

INTERIM JOINT COMMITTEE ON ECONOMIC DEVELOPMENT AND WORKFORCE INVESTMENT

Minutes of the 5th Meeting of the 2018 Interim

September 21, 2018

Call to Order and Roll Call

The 5th meeting of the Interim Joint Committee on Economic Development and Workforce Investment was held on Friday, September 21, 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: Representative Phillip Pratt, Co-Chair; Senators Perry B. Clark, Rick Girdler, Denise Harper Angel, Ernie Harris, Jimmy Higdon, Stephen Meredith, Reginald Thomas, Mike Wilson, and Max Wise; Representatives Lynn Bechler, McKenzie Cantrell, Daniel Elliott, Mark Hart, Dennis Horlander, Joni L. Jenkins, James Kay, Kim King, Adam Koenig, Jerry T. Miller, Jason Petrie, Rob Rothenburger, Dean Schamore, Diane St. Onge, Wilson Stone, Walker Thomas, Russell Webber, and Addia Wuchner.

Guests: Representative John Blanton; Nate Nedley, CFO, E-Z Pack Holdings LLC; Alex Barnett, Judge Executive, Harrison County; Tony Toups, Principal, Advantage Capital; Gary Jones, Director, Muhlenberg Alliance for Progress; Peggy Williams, Chairperson, Muhlenberg Alliance for Progress; Alyssa Manning, President, Felix E. Martin Jr. Foundation; Secretary Derrick Ramsey, Education and Workforce Development Cabinet; Deputy Secretary Josh Benton, Education and Workforce Development Cabinet; and Katie Houghlin, Director, Division of Unemployment Insurance.

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

Approval of Minutes

A motion to approve the minutes of the August 16, 2018 meeting was made by Representative Walker Thomas, seconded by Representative Adam Koenig, and approved by voice vote.

2019 Rural Jobs Act

Representative John Blanton of House District 92, Nate Nedley, the Chief Financial Officer of E-Z Pack Holdings LLC, Alex Barnett, the Judge Executive of Harrison County, and Tony Toups, a Principal at Advantage Capital, spoke about the Rural Jobs Act that was proposed in the 2018 Regular Session as HB 6. HB 6 would have created new sections of

KRS Chapter 136 to establish a new tax credit against the taxes imposed on insurance companies and financial institutions for contributions into rural growth funds; required an entity to follow a process to apply for certification as a rural growth fund and for investors in that entity to receive tax credits awarded by the Department of Revenue; allowed the department to issue \$60,000,000 in tax credits; provided credit sunset terms and other conditions for participating in the program and for claiming the credit; provided for revocation of tax credits; allowed the department to audit rural growth funds; limited any liability of the Commonwealth in regard to rural growth funds or investments made by them; and required various reports to be filed with the department and the Legislative Research Commission. The legislation passed the House but was amended in the Senate and was not voted upon prior to the adjournment of both House. The Rural Jobs Act is intended to create opportunities for rural Kentucky by creating access to capital for rural businesses and small firms and is modeled after the New Markets Program. Similar legislation has been enacted in four states: Utah, Ohio, Georgia, and Pennsylvania. The program would be available to those businesses in counties with populations of less than 50,000, fewer than 250 employees, and with not more than \$15 million in net income. This differs from the 2018 version that had a requirement of less than 70,000 people within the county.

Nate Nedley spoke about how his company has benefited from a tax credit program similar to the Rural Job Tax Credit after explaining the evolution of the business located in Cynthiana, Kentucky. Commercial Specialty Truck Holdings LLC purchased EZ Pack Refuse Hauling Solutions and Continental Mixers in 2014 and was able to save about 80 individuals from losing their jobs when the company was to move to another state under the previous ownership. The company faced some struggles but was eventually able to qualify for the Kentucky Business Investment Program through the Cabinet for Economic Development, adding 100 new jobs, and then in 2016 formed a partnership with Advantage Capital and Enterprise Bank to secure the New Market Tax Credit. Due to the amount of employees tripling since 2014 and consistent and profitable output, EZ Pack has applied for another tax credit program through the Cabinet for Economic Development which will add even more jobs and allow for product and output expansion.

Judge Executive Alex Barnett discussed some of the positive effects that companies like EZ Pack have had on Harrison County. The success of companies such as EZ Pack and 3M in Cynthiana have brought more economic development opportunities to the area. The county has seen the opening of a new brewery, clothing stores, a healthy shake shop, and two new event spaces. Mr. Barnett explained that there is now more jobs than workers and with workers coming from about 15 other counties to work in Cynthiana, there is not enough housing options to make it possible for all of the individuals who work in the county to live there as well. Although this is not necessarily a bad problem to have, it is a problem that requires a solution according to Mr. Barnett. Therefore, plans are currently being made with developers to increase the amount of housing available in Harrison County.

