

DRAFT

MINUTES

**Special Commission on a Public Agenda for Kansas
October 3, 1985
9:00 a.m.**

Present: Arasmith, Barkis, Bennett, Borgen, Dykes,
Edmiston, Finley, Frey, Hayden, Johnston,
Lee, McGlothlin, Moore, and Shumway.

Absent: Warner

Bennett moved approval of the minutes for the August 22 meeting. Motion passed unanimously.

Chairman Hayden requested that Flentje report on his memorandum, "Preliminary Synthesis of Issues." Flentje reviewed the memorandum, and discussion ensued on issues before the Commission.

Bennett moved deletion of "Other Issues" (item XIV in Flentje memorandum) from Commission consideration. Motion passed unanimously.

Barkis moved deletion of "State Response to Changing Federalism" (item V in Flentje memorandum). Bennett, Lee, and Dykes urged that the impact of federal actions be a consideration in all issues ultimately identified for further study by the Commission. Motion passed unanimously.

Barkis moved that "Farm Credit" (item VIII in Flentje memorandum) be deleted as a separate item. Motion passed unanimously.

Barkis moved that "Governmental Reform" (item XI in Flentje memorandum) be deleted. Moore voiced disagreement. Bennett and Shumway urged that governmental reform be considered under other issues, for example, State and Local Finance. Motion passed.

Barkis moved that "Highway Program and Finance" (item VI in Flentje memorandum) be folded under Capital Finance and Infrastructure. Motion passed unanimously.

Barkis moved that "Health Care" and "Emphasis on Prevention" (items XII and XIII in Flentje memorandum) be merged into one issue area and be entitled "Mental and Physical Well Being." Motion passed unanimously.

Bennett moved that Agriculture and Agriculturally Related Problems be one issue for further study by the Commission and include the "Future of Rural Communities", "Farm Credit" as appropriate, and relevant issues from "Conservation and Management of Natural Resources" (items IV, VIII, and IX in Flentje memorandum). Motion passed.

Johnston moved that "Development of International Markets" (item VII in Flentje memorandum) be folded into the Kansas Economy. Motion passed unanimously.

Hayden noted that actions to delete and consolidate issues left six major issue areas before the Commission:

- 1) The Kansas Economy
- 2) State and Local Finance
- 3) Capital Finance and Infrastructure
- 4) Agriculture and Agriculturally Related Problems
- 5) Education
- 6) Mental and Physical Well Being

Hayden urged a subcommittee structure be used to refine further what the problems are in each issue area, to identify policy choices available to Kansas in responding to each issue area, and to set framework for further study of the issue area by researchers. Discussion of possible subcommittee structures ensued.

Dykes moved: 1) that three subcommittees be formed 2) that each subcommittee be assigned responsibility to: a) formulate a definition of the problem(s) for further study in each issue area assigned; b) identify policy choices which should be given further study; c) identify a researcher who could conduct further study of the issue area for the Commission and d) report back to the full Commission at the December meeting; and 3) that the following committee jurisdiction and assignments be approved:

Subcommittee #1

Jurisdiction: State and Local Finance
Capital Finance and Infrastructure

Chair: Bennett

Membership: Arasmith
Borgen
Frey
Warner

Subcommittee #2

Jurisdiction: The Kansas Economy
Agriculture and Agriculturally Related
Problems

Chair: Johnston

Membership: Barkis
Braden
Finley
Lee
Moore

Subcommittee #3

Jurisdiction: Education
Mental and Physical Well Being

Chair: Hayden

Membership: Dykes
Edminston
McGlothlin
Shumway

Motion passed unanimously.

Barkis moved that subcommittees be authorized to meet during October and November. Motion passed unanimously.

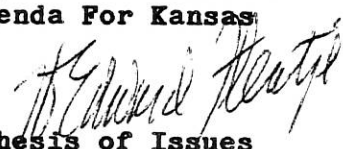
Hayden noted that December 5 and 6 had been set aside for a December meeting, and he would notify members of a specific date and place later.

Dykes moved adjournment. Motion passed. Meeting adjourned at 12:15 p.m.

September 27, 1985

**TO: Members of the Special Commission
on a Public Agenda For Kansas**

FROM: H. Edward Flentje



SUBJECT: Preliminary Synthesis of Issues

This memo provides in outline form a preliminary synthesis of issues before the Commission. This synthesis draws upon advice from at least three primary sources: 1) the responses solicited from citizens, agency heads, and interest groups; 2) my conversations with members of this Commission as to what issues are important; and 3) an assessment and discussion of issues which included Professors Tony Redwood of KU, Jarvin Emerson and Mark Lapping of KSU, and Glenn Fisher and Nancy Snyder of WSU. Not every issue suggested from these sources is included, however. In this regard, the synthesis reflects my own limited perspectives and biases.

