Approved March 22, 1988
Date

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

The meeting was called to order by Phil Kline, Chairperson, at 3:44 ~~a.m.~~/p.m. on Thursday, March 17, 1988 in room 123-S of the Capitol.

All members were present except: Representatives Mainey, Goossen, Leach, Barkis and Foster. - Excused.

Committee staff present:
Lynn Holt, Research
Elaine Johnson, Secretary

Conferees appearing before the committee:
None

Chairman Phil Kline called the meeting to order and recognized Harland Priddle, Secretary of the Department of Commerce.

Secretary Priddle went over the Executive Summary (Attachment 1) of the Executive Report on Business Retention and Expansion in Kansas Mid-Size Communities. Part One and Part Two of this report are on file in the Legislative Research Department, Room 545-N.

Secretary Priddle said the purpose of this report was to keep Kansas business in Kansas and to assist them in their economic growth. The team that worked on this report was the Kansas Department of Commerce, Southwestern Bell Telephone Company, the Institute for Public Policy and Business Research at KU and community leaders. The approach used was to determine business attitudes and needs by survey and to formulate and implement plans to address those needs. 858 firms were selected randomly that ranged in size from 1 to 1,471 employees for this survey.

With this much in place, where do we go from here. We need to work real hard to let people know what we've got. Every Chamber of Commerce and every economic development area in Kansas are education sources. There are six regional offices and we are going to network. It is the responsibility of local people as well as the Department of Commerce. We need to work more closely with the legislators who need to be informed. The Department is in the process of developing packets now that will be given to the legislators to take home with them at the end of the session to draw them into the network. Evaluating the current economic development program, priorities will need to be set. Are we spending the dollars in the right area. Are the incentives we are providing effective or should we rechannel those some way. We need to learn a little, as we have incentives we haven't fully measured. Kansas Industrial Training money is an example. It should be used to draw prospective businesses. The time may come that we may have to look at the use of KIT funds and put some priorities on allocating it a little bit differently. This is an example of what may need to be looked at in the future. We'll need to look at the funds very carefully. The report is a guide to the future and we have already started working with businesses. One mid-sized community success can be used as a referral to others for future success.

Chairman Kline thanked Harland Priddle, his staff and all others involved in the compiling of this report.

The meeting adjourned at 4:23 p.m.

Phil Kline

Joint House & Senat Economic Development
March .7, 1988

GUEST LIST

NAME	REPRESENTING
Brad Mears	Commerce
Jack Montgomery	KDOC
Brenda Mansker	SEK Tourism Region
John Blythe	KFB Manhattan
Ann Patterson	KDOC
Rich Bailey	KDOC
Mary Lou McPhail	KDOC
Tony Redwood	KU
Michael El Hodiri	KU
Don Eskew	KU
Bridget Compton Eskew	KU
Charles Eichman	KU
D. Wayne Zimmerman	KDOC
H.C. Priddle	KDOC

PART I

EXECUTIVE REPORT

BUSINESS RETENTION AND EXPANSION IN KANSAS MID-SIZE COMMUNITIES

A Research Report

Prepared for

The Kansas Department of Commerce

Co-Principal Investigators:

Dr. Charles E. Krider
Professor of Business Administration
and
Dr. Steven Maynard-Moody
Professor of Public Administration

Project Director: Don Eskew

Survey Director: William Cheek

Dr. Anthony L. Redwood
Executive Director
The Institute for Public Policy and Business Research
The University of Kansas

February 1988

Report #137

House Eco Devo
Attachment 1
3/17/88

PREFACE

Project Background

In the summer of 1987, Southwestern Bell Telephone offered an executive-in-residence to work with the Kansas Department of Commerce. This Southwestern Bell executive was Brad Parrott. In cooperation with Kansas Governor Mike Hayden, the Department of Commerce decided to conduct a study on business retention and expansion in the state, and enlisted the assistance of the Institute for Public Policy and Business Research at the University of Kansas to assist with the project.. This project was a joint effort between Southwestern Bell, the Kansas Department of Commerce, and the University of Kansas.

The project used a telephone survey to study the retention and expansion of business firms in: Coffeyville, Emporia, Garden City, Goodland, Great Bend, Hays, Hutchinson, Lawrence, McPherson, and Salina. In each community, a local committee of business representatives and community leaders were responsible for conducting personal interviews that provided additional in-depth answers to survey questions. These committees will receive a report of the community they represent, and will be responsible for local action.