Tony Toups of Advantage Capital explained the role that his company plays in the success of businesses like EZ Pack and how that success can translate to economic growth in the area as a whole. Advantage Capital is a participant in the Kentucky New Market Tax Credit Program, which has primarily benefited businesses in urban areas. Mr. Toups states that the proposed 2019 Rural Jobs Act would benefit smaller businesses in only rural communities. His company has assisted in raising investment funds for the proposed tax credit program in Ohio, Georgia, and Utah. The National Conference of State Legislators (NCSL) completed a study in April 2018 pertaining to the tax credit program legislation like the Rural Jobs Tax Credit which are jump starting rural economies. As the New Market Tax Credit has developed around the country on the state and federal level, Advantage Capital has learned how to ensure it remains as fiscally responsible as possible and that there is a return to the state. HB 6 and the proposed 2019 Rural Jobs Act requires investors to have a federal license, either being licensed as a small business investment company through the Small Business Administration (SBA) or as a rural investment company through the United States Department of Agriculture (USDA). Companies are also required to display their ability to manage investments like the Rural Jobs Tax Credit and to be able to raise capital in a timely manner. The tax credits that fund part of the investments are delayed so there is no fiscal impact on the General Fund until the third fiscal year after the implementation, and 100 percent of the capital raised has to be invested within the first two years. It is also required that a company receiving the tax credit show that they have created a predetermined number of new jobs, and if not there are back end penalties. Representative John Blanton added that there are also requirements for workforce training, and it is being considered to lower the county population size to truly seek to develop opportunities in the most rural areas throughout the Commonwealth.

Responding to a question from Representative Kim King, Mr. Nedley said that EZ Pack offers training in welding, specialized equipment, safety, and leadership. Answering a follow up question, Representative John Blanton confirmed that the county population size that is being considered is 50,000. NCSL considers anything over this amount to be an urban area.

Replying to Representative Rob Rothenburger regarding his comments on penalties for new jobs not being created, Mr. Toups explained that the businesses receiving the tax credit would not be penalized. The investing or managing firm would be responsible for any penalties under the 2019 Rural Jobs Act.

Senator Stephen Meredith expressed concerns about a portion of HB 6 that explains reasons for revocation of the tax credit, as follows: “The rural growth fund in which the credit-eligible capital contribution associated with the tax credit certificate was made does not invest one hundred percent (100%) of its investment authority in rural growth investments in this state within two (2) years of the closing date, a minimum twenty percent (20%) of which shall be in counties with labor force participation rates below the national average as determined by data available from the United States Bureau of Labor Statistics

and the Cabinet for Workforce Development as of the date of the rural growth investment.” Representative Blanton further explained this stipulation by stating the 20 percent was included to ensure that a portion of the funds go to counties that have unemployment rates greater than the national average but said that it could be reviewed and changed if it is deemed necessary. Senator Meredith voiced his opinion that unemployment rates may not be a reliable statistic.

Representative Addia Wuchner commended EZ Pack for offering workplace training that is transferable and mentioned her many constituents who are employees of the company that make the long commute.

Senator Jimmy Higdon echoed previous statements made by Senator Meredith and said he would like for programs like these to be available to distressed and rural communities across the state that actually need the economic development opportunities. Representative Blanton said that is the reasoning for changing the population requirement.

Responding to Representative Adam Koenig, Mr. Nedley stated that although EZ Pack has yet to see effects from state and federal tax changes, the company may see an impact in the future.

Representative Dean Schamore asked a follow up question in regards to earlier inquiries and statements about the population requirement after stating that according to the previous requirement in HB 6 about 109 counties would be eligible. Representative Blanton confirmed that although he was unsure of the exact number of counties that would be eligible using the 50,000 criterion, about eight to ten fewer counties would qualify for the tax credit.

Senator Rick Girdler said that because of the population and geographical location of his county he would like to see the requirement remain at 70,000 in the 2019 version of the legislation. Representative Blanton said that lowering the number would be in the best interest of the state as a whole and would benefit those rural counties that are currently unable to recover from downturns in the economy.

Senator Stephen Meredith suggested factoring in workforce participation which may be a more realistic measurement for the criteria for eligibility.

Muhlenberg Alliance for Progress

Gary Jones, the Director of Muhlenberg Alliance for Progress (MAP); Peggy Williams, a Chairperson of Muhlenberg Alliance for Progress; and Alyssa Manning, the President of the Felix E. Martin Jr. Foundation, gave a brief overview of the organization and highlighted their partnerships that aid in the economic development of Muhlenberg County. In the 1970s, the coal industry in Muhlenberg County employed over 3,000 people but for 2018 that number has decreased to about 300. Ms. Williams explained that a

solution had to be formulated in order to provide opportunities to the residents of the county and for the economy to once again flourish, specifically through education and economic development. One partnership that was formed was with the Madisonville Community College and the city of Central City that donated land, to construct the Madisonville Community College-Muhlenberg Campus. This was also made possible through \$3 million of personal donations from the residents and businesses of the county. MAP is working with the school to implement new training in advanced integrated manufacturing and technology. MAP also partners with local government, businesses, and citizens.