I. The Kansas Economy

A. Problems

1. Loss of Manufacturing Employment
2. Current Weakness in Key Economic Sectors:
 - agriculture
 - energy
 - general aviation
3. Loss of Younger, Better Educated, More Skilled Workers
4. Lack of Direction at the State Level
 - coordination between public and private sectors
 - communication between state and local government
 - no economic plan for Kansas

B. Policy Choices

1. Develop an Economic Plan for Kansas
2. Expand Tax Incentives
3. Target Investment of State Funds
 - venture capital

4. Expand Public Investment in State Infrastructure

- new highways
- park and recreation facilities
- water supply and distribution
- other state facilities

5. Revitalize State Economic Development Program

- active private sector involvement
- industrial recruitment
- entrepreneurship
- small business assistance

6. Utilize Universities/Community Colleges/Vocational Schools in Economic Development

- expand research and development funding in areas of economic strength (eg., agriculture, aviation)

II. State and Local Finance

A. Problems

1. Adequacy of Existing Revenue Base for State Functions

- state tax capacity and effort
- erosion of tax base
- revenue impact of economic development incentives
- impact of other federal actions (eg., proposed elimination of state and local tax deductions, new federal mandates, etc.)
- elimination/reduction/no growth in available federal funds

2. Adequacy of Existing Revenue Base for Local Functions

- local tax capacity and effort
- erosion of tax base
- impact of proposed elimination of merchants and manufacturers inventory
- impact of federal actions (eg. proposed elimination of state and local tax deductions and revenue sharing for local units)

3. Adequacy of School Finance

- lack of longer term approach
- local tax capacity and effort
- equity of state allocation
- undue reliance on the property tax
- attracting and retaining high quality personnel

4. Fairness of Existing Revenue Structure

- balance among sources of revenue
- property tax unduly heavy on business

B. Policy Choices

1. Increase or (Decrease) Existing Revenue Sources

- property tax
- income taxes
- sales taxes

2. Authorize New Revenue Sources

- state lottery
- pari-mutuel betting

3. Adopt Ad Hoc School Finance Proposal

III. Capital Finance and Infrastructure

A. Problems

1. Adequacy of Current Mechanisms for Capital Finance

- education building fund
- state institutions building fund
- revenue bonding authority in certain agencies (eg., parks)

2. Constitutional Limitations on Capital Finance

- limitations on general obligation debt
- limitations on purpose of capital improvements
(ie., internal improvements prohibition)

3. Growth in Local Government Debt

- increased 297% (FY 1977-82)

4. Capital Finance Needs for State Purposes

- expansion of state highway system
- purchase of water supply in federal resevoirs
- construction of recreational facilities
- purchase of water rights to provide instream flow
- purchase of recreational easements to provide
public access to rivers
- purchase of public land and renovation of
facilities for fish and wildlife
- state facilities (universities, state institutions, etc.)
- construction of water impoundments for soil
and water conservation

5. Lack of Capital Budget or Capital Inventory
6. State Assessments on Local Users for Capital Finance
 - water quality projects
 - proposed water supply acquisition
7. Infrastructure Needs of Local Government
 - water supply
 - water quality
 - streets and highways
 - parks

B. Policy Choices

1. Revise Constitutional Limits on Capital Finance by State
2. Create Capital Development Authority
3. Institute Capital Budget Process
4. Create State Bond Bank

IV. Future of Rural Communities

A. Problems

1. Demographic Trends Affecting Rural Communities
 - overall population decline
 - older population on the increase
 - younger population on the decrease
2. Economic Trends Affecting Rural Communities
 - increasingly capital intensive agricultural economy
 - decreasing farm employment
 - growing regional rather than local marketing and distribution for agriculture
 - bank closures
 - accelerating turnover of agricultural land
3. Increasing Unit Costs to Provide Basic Services
 - hospitals
 - public utilities (water supply, electricity, sewers, telephone, etc.)
 - public services (police, fire protection, schools, etc.)
 - school closings

4. Federal Deregulation

- rail service
- air carrier service
- trucking
- bus service
- postal service

B. Policy Choices

1. Choose Economic Development Options
2. Cope with Adverse Trends
3. Foster Regional Centers
4. Adopt New Technologies

V. State Response to Changing Federalism

A. Problem

1. Historic Dominance of State Functions through Federal Assistance
2. Withdrawal of Federal Assistance for Capital Improvements
 - elimination of federal revenue sharing
 - moratorium on new federal water resource development
 - phasing out of federal assistance to recreation development
 - declining federal assistance for water quality improvements
 - reduced federal assistance for soil conservation
3. New Federal Mandates on State and Local Government
 - application of Fair Labor Standards Act to state and local government
 - requirements for specified treatment programs at retardation institutions
4. Federal Deregulation
 - transportation
5. Delegation of Federal Authority
 - environmental protection

