

EXECUTIVE BRANCH EFFICIENCY TASK FORCE

Minutes of the 2nd Meeting of the 2022 Interim

July 18, 2022

Call to Order and Roll Call

The 2nd meeting of the Executive Branch Efficiency Task Force was held on Monday, July 18, 2022, at 1:00 PM, in Room 171 of the Capitol Annex. Representative Jerry T. Miller, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Robby Mills, Co-Chair; Representative Jerry T. Miller, Co-Chair; Senators Michael J. Nemes and Whitney Westerfield; Representatives Shane Baker and Patti Minter.

Guests: Jeff Noel, Katie Smith, and Angelica Vega, Cabinet for Economic Development.

LRC Staff: Daniel Carter, Alisha Miller, and Cheryl Walters.

Approval of Minutes

Upon the motion of Senator Mills, seconded by Representative Baker, the minutes from the June 27, 2022 meeting were approved.

Charge of the Task Force

After the approval of the minutes, Representative Miller stated the objectives of the task force is to look into the functions of the executive branch of the Commonwealth; allow agencies to explain their structure, funding, and budget building practices; and grant agencies the opportunity to propose to the legislature future reorganization plans and proposals to make their internal processes more efficient.

Cabinet for Economic Development—Organization, Operation, and Budgetary Overview

Guest speakers from the Cabinet for Economic Development were Jeff Noel, Secretary; Angelica Sanchez-Vera, General Counsel; and Katie Smith, Deputy Secretary and Commissioner for Financial Services. Secretary Noel discussed the mission, goals, and accomplishments of the cabinet. Their focus is to create well-paying jobs throughout the state, and to support all existing industries.

The cabinet contains a partnership board that governs some of the day-to-day responsibilities. There are three boards that also help oversee and provide assistance to businesses and entities: Kentucky Economic Development Finance Authority, Bluegrass State Skills Corporation, and Commission on Small Business Innovation and Advocacy. The cabinet has two individuals that represent the state's interest abroad in Europe and Asia.

In 2021, \$11 billion in economic investment was announced, 18,000 new jobs were created, with an annualized incentivized hourly rate of \$24 an hour. In 2019, 1,000 new pilots came through UPS. Secretary Noel expects more pilots will be hired due to the pilot shortage. Year-to-date, 8500 new jobs have been announced, over 50 private sector announcements, and \$4.1 billion in new investment, examples being Ford SK BlueOval and Envision. Ford SK BlueOval is the largest economic development project in the state's history.

Automotive and manufacturing are two large drivers of economic development in Kentucky. One out of every 11 dollars that flow through the state and one out of every 16 jobs is tied to the automotive industry. Manufacturing requirements related to automotive related facilities, have increased the number of suppliers in the state. Currently there are over 550 suppliers in Kentucky, and foreign owned companies employ approximately 113,000 Kentuckians. Kentucky ranks fifth nationally in workers that are employed by foreign owned companies, which is why the cabinet has invested in representation in Europe and Asia.

Looking forward, Secretary Noel stated that investments in EV batteries, speed-to-market, infrastructure, cybersecurity, renewables, and energy supply will be critical to Kentucky's success. Secretary Noel stated the importance of developing relationships with key stakeholders to find the workforce companies need, both now and particularly over the next three to four years, when students who graduate high school are looking at trade schools. Maintaining relationships with community colleges, colleges, and universities and employers in a continuum, will be essential in maintaining a strong workforce and retaining and keeping companies in the state. ESG reporting and compliance is already being implemented with publicly traded companies. Those costs associated with ESG being passed down to suppliers will require businesses and government to adapt. It will be important to understand changes associated with ESG and how to comply with supplier shifts due to ESG.

The cabinet assists businesses and communities through incentives, preparing sites and site readiness, and workforce knowledge. Another strength, is with regional hubs that are facilitated through the cabinet to help foster innovation, support startups, and entrepreneurialism. The cabinet works closely with colleges, community colleges, universities, and operates as a conduit for higher education and companies to help connect the skills with company need. The cabinet will also help secure federal funding, with grant writing and work with partners in submitting federal grant requests.

The cabinet is directly involved in providing dollars, guidance, and oversight to make sure once dollars are expended or tax credits provided, they are in compliance. Most of the tools offered by the cabinet are performance based. Every entity enters into an agreement with the cabinet, and have to earn their incentives before receiving the benefit.

