

State struggles to 'claw back' grant funds

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OSAGE CITY — Osage City Mayor Quintin Robert says John Samples and his modular housing company Kan Build Inc. was about as safe an investment as a company could be in 2006.

Samples owned Kan Build when the city council and Kansas Department of Commerce approved funneling \$750,000 in federal money to the company through the Community Development Block Grant program. The business had nearly closed one year earlier, but Samples stepped in, leading a group of investors in buying the manufacturing facility.

Samples was a successful businessman who had bought and rehabilitated the company once before. Despite the turmoil, Robert, who was on the city council at the time, said betting on Samples seemed like a good play.

“I think the decision was based on, ‘Hey, this guy bought this plant when it closed, got multiple grants, was one of the only people to pay them back and had an award, an entrepreneur of year award,’ ” Robert said in a recent phone interview. “He got a lot of accolades, because it is a big deal in a small community. A couple hundred jobs are a big deal.”

Then the housing market crashed, and by February 2011 the plant closed and the 108 jobs it had when it got the grant money disappeared.

The city and state are still trying to recover the money, but it is a long legal slog that officials say may bear little fruit in the end.

It is a story that illustrates the difficulty of “clawing back” public incentives when the companies that receive them don’t live up to their end of the deal.

Some programs, such as Kansas’ high-dollar Promoting Employment Across Kansas incentive, hedge against losses by tying funds to companies’ payroll taxes. Other programs like the block grants give money up front, and retrieving those funds from companies that have gone belly-up can become like the proverbial attempt to squeeze blood from turnips.

Tad DeHaven, an analyst who has studied and written about the CDBG program for the libertarian-leaning Cato Institute, says the program is particularly vulnerable to waste because it entails federal dollars funneled through local governments that have little incentive to aggressively oversee them and pursue their recovery. The funds are provided to the state

governments, which grant them out to local governments, which in turn provide them to businesses in the form of low-interest loans.

“It’s hard to have the accountability when the locals aren’t paying for it,” DeHaven said in a phone interview. “Do a Google search and you’ll see other examples of this across the country and again I point to the lack of accountability, the lack of incentives. If it came from local property taxes, they’d pay a little more attention at the next city council meeting.”

DeHaven also said the program leaves open the possibility for local politicians to steer federal dollars to places that benefit them personally.

Grant approval

Minutes from the Jan. 10, 2006, Osage City City Council meeting suggest there was little groundswell either for or against approving Kan Build’s economic development application. If there was any, it lasted only three minutes.

“At 7:02 p.m. Mayor (J. Patrick) Lawless opened the public hearing to receive comments on the application,” the minutes state. “After receiving comments, at 7:05 p.m. Mayor Lawless closed the public hearing.”

It is possible that the three minutes of public comment came from Samples, whom the minutes say was present.

The minutes mark Robert and fellow council member Becky Brewer as “excused.” Robert said his absence was intentional.

Robert worked for Kan Build in various capacities in the early 1980s, early 1990s and from 1999 until it closed. As a council member and an employee of the company, Robert said he not only wanted to recuse himself from any discussions about Kan Build's grant, he also wanted to take extra steps to remove any appearance of impropriety.

“I left the building during all those discussions,” Robert said.

DeHaven said Robert’s connections still should have given citizens and officials pause.

“That was nice of him not to attend the meeting, etc., etc., but you don’t know what goes on behind the scenes,” DeHaven said.

DeHaven said he recalled studying a series of block grants in Massachusetts that “just happened to get spent in areas that benefited local politicians.”

The meeting minutes show that the grant was approved when council member Bill Curtis made the motion to authorize it, Steve Haller seconded it, and the motion carried.

Robert, who was forthcoming about his ties to Kan Build at the time of the grant and in a recent interview, said he didn't try to influence the council's decision and that Kan Build employed a good chunk of the town, in addition to himself.

"As far as Osage City went, at the time I would assume it was the largest (employer), except for maybe the school districts," Robert said. "Definitely in the top three."

Small-town tool

Attempting to save or create small-town employers like Kan Build has been a hallmark of the Kansas Department of Commerce's distribution of the CDBG money under current Secretary Pat George and his recent predecessors.

The department doesn't post block grant recipients online, but a list of 20 block grants opened between 2006 and 2012 obtained through an open records request showed that most went to rural places, such as Garnett, Baxter Springs, Colby or Chanute.

Of the 11 projects whose accounts were closed at the time of the open records request, most appear to have been successful.

Eight of the 11 produced more jobs than initially projected. George said such successes shouldn't be lost in the few deals that fall through, such as Kan Build, which was approved before his tenure.

"We're not going to be successful on 100 percent of the deals we entertain and we do provide incentives for," George said. "I wish we would be, but my job is to maximize for the state of Kansas, for the taxpayers, what we are able to do."

The department's data shows that for 20 CDBG projects opened between 2006 and 2012, the state approved \$10.27 million in grant money for a projected 427.5 jobs, or about \$24,000 per job.

Loan recipients like Reno County's Superior Boiler (56 jobs at close-out after projecting 15) and Rice County's Cal-Maine Foods (56 jobs at close-out after projecting 22) succeeded well beyond expectations. But Colby's Embark Healthcare closed out with zero jobs after projecting 22, and Garnett's Astro Truck Covers repaid its loan but left zero jobs after the company's facility burned down.

Kan Build, with its 108 employees, was an example of the commerce department swinging for the fences, attempting to save far more jobs than most CDBG projects.

It may not be a total strikeout. Commerce department attorney Bob North said the bank that financed the loan for Osage City to give to Kan Build recently found a buyer for the company's former building.

“The state, unfortunately, we’re in the second position on the list of lienholders, but everybody benefits from getting the building back on the tax rolls and getting a business located in the building,” North said.

The road ahead

Robert agreed, saying Osage City is thrilled to get a new occupant, Asset Lifecycle, into the building.

“I think the community is excited about seeing the building back in play,” Robert said. “Those big buildings, they take a lot of maintenance and a lot of vigilance to keep them good.”

Osage City also is involved in litigation against Samples for the \$735,000 it loaned Kan Build through the block grant program.

Samples, who has developed serious health problems of late, didn’t return messages for this article. In the past he has testified before the Legislature to pumping hundreds of thousands of tax dollars into the state's coffers through his ownership of adult businesses, including the south Topeka strip club Baby Dolls.

But an employee at Baby Dolls reached by phone said Samples is no longer affiliated with the club, and Robert said he believes Samples has fallen on hard times.

“My assumption would be he doesn’t have anything,” Robert said.

Robert said no one was more torn up emotionally by the company’s eventual failure than Samples, who left a cabinet full of business awards behind when it went belly-up.

“I think it was a heartbreaker for him,” Robert said.

Robert also said Samples had donated far more money than the loan was worth to such organizations as 4-H. His business success had allowed him to do so, and that success, plus his philanthropy, seemed to make him the right candidate for a block grant to try and rescue Kan Build one more time.

“It was a good deal,” Robert said. “It’s just when the economy went to hell, I don’t think anybody thought the housing thing was going to have such a sustained downward spiral.”

DeHaven said that is a cost of doing business when governments give corporate incentives, and there is little anyone can do to recoup it.

“Unfortunately,” DeHaven said, “unless there’s something illegal, you just chalk this up to ‘Oops, central planning didn’t work out.’ ”

