

# Improved KDOT Economic Development Program

## Briefing Paper

January 2010

### Introduction

**Original KDOT ED Program** - KDOT's *Economic Development Program* (ED program) is a source of competitive state grant funding for small-scale transportation improvements that improve business access to the state's transportation network. Funding may cover all or part of rights-of-way purchase, utility adjustments, preliminary engineering for plan development, construction costs, construction engineering, or any combination of the above. The program was previously programmed at about \$5 million per year and a typical ED project usually involved less than \$1 million in state funds.<sup>1</sup> Local governments are usually expected to contribute a share of project costs although the share varies from project to project. The ED program is intended to support capital investments by the private sector that will keep businesses in Kansas and attract new businesses to the state, therefore strengthening the Kansas economy. Many state DOTs operate similar programs and Appendix A summarizes programs in selected states.

Oversight of the ED program has historically been provided by the Kansas Highway Advisory Commission (HAC), which is responsible for making ED project recommendations to KDOT's Secretary of Transportation. The program provided funds for any road project whether it's on the state highway system or not. The HAC bases its recommendations on information submitted by applicants; however, project applications are not required to include quantitative information about expected economic impacts such as expected jobs.

Typical projects that have recently received KDOT grants via the ED program include:

- Reconstruction of a county road in Plainville, Rooks County to provide access to county health center and an industrial park (\$327,000 in ED funds);
- Construction of a 1.5 mile truck bypass of downtown Downs to serve a Scouler Grain Facility and future business growth (\$2,000,000 in ED funds); and
- Add turn lanes and acceleration/deceleration lanes at intersection of US-50 and Rd F in Lyon County to accommodate a 25,000 square foot John Deere dealership and allow for future business development (\$1,100,000 in ED funds).

**T-LINK Evaluation of Current ED Program** – In its January 2009 report to Governor Sebelius, the T-LINK Task Force supported the overall need for a special grant program to fund economic

---

<sup>1</sup> Because of funding constraints, the Economic Development program has been suspended the last three years.

development-related transportation improvements, but identified several concerns about the current format of the KDOT ED program including:

- Roadway projects-only focus of ED funding – Other modes are not currently eligible for ED funds, despite the clear potential for non-roadway modes to provide support for economic activity;
- Inadequate evaluation of economic data in the project selection process – Applicants are required to estimate the economic significance of their projects, but the quality of the data they provide varies significantly and is sometimes unsubstantiated;
- Information regarding capital investment should be requested –Evaluation criteria should include information about private capital investment that is expected to occur if a project is built, in addition to expected jobs created by the project;
- Lengthy time lag between submittal of ED project applications and project construction - The annual cycle for selecting ED projects can add to the time lag between submittal of a successful project application and completion of construction, which can prevent communities from being able to capture emerging economic opportunities; and
- Need for consistency with other state-sponsored economic development activities – For example, Kansas Department of Commerce has numerous economic development programs and KDOT should ensure its selection criteria and priorities are aligned with other state efforts;

## **New Economic Development Program**

**New Program Framework** - The core function of KDOT's ED program will not change – support for capital investments by the private sector that keep businesses in Kansas and attract new businesses to the state. Based on input from the T-LINK Task Force and review of other states' economic development programs, several changes are recommended to the framework of the ED program to improve its effectiveness as a means for retaining and adding jobs in Kansas:

- **Expand Eligibility to Include all Transportation Modes** – Projects that involve any modes of transportation will be eligible for ED program grant funding if they can demonstrate sufficient economic impacts. In addition to road improvements, future ED projects might include, for example, rail spurs, aviation projects or commuter transit capital expenditures.
- **Increase Program Funding to \$20 Million per Year** - In conjunction with expanded program eligibility, more rigorous evaluation criteria and more responsive decision making , the ED program funding should be increased from about \$5 million per year to about \$20 million per year.

- **Adopt a Rolling Application Cycle** – In place of the annual application cycle, project applications will be considered as they are received. Highly-rated proposals will be accepted immediately for funding as long as funding is available, and lower rated applications will be set aside to be reconsidered if additional highly-rated proposals are not received.
- **Fund “Immediate Opportunities” Projects Only** - At present, KDOT’s ED program allows proposals for speculative projects – such as building road access for a business park that has yet to secure any leases – versus projects that are targeted to an immediate opportunity – such as a business that will expand if it is able to improve the rail access to its distribution facility. Preference in use of funds for immediate opportunities projects is likely to increase the overall economic impact of the program.
- **Streamline Project Application Process** – Potential applicants will be encouraged to discuss proposed projects informally with KDOT staff in advance of submitting a formal application to ensure that their ideas are consistent with the goals of the Economic Development program and have a good chance for receiving funding.

