

Approved February 18, 1988
Date

MINUTES OF THE SENATE COMMITTEE ON ECONOMIC DEVELOPMENT

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

12:35 ~~xx~~ a.m./p.m. on February 9, 1988 in room 254-E of the Capitol.

All members were present except:

Senator Paul Burke - Excused
Senator Ben Vidricksen - Excused

Committee staff present:

Lynne Holt, Kansas Legislative Research Department
Bill Edds, Revisor of Statutes' Office
Avis Swartzman, Revisor of Statutes' Office
Mary Allen, Secretary to the Committee

Conferees appearing before the committee:

Dr. Anthony L. Redwood, Institute for Public Policy and Business Research, University
of Kansas
Harland Priddle, Department of Commerce
Brenda M. Manske, Southeast Kansas Tourism Region, Inc.
Kevin Robertson, Travel Industry Association of Kansas
Beth Tatarko, Kansas Inc.

The meeting was called to order at 12:35 p.m. by the Chairman, Senator Wint Winter, Jr.

Senate Bill 470 - An Act concerning Kansas basic enterprises and Kansas basic industries; providing a means of identification thereof for economic development purposes.

The Chairman called on staff to explain and to give background information on SB 470. Staff said that SB 470 basically sets out to provide a means of identifying Kansas basic enterprises and industries for economic development purposes. The bill evolved from recommendations of the Joint Committee on Economic Development during the 1988 Interim. Staff pointed out that the legislative intent of the bill is contained in New Section 1 which states that the provision of economic development incentives should be limited to those enterprises which are basic to the economic structure of this state and which have the greatest potential for effecting economic growth. Staff explained each section of SB 470 and answered questions from Committee members.

Dr. Anthony Redwood, Institute for Public Policy and Business Research, University of Kansas, spoke to the Committee on SB 470. Dr. Redwood stated that SB 470 provides a means of identifying those enterprises in Kansas that are to be classified as "basic industry". He noted that the proposed bill stems from a realization that current Kansas economic development legislation describes Kansas' businesses to be included in a variety of ways which are often inconsistent and unclear. He observed that clearer, more consistent guidelines are needed for determining which types of enterprises are to be included or excluded under these statutes. He emphasized that there is no intent in the bill to change the purpose or focus of any of the legislation which is affected but rather the intent of SB 470 is to ensure that the state's resources are directed to basic sector industries where they will have the greatest impact for the state. Dr. Redwood stated that he endorses the Joint Committee recommendations concerning the legislative approach to be taken and the specifics of the recommendations made in SB 470. (See Attachment I for his statement.)

Harland Priddle, Secretary of the Department of Commerce (KDOC), appeared before the Committee to discuss SB 470 which, he said, attempts to formulate a comprehensive definition of basic industry. Secretary Priddle pointed out several areas in the bill which he asked the Committee to consider in detail before the bill is passed. He referred to Section 3, subparagraph A and said that it changes the general overall delivery system of services from the Department of Commerce to all enterprises within

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON ECONOMIC DEVELOPMENT

room 254-E, Statehouse, at 12:35 ~~xxx~~/p.m. on February 9, 1988

commerce to only those which are identified and defined as basic industries. He observed that he does not feel that the Committee intends to pass legislation which would restrict KDOC from assisting all businesses in the state whether they be primary, or basic, or non-basic entities.

Secretary Priddle also pointed out Section 8 of SB 470 with reference to minority businesses in Kansas and observed that the restriction of KDOC's involvement and support as it relates to minority businesses involves all businesses and not just those considered to be defined as basic enterprises in the state. The Secretary stated that SB 470 realigns the basic criteria for selection of board members to Kansas Inc. He noted that while attempting to identify and define the Kansas basic industries, we may have moved away from the comparative industries of strength in Kansas. He stated that the purpose and intent of the legislation establishing positions and directors on Kansas Inc. was to allow inputs on those major industries as they now exist realizing that other industries are important as well. (See Attachment II for his statement.)

The Chairman requested that Secretary Priddle have his staff develop amendments to SB 470 which would specifically address the Secretary's concerns with the bill.