The cabinet helps with companies provide training through the Workforce Skill Development Program. This program allows the cabinet work to help companies to design a training system that may not be provided by a community college or technical school.

The economic development process involved getting information from a prospect, negotiating an agreement, the announcement, and compliance. Most of the work begins once the announcement is made. Once the announcement is made, the project has to be scoped and built, employees hired, and assuring compliance with requirements. Some projects can take 20 years. Approximately 15 to 18 percent of the team is devoted to compliance and monitoring. The cabinet also gets audited by an outside firm.

The cabinet monitors the average wage and company credits. They have reduced benefits when requirements have not been met. Other benefits on the horizon include SSBIC fund for small businesses and \$100 million for the Product Development Initiative.

For fiscal year 2023, the general fund for the cabinet is approximately \$285 million, which is mostly from large line-item grants. The total annualized operating budget is approximately \$32 million. The cabinet also receives restricted funds through other programs. There are currently 65 employees working for the cabinet, but they are budgeted for 85.

In response to a question from Senator Westerfield, Secretary Noel stated that any impediments for the cabinet would be if the cabinet was not in a position to attract talent and is afraid to take risk and be inquisitive. Secretary Noel stated that this is not a problem with current staff.

In response to a follow-up questions by Senator Westerfield about IT infrastructure and program funding, Deputy Secretary Smith stated that at one point the cabinet had three systems, one for new business, one for existing businesses, and a financial incentives database. About four or five years ago, they consolidated into one system, a platform through a Salesforce application. The cabinet has licenses through Salesforce, and two developers on staff but can reach out to COT for further assistance if needed. The cabinet uses a Select Kentucky program, a website that lists available sites and buildings for businesses. They work with a GIS planning system, Zoom Prospector. Deputy Secretary Smith testified that some of their funding programs have sunsetted.

In response to a question by Representative Miller, Deputy Secretary Smith testified that the cabinet, follows the same minimum wage guidelines outlined in KYBI program, which is statutorily defined. There are two different wage calculations: one for economically distressed areas, and one for “other”. For economically distressed areas, the wage calculation is 125 percent of the federal minimum wage, and the total hourly compensation is 115 percent of the calculated federal minimum wage. For “other” or “enhanced,” the calculation is 150 percent of the federal minimum wage, and the total hourly compensation is 115 percent of the calculated federal minimum wage.

In response to questions from Representative Minter, Secretary Noel did not see any areas related to his duties that needed to be revised statutorily. He likes the simplicity of the statutes, which he considers one of Kentucky’s strengths. He finds it helpful that they can use pools of money in reserve for large projects. With respect to keeping talented workers in the state, Secretary Noel testified that we need to promote the stories of great jobs the state has now, and strengthen relationships with universities and university placement offices to promote jobs in state.

In response to questions from Senator Mills, Secretary Noel stated he feels supported by and has a great relationship with the Governor and partnership board leaders. The Governor and board has been clear on his expectations but also has been given the freedom to do what is necessary to meet goals. There are also guidelines that the Secretary has to follow provided by the cabinet, legislature, governor, and partnership board. With respect to measuring incentive programs, Deputy Secretary Smith stated the cabinet continuously reviews and identifies improvements need, issues with companies, and companies having compliance issues throughout the year. Once they make an assessment they will make changes accordingly. During the 2021 session, they updated major program incentive requirements to align all of the eligible industries, and included remote employees as part of their plan. They observe actions of competitors: both private companies and other states. They identify when programs are not working, and will ask to sunset those, and shift companies to appropriate programs to which they may be eligible.

In response to a question by Representative Miller, General Counsel Sanchez-Vega stated that Commonwealth State Capital made an investment in a Russian company, and are currently in confidential negotiations with the company. The Commonwealth is constitutionally prohibited from holding an interest in a company.

In response to a question from Representative Miller on behalf of Rep. McCool, Secretary Noel is in the process of meeting and working with ADD districts and will work to figure out if there are any gaps in the workforce and how to fill them. Secretary Noel envisions to a more regional approach for many counties and communities where they will work together to determine what methods best for work for their counties and communities. He also believes the Product Development Initiative will help communities think about how they want to present themselves five years from now.