Acknowledgements

The Institute for Public Policy and Business Research would like to acknowledge the support and the assistance of Secretary of the Kansas Department of Commerce Harland Priddle; Brad Parrott, Southwestern Bell Telephone District Manager; Jack Montgomery, Director-Existing Industry Development Division, Kansas Department of Commerce; Mary Lou McPhail, Economic Development Representative, Kansas Department of Commerce; the Kansas Department of Commerce field representatives and the Southwestern Bell field representatives who helped to interview business representatives in the ten communities, and the Southwestern Bell Community Relations Managers. All had major roles in the eventual completion of this project.

The authors alone are responsible for the contents of this report.

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EXECUTIVE SUMMARY

A sample survey of 858 business firms in nine Kansas communities with populations of 10,000 to 100,000 (Coffeyville, Emporia, Garden City, Great Bend, Hays, Hutchinson, Lawrence, McPherson, and Salina) was completed to find determinants of business retention and expansion of existing industries in Kansas.

These firms, drawn from sectors constituting the economic base (retail firms and service firms that were entirely local were not included), were surveyed to identify factors that influence the retention and expansion of existing industries in Kansas, to identify the potential of Kansas firms to expand within their communities, to assist the establishment of local retention and expansion efforts, and to distinguish state level issues that influence retention and expansion.

The major findings of the study are:

1. Employment growth in Kansas mid-size communities has lagged behind employment growth in Kansas and the United States. Of the 9 counties that these communities are located in, 8 had employment growth that was less than the United States for the period 1978 to 1986. Only two counties, Finney and Douglas, had employment growth that was higher than Kansas for the same period. Montgomery and Reno counties had negative employment growth for the period 1978 to 1986.

2. Economic growth in Kansas mid-size communities is the result of expansions from existing companies and the formation of new firms within the community. In the last two years, 33% of all firms increased employment and 35% increased physical plant size. Of the total number of firms, 41% stated they are planning to increase employment next year and 22% stated they are planning to increase physical plant size next year.

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3. Minimal economic growth is occurring as the result of recruiting outside firms to relocate in Kansas mid-size communities. Only 6% of the firms surveyed stated they moved to their present location from another city or state in the past 5 years.

4. Most firms are in a community because it is the owner's hometown. For all firms, 54% stated the reason for their location in the community was because it was the hometown.

5. Only a very small percentage of firms are planning to leave their community or the state. For the total number of firms, 3% stated they are planning to move out of the community and 2% stated they were moving out of the state. The majority of respondents also have a positive image of Kansas and rural life: 6% stated they had a negative image of rural life and 2% stated they had a negative image of Kansas.

6. The representatives of larger firms, those with 100 or more employees, express a higher level of dissatisfaction with their communities than do smaller companies, from an overall business perspective. Further, 21% stated they had a negative image of rural life, 9% stated they had a negative image of Kansas, and 43% stated they had trouble attracting or retaining professional and management personnel.

7. A major barrier to firm expansion is a lack of financing. Of the total number of firms, 24% stated lack of affordable financing as a problem associated with expansion, and 11% stated they have had to forego an expansion because of a lack of financing. Lack of financing is also a barrier for the export of goods and services. Of the firms that did not export their products, 20% gave lack of affordable financing as a reason. Of the firms that did export their products, 13% stated that a problem with exporting is a lack of financing.

8. Public services were generally perceived as good or at least adequate. Of the total number of firms, 76% rated fire protection as good, 74% rated the electric system as good, and 73% rated the public school system as good. The major exception is the quality of roads: only 35% rated the quality of roads as good and 18% rated the quality of roads as poor.

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9. There is great dissatisfaction with (a) the cost of transportation and (b) the availability of air transportation. Of the total number of firms, 61% rated the cost of transportation as adequate or poor and 67% rated the availability of air transportation as adequate or poor.

10. Smaller firms, those with less than 100 employees, are primarily serving local and state markets. Firms with less than 20 employees sell a mean, or average, 61% of their products in the local market, 26% in the state market, 12% in the national market, and 1% in the international market. Firms with 20 to 99 employees sell a mean 38% in the local market, 30% in the state market, 29% in the national market, and 3% in the international market. Larger firms, those with 100 or more employees, are, however, more involved in markets beyond Kansas. These firms sell a mean, or average, 19% of their products or services in the local market, 18% in the state market, 61% in the national market, and 2% in the international market.

11. The great majority of firms do not participate in international trade: the total number of firms sell a mean 1% of their goods or services in the international market. Even firms which have the potential and desire to export are not doing so. Of the firms that do not export, 14% stated they have the potential to expand internationally and 13% stated they have the desire to expand internationally.