Brenda Manske, Executive Director of the Southeast Kansas Tourism Region, Inc., appeared before the Committee in support of SB 470. She pointed out that in order for the State of Kansas to develop a more favorable economic structure through expansion of the state's economic base, the travel and tourism industry must be recognized as a basic industry with an economic impact comparable to the state's acknowledged core industries. She said that the tourism industry in Kansas is pleased that the Board of Kansas Inc. and the Interim Committee on Economic Development have recommended that tourism be designated a basic industry. She pointed out that this designation will remove a major barrier to development of travel and tourism in Kansas. (See Attachment III for her statement.)

Kevin Robertson, representing the Travel Industry Association of Kansas (TIAK), told the Committee that TIAK supports SB 470 and particularly New Sections 1 and 2 of the bill which establish "tourism activities which are primarily engaged in for the purpose of attracting out of state tourists" as a basic Kansas industry. (See Attachment IV for his statement and Kansas Fact Sheet on the Economic Impact of Travel and Tourism in 1985.)

Beth Tatarko, Research Analyst for Kansas Inc., spoke in support of a basic industry definition. She listed six ways in which the basic industry definition contributes to Kansas Inc.'s mission of overseeing the targeting of scarce state resources by size and sector of economic activity and by geographic location within the state in order to enhance the state's potential comparative economic advantages. She pointed out that SB 470 moves toward the goal of long term strategic planning by maximizing the return of stated invested dollars. (See Attachment V for her statement.)

The Chairman asked those people or groups who have suggested amendments to SB 470 to bring them to the Committee as its next meeting.

Senator Fred Kerr moved that the minutes of the February 3, 1988, meeting of the Committee be approved. Senator Karr seconded the motion. The motion carried.

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

GUEST LIST

<u>NAME</u>	<u>REPRESENTING</u>
MARK A. BURGHART	REVENUE
TERRY DENKER	KDOC
JACK MONTGOMERY	KDOC
JERRY LONERGAN	K8 INC.
Beth Tatarko	Ks Inc
HEVIA ROBERTSON	TRAVEL INDUSTRY ASSN of Ks.
Brenda M. Nauske	SEK TOURISM REGION
Hank Miller	Topeka Convention & Visitors Bureau
Harland Priddy	KDOC
D. WAYNE ZIMMERMAN	KDOC
Lisa Kraemer	KDOC
Shawn McGrath	KWO
Phil MARTIN	SENATE #13
D Mills	Gov's off.
Joe A. Morris	KLSI
Bill HANZlick	KDW&P.
TONY REDWOOD	KU

Testimony on Senate Bill 470

by

Dr. Anthony L. Redwood

to the

Senate Committee on Economic Development - February 9, 1988

S.B. 470 provides a means of identifying those enterprises in Kansas that are to be classified as "basic industry." This proposal from the Joint Committee stems from a realization that current Kansas economic development legislation describes Kansas' businesses to be included in a variety of ways which are often inconsistent and unclear. Clearer, more consistent guidelines are needed for determining which types of enterprises are to be included or excluded under these statutes. A clear, consistent and flexible definition of "basic industry" will allow economic development funds to be targeted to those industries that will give Kansas the greatest economic return on its investments. We see this mainly as a clarifying exercise, indeed a technical exercise, whose purpose is to insure that limited resources are placed where we want them to be. There is no intent here to change the purpose or focus of any of the legislature that is affected. Rather the intent is to ensure that our resources are directed to basic sector industries where they will have the greatest impact for the state.

Attachment I
Senate Eco Dev
2-9-88

In order to understand the importance of providing our limited resources to "basic industry" enterprises, it is helpful to examine economic theory. "Economic base" theory divides economic activity into two sectors: basic and non-basic. Briefly the basic sector includes those enterprises which produce goods and services locally but sell them outside the local or state area, or which produce goods and services which substitute for imports into the state. The basic sector is independent of the amount of wealth in the local community but imports wealth from other states, the nation, and other countries which are importers of the goods and services produced in Kansas. In contrast, the non-basic sector produces goods and services for local consumption and hence derives its income from transactions within the existing local community. It does not import additional wealth but merely recirculates the wealth already in the state or community. Thus, by definition, wealth is increased by income obtained when state or local producers sell goods and services outside the state or community. Producers which provide goods or services which would otherwise be imported into the state are also part of the basic sector because they prevent the export of wealth from the state.

