits / Exemptions	Sales and Use Tax Credit, 1st $20 m of mfg equip per yr.	Property Tax Incentive or Rebate: 100% Real & Personal		Provides sales tax exemption and income /privilege tax credits to bus. creating net new jobs.	For profit non-retail businesses and insurers located in an EZ, Up to $3k in tax credits over 3 years for each net new quality job created from minority-owned, woman-owned or small business(up to 100 full-time employees/gross sales up to $4m)
Enterprise Zones Wage Credit	Income tax credit, % of lesser of actual wage or 150% of min wage.				
Other EZ Benefits	15 Year Carry Over of up to 100% of losses.				
Property Tax Rebate / Exemption		Local agreement, 50% Personal Property, up to 10yrs	$800 million tax cap on property tax, for yearly capital investment of $25 m and employs 1,500 FTEs in county. 100% Property Tax Exemption: Business Inventory, motor vehicles, vessels, and aircraft are exempt.		Arizona Accelerated Depreciation, encourages new capital investment, reduces personal property tax, accelerating depreciation by 5% for first 4 years, accelerated rate in 1st year =35%, 2d year = 51%, 3d year = 67%, 4th year = 83% Government Property Lease Excise Tax Program, for property redevelopment, property tax is waived , with the rate reduced by 20% every 10 years, via lease agreements w/.cities

Program	California	Colorado	Idaho	Kansas	Arizona
Local Area Military Base Recovery Areas	Similar to EZs, different incentives.				Tax credits for up to five years for each net new job created, totaling up to $7.5k per non-dislocated employee and up to $10k per dislocated employee, Property Reclassification - Both real and personal property can be reclassified from class one (25% assessment ratio) to class six (5% assessment ratio), for property tax savings of up to 80%for 5 years
Research & Development Tax Credit	15% credit against bank, corp tax liability. 24% credit for basic research to outside orgs.		5% tax credit for research performed in Idaho		Includes research done at a state university, expenses >$2.5 mil qualifies for 20% credit, <$2.5 mil qualifies for $500k and 11% over $2.5 mil afterwards
Sales & Use Tax Rebate for Biotechnology		Annual Rebate for all of State's 2.9% of Sales Tax and Use tax.			
Net Operating Loss Carryover	100% carry over for 10 yrs if loss in 1st yr; 7 yrs if 2d yr loss, 6 yrs in 3d yr loss.		Net Operating Loss Deductions Losses of up to $100 k per tax year, carried back 2 years and remaining losses carried forward 20 years.		

Program	California	Colorado	Idaho	Kansas	Arizona
Empowerment Zone, Enterprise Communities for bus. relocation or expansion	EZs and ECs wage credits of 20% for 1st $15k wages paid to indivs. residing in EZ or EC up to $3,000; Deduct all or part of eligible property up to $20K, tax-exempt IRBs for industrial projects up to $3m w/ fewer restrictions.				
Foreign or Free Trade Zones / Transit Tax Exemption	Areas legally outside of U.S. Customs, allowing entry of merchandise w/o formal customs entry and excise taxes. Taxes paid at time of transfer from the FTZ.		100% Goods in Transit Tax Exemption, goods purchased and delivered outside of Idaho are exempt from sales tax, for goods temporarily stored in ID for shipment elsewhere.		Reduces special assessments ratios in Free Trade Zones or sub zones, AZ is the only state w/ special legislation providing eligibility for an 80% reduction in state real and personal property taxes
New Markets Tax Credit	Credit of 39% against fed inc taxes for equity investments in Community Dev. Entities (CDEs) investing in low-income communities.				Low income community development entities, provides up to 39% of investment over a 7 year period(5% years 1-3, 6% years 4-7
Aircraft/Defense Industry	Bus. involvement w/ Joint Strike Fighter, hiring and property tax credits w/8 yr carry forward.	Aircraft Manufacturer New Employee Tax Credit, $1,200 per new employee each year			
Job Referral	One Stop Career Centers coordinate community-based job training, recruitment.		Offers Customized Recruiting; customized work force training; and Workforce training network.		Located in every county, free services for access to workforce resources, recruitment, labor market information, job training, solutions to common employee barriers, pre-layoff assistance, tax credits

