

INTERIM JOINT COMMITTEE ON ECONOMIC DEVELOPMENT AND WORKFORCE INVESTMENT

Minutes of the 4th Meeting of the 2018 Interim

August 16, 2018

Call to Order and Roll Call

The 4th meeting of the Interim Joint Committee on Economic Development and Workforce Investment was held on Thursday, August 16, 2018, at 10:00 AM, in Room 154 of the Capitol Annex. Representative Phillip Pratt, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Alice Forgy Kerr, Co-Chair; Representative Phillip Pratt, Co-Chair; Senators Perry B. Clark, Rick Girdler, Ernie Harris, Jimmy Higdon, Stephen Meredith, Wil Schroder, and Reginald Thomas; Representatives Lynn Bechler, McKenzie Cantrell, Daniel Elliott, Al Gentry, Mark Hart, Joni L. Jenkins, James Kay, Adam Koenig, Russ A. Meyer, Jerry T. Miller, Jason Petrie, Steve Riley, Rob Rothenburger, Dean Schamore, Wilson Stone, Walker Thomas, Russell Webber, and Addia Wuchner.

Guests: Robert Riggs, Legislative Committee Chairman, Kentucky Aviation Association; Stewart Ditto, Executive Director, Kentucky Aerospace Industry Consortium; Lynn Hudgins, President, Junior Achievement of the Bluegrass; Garry Conley, Volunteer, Junior Achievement of the Bluegrass; Adam Watson, Current President, Kentucky Guild of Brewers; and Jason Smith, Incoming President, Kentucky Guild of Brewers.

LRC Staff: Carla Montgomery, Andrew Manno, and Sasche Allen.

Approval of Minutes

A motion to approve the minutes of the July 19, 2018 meeting was made by Representative Russ Meyer, seconded by Representative Adam Koenig, and approved by voice vote.

Aviation and Aerospace Updates

On behalf of the Kentucky Aviation Association, the Aviation Museum of Kentucky, and the Airport Zoning Commission, Robert Riggs spoke about a pressing matter that could affect businesses that want to come to Kentucky. Kentucky Constitution Section 164 prohibits local governments from granting a franchise or privilege for terms exceeding 20 years, and only after advertising. Mr. Riggs stated that the wording poses a problem for airports that want to attract businesses that would make an investment for

longer than 20 years. Twenty years is less than the amount of time that the Internal Revenue Service requires for depreciation. One option to fix the problem is to amend the Constitution to allow economic development projects to have more than 20 years. Another option is for the General Assembly to offer a legislative interpretation of the Constitution that will allow these projects to proceed with their investments with the state's airports without hindrance. Either of these two options would enable Kentucky to continue to attract new business and economic development investments.

After Representative Rob Rothenburger asked for clarification, Mr. Riggs explained by saying that a business would not be able to enter into a 50 year lease with a Kentucky airport. Although businesses are given the opportunity to rebid for contracts, the 20 year limit is a deterrent for some companies.

Senator Wil Schroder expressed concerns about what specific opportunities Kentucky may be missing out on due to the 20 year limit and requested to speak to Mr. Riggs after the meeting for further discussion.

Co-Chair Alice Forgy Kerr asked for a specific example. Mr. Riggs stated that United Airlines had considered placing one of its maintenance facilities in Louisville at one point but opted for Indianapolis partially because of the maximum 20 year length of term that Kentucky could provide.

Mr. Stewart Ditto, the Executive Director of the Kentucky Aerospace Industry Consortium (KAIC), discussed Kentucky's aerospace industry and KAIC goals. KAIC's four main goals and components contributing to its growth are unification, promotion, business development, and education and research. Unification will be attained by bringing the industry together under one voice by enhancing collaboration and facilitating partnerships. Internal promotion will be done by making Kentuckians aware of the current and future potential of the aerospace industry. External promotion will be achieved by creating a Kentucky aerospace brand that showcases the state as a focal point for growth in the Midwest and South. KAIC is working to improve business development through cyber security, AS9100 certification assistance which is specific to aerospace, exports, and International Traffic in Arms Regulations (ITAR) compliance. Education and research will be done through promoting and enhancing industry driven research, developing an integrated workforce delivery system, and ensuring there is statewide K-12 aerospace STEM education.