B. Policy Choices

1. Take Proactive Strategy for State Assumption of Responsibility
2. Respond to Federal Devolution on a Case-by-Case Basis

VI. Highway Program and Finance

A. Problems

1. Highway Expenditures Declining Relative to Personal Income
 - state and local expenditures on highways as a percent of personal income declined 42.8% from 1962 to 1982.
2. Condition of State Highway System (1985)
 - 68% in "good" condition
 - 25% in "deteriorating" condition
 - 7% in "deteriorated" condition
3. Safety, Service, and Capacity Constraints on State Highway Systems
 - 4,800 miles with inadequate surface or shoulder width
 - 812 road sections with serious hill or curve problems
 - 44 miles require additional lanes to relieve congestion
 - 1,273 bridges are structurally deficient or functionally obsolete
4. Funds Required to Complete Interstate and Freeway Systems:
\$700 Million
5. Available Highway Revenues Projected to Be Stable or Grow Slightly
 - federal assistance not projected to increase beyond peak of FY 1986
 - vehicle registration fees not projected to grow through 1993
 - fuel tax receipts are projected to increase slightly though FY 1988 and then level off
 - sales tax receipts dedicated to highways projected to increase with the rate of inflation
6. Highway Funding Needs Far Exceed Available Revenues
 - highway preservation and modernization projects require all available revenues
 - \$700 million backlog in system expansion projects
 - buying power of available revenues is declining

B. Policy Choices

VII. Development of International Markets

A. Problem

1. Economic Dependence on International Trade
 - agricultural products
 - general aviation manufacturing
 - commercial aviation manufacturing
2. Increased Competition for Foreign Markets
3. Unclear Assignment of State Responsibility
 - promotion of Kansas products
 - technical expertise
 - educational programs

B. Policy Choices

1. Develop International Trade Policy

VIII. Farm Credit

A. Problem

1. Declining Value of Agricultural Land
2. Stagnant Farm Income
3. Health of Rural Financial Institutions
4. Farm Foreclosures
5. Farm Liquidation
6. Foreign Subsidization of Agriculture

B. Policy Choices

IX. Conservation and Management of Natural Resources

A. Problems

1. Severe Soil Erosion
 - lowering productivity of land
 - causing water pollution
2. Depletion of Groundwater
 - water supply will become a limit on growth in central and western Kansas

3. Declining Wildlife and Wildlife Habitat
4. Storage and Transport of Hazardous Wastes
5. Limited Public Access to Natural Resources
 - streams and rivers
 - wildlife (lack of public lands)

B. Policy Choices

1. More Active Soil Conservation Program

X. Educational Systems

A. Problems

1. Attracting and Retaining High Quality Teachers and Faculty
2. Too Many State Universities
3. Lack of Coordination Among Systems (eg., universities, community colleges, vocational schools, etc.)
 - educational institutions seeking to provide comprehensive educational offerings
4. Voids in Available Educational Services Across Kansas
 - community colleges
 - vocational education
 - services for preschool handicapped children
5. Inefficient Schools Resulting from Small School Districts or Attendance Centers

B. Policy Choices

1. Give School Boards Authority to Close Attendance Centers
2. Increase Functional Specialization Among Educational Institutions

XI. Governmental Reform

A. Problems

1. Lack of Citizen Voice in State Government
2. Fragmentation/inefficiencies in State and Local Government

3. Ineffective Planning in State Government

B. Policy Choices

1. Create Means for Improved Foresight in State Government

- executive foresight
- legislative foresight

2. Complete Executive Reorganization

- consolidate natural resources agencies

3. Authorize Initiative (lawmaking by citizen petition and referendum)

4. Create Effective Means for Local Governmental Consolidation and Cooperation

- counties
- law enforcement
- jails
- local prosecutors

5. Create Office of Ombudsman

6. Create Office of Public Utility Counsel

XII. Health Care

A. Problems

1. AIDS

2. Excess Capacity

- hospital beds
- adult care home beds

3. Impact of "For-Profit" Health Care

- regional medical center
- nursing homes
- health maintenance organizations

4. Hospital Closings in Rural Areas

B. Policy Choices

XIII. Emphasis on Prevention

A. Problems

1. Increase in Social Health Problems
 - alcohol/drug abuse
 - child/spouse abuse
 - mental illness
 - adolescent pregnancy
 - juvenile delinquency
2. Sickness Rather Than Wellness Approach to Health Care
 - health problems resulting from life-style
 - inadequate funding of health promotion and prevention
 - increasing health care costs
3. Inadequate Prenatal Care