**Expanded Project Review Criteria** – The ED project application process should include broader review criteria that explicitly address a project’s likely economic impacts. KDOT recommends that in addition to providing basic project location, scope and cost information, all program applicants will be expected to demonstrate evidence of the following:

- Transportation problem and the benefits of the proposed project as a solution;
- Business decision to locate or expand in Kansas hinges on an immediate commitment of transportation construction resources;
- Arrangements for other infrastructure needed for successful development, such as water, sewer, police, or fire are in place;
- Benefitting business(es) are willing to make a firm financial commitment to locate/expand;
- Project is backed by local and regional economic development groups;
- Estimated number of new or retained FTE jobs by industrial category that will be created by the project; and
- Estimated amount of private sector capital investment that will be triggered by the project.

**Priorities for Funding** - Preference will be given by KDOT to projects having a positive impact on safety, access and capacity of the State Highway System. In addition, preference will be given to projects that support:

- **Creation or Retention of Basic Industry Jobs** – Projects that create or retain jobs in basic economic sectors, such as manufacturing, agriculture and food production, or warehousing

that create new wealth for the Kansas economy. (Normally, retail, residential development and service jobs do not meet this definition.)

- **Viable Opportunities in Economically Distressed Counties** – Projects that show strong prospects for creating or retaining jobs in economically distressed counties across the State. Kansas Inc.’s annual, county-by-county “*Vitality and Distress Rankings*” report groups counties into five quintiles and this data will be used to identify economically distressed counties. (See Appendix for explanation of how Kansas Inc. rankings are developed). While economic distressed areas should receive special consideration the viability of the ongoing economic development efforts in those counties should also be considered.

**Project Selection Flexibility** – KDOT should have the flexibility to make final project-level decisions that reflect an evaluation of all pertinent information and take into consideration other factors such as the size of each project in relation to the availability of ED program funds, capital cost per job, the number of project requests, scheduling of the development project, geographic distribution of funding, and other factors.

**Project Implementation** - KDOT will decide the commitment of funds within 45 days of receiving an ED project application. If approved, a project agreement between KDOT and the local government sponsor (and other participants, if necessary) will then be developed. The agreement will cover factors such as, but not limited to, project engineering, contracting, land use and environmental approvals, funding, and future maintenance responsibilities.

The agreement will also provide for annual reporting on actual jobs and payroll information and reimbursement to KDOT by the local government sponsor regarding the promised number of jobs created or retained does not materialize or is not documented.

## Appendix A Selected State DOT Economic Development Programs

### Examples of State DOTs with Grant Programs to Fund Transportation Infrastructure that Supports Economic Development

Agency	Program Name	Program Purpose	Program Size	Other Notes
Alabama DOT	Industrial Access Program	Industrial access funds are intended to provide adequate public access to new or expanding distribution, manufacturing and industrial firms. The industry must be committed to new investment and the creation of new jobs.	\$ 11,000,000	
Arizona Department of Commerce/DOT	Economic Strength Projects Program	Provides grants for road projects that result in economic development and meet three primary goals: create and retain a significant number of jobs in Arizona; lead to significant capital investment in Arizona; and, make a significant contribution to the economy of Arizona.	\$ 500,000	Application announcements for the ESP program are made twice a year. 10% match required
Illinois DOT	Economic Development Program	Provide state assistance in improving highway access to new or expanding industrial distribution or tourism developments that will expand the state's existing job base or create new employment opportunities.	\$ 60,000,000	50% match required; applications accepted year round
Iowa DOT	Revitalize Iowa's Sound Economy Fund	Funds used for construction, improvement, and maintenance of roads and streets that promote economic development in the State	\$ 30,000,000	
Massachusetts EOT	Public Works Economic Development Program	Assist municipalities in funding transportation infrastructure for the purpose of stimulating economic development.		Bi-annual funding program; projects scored 1-100
Michigan DOT	Transportation Economic Development Fund	Enhance the ability of the state to compete in an international economy and to serve as a catalyst for economic growth of the state	\$ 17,600,000	20% match required; applications accepted year round
Missouri DOT	Cost Share/Economic Development Program		\$ 30,000,000	50% match required (but up to 100% for projects that create new jobs)
New York DOT	Industrial Access Program	Designed to complement economic development projects throughout the State where transportation access poses a problem or may offer a unique opportunity to the viability of a project.		Applications accepted year round; The most significant criterion in the selection process is the number of jobs created and/or retained per dollar of Industrial Access Programs Funds invested
North Carolina DOT	Rail Industrial Access Program	Fund the cost of constructing rail tracks required to serve a new business or a business expansion		50% match required; detailed quantitative scoring system used to select projects
Oregon DOT	Oregon Immediate Opportunity Fund	Funding needed for street or road improvements to influence the location, relocation or retention of a firm in Oregon, revitalize business or industrial centers, and prepare Oregon Certified Project Ready Industrial Sites	\$ 7,000,000	Applications accepted year round; open to private sector
South Dakota DOT	Industrial Park Grants	A means to assist cities and towns who have a new industry coming to their community and need new or expanded access to the industry.	\$ 1,000,000	40% to 20% match required; roads within industrial parks are top priority, but access roads to industrial parks also funded; applications accepted continuously
Tennessee DOT	State Industrial Access Program	Development of "Industrial Highways" in order to provide access to industrial areas and to facilitate the development and expansion of industry within the State of Tennessee.	\$ 19,000,000	
Virginia DOT	Economic Development Access Program	Funds available to localities for road improvements needed to provide adequate access for new or substantially expanding qualifying establishments.		
Wisconsin DOT	Transportation Economic Assistance Program	Road, rail, harbor and airport projects that help attract employers to Wisconsin, or encourage business and industry to remain and expand in the state	\$ 3,600,000	50% match required