One of the main partnerships that MAP utilizes is with the Felix E. Martin Jr. Foundation. Mr. Martin passed away in 2007 and willed \$50 million to support civic, cultural, and educational projects in Muhlenberg County. The Community Foundation of Louisville assisted the executors of Mr. Martin's estate in finding individuals who would serve as full time staff for the foundation. An assessment was completed to determine county needs and it was found that jobs and economic development were needed the most. Ms. Manning said that the foundation wanted to take on projects that would make Muhlenberg County appealing to businesses and companies wanting to locate in the state. Due to the nature of how the foundation was formed, there was not an abundance of nonprofit organizations to partner with to support the needed projects. Therefore, unique partnerships were formed and funds were donated to the local government and school system by using the foundation's money to leverage additional state and federal funds. Foundation staff researches various projects and opportunities and presents them to state and local government, acting as a catalyst for economic growth in Muhlenberg County. Since the foundation began giving funds in 2009, over \$23.3 million has been distributed in the county and it intended to give about \$2.2 million yearly indefinitely due to how the endowment was set up.

Ms. Manning discussed some of the projects that the Felix E. Martin Jr. Foundation has made possible including forming MAP in Muhlenberg County that exclusively handles economic development projects. Another project that the foundation helped with was the Paradise Regional Business Park Expansion. It donated some funding to buy land to make the expansion possible which is one of the largest industrial parks in the states with 239 acres. A county owned wireless broadband network was also created after it was designed by a resident of Muhlenberg County with a \$250,000 donation from the foundation and funds from the county. There is a charge to utilize the network but those funds are managed by a nonprofit which then puts the funds back towards building new towers for the network. During the foundation's initial needs assessment it was found that transportation was an issue for individuals to get to work or school. As a result, the foundation partnered with the state and the Pennyryle Allied Community Services to create the Ride to Work Program. Another conclusion that was met after the assessment was that people should want to work and also live in Muhlenberg County. The Greater Muhlenberg Parks and Recreation System and the Felix E. Martin Jr. Auditorium were created for the families and visitors of the county.

The foundation and MAP has also partnered with the SBA, USDA, and the local community college to offer entrepreneur development programs and workforce training. The Martin Scholars is another program that was created that encourages adults who have some college to complete their associate degrees by paying incentives each semester and a similar incentive program was created to assist individuals in obtaining their GED. The foundation gave some funds for a wing to be added to the local high school that will house classrooms designated for advanced integrated manufacturing training. Students will be able to graduate with a skilled operator's certification and credits towards an associate degree. The wing is being utilized by the community college for adults to take classes in the evenings. The foundation contributes to early childhood education, including the SOAR Early Childhood Education Program; Work Ready Youth Programs, which provides college and career exploration field trips for K-12 grades, and the Muhlenberg Achieves Postsecondary Success Program, which offers college tours and e-coaching mentoring.

Gary Jones discussed challenges that MAP faces and some solutions that are being developed. One issue that he discussed was getting businesses to build at the Paradise Regional Business Park that was recently expanded upon. Mr. Jones explained that although the park is equipped with water, sewer, and electric, there is not an existing gas line. MAP is in the process of trying to create incentives for companies locating their business in Muhlenberg County. The organization is also working diligently to develop the county's opportunity zones and working closely with the Cabinet for Economic Development. In addition, MAP is collaborating with the Greater Muhlenberg Chamber of Commerce, the Muhlenberg County Board of Education, Madisonville Community College, and the Education and Workforce Development Cabinet to obtain full Work Ready Certification.

Representative Walker Thomas inquired about a Public-Private Partnership involving Lake Malone State Park, which is partially located in Muhlenberg County. Mr. Jones explained that the boat dock was temporarily closed due to needed repairs but reopened after the Felix E. Martin Jr. Foundation partnered with residents of Muhlenberg, Todd, and Logan to raise the funds to make those renovations.

Responding to Co-Chair Philip Pratt, Mr. Jones said that the foundation has donated funds to assist with the addition to the local high school that will house classrooms designated for advanced integrated manufacturing training.

Senator Stephen Meredith commended MAP and the Felix E. Martin Jr. Foundation for all of the work done to revitalize Muhlenberg County and said that the county sets a great example for other rural communities across the state.

Replying to a question from Senator Ernie Harris, Mr. Jones stated that the Muhlenberg County Airport is equipped with a 5,000 foot runway, a new terminal, and

new fuel tanks. After a follow up question, he said that although there may be some geographical obstacles, expansion of the length of the runway may be possible.

