



**KU Center for Applied Economics Fund
Fund Administration Agreement**

Fund Name

This Fund Administration Agreement is provided to the Kansas University Endowment Association ("KU Endowment") to establish guidelines for the use and administration of the KU Center for Applied Economics Fund (the "Fund"), established by the Koch Foundation at KU Endowment.

Fund Purpose

The Koch Foundation intends for the Fund, and any additions thereto, to be administered by KU Endowment as an expendable fund type, in which both the principal and income from the Fund is available to expend for purposes set forth below. Expenditures must be approved by the School of Business Dean or his/her designee. The Center shall have a Director who will report to the Dean, and shall have authority to make commitments and expenditures consistent with a budget approved by the Dean.

The principal and income of the Fund shall be used to support the Center for Applied Economics at the University of Kansas School of Business. Expenditures may be used for, but are not limited to, general and operational support and promotion of the Center; conducting and distributing economic analysis and related research; facilitating economics education workshops; hosting of Center-sponsored events for economics educators; salary, benefits and expenses of personnel directly supporting the Center; expenses related to marketing Center activities; support for fund raising; and salary and other support for the Koch Professorship in Business Economics.

Fund Investment

Gifts to this Fund may, for investment purposes, be commingled with other investment assets of KU Endowment. The Fund is not a separate trust. The investment, management, and expenditure of all funds shall be in accordance with the Uniform Management of Institutional Funds Act (K.S.A. 58-3601 et seq) and KU Endowment policies and procedures.

Dated this 6th day of FEBRUARY, 2004

By Roger A. Ramseyer
Roger A. Ramseyer, Vice President & Managing Officer
Fred C. and Mary R. Koch Foundation

Approved this 9th day of February, 2004

By [Signature]
Bale Seufferling, President
The Kansas University Endowment Association



Center for Applied Economics

August 7, 2007

Mr. Ryan Stowers
Director, University Programs
Charles G. Koch Charitable Foundation
655 15th Street, NW, Suite 825
Washington, D.C. 20005

Dear Ryan:

The Center for Applied Economics of the University of Kansas School of Business respectfully submits to the Charles G. Koch Charitable Foundation the enclosed proposal: an economic research project to investigate the economic determinants of county-to-county population (and income) migration in the United States.

“Economic development,” to a great extent, has become a statist activity; government agencies use taxpayer funds to behave as active investors in “favored” businesses rather than caretakers of a cost-effective operating environment that promotes competitive entrepreneurial discovery on equal terms. Using a now-mature dataset, that researchers have yet to exploit, a team of Center-affiliated economists want to create hard evidence related to the true drivers of sub-state economic development—as measured by population (and income) migration. The research team’s goal is to create intellectual products that will enlighten public policy debates in a way that helps promote smaller government and a more robust free-enterprise policy platform.

To help underwrite the proposed project, the Center respectfully requests a grant of \$108,400 from the Charles G. Koch Charitable Foundation. This sum represents one-third of the total projected cost of the project. The Center hopes to acquire an equal underwriting commitment from two other foundations.

Thank you for your consideration. Naturally, I stand ready to respond to any questions that the Foundation’s Board members may wish to ask.

Sincerely,

A handwritten signature in dark ink, appearing to read 'A. Hall'.

Arthur P. Hall
Executive Director

Enclosures

**A Proposal to Statistically Analyze the Determinants of
U.S. County-to-County Population Migration, 1995-2005**

Dollar Amount Requested: \$108,400.

Description of the Project

“Economic Development” has become an industry much like investment advice is an industry. Economic-development professionals tend to be driven by fads and fancies much like many professionals working in the investment-advice industry.

The analogy ends there. Investment-advice professionals work in a competitive private-sector environment. They primarily deal with people who invest their own money and who can readily ascertain the quality of the advice. The economic-development industry is dominated by government agencies and quasi-government agencies. Economic-development professionals tend to “invest” taxpayer money on behalf of public sector managers. The opportunity costs of alternative “investment” strategies are difficult (or impossible) to measure. Incentives are inherently misaligned and it is difficult to ascertain the quality of advice in terms of authentic economic performance. As the saying goes, “politicians can’t hold a ribbon-cutting ceremony in front of a tax cut.”

The essence of the proposed project is to create compelling intellectual products that can be used to better assess the true drivers of county-level economic development—as measured by population migration—as opposed to the myths or half-truths often peddled by economic development consultants and embraced by public sector decision-makers.