Program	California	Colorado	Idaho	Kansas	Arizona
Local Hiring Incentives / job creation	OJT Contract: 50% wage reimbursement during training.	Companies relocating to Colorado or Expanding meeting wage thresholds of $8.50 per hour in urban areas and $7.00 per hour in rural plus health benefits. Matched by 40% of company costs. Grants of $800 to $2,700 per employee	Tax Credits, Abatements for job creation; 6% Tax Credit to $5m; New job Tax Credit of $1.5-3k depending on salary offered: 10% Real Prop Tax Rebate to $2 m/year; rebate of all sales taxes paid on building materials (for corp. relocation) $1,000 New Job Income Tax Credit for jobs at $15.50 w/ health/accident insurance $500 New Job Income Tax Credit, natural resource production	Kansas Economic Opportunity Initiatives Fund, KEOIF provides loans for projects that create jobs and invest new capital in the state. IMPACT, Investments in Major Projects and Comprehensive Training Program is for new and expanding businesses creating new jobs at higher than avg. wages.	For job employment above county average wages, recent projects include funding for the feasibility and organization planning for the Translational Genomics Research Institute (TGen), the Critical PATH Institute and the "Arizona Virtual Water University." Arizona Healthy Forrest Program, tax incentives for harvesting deadfall, woodchips, etc (assists in thinning, forestry management), reduces taxes for fuel, property , and tax credits for job creation, leased equipment, and out of state purchase tax exemptions

Program	California	Colorado	Idaho	Kansas	Arizona
Job Training / Retraining	OJT Contract: 50% wage reimbursement during training Performance based customized training with $15 k cost reimbursed to counter inter-state competition.	Companies relocating to Colorado or Expanding meeting wage thresholds of $8.50 per hour in urban areas and $7.00 per hour in rural plus health benefits. Matched by 40% of company costs. Grants of $800 to $2,700 per employee	Training Reimbursement Up to $3,000 for jobs paying $12 an hour or more for select rural counties	Kansas Industrial Training Program, pre-employment training or on-the-job training, funding for Instructor salaries, materials, travel, and most costs of training Kansas Industrial Retraining Program, Companies that are restructuring due to technology, diversification of products, or new production activities can get grants for the retraining including Instructor salaries, materials, travel, and most costs of training.	A single employer can receive up to $1.25mil , 10% est of annual fund, typically 2-8k$ per job position, Under the "Net New Hire" portion of the grant program, businesses can apply for grants returning up to 75% of the costs of training net new employees in jobs meeting wage criteria. The "Incumbent Worker" portion of the grant program allows training upgrades for existing employees, can reimburse up to 50% of training costs
IRBs / Mfg Revenue Bonds	For acquisition of property and equipment (Through Joint Powers Authority and local Industrial Development Authorities).	Tax Exempt Private Activity bonds for real estate, machinery, and equipment (expansion projects)	Up to $10m, tax free bonds, the project or business serves as collateral.	For facilities, transportation, utilities, mortgages, veterans' mortgages, small issue bonds, student loans, redevelopment, 501 (c) 3 projects, and residential rental projects. KDFA and communities can issue up to federal cap ($239.2 FY05)	Private Activity Bonds, $524.3 m for FY funding for multi-family housing, private activity, revenue bonds, mortgage certificates, and student loans