Basic sector industries are considered to be the foundation of the local and state economy and the basic source of growth. This is because only basic sector industries have the potential to expand employment and output and thereby expand the non-basic industries which are

dependent on them. This is the so-called multiplier effect. Since the total state economy will expand due only to an expansion in its basic sector industries, it is vital to concentrate economic development efforts on this important sector.

We join with Kansas Inc. and the Department of Commerce in endorsing the Joint Committee recommendations concerning the legislative approach to be taken and the specifics of the recommendations made in S.B. 470. The bill includes both a listing of particular industries that intrinsically meet the definition of basic industry as well as broad criteria which allow firms in any industry to demonstrate that they should be considered part of Kansas' "basic industry." By providing a specific listing of Kansas' basic industries, we give a clearer indication than presently exists to the private sector as to whether or not firms are likely to be eligible for economic development funds. But even if an industry is not listed, a firm can still apply for assistance if it feels it meets the stated criteria. The onus is on the firm to establish that it meets the criteria for inclusion into a program. We acknowledge that the delineation for inclusion is not clear cut because it is impossible to categorically state that one particular industry is "in" and another is "out." Therefore it is desirable to have a definition that is flexible in order to provide an opportunity for a firm to seek inclusion in a particular situation.

Based on the realization that Kansas has limited resources to allocate to areas of economic development, we simply must make our dollars available to those areas which are geared towards strengthening the economic base of our state. We should invest state resources in those enterprises which will give the greatest return to the state.

TESTIMONY

to

SENATE ECONOMIC DEVELOPMENT COMMITTEE

SENATE BILL 470

by

Harland E. Priddle
Secretary of Commerce

February 9, 1988

Attachment II
Senate Eco Devo
2-9-88

Mr. Chairman and members of the committee. You are addressing a bill today which attempts to formulate a comprehensive definition of basic industry. The realignment of this definition appears to be appropriate at this time as we review and develop new programs for economic development in the future.

It was the intent of the Joint Committee during the summer and fall to identify areas which had previously been overlooked but should be included. Tourism activities are a specific example.

While Commerce supports the need and the basic outline in Section 2 of Senate Bill 470, we do believe there are issues which should be pursued in detail before adopting the bill in its entirety. For example Section 3, subparagraph A, changes the general overall delivery system of services from the Department of Commerce to all enterprises within commerce to only those which are identified and defined as basic industries. As we work with small businesses throughout the state, many of those are dedicated to local consumption of the products being developed and produced. I am sure it is not the intent of this committee or the legislation to restrict us from assisting all businesses in the state whether they be primary, or basic, or non-basic entities.

Another example is contained in Section 8 with reference to minority businesses in Kansas. The restriction of our involvement and support as it relates to minority businesses involves all businesses and not just those considered to be

defined as basic enterprises in the state. Similar examples could be drawn from other divisions within the Department of Commerce but the same general concern exists in those areas.

Senate Bill 470 also realigns the basic criteria for selection of board members to Kansas, Inc. While attempting to identify and define the Kansas basic industries, we may have moved away from the comparative industries of strength in our state. The purpose and intent of the legislation establishing positions and directors on Kansas, Inc. was designed to allow inputs on those major industries as they now exist realizing that other industries are important as well.

My comments are not meant to be negative, but rather constructive and allow us to move forward with this important subject. Our agency would be pleased to participate in the subcommittee or any other working group with persons designated by you to assist in developing a piece of legislation which will be meaningful and clearly understood.

PRESENTATION

to

SENATE ECONOMIC DEVELOPMENT
COMMITTEE

by

BRENDA M. MANSKE

Executive Director
Southeast Kansas Tourism Region, Inc.
P.O. Box 100
Yates Center, Kansas 66783

February 9, 1988

*Attachment III
Senate Eco Dev
2-9-88*

Southeast Kansas Tourism Region, Inc. Supports S.B. 470

In order for the State of Kansas to develop a more favorable economic structure through expansion of the state's economic base, the travel and tourism industry must be recognized as a basic industry with an economic impact comparable to the state's acknowledged core industries: agriculture, energy and aviation.