To create intellectual products that help challenge or corroborate economic development advice offered to communities—and generally inform people about the process of sub-state economic development, the investigators intend to use a now-mature dataset maintained by the U.S. Internal Revenue Service that tracks county-to-county population (and income) migration on an annual basis. Population migration (and average income migration) will become the focal point for evaluating dozens of determinants related to (or proxies for): taxes, spending programs, infrastructure, industry mix, amenities, culture, and climate. As of this proposal, no other researchers have published research using the detailed IRS data proposed for this project. (The Center’s research team has acquired experience with the IRS dataset from an already-published project related to Kansas.)

The statistical analysis will require three major investments of time and talent: (1) the manipulation of the raw (and messy) IRS dataset into a useable format; (2) the construction of a uniform county-level database of determinants—approximately 35 variables for more than 3,100 counties; and (3) the design and execution of the econometric analysis. (Conducting statistical work of this kind is a lot like

remodeling an old house: you never know what unforeseen challenges may arise when you peel back the sheetrock.)

The project is a self-contained research project requiring rigorous statistical analysis using massive datasets. There are no meaningful intermediate stages short of a well-crafted end product (or set of products). However, the end product will inform follow-on projects—for example, more detailed analyses of particular regions or states in the context of the nationwide findings. Accordingly, the Center also views this project as a capability-building endeavor. The tools and knowledge built by this project will create cost-effective opportunities for future projects.

Our anticipated end product is a report (or sequence of reports) published by the Center for Applied Economics, which the Center will distributed to targeted policy audiences for use as a tool in economic policy debates. The investigators will also try to publish the work through traditional academic channels; however, this route requires a multi-year process.

Examples of research questions that the project can help address:

- Is it true that a community cannot compete economically without offering targeted economic incentives to businesses?
- Do communities need economic development agencies?
- Is it true that amenities such as large water bodies give localities a competitive economic development advantage? If so: Why are so many inland communities (like those in Western South Dakota and Eastern Colorado) growing quickly? Why are people migrating towards the interior regions of California? Why is the coastal region of Maine economically depressed?
- Is it true that taxes do not influence economic development, as past research suggests? If so, why does so much anecdotal evidence suggest taxes matter a lot? Perhaps the data and technology to adequately assess this policy question did not exist in the past.
- Is it true that communities must spend public money to build amenities in order to attract in-migrants? Perhaps past research has found this association because superior economic policies have led to healthy communities that in turn support amenities.

Goal, Strategy, Tactics

Measurable goal: Become the first research team to publish credible econometric results on the determinants of county-to-county population migration using the IRS dataset.

Strategy: Build the required databases, conduct the statistical analysis, and craft the necessary reports within 12 calendar months from the time when the Center has acquired the underwriting necessary to dedicate time and talent to the project.

Tactics: Execution of the research project requires a sequential process. However, to the extent possible, the research team will conduct the necessary tactical steps on a parallel time track. The tactics are: (1) develop databases, (2) design and execute econometric analysis, and (3) communicate the results to policy audiences.

Project Timeline and Applicable Budget Dollars by Quarter

		Year 1	Budget
Tactic 1	Create County-Level Datasets	Q1	\$62,000
		Q2	\$62,000
		Q3	
		Q4	
			Total

		Year 1	Budget
Tactic 2	Design and Execute Econometric Analysis	Q1	
		Q2	\$19,425
		Q3	\$77,715
		Q4	\$38,860
		Total	\$136,000

		Year 1	Budget
Tactic 3	Written Communication	Q1	
		Q2	
		Q3	
		Q4	\$24,000
		Total	\$24,000

Accountability Process and Measures

This project involves basic research. The test of effectiveness involves the use of the findings by others to inform public debate and improve public sector decision-making. The best measurement proxy for this test of effectiveness involves citation by other researchers and discussion by news media—particularly print and Web media. The tracking of such citation and discussion carries a minor cost.

To help disseminate the research findings—and thereby motivate citation and discussion—the research team has contemplated a budget for public speaking engagements. The projected budget for travel and time is: \$27,500. This sum

assumes five trips per team member (\$500 per person per trip) and compensation for 12 hours per trip.

Proposed Project Budget

The table below reports the Center's budget projections. The listed amounts for the Koch Foundation presume that the Center succeeds in finding two other funding sources to equally share the total project cost. Accordingly, the Center, at this time, is requesting a one-third commitment from the Koch Foundation. (Please see the addendum for an alternative budget presentation.)