Program	**California**	**Colorado**	**Idaho**	**Kansas**	**Arizona**
Pollution Control Financing / Exemptions, Programs	Financing for pollution abatement equip. and resource recovery facilities. Direct loans, loan guarantees, tax-exempt/taxable bonds and loan insurance to help cover the entire costs.		100% pollution control tax exemption for pollution control equipment, equipment is also property tax exempt.		Water Quality Improvement Grant Program, funding for "on the ground" water quality improvement projects to control nonpoint source pollution . 10% tax credit for pollution control equipment
Small Business Loan Programs / tax credits /tax abatements Grants	Guarantees of up to 90% up to $500 k not to exceed 7 years.	15 rural area funds with local Boards of Directors, max loan: $250k (must create jobs)	Investment Tax Credit of 3.75% up to $750 K in any one year; A new jobs credit of $1,500 to $3,000 per job; A 2.5% real property tax credit up to $125 k in one year; A 25% rebate on sales taxes paid for construction materials (must invest $500k, create 10 jobs at $40k) Idaho Prime Rate Loan, low Interest loans for any purpose for small business, Issued by commercial Bans w/85% SBA guarantee		Income tax credit of 30% of an investment over a 3 year period, tax credits limited to $20m over program life, for qualified rural or bioscience company, up to 35% of investment over a 3 year period, $5k for small business startup, technical and professional assistance, goal = securing federal small business and innovation research (SBIR) and small business technology transfer (STTR) funding
Recycling Market Development Zone Revolving Loan Program / Recycling programs	RMDZ provides loans for California manufacturers located in RMDZ, up to 75% of the cost of project of up to $2 m.				Waste reduction assistance, education, and research and development, matching grant program

Program	California	Colorado	Idaho	Kansas	Arizona
Capital Investment Incentive Program	Cities, Counties negotiate reduced taxes w/ high-tech mfg. firms by capping value at $150m for 15 yrs. A “community services fee” of about $2 m is then charged annually.		Offsets up to 50% of income tax liability. A 2 year exemption on personal property tax., carried forward 14 yrs		
Local Revolving Loan Fund / Infrastructure Development	Proceeds from CDBG, EDA, and Dept of Ag capitalize RLFs, for small bus. job creation, “Gap Financing,”, typically 2d or 3d mortgage position.		Up to $500k in CDBGs; Up to $50 k in Rural Development Grants; Up to $50 k in GEM grants to aid in expansion and retention; tax increment financing; EDA grants for site development; Loans of up to $10k per job created.	Small Cities Community Development Block Grants, federally-provided funds for addressing housing, public facilities, and economic development needs	51% of grants must support low or moderate income persons, maximum grant is $300k, promotes economic development in communities and counties w/less than 50,000 and 200,000 respectively Financial Assistance Bonds insured as AAA, loans up to $250k to help fund final phases of infrastructure development, technical assistance grants

Program	California	Colorado	Idaho	Kansas	Arizona
Business Retention and Expansion (Increase State Competivness)		Umbrella program to network the State of Colorado to cities and counties and economic development agencies to assist business. Remove local and statewide obstacles; Reduce cost of doing business; Increase markets for business; Enhance business infrastructure.	Idaho Business Network, Procurement Technical Assistance Center, Helps Idaho Business sell to Federal and State agencies, $100m Generated annually. Export Assistance, technical assistance to sell overseas. Techhelp, Offer programs in lean manufacturing, human performance, quality systems, product development, and information technology. Small Business Development Centers, counseling, training, and technical assistance. Techconnect, business access to technology resources of universities and governments.	Business Recruitment, Assistance to out-of-state companies considering Kansas for new manufacturing, distribution, or office facilities, helping to assemble incentives and tax rebates, and obtaining workforce training grants. Kansas Match, matches companies who currently are purchasing goods and services out-of-state with in-state companies that produce the same products or services	Working with the Western Trade Adjustment Assistance Center, provides grants to manufacturing and production companies experiencing declines in sales and employment partially due to foreign competition, grants are tailored to specific needs of the company, The TAA provides up to 75% of the cost of outside consulting or technical services(up to $30k)

Program	California	Colorado	Idaho	Kansas	Arizona
Job Performance Incentive Program (PIF) / HPIP		Tax credits for new employees w/above county media wages, up to $1.5k per job		HPIP offers 5 benefits: 10% income tax credit; sales tax exemption; a training tax credit of up to $50,000; priority consideration for other assistance; grant funding for ½ of consulting cost, requires legislative approval.	
Venture Capital Programs		Certified Financial Companies: 6 (CAPCOs) may invest from $100 k to $3.3 m. Venture Capital Authority: Contract w/ LLC to administer investments to $100 k to $3.3 m			
Infrastructure Assistance Grants		State funding to a city or county up to $500k. (mostly rural areas)			Economic Strength Project Grants, funding to communities for highway and road projects that assist in job creation and capital investment, 10% matching funds required from community (or business assisted). Loans and grants, loans below market rates for development of clean water facilities and drinking water systems
Feasibility Study Grants		State provides cities and counties in rural areas up to $20k per study			Grants for planning and technical assistance for non-urbanized areas