In response to questions by Representative Miller, Secretary Noel testified that the cabinet offers cash grants, loans, and forgivable loans, and each have performance criteria, milestones, and thresholds that must be met in order to receive the benefit or loan. Deputy Secretary Smith added that some of the programs listed are tax incentive programs which are tax credits, not cash. KEDFA loans are typically loans that are repaid. The University of Louisville Medical Center is an exception, because their KEDFA loan can be forgiven. Economic Development Fund (EDF) is a grant. The Rural Hospital Loan Program is a loan that is required to be repaid and are revolving loan funds. KAITC is an angel investor tax credit program, in which an individual may be eligible for a tax credit if he or she makes an equity investment within 80 days of approval. Bluegrass State Skills Training has an investment credit and a grant an aid program. The investment credit is a tax credit program and the grant and aid program is cash reimbursement.

In response to questions by Representative Baker, Secretary Noel is currently speaking with stakeholders about ESG compliance. While working at his previous company, they implemented ESG. The Secretary is concerned that companies will have to pass on the costs associated with ESG to their suppliers, who will subsequently have to pass on the ESG costs to their suppliers. Secretary Noel believes that if the key players stay informed, collaborate, and try to anticipate any unforeseen consequences, the state can be well-prepared to adapt.

In response to a series of questions from Senator Mills about staffing, Secretary Noel's predecessor left a few key positions open to give the Secretary flexibility in hiring. The cabinet has been selective in hiring; they want to ensure the person they hire matches the culture and values of the cabinet. Deputy Secretary Smith added that they will post a position a few times to ensure they hire a candidate with the right fit. Companies have taken cabinet employees from time to time, because of their great work. The Secretary stated that employees may work from home two days a week, but try to have a core team in the office throughout the week. Many employees travel to different parts of the state as part of their job duties, which is not considered working remote.

In response to questions from Senator Mills about energy and environmental costs and impediments, Secretary Noel stated that he is not discouraging companies who use fossil fuels from working with cabinet. The cabinet seeks to work with a variety of companies. The Secretary is trying to anticipate what may occur in the future, and would not deny a company from working with the cabinet if they use fossil fuels. Their goal is to try to work with companies and see if they can help the company meet their objectives and whatever requirements are imposed. With respect to brownfields and former industrial sites, Secretary Noel stated that the cabinet works closely with all other cabinets, including those that have oversight over brownfields. The cabinets that oversee brownfields and industrial sites have tools and incentives they can offer to help develop and use those areas.

In response to questions from Senator Westerfield, the cabinet has started tracking where they are receiving their project leads. They receive leads from several different sources, including companies and consultants. Not all projects follow the exact same process and there is an online searchable database for incentive projects that have been approved since 2008, in which you can search by type of program or location. Secretary Noel added that the cabinet's goal is to try to land incentive projects in Kentucky. The vast majority of projects are from new and existing companies where Kentucky is competing with several other states, and in some instances, other countries on the best site for the company. In the process, the cabinet will try to get the company to evaluate sites in multiple locations throughout the state, which can help determine locations and workforce issues, to help all areas of the state.

In response to a question from Representative Baker, on high energy costs and the Century Aluminum layoffs, Secretary Noel stated there has been outreach and conversations with the Century Aluminum with the cabinet offering to help.

In response to questions from Representative Miller, Secretary Noel stated that leads can also come from the cabinet, and used the Select USA conference in Washington, D.C., as an example. The cabinet met with 15 different international companies in the conference. The Secretary felt that having representatives in Germany and Japan were needed. Other states have much larger staffs located in other parts of the world, and some states have four to five times the number of international offices as Kentucky. Kentucky has the fifth highest number of international investment per capita. There are 515 internationally owned facilities operating in the state. In the future, he may have to evaluate processes and cadence in dealing with international representatives, but he sees representation as beneficial to assist international clients when needed.

In response to a question from Representative Miller about hiring the Secretary of Economic and Workforce Development, Secretary Noel stated that the board sets the criteria and makes three recommendations to the Governor. Of the three recommendations, the Governor selects one of them. Deputy Secretary Smith added that the board is required by statute to hire a consulting firm to conduct a nationwide search. In Secretary Noel's hire, a nationwide search was conducted, which included the board. The board submitted its three recommendations, and the Governor made his selection. The Governor may decline the board recommendations and the board would have to conduct another search.

Representative Miller thanked the Cabinet for Economic Development representatives for their testimony, and the meeting was adjourned at 2:39 p.m.