Southeast Kansas Tourism Region submits that travel and tourism is a diverse, growth-oriented, existing statewide industry that significantly expands the state's economic base in urban and rural communities by creating new, direct revenue in at least six different areas: conventions and trade shows, sport hunting and fishing, sporting events, attractions, entertainment and the film industry.

In addition to the direct revenue captured through expenditures in these main areas, the travel industry stimulates the following subordinate businesses: service stations, restaurants, retail stores, hardware and plumbing suppliers, grocery stores, insurance agencies, advertising agencies; real estate agencies, lawyers and suppliers of fuel and electricity.

According to a 1986 U.S. Travel Data Center study, the travel and tourism industry is the second-largest employer in Kansas. In 1985 this industry generated 42,000 Kansas jobs with a wage and salary income of \$374 MILLION. In that same year, travel and tourism expenditures amounted to \$1.9 BILLION in Kansas, creating \$63.5 million in state taxes and \$23.2 million in local tax revenue. The industry experienced a 9.7 percent growth in Kansas over 1984, outpacing the national growth rate of 7 percent for that same period of time. Travel-generated employment rose 4.1 percent across the state in 1985, compared to a 3.9-percent increase in total state non-agricultural employment for the same period.

Travel and tourism in Kansas has demonstrated its strength and diversity at a time when the state's three traditional core industries have become weakened. Travel and tourism in Kansas is growing faster than the national growth rate, while the state's three traditional core industries and their service sectors are predicted to experience little, if any, growth during the next decade.

Kansas is now 47th in the nation in size of state travel and tourism agency budgets. To date, Kansas has never allocated funds for an out-of-state tourism advertising campaign. Designating tourism as a basic industry will remove a major barrier to development of travel and tourism in Kansas. Statutory recognition of its role in economic development will stimulate the tourism industry by attracting the development of innovative new outdoor recreational sites, attractions and resorts. Stimulation of travel and tourism will encourage entrepreneurship at all levels of the industry and will strengthen bases for local community development because travel and tourism offers the opportunity for direct revenue to urban and rural communities alike.

Your support for S.B. 470 will be appreciated.



Travel
Industry
Association of
Kansas

810 Merchants National Bank
8th & Jackson
Topeka, Kansas 66612 913/233-9465

TO: Senate Committee on Economic Development
FROM: Kevin Robertson
DATE: February 9, 1988
RE: SB-470

Mr. Chairman and members of the Committee, my name is Kevin Robertson, Director of Governmental Affairs for Barbee & Associates, and today I am appearing before you on behalf of the Travel Industry Association of Kansas (TIAK). TIAK is an association made up of various convention and visitors bureau's, attractions, museums, hotels, and other travel related businesses within the state.

TIAK supports SB-470 as recommended by the Joint Committee on Economic Development to the Legislature. Particularly, we support new sections 1 and 2 of the bill which establish "tourism activities which are primarily engaged in for the purpose of attracting out-of-state tourists" as a basic Kansas Industry.

Travel and tourism contributes largely to the economy of this state. According to 1985 data, the most recent available, travel and tourism was the 3rd largest employer in Kansas, accounting for 42,700 jobs. As a matter of fact, of all the jobs in Kansas 4.4 percent are related to travel and tourism. Further, travel related jobs in Kansas produced \$376 million in payroll during 1985.

The Travel Industry Association of Kansas believes this bill is a positive step in recognizing tourism as one of the essential industries of Kansas, therefore we ask for your favorable consideration of SB-470.

Attachment IV
Senate Eco-Devo
2-9-88

KANSAS FACT SHEET

Economic Impact of Travel and Tourism in 1985



810 Merchants National Bank
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Topeka, Kansas 66612 913/233-9465

EMPLOYMENT

Travel and tourism was the third largest employer in the state in 1985.

In 1985, travel and tourism generated:

* 42,700 jobs - (521 of these jobs generated by foreign visitor spending) Kansas ranked 36th in the nation in terms of number of workers employed in travel and tourism in 1985 and 37th on a per capita basis.

Kansas ranked 45th in the U.S. in jobs generated by foreign visitor spending.

* 4.4% of all jobs in Kansas
Tourism's share of jobs in Kansas ranked the state 38th in the nation in 1985.

* \$376 million in payroll (\$153 per capita)
Kansas ranked 35th in the U.S. in terms of tourism generated payroll in 1985 and 42nd on a per capita basis.