Program	California	Colorado	Idaho	Kansas	Arizona
Telecom / Broadband Investment			Additional 3% Investment Tax Credit up to $750k on Idaho Income Tax.		
Sales Tax Exemption			100% Production Sales Tax Exemption for equipment and materials used in mfg, processing, mining, fabrication, or logging ops, clean rooms used in semi conductor & equipment mfg; and equip use in R & D activities.		Superweighted Sales Factor, incentive for multi-state corporations (current 25% property, 25% payroll and 50% sales apportionment for corporate taxes, new super weight allows for 80% sales tax ration
Industrial Fuels and Raw Materials Exemptions			100% Industrial Fuels and Raw Materials Exemption from Sales Tax		
Work Opportunity Tax Credit				Nine targeted groups hired by an industry gains a tax credit of $2,500; family assistance recipients hired gains a tax credit of $8,500.	
Minority and Women Business Development				Promotes business development with these target groups, including networking, training, workshops, and helps with procurement of their products, financing, and business management	
Economic Development Supporting Low-Moderate Income				Enhance the economic base by creating or retaining permanent jobs, a majority of which must be filled with low- and moderate income persons.	

Program	California	Colorado	Idaho	Kansas	Arizona
Export Assistance				Helps companies export their products, contacts in 9 countries	
Growing Smarter Planning Grants for Rural Communities					6 x $10k grants per year, must be matched in kind, 50% must be a cash from general funds
Americorps State Community Grants					Help meet unmet community needs. A 15% non-federal cash and 33% in kind /cash match required, $1.77 mil awarded to AZ in FY 06
Main Street Program				Self-help, technical assistance program that targets preservation and revitalization of historic downtown districts. Includes the Incentives Without Walls fund, which provides financial support to stimulate private investment and create jobs in the downtown districts.	Fosters economic vitality of small downtowns, 15k$ grants semiannually must match w/10-30%, the program has provided $145 mil since 1986
Arizona Motion Pictures Production Tax Incentives Program					Tax Credits for Production costs of $250k or more , 40 mil avail for CY 2007 increasing 10 mil per year to 2010
Airport Capital Improvement Program					50% of a sponsor’s share of a federally funded project, obligations on federal projects are 5% of t total cost, making the state share 2.5%. ($2.5mil in FY 2006 to about $3.0mil in FY 2011) to match federal grants.

Appendix F: Open-Ended Survey Comments from City Managers

Several City Managers made suggestions for improvement in Commerce's Economic Development efforts. These are confidential and unable to be attributed, but the records of their comments are maintained by IPSR. The questions are followed by verbatim responses in italics.

Did Commerce's involvement make a difference in (your project), or would it have happened successfully without Commerce?

> *Made a difference. In the past, DoC's incentives have been important to gain opportunities for business to move to the state. This has been a little less helpful as the funding available to the agency has decreased. DoC serves as a key contact for economic development activities outside the state that may have an interest in moving to the state. DoC has interfaced with our Chamber and then we get involved in developing a response to a request for proposals for businesses. We may get several of these types of inquiries in a year. The STAR bonds would not have been possible without DoC.*
>
> *They have a great staff and I can not think of any way to improve.*
>
> *Overall KDOC is doing a great job.*
>
> *Commerce staff does a tremendous job on a limited budget. One can only imagine they might be able to do with more money.*
>
> *(Our project) would have happened without DoC (the money they offer helped to make a difference, but their contacts and leads rarely do. My best result was when we had the company at the door based upon local incentives, then the state incentives were helpful to close the deal.)*

What can you suggest to improve the services provided by the Department of Commerce in economic development?

> *I think that with the emphasis in bioscience, there is a bit of confusion with the roles of DoC versus the Kansas Bioscience Authority. Also, I believe that state institutions, such as state universities, should be part of the state's package to a prospect and not left to navigate or be leveraged by the local jurisdictions. This coordination has become very important with the bioscience prospects.*
>
> *Make contact with cities on a regular basis.*
>
> *Target industries to city size and demographics.*
>
> *KDOC attends economic development conferences, but should also attend League of Municipality and Kansas Association of Counties conferences to educate local government officials on assistance and programs available through KDOC.*

Nothing. Their service is excellent.

