Approved 3-24-87
Date

JOINT HOUSE AND

MINUTES OF THE SENATE COMMITTEE ON ECONOMIC DEVELOPMENT.

The meeting was called to order by Senator Wint Winter, Jr. at
Chairperson

12:45 ~~a.m.~~/p.m. on March 23, 1987 in room 313-S of the Capitol.

All members were present except:

Committee staff present:
Lynne Holt, Legislative Research Department
Ramon Powers, Legislative Research Department
Tom Severn, Legislative Research Department
Paul West, Legislative Research Department
Mary Allen, Secretary to the Committee

Conferees appearing before the committee:

Dan Pilcher, National Conference of State Legislatures

The joint meeting of the Senate Economic Development Committee and the House Economic Development Committee was called to order at 12:45 p.m. by the Chairman of the Senate Economic Development Committee, Senator Wint Winter, Jr..

Chairman Winter introduced Dan Pilcher, Principal Staff Associate International Trade and Economic Development for the National Conference of State Legislatures, to speak on issues and trends in state economic development.

Mr. Pilcher said that the economic development plan in Kansas is totally unique in that everyone pulled together and made it a non-partisan issue. He noted that this Kansas plan is serving now as a model to other states.

Mr. Pilcher discussed some economic development issues which the Committees might want to study during the Interim. He noted that even in states which seem to be doing well economically over all, there are regions and sectors which are having problems. He stated that this relates to the issue of equity in economic development. An NCSL survey found that forty-six states reported that particular regions and economic sectors were suffering economically.

Mr. Pilcher observed that economic development does not mean industrial recruitment or smokestack chasing but rather should mean "growing from within", working with the private sector to start up businesses and to expand existing businesses.

Mr. Pilcher told the Committee that in the Midwest, a controversey is heating up over the effectiveness of big incentive packages that states are offering up in the interstate bidding war for large industrial manufacturing plants, particularly the auto plants. He discussed a situation in Wisconsin which concerns an American Motors Corporation plant there. He said that AMC is telling Wisconsin that if it does not put up a $50 million out-right grant of money , AMC will seriously consider starting its new jeep line in Toledo, Ohio. This is raising the issue of "how effective are the incentives which are being offered?". The Wisconsin legislature is holding hearings March 25 on the effectiveness of incentives and it is going to try to draft guidelines for the state on what kind of incentive packages the state will offer when a big project comes along. He suggested that Kansas might wish to consider trying to create some sort of guidelines on incentives, separate from the normal economic development incentives already in place.

In answer to a question by a Committee member, Mr. Pilcher observed that there is an increasing resistance in states to putting out the "give away the kitchen" types of incentive packages. He said that a cardinal rule when discussing incentives is "Do not pay a business to do what it would have done anyway".

Mr. Pilcher asked the Committees if they were going to take a look at the international trade development area. He talked of the idea of export finance and observed that twenty some states now have export finance programs. He said that this is an area where states

Unless specifically noted, the individual remarks recorded herein have not been transcribed verbatim. Individual remarks as reported herein have not been submitted to the individuals appearing before the committee for editing or corrections.

CONTINUATION SHEET

MINUTES OF THE JOINT HOUSE AND SENATE COMMITTEE ON ECONOMIC DEVELOPMENT,

room 313-S, Statehouse, at 12:45 ~~a.m.~~/p.m. on March 23, 1987

are moving slowly because it is a totally new type of function.

He said that there is beginning to be a lot of activity in the area of evaluation of economic development programs. An NCSL survey last year showed that only twelve out of the forty-four states which responded had done any kind of evaluation, from the legislative side, of their economic development programs. He suggested that the Committees might, in the future, want to look at the whole issue of how to evaluate economic development. He observed that economic development is difficult to evaluate.

Mr. Pilcher noted that related to the issue of states which have particular sectors which are not doing well, is the issue of how the state interacts with local governments or local economic development agencies. He stated that many of these localities, particularly in the larger cities, have been linked for a long time to the federal government on economic development programs. With the cutbacks in federal economic development assistance, there is a new link developing between the localities and state government in terms of delivery of state programs and coordination between the localities so that they do not end up competing with each other.

Mr. Pilcher passed out copies of his presentation to the Committee. (Attachment I)

The meeting was adjourned by Chairman Winter at 1:30 p.m..