B. Policy Choices

1. Expand Health Promotion and Prevention

XIV. Other Issues

1. Abortion
2. Gifted education
3. Alternative energy sources
4. Discrimination against mentally ill
5. Funding for treatment of mentally ill and retarded
6. Alcoholism
7. Corrections policy and penal institutions
8. Children in poverty
9. Open Meetings Law
10. Tort Liability (eg., medical malpractice insurance)
11. Energy Costs
12. Agricultural Policy
13. Employment and Job Training Programs
14. Community College Restrictions
15. Amenities and Cultural Development

City & State

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N.C.'s deputy treasurer, John Foust, is a debt diplomat — page 16

Saturn spotlights states' folly

By VICKI QUADE

The political circus leading up to General Motors Corp.'s decision to build its \$3.5 billion Saturn plant in Spring Hill, Tenn., might spotlight the folly of states, counties and cities trying to lure industry through tax giveaways.

General Motors' search for a location for its plant attracted a parade of governors offering all kinds of incentives. However, the financial sweeteners that made national headlines probably didn't have a lot to do with GM's decision.

Tennessee had offered few incentives to General Motors, but did provide all the information the automaker needed to make its decision, said John Parish, press secre-

tary to Gov. Lamar Alexander. Also, the state probably will improve the roads leading to Spring Hill. "That's not a highway for General Motors but for the Tennessee people who (will) work there," Mr. Parish said.

Tennessee officials "acted much differently from many other states that offered all kinds of incentives to attract the Saturn plant," said Larry Ledebur, a senior partner in the consulting firm Aslan Associates, Washington, D.C., which specializes in the use of tax incentives.

"This whole Saturn thing is a sad spectacle. It's a shame when large corporations put this sort of pressure on a city or state to come up with an offer. That's basically the wrong way to compete," Mr.

Ledebur said.

He believes too many cities have the false impression tax abatements and other incentives are important. "There's a fundamental difference between what is believed and what is real," he said.

Officials instead should minimize tax abatements, low-interest loans, and offers of free land and buildings, consultants say.

"Financial incentives, particularly tax incentives, are not going to be primary factors driving location decisions," Mr. Ledebur said.

A key consideration for General Motors — and for many other companies — is access and transportation to markets where the product will be sold. Other considerations for the automaker included the amenities of the area where prospective executives would locate, the availability of land and the quality of labor.

However, it might take some time to convince city and state officials that incentives don't matter.

"It's a sad sight to see state and local governments scrambling around to compete for business instead of making an offer based on what the company needs," Mr. Ledebur said.

Two companies that opened large facilities in New Orleans were not lured there by sweet deals, accord-

ing to city officials. The firms will benefit, however, from tax breaks provided by the city.

Sears, Roebuck and Co., after a two-year search, selected a site in New Orleans for its new \$25 million distribution facility. The facility, which is expected to open in the fall of 1986, will bring 200 new jobs to the area.

Location had more to do with the choice than did anything else, said Robert Marak, deputy director of the New Orleans Office of Economic Development.

The first phase, a 650,000-square-foot building, will be built on a peninsula at the junction of the Gulf Intercoastal Waterway with the Mississippi River Gulf outlet. The area, known as the Newport Project, has been designated an enterprise zone.

Sears will receive a \$2,500 exemption from state and corporate franchise taxes for each new job created — worth about \$500,000. And the world's largest retail company will get a 75% exemption from the city sales tax when it purchases materials and equipment needed to build the facility. That's worth another \$500,000.

Mr. Marak said Sears, which already has a plant in New Orleans, would have built in the city without the attraction of the enterprise zone. "The city has a lot to offer. The site is right on the waterway, there's a good labor market here."

The New Orleans Chamber of Commerce routinely sends letters to companies throughout the coun-

try extolling the city's virtues. One of those letters — free of any offers of incentives — reached San Fernando Electronics at the same time the company was preparing to leave its California location.

Renamed SFE Technologies, the high-technology company produces parts for electronic equipment, and opened its doors in New Orleans about eight months ago. The \$10 million plant was financed with low-interest loans, and industrial development bonds provided by the city. Because it moved to the city's enterprise zone, the firm will receive the same tax breaks offered Sears.