Apprenticeship and Unemployment Insurance Update

Secretary Derrick Ramsey, Education and Workforce Development Cabinet, Deputy Secretary Josh Benton, Education and Workforce Development Cabinet, and Katie Houghlin, the Director of the Division of Unemployment Insurance, testified on the progress of the apprenticeship program and the status of unemployment insurance. As of June 30, 2016 Kentucky's apprenticeship program featured 148 registered programs and four competency based programs. There were 2,422 registered apprentices made up of 94 females, 298 minorities, 266 veterans, 1,082 youth that ranged in ages 16 to 24, and zero individuals with disabilities. Since that time, additional state and federal funding has been given to the program, and as of July 18, 2018, the apprenticeship program is within the Education and Workforce Development Cabinet. There are 251 registered programs and nine competency based programs. There are 3,391 registered apprentices made up of 403 females, 201 minorities, over 600 veterans, 1,614 youth, and five individuals with disabilities. Secretary Ramsey discussed the 2018 Registered Apprenticeship Summit, which was a collaboration with UPS, the Work Ready Skills Initiative, and the TRACK Program. He explained two concepts which will help ensure Kentucky's apprenticeship program continues to grow in future which included intermediaries and the adoption of P-Tech Schools. Nearly \$1.1 million in federal funding was allotted to the state apprenticeship initiatives to enable Kentucky to establish and grow intermediaries to better connect apprentices with employers. An intermediary recruits from a diverse pool of potential apprentices to match their skills with the needs of employers and works with high schools, juvenile justice agencies, the unemployed, veterans, and high education facilities. Secretary Ramsey also described the concept of a P-Tech school, which are Pathways in Technology Early College High Schools that span grades nine to 14. Students would graduate in six years with an associate's degree in applied science, engineering, or other competitive STEM disciplines.

Deputy Secretary Josh Benton and Director Katie Houghlin spoke about the modernization of the state's unemployment insurance system. Deputy Secretary Benton expressed gratitude for the passing of legislation in the 2018 Regular Session that allowed the cabinet to upgrade the Service Capacity Upgrade Fund (SCUF), which was enacted July 1, 2018. Technology was upgraded through the acquisition of new software to increase delivery capacity in support programs administered by UI. Projected SCUF collections for the third quarter of 2018 are \$1.5 million and for the fourth quarter \$1.4 million. For the calendar years of 2019 to 2023, projections are between \$10 million and \$12 million for each year. The UI Assistance Line was implemented February 2018 in response to local office service alignment. The average wait time is 6.48 minutes, but the deputy secretary and director explained that the amount of time includes Monday, which is the busiest day of the week. The wait time every other day is closer to 2.5 minutes.

As of August 31, contributions to the UI in 2018 totaled \$295,875,221 and benefits paid totaled \$211,020,992, numbers which have decreased dramatically since 2012 as a result of fewer people being on unemployment. The fund balance has a total of \$543,455,889. The maximum weekly benefit for Kentucky is \$502, the average weekly benefit is \$341, and the maximum weeks of eligibility is 26, all of which are higher than surrounding and competing states. Deputy Secretary Benton explained some of the challenges of unemployment insurance that include aging technology, the duration of benefits received compared to the national average, reemployment activities, and customer service in the career centers that is often provided by a third party. Although there are 134,234 open jobs, the average benefit duration is 18.4 weeks compared to the national average of 15.4 weeks. The cabinet is setting goals to solve all of these issues and in particular decrease the duration of benefits.

Senator Mike Wilson commented that he was excited about the direction of the cabinet and especially the apprenticeship program. Secretary Ramsey responded by saying he believes apprenticeship has the potential to change the trajectory of the state.

Senator Jimmy Higdon made remarks regarding the apprenticeship program and commended the partnerships among different cabinets to accomplish goals. Deputy Secretary Benton replied that after moving to the cabinet and doing research it was found that across the state all workforce partners are only engaging with about 12 percent of Kentucky's employers but that needs to improve.

Addressing concerns voiced by Representative Dean Schamore, Secretary Ramsey said that there are plans to utilize public libraries for unemployment insurance.

Replying to Representative Lynn Bechler, Secretary Ramsey said he is aware of the decrease in the number of minorities that participate in the apprenticeship program, and the cabinet is planning to be more active in engaging minorities.

Representative Addia Wuchner made comments pertaining to the possibilities of the apprenticeship program and how she believes alternative education and training models do work from what she has seen. She said she tries to encourage youth to explore apprenticeships and other methods of technical training.

Responding to Representative Kim King, Secretary Ramsey said that he and cabinet representatives would be willing to visit her district in an effort to increase employer participation rates within the apprenticeship program. He explained that there has to be a level of loyalty amongst employers and employees and employers have to be willing to do their part in order to build their workforce.

There being no further business, the meeting was adjourned at 11:59 a.m.