I am not fully aware of abilities and programs offered by Commerce. I need to seek additional information or be provided with same.

Commerce (probably more accurately the KS Legislature) needs to recognize that the economy is changing from a manufacturing economy to a service economy.

I think DoC needs to be more hands on with smaller communities and needs to help them develop economic development plans. Most small towns don't even know where to begin or how to help businesses. Also, smaller towns in smaller counties really get left out in the dark and they are the ones that need it the most. The other issue is that the regional representatives aren't able to spend enough time with businesses or in the communities. I think expanding current businesses and helping locals to get to the right opportunities is where we can make a big difference. Unless a town is big enough to have its own Eco Devo Rep. or the county is big enough to fund one, some of these cities aren't even at the table and as a state we may lose out to other small communities in other states.

Have more resources available.

Maybe a cheat sheet -- outline of each of their eco devo programs and deadlines and one or two sentence descriptions put out once per year.

Continue to work at bringing prospects to our Kansas communities.

The Department of Commerce needs to provide more direct assistance to the small communities. It often appears that much of their efforts and programs are geared for larger communities.

What do you think the State should do to assist with the development of jobs?

Continue to fund KDOC and provide funding for quality education.

Continue the current program of work and continue to offer the current set of business incentives.

Help companies recruit skilled labor. Several companies in our area are having trouble hiring welders for their production facilities.

Assist communities/regions in identifying what types of industries would be a good match in the regions through GIS mapping, etc. Then provide recruitment training to key individuals in those communities/regions specific to the identified industries. Also provide assistance to identify trade shows that those types of industries attend so that the community can attend for recruitment purposes, or identify specific businesses within that industry that may be looking to relocate or expand.

Resources and coordination are very good. I think that we should be leveraging our state institutions to the maximum extent possible and this requires close coordination between Commerce and the universities.

It would be helpful to understand the market need for jobs and job types. In future planning considerations, the knowledge of potential job creation markets would be helpful. If there was a system for better connection between state and individual cities / EDC functions. When inquiries or contacts occur, the cities / EDCs could become aware of potential job generation.

Identify technology infrastructure improvements and develop programs to assist with those improvements to attract more technology-related service industries.

Workforce development, workforce development, workforce development. By placing all of the post-secondary training under the Board of Regents the Legislature has killed this state's workforce development programs. We need plumbers, electricians, welders, heating and air professionals, construction trades. The university driven Board has ignored these trades, and the State Board of Education has spent all of its time on science standards instead of getting our non-college bound students ready for the workforce. Until we fix this problem, the pittance of training and retraining money available through Commerce programs will not keep up with the demand for labor. Our communities are losing out on good paying jobs because of labor problems, not because of location or taxes, or state franchise fees.

Invest more.

Travel and tourism is economic development and the DoC should support and promote it.

KS needs to match other states (Missouri especially) with incentives, in particular <u>cash.</u> Missouri has a lot more cash available to provide relocating firms as incentives, and for a wider array of purposes.

Out here in rural central Kansas we need the State to be actively involved with fairly significant incentives on the State level and maybe broaden the types of businesses they'll help. In the last 4 years we had a new motel built, an assisted living home/house, a couple of businesses built new buildings, a new car wash, a new department store .... and I don't believe any of these received incentives other than what we gave them locally in terms of property tax rebates, waiver of permit fees, free or discounted utilities for a set amount of time, waiver of utility connect charges, minor infrastructure like sidewalks. We have an 18 person assisted care facility in the works for which we gave an IRB with property tax abatement, but construction has yet to begin.

I think we need to have some additional war chest funds that we can place on the table when competing for projects. Many communities in Kansas are limited to what cash we have to offer to make a deal work.

One of the most significant issues that the City has experienced is the provision of utilities and other infrastructure to new and expanding businesses. Additional assistance or financing programs need to be developed to help minimize the costs particularly for small, rural communities.

Provide more funding to KDOC to develop more programs.