Expenditure Category	Total Project Expenses			
	Total Amount of Project Dollar Expenditures			
	Dollars Paid Out to 3rd Parties	Dollars Consumed by Grantee	Total Project Dollars	Koch Contribution to Project
1. Personnel		\$303,500	\$303,500	\$101,166
2. Print Materials Production	\$2,175		2,175	725
3. Mailings	\$193		193	64
4. Internet/Web			0	0
5. Advertising			0	0
6. Legal Fees			0	0
7. Consulting Professional Fees			0	0
8. G&A Overhead			0	0
9. Other Misc. Fees*	\$19,335		19,335	6,445
Total	\$21,703	\$303,500	\$325,203	\$108,400
* \$11,835 for a high-powered desktop computer and statistical software; \$7,500 for travel.				

Other Funding Sources

The Center has submitted an identical proposal to the John William Pope Foundation and The Cortopassi Institute. The Center's goal is to secure equal funding from each grant request.

About the Center for Applied Economics

The University of Kansas School of Business established the Center for Applied Economics in February of 2004. The Center is a self-funding economic research organization staffed by an executive director. The Center aspires to become the most expert organization with regard to the Kansas economy and the Kansas “business climate.” It also aspires to excel nationally in the economics of growth and change at the state and local levels of the United States. These two areas of focus mutually reinforce each other.

The mission of the Center is to help advance the economic development of the Kansas region by offering economic analysis and economic education relevant for policy makers, opinion leaders, and other interested citizens. During its brief history, the Center has distinguished itself in this mission, earning the respect of—and becoming a sought-after resource for—leaders in the business community, policy community, and news media community.

Board of Directors

- Martin Eby, Wichita, KS, Eby Construction (former CEO, ret.)
- Bill Hanna (Chairman), Wichita, KS, Koch Industries (former President, ret.)
- Cliff Illig, Kansas City, MO, Cerner Corporation (Co-Founder & Vice Chair)
- Bill Patterson, Overland Park, KS, Stonecreek Management, LLC (President)

Tax Exempt Status and Organizational Structure

The Center operates as a self-financing unit of the KU School of Business. The Kansas University Endowment Association manages—and audits the use of—gifts given to the Center. All expenditures from such gifts must receive the approval of the dean of the School of Business.

Addendum: Alternative Budget Presentation
(Schedule of Activities, Projected Investigator Hours, and Total Costs)

Project Activity	Hours			Total Cost*
	Hall	Moody	Warcholik	
Compile a comprehensive and consistent dataset of county level economic/demographic/geographic variables: approximately 35 variables covering a 10 year time-frame.	0	960	80	\$104,000
Build a computer algorithm to sort raw IRS data into a usable form; a complex mapping of county-to-county migration (people and income from all 3,133 U.S. counties).	160	0	0	\$20,000
Specify econometric models and conduct econometric analysis: perform dozens of analytical experiments, evaluate and troubleshoot results, perform required statistical tests.	160	40	1120	\$136,000
Prepare reports and scholarly articles to communicate findings.	160	0	40	\$24,000
Travel Stipend to present results to key audiences (assumes 5 trips per team member at \$500 per trip).	0	0	0	\$7,500
Travel time (assumes 12 hours per trip)	60	60	60	\$19,500
Report typesetting, printing, and distribution (125 copies)	0	0	0	\$2,368
High-Performance Desktop Computer (Dell quote)	0	0	0	\$7,685
STATA--Statistical Software (64-bit, 4-CPU version)	0	0	0	\$4,150
TOTALS	540	1,060	1,300	\$325,203
* Hourly Rates Used for Cost Calculations	\$125	\$100	\$100	

Addendum 2: **Abbreviated Resumes of the Research Team**

Arthur P. Hall, Ph.D.—Principle Investigator

- Founding Executive Director, Center for Applied Economics, School of Business, University of Kansas, Lawrence, KS (2004-Present).
- Chief Economist, Public Affairs Group, Koch Industries, Inc., Wichita, KS (1997-2004)
- Executive Director, Budget Efficiency Savings Teams—a special project within the administration of Kansas Governor Kathleen Sebelius, Topeka, KS (2003-2004).
- Senior Economist, Tax Foundation, Washington, D.C. (1991-1997)
- Economic Advisor to the National Commission on Economic Growth and Tax Reform—the “Kemp Commission.” (1995)
- Financial Economist, U.S. General Accounting Office, Washington, D.C. (1990-1991)