Chrysler Corp.'s decision — and its subsequent reversal of the decision — to build its P-car subcompact in Belvidere, Ill., is a case in point of the inability of local incentives to be an important factor in determining a company's location.

Last year, Aslan Associates' Mr. Ledebur produced a fiscal impact study for officials in Belvidere, who feared that Chrysler Corp. would eliminate about 4,200 jobs if it phased out the Omni/Horizon subcompact car, which had been made in Belvidere.

He told the city officials not to make concessions unless they were fiscally prudent and absolutely necessary. To keep the plant, state and local officials instead drafted an enterprise zone proposal, an aid package worth more than \$15 million.

President Reagan's decision not to press for import quotas on Japanese cars "simply overwhelmed the issue."



GM's Saturn: The financial sweeteners that made national headlines probably didn't have a lot to do with GM's decision.

States Taking Initiative on Key Domestic Issues

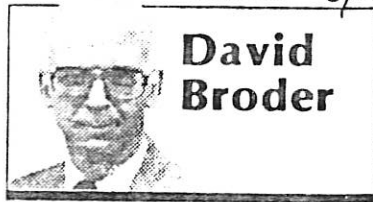
WEB 8/12/85

SEATTLE — The full extent of the Reagan revolution in domestic policy is more visible here, across the continent, than it is in Washington, D.C.

The meeting here of the National Conference of State Legislatures and the gathering a few days earlier of the nation's governors in Boise demonstrated unmistakably that the initiative on education, social and most economic and environmental issues now rests in the state capitols rather than in the U.S. Capitol and White House.

That shift is what Reagan set out to accomplish four years ago, and the extent of his success is measured by the degree of normalcy governors and legislators of both parties now see in a situation that truly is revolutionary.

FOUR YEARS AGO, when the first round of Reagan tax and budget cuts had just been passed,



David Broder

there was a rush of recrimination among the Democrats at the summer meetings of governors and legislators — and a good deal of apprehension among their Republican colleagues.

Today, both the protests and the fears are muted. Despite the eruption of a brief but sharp partisan fight in Boise over the fundraising letter Reagan signed for the Republican Governors Association, there is a growing convergence of views among leaders of the two parties at the state level.

What Reagan has done by curtailing the federal government's policy innovation and financial

participation in most domestic-policy areas is to make activists of legislators and governors of both parties. At meetings of those groups, you simply don't find the old-fashioned conservatives whose sole answer to any government policy question was: Don't do it.

FOR EVERY INCH Reagan has moved Washington out of domestic policy responsibility, he has created irresistible pressure for the states to move in. No one illustrates the phenomenon better than Tennessee Gov. Lamar Alexander (R), the new chairman of the governors' association.

When Reagan made it evident in 1983 that exhortation would be his only response to the newly rediscovered "crisis" in education, Alexander made Tennessee a leader in the wave of state-level innovations in school policy.

He not only talked reform, he

and the Tennessee Legislature enacted it — and paid for it. "We've doubled the gas tax since I became governor," Alexander said the other day. "We passed the biggest tax hike in our history to improve the schools. I'm proud of it, and so are the people of Tennessee."

That same sense of governmental activism pervaded the meeting here of state legislators. Panels on hazardous waste sites, care of the homeless and the high cost of health care were thronged by legislators who serve on committees that must meet those challenges, with decreasing help from Washington.

They spent some time grumbling about federal policies, but most of their effort went into exchanging experiences and ideas. Even in broad economic policies, the state leaders recognize they are now operating increasingly on their own. The governors fo-

cused on strategies for expanding state initiatives in foreign trade; the legislators, on economic-development planning.

Paul B. Phelps, an official of the Federal Office of Technology Assistance, a congressional agency, put the situation bluntly at one panel. Speaking of economic development, he said: "All of the innovations so far have been in the states. You have more to learn from each other than you do from anybody in Washington, D.C. In the absence of a national strategy for economic competitiveness, state economic-development plans will become increasingly important."

Few of the governors or legislators — not even the Democrats — expect to see Washington reclaiming its pre-Reagan leadership role in domestic policy. The prospect of unending triple-digit structural deficits in the federal budget forecloses any burst of in-

novative policymaking from Washington, even if a liberal Democrat should succeed Reagan.

THE STATE OFFICIALS now look on Washington as a threat to their own ability to meet the challenges they are ready to meet. The growing national debt and the worsening position of the U.S. trade deficit have pushed the United States into the status of a debtor nation, at the same time that most states find themselves operating in the black and putting aside rainy-day funds.

It is an ironic achievement Reagan has accomplished: He has empowered and energized the states at the same time that he has bankrupted and hobbled the national government. It may not be a great tradeoff, but it is certainly a revolution.

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