What kinds of jobs and/or industries should we target as a state?

I think that the bioscience jobs in animal health and food safety are very good targets as well as leveraging the KU Med Center in human medicine and allowing KU Med to partner with other Kansas City area institutions, such as St. Luke's and Stower's is key to making the Kansas City area a key player nationally.

Distribution, Bio-Science and manufacturing.

Kansas is a diverse place, so it would be difficult to target a set of jobs or industries. For our metropolitan region, we should target the higher paying jobs, i.e. high tech manufacturing, bioscience related firms, corporate office, back office operations, and other export oriented services. Those jobs should provide salaries that would allow a person to live comfortably in our area.

In my opinion, technology, bio-medical and financial institutions.

Technology related service industries.

I like the agricultural related and bio-sciences initiatives. I also think we should focus on trades based industry that utilizes the farm based abilities of our residents. Over the past several years, I am constantly amazed by the individuals I have met in Kansas that can build just about anything out of scrap metal and other junk. The abilities of these individuals comes from the farmer mindset of finding a way to make it work. We need to harness those energies and abilities. Many of them can do the work, but could never make a living at it because they don't have the financial mind to turn it into a profitable business. Instead, they end up working in other businesses where their talents are wasted.

High paying jobs.

State should target higher end technology jobs.

Telecommunications, Bio-science, financial, technical, professional.

I believe the State should consider either a wide range of businesses from which municipalities can pick and choose, or consider offering incentives for different lists of businesses for different areas of the state or based on rural vs urban or metro vs non-metro. For a small city in rural central Kansas, a retail clothing store can have a significant impact on local people buying locally. Instead of driving to another City to be *able to shop in a clothing store or fabric store during which time our local people will probably eat out and shop at other stores, having these retail businesses here will help retain those dollars in our community. In addition, if the people from the country -- from unincorporated areas surrounding our small City -- believe they have retail choices in our town, they may not bypass us and drive 30 more miles to the next largest City.*

We talk a lot about value-added agriculture, but that seems fairly limited if you're behind the curve for things like ethanol plants or bio-diesel plants or a new cotton gin, etc... We also talk about research centers for bio-hazards and food terrorism etc... However, small towns don't have the amenities which young professionals are looking for.

Maybe the bottom line is to put more flexibility into the programs which allows some discretion on the part of both local officials and state officials. If we can justify the subsidy because of the benefits and sell the state official on the merits of the project, maybe there could be something like entitlement dollars available to small cities. Larger cities have entitlement monies under CDBG whereas it is a competitive process for smaller cities. The FAA began a program of entitlement money (but which still requires a local match) for small general aviation airports, and I believe it has made a significant difference in upgrading small airports like ours. Frankly it removes half the battle/work-load of trying to develop a project because we know the money is available to us if we meet the other conditions of the program.

Need to continue to look for jobs that are paying $30,000 a year plus. Low wage jobs do not bring the impact to a community that higher wages bring.

One of the areas that our community sees as a possible opportunity is ancillary industries that are related and support our existing companies.

Keep the targeted industries broad to make sure we have a diverse economy. We might provide more tools to KDOC for headquarters or highly paid jobs.

Please feel free to share any other comments.

Commerce does a great job. We work with them frequently. Our ED employees interact with (Commerce employee), on almost a daily basis. Bottom line, more money for incentives, especially cash would be helpful in competing with Missouri, especially since it appears Missouri is targeting key Johnson County employers.

I always appreciate it when a state or federal agency requests input.

We were very pleased with our working relationship(Commerce employee). DOC and the Governor's office played a major role in our success. Without them we probably would not have gotten the deal done. I was extremely proud of our city, county, chamber and State for pulling together on this project and how quickly we were able to respond.

Appendix G: Kansas Department of Commerce Organization Chart, as of FY2006

KANSAS DEPARTMENT OF COMMERCE

SECRETARY OF COMMERCE

DEPUTY SECRETARY

LEGAL

REGULATORY COMPLIANCE

KANSAS COMMISSION ON DISABILITY CONCERNS

AGRICULTURE MARKETING DEVELOPMENT

MISSION: To enhance the value of agricultural products through marketing and new uses to provide a greater returns to Kansas producers, processors, and rural communities.