J. Scott Moody, MA

- Founding President, Economic Analysts, Inc., Gardiner, ME (2006-Present)
- Vice President of Policy & Chief Economist, Maine Heritage Policy Center (2006-Present).
- Adjunct Professor of Economics, MBA program, Lansbridge University, New Brunswick, Canada, (2005-Present)
- Editorial Board Member, *Journal for Applied Research in Economic Development* (2006-Present).
- Senior Economist for Data Analysis, Heritage Foundation, Washington D.C. (2005-2006)
- Senior Economist, Tax Foundation, Washington, D.C. (1998-2005)

Wendy P. Warcholik, Ph.D.

- Vice President & Chief Economist, Economic Analysts, Inc., Gardiner, ME (2006-Present)
- Adjunct Scholar, Tax Foundation, Washington, D.C. (2002-2005)
- Adjunct Professor of Economics, MBA program, University of Canada—Fredericton, New Brunswick, Canada, (2005-Present)
- Chief Forecasting Economist, Commonwealth of Virginia, Department of Medical Assistance Services, Richmond, VA (2000-2002)
- Economist, U.S. Department of Commerce, Bureau of Economic Analysis, Washington, D.C. (1994-1997)

Hall, Art

From: Hall, Art
Sent: Thursday, August 28, 2008 10:50 AM
To: 'Addington, Susan'
Subject: FW: KU Center for Applied Economics - FMK Grant Update Request

Hi Susan,

With reference to the note below, I discovered that I double-counted one of the forthcoming TCI payments. To correct that error, let me revise the next FMK payment to \$37,250. I will invite TCI to reduce its expected December payment from \$27,000 to \$10,000. The additional \$10,000 increments will correct the errors in my initial calculation, but leave me with an expected shortfall at project end of about \$15,600 (instead of \$8,500, which is fine, and reduces the chances even further of developing a refund scenario.

Please let me know if this is unclear. Thanks again,

Art

From: Hall, Art
Sent: Wednesday, August 27, 2008 12:11 PM
To: 'Addington, Susan'
Subject: RE: KU Center for Applied Economics - FMK Grant Update Request

Susan,

Per our conversation this morning, the migration project is running under budget. The project has a current balance of \$55,505. Based on work plan budgets for the remaining months, I project new expenditures of about \$118,300, which leaves a projected balance of about (\$63,000).

My suggestion: If FMK grants an additional \$27,250 in September and TCI grants their planned October pledge of \$27,000, then each will have contributed \$108,500. That will leave a projected balance at project end of about (\$8,500). I will wait until project end to take my Q4+Q5 draw of a projected \$27,500 in order to provide a working cash balance. I will invite TCI to hold off on their two future pledges of \$27,000 until project end. When we know with certainty what the end balance is, I can communicate that to FMK and TCI for a 50% payment each. Does that sound workable?

Art

From: Addington, Susan [mailto:Addingt5@kochind.com]
Sent: Saturday, August 23, 2008 5:07 PM
To: Hall, Art
Subject: KU Center for Applied Economics - FMK Grant Update Request

Hi Art

You provided a copy of the Cortopassi June report on the status of your project and am wondering if you could update through August 15th, and provide an opportunity to see preliminary data that has been collected in a spreadsheet or database? We will be updating Rich and others on FMK grants so this would be helpful. Hopefully, the analysis stage of the project is progressing well. We'll look forward to reviewing this additional information.

Thanks

November 23, 2009

Mrs. Susan Addington
Community Relations Manager
Fred C. and Mary R. Koch Foundation
P.O. Box 2256
Wichita, KS 67201

Dear Susan:

I am writing to respectfully request a grant from the Fred and Mary Koch Foundation to help underwrite the continuation of the Kansas Economic Reform Initiative. Last year's grant of \$250,000, which inaugurated the initiative, helped establish a pipeline of reform-oriented research projects and allowed Center personnel to actively engage in a variety of "economist-at-large" initiatives that helped prepare an intellectual foundation for policy change.

The requested grant amount for 2010 is \$100,000. If acceptable to the Foundation, the Center will direct this sum toward payroll to continue the Center's economist-at-large activities, manage the current pipeline of research projects, and to develop new research projects. Last year's fund of \$150,000 directed toward research remains ample. The Center has focused on targeted, high-quality research projects that hold the promise of major structural reform across different policy areas, and has adopted a policy of paying scholars only upon delivery of work product ready for final publication.