With the assistance of Co-Chair Alice Forgy Kerr and Representative Rocky Adkins, 2015 House Joint Resolution 100 directed the Transportation Cabinet, Cabinet for Economic Development, and Commission on Military Affairs to study the economic impact of the aerospace/aviation industry in the Commonwealth. Mr. Ditto was asked to manage the aerospace and defense study that took place from 2016 to 2017. From recommendations from the study, Governor Bevin and Lieutenant Governor Hampton

formed KAIC. The study showed that there are over 600 companies in the state in the aviation and aerospace cluster with an estimated 17,000 jobs. With \$11.7 billion in exports in 2017, aerospace products and parts are Kentucky's number one export and third nationally. The growth of the industry in the Commonwealth and the rest of the Midwest and South can be attributed to tax incentives, cheap energy costs, and a military presence whose technologies and expertise are aviation focused. Kentucky is however the focal point of the aerospace growth in the Midwest and South with the state's logistical capabilities of having the UPS Worldport, the DHL Hub, and Amazon Prime Air. Some other companies that contribute to the industry include Raytheon, Safran, Braidy Industries and Ellison Surface Technologies.

Kentucky's postsecondary education institutions are striving to contribute to the aerospace industry as well. The University of Kentucky led the development of Next-Generation Entry Thermal Protection. Morehead State is one of the leaders in cubesat and other small satellite technologies, is a part of the NASA Deep Space Network, and has launched six satellites to date. The University of Louisville supports research in micro and nanotechnology and along with Western Kentucky University are also conducting International Space Station experiments. Mr. Ditto closed by discussing Elevate Kentucky, which is a new initiative to establish the state as an autonomous vehicle testing center. In doing so, Kentucky will work with companies to open its roadways, waterways, and airways for testing of all autonomous vehicle systems. The goal of the initiative is to bring together the state's universities, companies, and government entities to create a unified approach to this emerging industry. Some roadblocks for this program are restrictive regulatory systems, development of new required infrastructure, and cultural acceptance.

Answering questions from Representative Lynn Bechler, Mr. Ditto said that service providers can consist of a wide range of people that could be those who supply fuel or maintenance at air operation facilities, engineering consultants, or any other service done at an airport. Statistics on exports are gathered by a national organization that gathers information on all states every year to determine who the export leaders are in the aerospace and defense industries.

Replying to Senator Wil Schroder who inquired about how the statistics are put together pertaining to exports, Mr. Ditto explained that a lot of the exports come from the GE Aviation facilities in Madisonville and Hebron that manufacture a multitude of aerospace products. Although many industry products are shipped to and from the state, there are many products manufactured and assembled in the Commonwealth. Statistics may not take into account when aerospace parts go from state to state during the production process.

After Senator Stephen Meredith inquired about required restrictive regulatory systems and the development of new required infrastructure, Mr. Ditto gave the examples of Federal Aviation Administration (FAA) regulations being slow to integrate with new

technologies. KAIC is working to form a public private partnership to utilize some of Fort Knox's unused air space and ranges for autonomous vehicle testing. Mr. Ditto also explained the new infrastructure needed such as an air traffic management system which could be possible by collaborating with Rajant Corporation.

Junior Achievement of the Bluegrass

Lynn Hudgins, the President of Junior Achievement of the Bluegrass (JA) and Garry Conley, a volunteer at Junior Achievement of the Bluegrass, spoke about the impact of the organization and the impact it's having across the Commonwealth. The offices across the state that are in Lexington, Louisville, Bowling Green, Owensboro, and Northern Kentucky. JA has been mentoring and teaching students nationally for 100 years and the Lexington office has been operating since 1963. One thing that sets JA apart is the volunteer component because the students are mentored by individuals that are actual employed in the particular area of study that they are teaching. Volunteers instruct students with a curriculum that has been prepared by JA based on requests from the teachers at each participating school. From 2017 to 2018, JA had 3,406 volunteers that worked with 126,433 students in 590 schools which amounted to 993,062 instructional hours. Ms. Hudgins expressed gratitude on the passage of HB 132, which dealt with financial literacy, and HB 3, which addressed an essential skills curriculum.