## **Appendix B**

### **Kansas Inc. Vitality and Distress Rankings Methodology**

#### ***Methodology***

The *County Economic Vitality and Distress Report* is designed to look at the relative economic performance of Kansas' 105 counties. Within this report, eight social and economic variables are grouped into three areas: wealth, growth, and dependent population. These variables are then analyzed and ranked on a county, regional, and population group basis to understand each county's economic condition and strength relative to other counties within Kansas.

Vitality and Distress rankings are based on scores, ranging from a minimum of 10 to a maximum of 50, with higher rankings indicating greater vitality and lower rankings indicating greater distress.

Composite rankings were calculated using a weighted formula based on eight variables assigned into three separate categories. The combined effect of the individual variables presents a broad, objective, and comparative analysis of a single county's recent economic health. Local economies are multidimensional and factors such as population change, area demand for public assistance, and age distribution help present a better understanding of a county's economic health, rather than looking only at employment and income data.

#### ***Variables***

##### **Wealth Category**

Per Capita Income – 2007

*Source: U.S. Bureau of Economic Analysis*

Per Capita Property Valuation – 2008

*Source: League of Kansas Municipalities, 2009 Annual Tax Rate and Fiscal Data Book*

Temporary Assistance to Families and General Assistance – Fiscal Year 2008

*Source: Kansas Department of Social and Rehabilitative Services*

##### **Growth Category**

Net Population Change – 1998 to 2008

*Source: U.S. Census Bureau*

Employment Change – 1998 to 2008 (Long-Term) and 2006 to 2008 (Short-Term)

*Source: U.S. Department of Labor, Bureau of Labor Statistics*

##### **Dependent Population Category**

Population Share of Individuals 65 Years of Age and Older – 2008

*Source: U.S. Census Bureau*

Population Share of Individuals Between 20 and 64 Years of Age – 2008

*Source: U.S. Census Bureau*

### **Formula and Definitions**

The following formula is utilized for determining a county's score and overall ranking within the *County Economic Vitality and Distress Report*.

$$\text{Vitality and Distress Overall Score} = \frac{[(\text{Wealth} * 0.45) + (\text{Growth} * 0.35) + (\text{Dependent Population} * 0.20)] * (50/14)}{1}$$

For each variable category, counties are ranked overall and assigned a quintile based upon that ranking. The scores overall and within each category are determined by using quintiles, which are based upon a county's rank compared to other counties within Kansas. Specifically, if a county's rank is: 1-21, then first quintile; 22-42, then second quintile; 43-63, then third quintile; 64-84, then fourth quintile; and 85-105, then fifth quintile.

Once county rankings are complete for each variable and the individual counties are assigned a quintile based upon that ranking, category scores are then calculated. Specifically, within each category (Wealth, Growth, and Dependent Population), the quintiles for each variable are summed and the total is multiplied by a predetermined weight based upon an assumption of the particular category's contribution to an area's economic vitality. The weights are 0.45 for Wealth, 0.35 for Growth, and 0.20 for Dependent Population.

The scores for each category are then summed and multiplied by a factor (50/14) to make a final adjustment to normalize the scores, which results in a range of total scores from a minimum of 10 to a maximum of 50. Overall rankings are then determined from these scores.

$$\text{Wealth Category} = \text{Per Capita Personal Income Quintile} + \text{Per Capita Property Valuation Quintile} + \text{Percent of Population receiving Temporary Assistance to Families and General Assistance Quintile}$$

$$\text{Growth Category} = \text{1998 to 2008 Net Population Change Quintile} + \text{1998 to 2008 Long-Run Employment Change Quintile} + \text{2006 to 2008 Short-Run Employment Change Quintile}$$

$$\text{Dependent Population Category} = \text{Population Share of Individuals 65 and Older Quintile} + \text{Population Share of Individuals between 20 and 64 Quintile}$$