Kansas ranked 45th in payroll generated by foreign visitors spending in 1985.

EXPENDITURES

* Nearly \$1.97 billion expenditures in the state (\$769 per capita) Tourists spent \$5.2 million per day in Kansas in 1985

\$1,885 million total traveler expenditures (\$23 million of this by foreign visitors)

Kansas ranked 36th in the U.S. in terms of tourism generated expenditures in 1985 and 43rd on a per capita basis.

Kansas ranked 45th in the U.S. in terms of foreign visitor spending (export receipts) in 1985.

TAXES

* \$186 million total tax revenues
Kansas ranked 35th in the U.S. in terms of total tax revenue generated by travel and tourism in 1985 and 42nd on a per capita basis.

\$105 million federal tax revenues, enough money to fund the entire federal tourism budget for nearly 9 years at 1985 funding levels.

Kansas ranked 33rd in the U.S. in terms of tourism generated federal taxes in 1985 and 40th on a per capita basis.

\$63 million state tax revenues
Tourism contributed over \$172,600 per day to Kansas in state taxes in 1985.

Kansas ranked 39th in the U.S. in terms of tourism generated state taxes in 1985 and 45th on a per capita basis.

Kansas received \$12.35 in tourism generated state taxes for each dollar the state budgeted for tourism in 1985.

\$18 million local tax revenues
Kansas ranked 35th in the U.S. in terms of tourism generated local taxes in 1985 and 39th on a per capita basis.

Source: United States Travel Data Center and Travel and Tourism Government Affairs Council

Note: 1985 is the latest data available.
1986 data will be released in late summer 1988.

July 1987

KANSAS INC.

Governor Mike Hayden, Co-Chairman
Frank J. Becker, Co-Chairman

Forest Tim Witsman, President

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Testimony on S.B. 470

Basic Industry Definition

Presented to the
Senate Economic Development Committee
February 9, 1988

testimony prepared by:

Beth Tatarko
Research Analyst
Kansas Inc.

Attachment V
Senate Eco Devo
2-9-88

My name is Beth Tatarko, I am a Research Analyst with Kansas Inc. I am pleased to be here today to speak in support of a basic industry definition. During the 1987 Interim Session, Kansas Inc., the Department of Commerce, Dr. Tony Redwood, and the Revisor of Statutes formulated a recommended definition for the Joint Committee on Economic Development. The definition developed by this group was used in the drafting of S.B. 470.

First, let me reassure you that Kansas is not the only state that has recognized the need for a basic industry definition. In conducting the background research Kansas Inc. contacted several states to find out if they had a basic industry definition. States contacted included: Iowa, Colorado, Arkansas, Indiana, Mississippi, Michigan, and Massachusetts. Responses from states varied. Most states had not defined basic industries, therefore allowing almost any firm to qualify for incentives and credits. Many state administrators described the process of determining who qualifies for limited resources as either a hand-wringing process or a first come first serve situation. On the other hand, Mississippi had a nine-page list of firms to be exempted from ad valorem taxation. The list detailed everything from plants making candles to those making golf clubs. Kansas, through S.B. 470, will be in the forefront among many states active in economic development. States contacted were intensely interested in what Kansas is doing in this area and the potential of modelling definitions after Kansas.

Part of Kansas Inc.'s mission is to "Oversee the targeting of scarce state resources by size and sector of economic activity and by geographic location within the state in order to enhance the state's potential comparative economic advantages". The basic industry definition contributes to Kansas Inc.'s mission in six ways:

First, it targets resources to those firms who are considered to make up the foundation of a local economy and have the greatest potential for growth.

Second, targeting resources to those who will maximize returns is fundamental to a long term economic development policy.

Third, it creates a coordinated state policy which affects many agencies in their administration of programs. The adoption of a single definition used to administer programs will unify administrative policy.

Fourth, it clarifies to business owners their eligibility for state programs.

Fifth, it is flexible enough to foresee changes in who the future producers of goods and services will be.

Sixth, the burden of proof is on the firm to demonstrate that it qualifies under the definition.

Based on the above mentioned reasons Kansas Inc. supports a basic industry definition. S.B. 470 moves toward the goal of long term strategic planning by maximizing the return of state invested dollars, we support this concept.