The JA Work Ready and Career Readiness Pathway that curriculum is based on consists of pillars of student success that include youth development, economic development, and education development in the areas of entrepreneurship, financial literacy, and work and career readiness. Therefore, students are taught subject matter pertaining to citizenship, economics, business, and ethics. The vision of the Work and Career Readiness Pathway is to enable students with the skills and knowledge needed to explore, choose, and advance in their future career path partially because only 25 percent of job seekers report receiving any career pathing exploration and 3.6 million jobs in the U.S. are unfilled due to a lack of relevant knowledge and skills in the workforce. JA specifically addresses financial literacy because 21.3 percent of households across the country do not have a sufficient net worth to support themselves at the poverty level for three months, 28 percent of Americans have nothing in their savings account, and 46 percent of adults cannot cover an emergency expense of \$400 without selling something or borrowing money. Research shows that JA students finish high school at a rate of 93 percent and are 30 percent more likely to have a college degree. Students earn 20 percent more than the general population and are more likely to be better off than their parents. Employment is secured at a higher rate and they incur less debt than their peers. According to Ms. Hudgins presentation, JA is a part of a solution that is laying a foundation for greater economic stability across all communities and fulfilling a promise of economic independence for today's youth while offering hands on programs to improve their financial capabilities, understand the importance of staying in school, and expand their vision for their future. For example, JA Biztown is a hands on component of the curriculum

that allows students to be a part of a simulated town where they have the opportunity to apply for jobs, run businesses, and engage in the roles of workers and consumers.

Mr. Conley, a volunteer and the owner of Minuteman Press, described how the curriculum of JA is taught by the volunteers of the organization and how his experience with human resources and as a business owner aids him in the classroom. The curriculum of Mr. Conley's course called Career Success is divided into a seven week course. The first three weeks students learn about creativity, critical thinking, communication, and collaboration. The next four weeks the students are taught how to demonstrate soft skills, how to identify work priorities, who is hiring in high growth jobs, and personal branding for job hunting. After completing his course, students know what career path they want to take and how to get there. Mr. Conley closed by explaining that JA's curriculum covers all of the essential skills that HB 3 addressed by teaching student things like diligence, working well with others, adaptability, and reliability.

Responding to a question from Representative McKenzie Cantrell, Mr. Conley said although it is not a specific course, students are taught about drug prevention as it pertains to goal setting and decision making.

Replying to Senator Reginald Thomas, Ms. Hudgins reiterated that one of JA's pillars is entrepreneurship and some courses do teach students business and strategic planning if teachers decide on those courses. In the past JA facilitated a business competition where students from different schools formulated their own business plans.

Representative Walker Thomas introduced a member of the audience named Kristal Smith who was appointed as the Chair of the newly formed Economic Opportunity Commission in July 2018. The Economic Opportunity Commission will be within the Cabinet for Economic Development and combines the Governor's Office of Minority Affairs and the Governor's Minority Employment, Business Affairs and Economic Development Council.

Kentucky's Microbrewery Industry

Adam Watson, President of the Kentucky Guild of Brewers and owner of Against the Grain Brewery, and Jason Smith, incoming President of the Kentucky Guild of Brewers and general manager of Gordon Biersch Brewery Restaurant, explained how the General Assembly's work enables growth and success in the industry, reasons the industry should be supported, and the economic impact of the microbrewery industry in the state. Mr. Watson thanked the General Assembly for the passage of 2018 HB 136. Many breweries now have programs for the keg and package sales. It allows for craft breweries to meet more of customers' demands which in turn drives brand growth and success in the industry. Although there are many larger employers, small businesses make up 99.7 percent of U.S. employers, 64 percent of net new private sector jobs, and 98 percent of business exporting goods. Kentucky's craft brewers are a significant manufacturing sector that create job

opportunities, invest in rural and urban areas, and improve tourism. There is a direct and indirect impact on the state economy through the investment of new dollars, increasing industry revenue and sales, and providing wages and benefits to Kentuckians.

The state currently has 62 licensed craft and microbreweries that represent over 50 different Kentucky companies with 14 additional new breweries that have either opened or are in the planning stages. Thirty-one breweries have expanded to the tune of an additional \$22 million in Kentucky investment and 25 additional breweries are in expansion planning which would add an additional \$6.9 million for a new investment total of \$28.9 million. Kentucky ranks 27 in the nation on positive economic impact with an annual economic impact of \$657 million despite that fact it ranks 40 for the number of breweries located in the state. Craft brewers within the state export to more than 42 states and over 25 countries and directly employ more than 800 Kentuckians. The industry has added an additional 147 new jobs since January 2018 and expansion has continued to lead to the location, creation, and expansion of various new support industries. The brewers in the industry partner with the Department of Agriculture, the Tourism, Arts, and Heritage Cabinet, the Cabinet for Economic Development, local farmers, and Kentucky distillers to advance the Commonwealth and enhance tourism. Mr. Watson briefly spoke about the impact of recent tariffs on the Kentucky craft brewing industry which are still mostly unknown.

There being no further business, the meeting was adjourned at 11:22 a.m.