MAJOR ACTIVITIES:

- Agricultural Value Added Center
  –Food & Feeds
  –Non-food/Industrial Uses
  –Cooperative Development Program
- Market Development
  – Domestic
  – International
- *From the Land of Kansas* Trademark Program
  –Trade Show Assistance Grant
  –Business Enhancement Grant

BUSINESS DEVELOPMENT

MISSION: To maximize positive impacts on the Kansas economy through the creation/retention of jobs and increased capital investment.

MAJOR ACTIVITIES:

Business Assistance

- Certified Development Companies
- First Stop Clearinghouse
- Kansas Board of Tax Appeals Liaison
- Kansas BREES
- Kansas Cavalry
- Kansas Match
- Minority & Women-Owned Business
- Private Activity Bonds
- Regional Field Offices
  –Pittsburg –Overland Park –Wichita
  –Hays –Topeka –Manhattan
  –Garden City
- Kansas Statewide Certification Program
- Small Business Development Center

Business Recruitment

- Contract Offices
  –Scotia, NY –Chicago, IL –Los Angeles, CA
- Film Commission

Kansas 1st Assessment & Labor Exchange Services

- Foreign Labor Certification
- Migrant Farm Workers
- Neighborhood Improvement and Youth Employment Act (NIYEA)
- Veterans Program

Kansas 1st Workforce Training & Education Services

Kansas 1st Direct Services

- Apprenticeship Program
- Enterprise Zone
- Federal Bonding Program
- Kansas Economic Opportunity Initiatives Fund (KEOIF)
- Kansas Industrial Training (KIT)/Kansas Industrial Retraining (KIR)
- Kansas JobLink (www.kansasjoblink.com)
- High Performance Incentive Program (HPIP)
- Investments in Major Projects and Comprehensive Training (IMPACT)
- Partnership Fund
- Wheat Harvest
- Work Opportunity Tax Credit (WOTC)
- Workforce Centers

Kansas 1st Skill Enhancement Services

- Older Kansans Employment Program (OKEP)
- Senior Community Service Employment Program (SCSEP)
- Workforce Investment Act (WIA)
  –Adult and Youth –Dislocated Worker –National Emergency Grant

COMMUNITY DEVELOPMENT

MISSION: To partner with Kansas communities to help enhance their livability by providing financial, technical, and business assistance.

MAJOR ACTIVITIES:

Small Cities Community Development Block Grant

- Community Improvement
- Comprehensive Development
- Economic Development Business Finance
- Housing Grants
- KAN STEP Program
- Kansas Interagency Advisory Committee
- Micro-Loan Program
- Urgent Need Grants

Community Assistance Services

- Community Service Tax Credit Program
- Center for Entrepreneurship
- Kansas Downtown Redevelopment Act
- Enterprise Facilitation
- Main Street Program
- PRIDE Program
- Rural Business Tax Credits

OPERATIONS

MISSION: To provide quality support services for internal and external customers.

MAJOR ACTIVITIES:

- Building Services
- Fiscal Management
- Human Resources
- Information Technology Management
- Communications & Marketing

TRADE DEVELOPMENT

MISSION: To provide business leadership through increasing international sales of Kansas goods and services and increasing international investment and jobs in Kansas.

MAJOR ACTIVITIES:

- Export Counseling
- International Investment Recruitment
- International Market Research and Agent/Distributor Searches
- International Missions and Trade Shows
- Kansas Aerospace Directory
- Kansas International Offices
- Kansas International Trade Resource Directory
- Kansas International Trade Show Assistance Program (KITSAP)

TRAVEL & TOURISM

MISSION: To promote the State of Kansas to travelers and to generate and facilitate tourism and travel-related spending throughout the state.

MAJOR ACTIVITIES:

- Advertising Campaign
- Attraction Development Grant Program
- Group Tour Marketing
- International Marketing
- *Kansas Visitor's Guide*
- *KANSAS!* Magazine
- Tourism Attraction Signage Program
- Tourism Marketing Grant Program
- Tourism Web Site: www.travelKS.com
- Travel Information Centers
- Travel Media Relations

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