I am grateful to you and the members of the Foundation's Board of Directors for consideration of this request. It is always a pleasure to work with you. I look forward to keeping you apprised of our progress on the project.

Sincerely,

Arthur P. Hall
Executive Director

October 27, 2010

Mrs. Susan Addington
Community Relations Manager
Fred C. and Mary R. Koch Foundation
P.O. Box 2256
Wichita, KS 67201

Dear Susan:

I am writing to respectfully request a grant from the Fred and Mary Koch Foundation to help underwrite the continuation of the Kansas Economic Reform Initiative. The 2008 grant of \$250,000, which inaugurated the initiative, helped establish a still-ongoing pipeline of reform-oriented research projects and has allowed Center personnel to actively engage in a variety of "economist-at-large" initiatives that have contributed to an intellectual foundation for policy change.

The 2009 grant of \$100,000, dedicated to payroll, allowed the Center to continue the work made possible by the 2008 grant—as well as inaugurate a Capitalism course in the KU School of Business for honor students university-wide.

The requested grant amount for 2010 is \$100,000. If acceptable to the Foundation, the Center will direct this sum toward payroll to continue the Center's economist-at-large activities, manage the current pipeline of projects, and develop new research projects. Approximately \$43,000 of uncommitted funds remains from the 2008 grant. Based on current projections, and assuming some flexibility to allocate those funds, that sum should be sufficient to initiate several worthy projects.

I am grateful to you and the members of the Foundation's Board of Directors for consideration of this request. It is always a pleasure to work with you. I look forward to keeping you apprised of our progress on the project(s).

Sincerely,

Arthur P. Hall
Executive Director

Enclosures

From: Hands, Laura
To: Hall, Art
Subject: RE: Center for Applied Economics
Date: Wednesday, December 11, 2013 3:03:43 PM

Art --

Yes, FMK would like to authorize an additional \$40k for 2014 payroll. We had a meeting with Kacy Schmidt from the KU Endowment today and discussed rolling the balance into the agreement that is currently being finalized. Please contact me with any questions.

Thanks,

Laura

From: Hall, Art [mailto:arthall@ku.edu]
Sent: Monday, November 25, 2013 2:37 PM
To: Hands, Laura
Subject: Center for Applied Economics

Laura,

The FMK grant is labeled at KU Endowment as the Kansas Economic Reform Initiative fund.

For Calendar year 2013, FMK (via Susan) authorized \$40,000 for Center payroll. The amount spent to date for payroll is \$35,865.40.

A substantial portion of that sum financed (1) background research on Renewable Portfolio Standard and (2) work on a survey project related to the local "business environment" in Lawrence. The survey instrument (and related public outreach process) is almost built and I intend to have people take the survey in Q1 2014. I plan to spend about \$7,000-\$10,000 to pay for a vendor to develop a website to handle the survey. No work has taken place on that yet (and no money spent).

I suppose this might be an appropriate time to ask if the fund can be used in 2014 to support another \$40,000 of payroll—primary the summer portion of the Center's payroll? (I'm not sure how this fund is intended to interact with the grant under consideration.)

As of today, the balance in the fund is \$74,146.53. After all authorized payroll is spent and assuming \$10,000 for the survey vendor, the balance will be \$60,010.93.

Please let me know if I can provide additional information.

Art

From: [Hall, Art](#)
To: [Hands, Laura](#)
Subject: RE: Center for Applied Economics
Date: Wednesday, December 11, 2013 3:13:00 PM

Great. Thanks!

From: Hands, Laura [mailto:Laura.Hands@kochps.com]
Sent: Wednesday, December 11, 2013 3:04 PM
To: Hall, Art
Subject: RE: Center for Applied Economics

Art --

Yes, FMK would like to authorize an additional \$40k for 2014 payroll. We had a meeting with Kacy Schmidt from the KU Endowment today and discussed rolling the balance into the agreement that is currently being finalized. Please contact me with any questions.

Thanks,

Laura

From: Hall, Art [mailto:arthall@ku.edu]
Sent: Monday, November 25, 2013 2:37 PM
To: Hands, Laura
Subject: Center for Applied Economics

Laura,

The FMK grant is labeled at KU Endowment as the Kansas Economic Reform Initiative fund.

For Calendar year 2013, FMK (via Susan) authorized \$40,000 for Center payroll. The amount spent to date for payroll is \$35,865.40.

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