Senate Committee on Economic Deve[illegible]ment
March 23, 1987

GUEST LIST

NAME	REPRESENTING	
DAN PILCHER	NATIONAL CONF. OF STATE LEGISLATURES	
HAROLD PITTS		
Shirley Sicilian	IPPBR - KU	Lawrence
Leslie H. [illegible]	Rep Hensley (Intern)	Topeka
Laurie Hartman	Ks. Bar Association	Topeka
Kevin Arnel	Ks Assoc For Small Business	Wichita
Ray Petty	KACEH / DHR	Topeka
David Barclay	DOC	Topeka

ISSUES & TRENDS IN STATE ECONOMIC DEVELOPMENT

A Presentation to the
Kansas Senate and House Economic Development Committees

Kansas Legislature
Topeka Kansas
March 23, 1987

By

Dan Pilcher
Principal Staff Associate
International Trade & Economic Development
National Conference of State Legislatures
1050 Seventeenth Street, Suite 2100
Denver, Colorado 80265
(303) 623-7800

Senate Committee on Economic Development
3-23-87
Attachment I

Introduction

For all states, economic competitiveness in the 1980s has achieved a prominence in state policymaking that promises for the forseeable future to overshadow state government and politics. Across the nation, governors and state legislators are concerned with economic growth and diversification; job creation, retention, and expansion; the quality and skills of the labor force; and the international competitiveness of a state's major industries.

A survey of state legislatures (48 responded) by the National Conference of State Legislatures (NCSL) last fall revealed that 34 states rated the importance of economic development as "1" on a scale of 1 to 5 (1 being most important, 5 being not important). Nine states rated it a "2."

The factors that most influenced this importance were economic decline (38), decline in tax revenues (27), decline in federal economic development support (26), reliance on mature industries (23) and loss of business to other states or overseas (26).

As a region, the High Plains states, the "oil patch" of the Southwest (and Alaska), and the Rocky Mountain states are suffering the worst of economic times now. But the odd structural nature of the U.S. economic recovery since the recession of 1981-82 has been such that specific industries are encountering stormy weather, even in Midwestern and Northeastern states that appear to be doing all right in terms of overall economic indicators.

Strategies for Economic Development

The term "economic development," whose traditional meaning was really industrial recruitment, has been overwhelmed in recent years by the states' new initiatives in what is really economic competitiveness policy.

Economic competitiveness policy is a more accurate definition of what the states have done in the last decade because it includes many actions that were not thought of in the past as economic development but which certainly affect the economic competitiveness of a state.

These steps include reforms and increased spending in such areas as education, job training and re-training, vocational education, and infrastructure In addition, states have reorganized their structures and have reformed unemployment and workers' compensation systems, administrative and environmental regulations, and tax systems.

Major state economic competitiveness strategies today include:

o Continued recruitment--including the use of sometimes controversial incentives--of domestic industrial plants and business facilities.

o Financial and technical assistance to new and existing small businesses.

o Technology innovation for new products and processes for existing businesses, from small firms to large corporations, often using the applied research capabilities of universities.

o Promotion and financing of the export of goods, services, and agricultural commodities.

o Recruitment of foreign investment.

o Targeted assistance to mature industries, which have formed the backbone of a state's economy, to become more competitive.

o Help for dislocated workers in industries that are declining sharply and permanently.

o Assistance to targeted, emerging industries that are deemed important to a state's economic future.

o Aid to distressed regions, both urban and rural. The issue of "equity" in economic development is an especially political sore point in many states. In the area of rural development, states in the last five years have emphasized programs to help farmers in financial trouble, education and job training for displaced farmers, aid to distressed local governments in rural areas, improved farm management techniques, and diversification of agricultural production.

o Assistance to minority-owned and women-owned businesses.

o Linking the welfare and unemployment compensation systems to job training and job creation programs.

o General encouragement of entrepreneurship.

o Emphasis on tourism.

How much emphasis--and how many dollars--should be placed on each strategy? Which programs--and the options are numerous--would be most effective for each strategy? How are these decisions to be made? Does the allocation of the state's scarce resources reflect the relative political clout of certain groups?

What should be done and when--the short-term versus the long-term? How can a governor and legislators reconcile the long-term requirements of economic development with the short-term "under the gun" political mandate for immediate action and demonstrable results?

State Expenditures on Economic Development

In the 1986 legislative session, 35 states increased economic development spending. The new funds were targeted primarily for small and new business development, employment and training, international trade development, rural economic development, and financial assistance to businesses.

According to a survey by the National Association of State Development agencies, the average state in 1986 spent $19.6 million ($17.5 million in appropriated state funds and an additional $2.1 million of non-federal monies) for economic development purposes, including tourism, and had a staff of 105 persons.

Here is the functional breakdown of economic development spending for the average state: industrial development, $4.2 million; industrial development advertising, $682,000; tourism, $4.5 million; tourism advertising, $2.2 million; local development, $3.2 million; employment and training, $1.9 million; international trade development, $871,000; research, $425,000; and film promotion, $161,000.

The average state spent 34 percent of its funds on tourism and related advertising and 25 percent on industrial development and related advertising, or almost 60 percent on these two categories in total.

For Kansas, the data reported for the National Association of State Development Agencies (NASDA) are: $5.3 million ($4.8 million in state appropriations and $500,000 in other funds) with a staff of 70. The functional breakdown was: industrial development, $1 million; industrial development advertising, $150,000; tourism, $400,000; tourism advertising, $300,000; local development, $280,000; employment and training, $250,000; international trade development, $100,000; research, no specific data available; and film promotion, $26,000.