12. Taxes and tax incentives are not a significant factor in firm decisions concerning locating in Kansas mid-size communities. When asked for a reason for location in the community, only 1% stated tax incentives as a reason for location. State taxes are a consideration for a small minority of firms planning to leave their community: of the small number of firms that are planning to leave the community 13% stated that a reason for relocating was high state taxes.

13. The overall state tax burden is a significant reason for firms not to expand. Of the small number of firms that plan to expand outside of the community, 27% stated that a reason for doing so was city taxes; of the small number of firms that plan to expand outside of Kansas 50% stated tax costs in general as a reason for expanding out of state. Of the firms that stated they had had to forego an expansion, 61% gave property tax on inventories as a reason for foregoing an expansion, 32% gave the sales tax on machines and equipment as a reason, and 24% gave the overall state tax burden as a reason to forego expansion.

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14. State economic development programs are virtually unknown to firms in Kansas mid-size communities: of the total number of firms, 88% had no knowledge of Certified Development Companies, 84% had no knowledge of Centers of Excellence, 64% had no knowledge of the Kansas Industrial Training Program, 42% had no knowledge of the Job Training Partnership Act, and 37% had no knowledge of Community Development Block Programs. Only a very small percentage of firms have actually used the programs. The program with the most use was the Job Training Partnership Act, with 11% of the total number of firms stating they had used the program. For all other programs, actual use was no higher than 2%.

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SUMMARY OF RECOMMENDATIONS FOR ECONOMIC DEVELOPMENT POLICY IN KANSAS MID-SIZE COMMUNITIES

1. State and local policies should be directed to encouraging local entrepreneurs who are starting new businesses and to facilitating expansion of existing businesses. Examples of such efforts include incubators and small business development centers.

2. Although the recruitment of firms from outside of Kansas should constitute one part of the state's and communities' economic development strategy, the major focus should be on the establishment of new firms and expansion of existing businesses. Industrial recruiting has generally not been a successful strategy for this size of Kansas community.

3. The state, in cooperation with communities, should have a targeted business retention program. These ongoing programs should identify dissatisfied firms and concentrate retention efforts upon them. Only a very small percentage of firms are planning to leave their community or state. The vast majority of firms are satisfied with their community and are not planning to leave. The majority of firms also have a positive image of rural life and of Kansas.

4. Larger firms and branch operations must be targeted as part of a business retention program. The loss of a large employer would have a devastating detrimental impact on a community and other firms that are suppliers to the large company. In addition, since the majority of larger firms are part of a larger corporation, the local chamber of commerce and the local government will need to be in contact with the parent organization of these firms.

5. Improved access to nonconventional sources of financing should be a top state and local priority. Included would be access to seed and venture capital to a greater extent than currently exists. Firms are primarily dependent on conventional sources of financing (local banks and internal funds) and do not have access to seed, medium, or high risk financing.

6. Improvements in state highways should be a high priority for the state. Such improvements, however, should be closely tied to economic development criteria with particular emphasis on the ability of firms in mid-size communities to transport raw materials in to their community and ship final products out to their customers.

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7. A study should be conducted to determine how better transportation, particularly air transportation, can assist Kansas mid-size communities. Improved access to air transportation would significantly improve prospects for economic development in Kansas mid-size communities.

8. Firms in Kansas mid-size communities should be encouraged to participate more actively in markets outside of Kansas. Efforts to help firms realize their potential in larger markets is necessary. To do otherwise would seriously limit growth opportunities.

9. Efforts to assist firms to participate in international trade is necessary. Such assistance may include efforts to make firms aware of the potential of international trade. Specific barriers to international trade, such as financing, must be addressed. There is an unrealized opportunity to increase exports from Kansas mid-size communities.

10. Tax incentives should not be a major focus of business retention strategy.

11. The sales tax on business machinery and equipment should be eliminated.

12. A major effort is required to assure that firms know what state programs are available to assist them. Resources available for economic development programs have been sufficient to have only an impact on a marginal number of firms in these communities.

13. Funding for economic development programs should be sufficient to provide better assistance for Kansas mid-size community firms. The few firms using these programs are exhausting the state revenues allocated for state economic development programs. With increased knowledge will come increased competition for funds. The state needs to evaluate current programs to determine if funding is being used effectively, and to identify the most productive programs. Current funding is not sufficient to provide assistance to eligible firms.

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