Economic Development Strategies

The NCSL survey found that 36 states have set formal goals and objectives for economic development, while 15 states have not. These goals include: job creation (35 states), job retention (28), diversification (29), enhancement of tax base (24), assistance to targeted industries (21), creation of an "entrepreneurial" climate (24), encouraging businesses to relocate to the state (30), and support for existing businesses (29).

Long-Term, Strategic Planning

A growing number of states--such as Kansas--are undertaking long-range strategic planning efforts in economic development to improve their competitive position in an ever-increasingly competitive global marketplace. Recent examples include California, Nevada, Oklahoma, Oregon, Washington, Wisconsin, and Wyoming.

Kansas, Inc., for example, is similar in function to the Washington State Economic Development Board. Both are established by statute and will bring together a public-private membership to oversee the development and implementation of a long-term strategy, in addition to monitoring existing programs and recommending to the governor and the legislature improvements and new initiatives.

Current Issues

Equity in Economic Development

Even in states that are doing well in terms of gross economic statistics, all is not well. States which implemented major economic development programs in the early 1980s and which have performed well during the economic recovery are now concentrating on the persistent problems of distressed areas, both rural and urban.

The NCSL survey found that 46 states reported that particular regions and economic sectors were suffering economically. The economic sectors include: agriculture (39), manufacturing (28), mining (20), oil and gas (17), small business (16), construction (12), textiles (11), fisheries (11), forestry (11), services (6), tourism (5), and high technology (4).

State-Local Government Relations

Related to the issue of equity is the relationship between localities and states on economic development matters. With the cutback in federal economic development assistance, many cities are working more closely now with states to (1) ensure coordination between local and state economic development programs and (2) to increase the capacity and expertise of local development efforts.

For example, Michigan is launching a new program that will provide localities with assistance in developing strategic economic development plans. Pennsylvania, after implementing during the period 1979-84 a wide range of economic development programs, turned its attention to the problems of distressed areas. The result was the Rennaisance Communities program, which seeks to strengthen the ability of localities to carry out their own economic development efforts.

The Issue of Incentives

In the Midwest, a controversey is heating up over the effectiveness of big incentive packages that states are offering up in the interstate bidding war for large industrial manufacturing plants, particularly the auto plants. This practice was highlighted in 1984 when states offered incentive packages in the hundreds of millions of dollars (Minnesota, $1.3 billion).

The staff economist for the Kentucky Legislature has estimated that the state will provide $47,000 in incentives per worker at the Toyota plant, which will be built in that state. Illinois and two communities put up more than $100 million in incentives for the Chrysler-Mitsubishi plant, which will be constructed in that state. The case in which Volkswagen choose Pennsylvania for its site has become known as the "Rabbit that Ate Pennsylvania." After apparently selecting Pennsylvania, VW proceeded to play the state off against Ohio until it had extracted the maximum in concessions.

The Illinois Manufactureres Association recently held a conference on state subsidies, co-sponsored by similar organizations from surrounding states. They are upset over the size of the incentive packages and believe that states are giving unfair advantages to the competitors of U.S. firms.

In Wisconsin, meanwhile, a storm over this practice is currently raging. The new Governor, Tommy Thompson, has suggested granting Americna Motors Corporation $50 million if it will build its new Jeep line at the Kenosha AMC plant. Some in the legislature are opposing this as "industrial blackmail." AMC has reportedly said it would build the new line elsewhere, perhaps

Toledo, Ohio. Negotiations with the United Auto Workers have not brought about an agreement satisfactory to AMC.

On March 25th, the Wisconsin legislature will hold a hearing on the effectiveness of incentives, which include such subsidies as customized job training, tax breaks (credits, exemptions, deductions, and abatements), free or subsidized land, and financial inducements (industrial development bonds, interest subsidies, loan guarantees, loans, and grants). The legislature will probably consider a bill that would establish criteria and guidelines for such one-shot, incentive packages.

The Need for Evaluation

For many state policymakers, the range of economic development strategies and tools is large and not a little confusing. Northeastern and Midwestern states, which underwent severe economic shocks in the late 1970s and early 1980s, implemented an complex array of economic development programs, which have now been in operation for several years.

Today, however, states in the South, Southwest, and West, which heretofore relied primarily on industrial recruitment as their principal economic development strategy, are implementing or considering programs similar to those enacted in the Midwest and Northeast. In all areas of the country, therefore, a central question arises: What works?

State policymakers face within each major economic development strategy a wide range of policy and program options. In states which have had these policies and programs for several years, how can they be evaluated and what has proven effective? For states which are either implementing or studying such proposals, what can be learned from the experiences of the other states?

The NCSL survey found that only 12 of 44 state legislatures had conducted program evaluations (also known as performance audits) of state economic development departments and programs.

Consequently, in a growing number of states, legislative program evaluators and performance auditors and other legislative staff are being asked to evaluate economic development programs. Questions of methodology, research design, and data collection that are unique to the economic development field have arisen as legislative staff have attempted to examine policies and programs.