Approved April 8, 1988
Date

MINUTES OF THE SENATE COMMITTEE ON ECONOMIC DEVELOPMENT.

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

12:40 ~~a.m.~~/p.m. on March 29, 1988 in room 254-E of the Capitol.

All members were present except:
Senator Paul Feleciano - Excused

Committee staff present:
Bill Edds, Revisor of Statutes' Office
Lynne Holt, Legislative Research Department
Mary Allen, Secretary to the Committee

Conferees appearing before the committee:
Harland Priddle, Secretary, Department of Commerce
Brad Parrott, Southwestern Bell
Anthony Redwood, Institute for Public Policy and Business Research, University of Kansas

The meeting was called to order at 12:40 p.m. by the Chairman, Senator Wint Winter, Jr.

Senate Bill 739 - An Act relating to Kansas Inc.; concerning the funding of activities.

The Chairman called for discussion to continue on SB 739. Copies of a new balloon version of SB 739 were provided to the Committee by Senator David Kerr. (Attachment I) Senator Kerr noted that the suggested amendments, contained in this balloon version of the bill, are the same as were suggested in the balloon version at yesterday's meeting (March 28, 1988) but with the addition of a suggested amendment in line 26. He said that he feels that there would be more realistic appraisals of the fair market value of in-kind contributions to Kansas Inc. if there is a written policy adopted on the procedures to be used in these appraisals. This is the suggested amendment in line 26 of the balloon version.

Senator David Kerr moved that SB 739 be amended by the adoption of the amendments shown in the balloon version of the bill (Attachment I). Senator Vidricksen seconded the motion. The motion carried.

Senator David Kerr moved that SB 739, as amended, be recommended favorable for passage. Senator Salisbury seconded the motion. The motion carried.

Harland Priddle, Secretary of the Kansas Department of Commerce, reported on the Business Retention and Expansion in Kansas Mid-Size Communities Study. Secretary Priddle said that this study project was a joint effort between Southwestern Bell, the Kansas Department of Commerce, the Institute for Public Policy and Business Research at the University of Kansas and community leaders. He stated that the purpose of the study was to keep Kansas businesses in Kansas and to assist those businesses in their economic growth. He pointed out that eighty percent of new jobs in Kansas come from existing businesses that are expanding during the year. The Secretary said that the approach of the study was to determine business attitudes and needs and then to formulate and implement the plans to address those needs in the future.

Secretary Priddle told the Committee that eight hundred and fifty-eight business firms were surveyed in nine Kansas communities with populations of 10,000 to 100,000. The survey looked at non-retail businesses only and looked at seven broad categories: (1.) demographics; (2.) human resources or labor; (3.) markets; (4.) taxation issues; (5.) capital availability; (6.) technology; and (7.) feeling toward the business's own communities.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON ECONOMIC DEVELOPMENT,

room 254-E, Statehouse, at 12:40 ~~xxx~~./p.m. on March 29, 1988

Secretary Priddle discussed the fourteen major findings and the thirteen recommendations of the Survey. (See Attachment II for a copy of the findings and recommendations.) He provided each Committee member with a copy of the Executive Report entitled "Business Retention and Expansion in Kansas Mid-Size Communities" and a copy of Part Two of that report. (Both of these reports are on file in the Kansas Legislative Research Department, Room 545-N, Statehouse, Topeka, KS.)

Brad Parrott, Southwestern Bell, told the Committee that the need for market expansion and the lack of awareness of the state's existing economic development programs are the two most important findings of the study. He observed that as the knowledge level of the state's economic development programs is built up, the competition for the existing dollars will be greater. He stated that the responsibility for "P.R.ing" the programs that are in existence today not only rests with the KDOC but also with the local Chambers of Commerce. He feels that it is also the responsibility of local businesses to be looking to avenues to increase their market territory and to increase the services of products that they offer. Mr. Parrott observed that only fourteen percent of the businesses surveyed thought that they had a product or service which they could export and thirteen percent said that they were willing to export. He pointed out that a lot of those businesses are limited by franchise, by regulation and other constraints which would not allow them to export. Among those thirteen percent, there were three reasons given for not exporting as follows: (1.) they felt they were too small; (2.) they lack financing; and (3.) they did not have the know how. Mr. Parrott stated that these three things can be overcome by those businesses who have the willingness and the ability to move into the international market.

Dr. Anthony Redwood, Institute for Public Policy and Business Research at the University of Kansas, told the Committee that in a broad sense, the focus on retention is awfully important. He observed that looking at the statistics on employment growth in the last decade in these surveyed communities brought out the tremendous challenge that Kansas has. He noted that all of the communitits are under performing either the state or the U.S. average considerably.

Dr. Redwood discussed the findings of the survey and pointed out that of the firms that had wanted to expand, only half had been able to obtain capital from normal sources. He said that in the area of exports, there are tremendous problems in trying to export from the middle of the country. Also, Kansas does not have a handle on intra-firm linkages of suppliers to other firms. He said that Kansas is a well below average exporting state. He stated that Kansas is going to have to develop special mechanisms in the exporting area, including export finance support, to try to take the opportunities in the international market that are now becoming available through the global economy.

Brad Parrott stated that if one looks at the finding that these communities' growth is stunted, then the market which the people in the communities are serving is stunted. The only way out of the degenerative trend they are facing today is to export either outside the state or outside the country.

Chairman Winter gave a brief report on the NCSL meeting he attended last week-end in Washington, D.C., a large part of which was on the export issue. He said that, in general, what was presented at this meeting reconfirmed the decision in Kansas not to rush into the export financing issue this Legislative Session. Also, the meeting confirmed that there is a tremendous amount of potential in this area. The Chairman said that the Vice President of Marketing with Exim Bank was present. Exim Bank claims that they very much want to work with states to make its programs available to smaller businesses and Exim is looking for "a unique relationship with states" such as sharing office space with states. The Chairman stated that all of the speakers at the meeting made it very clear that the first thing to do, before getting into the export finance market, is to develop information for businesses to overcome the barrier of businesses feeling that they cannot or they should not get into the export market.

The meeting was adjourned at 1:25 p.m. by the Chairman.

GUEST LIST

NAME	REPRESENTING
Mary Lou McPhail	KDOC
Jack Montgomery	KDOC
Judy Krueger	SBA
Charles Warren	Kansas Inc.
Tony Redwood	KU
Harland Priddle	Topeka
Bea Parrott	Topeka
Brandon Parrott	Topeka

Senate Economic Development
March 29, 1988

Session of 1988

SENATE BILL No. 739

By Committee on Ways and Means

3-17

AN ACT relating to Kansas, Inc.; concerning the funding of activities; amending K.S.A. 1987 Supp. 74-8009 and repealing the existing section.

Be it enacted by the Legislature of the State of Kansas:

Section 1. K.S.A. 1987 Supp. 74-8009 is hereby amended to read as follows: 74-8009. In the first year of operation, the legislature will fund the activities of Kansas, Inc. In subsequent years, state funds will be matched ~~by other funds~~ on a 66 2/3% state and 33 1/3% other basis. *The monetary value of property and services received by donation to Kansas, Inc. may be considered for the purpose of fulfilling nonstate matching requirements hereunder.* Nonstate matching funds, *property and services* may be raised *and received* throughout the fiscal year for which state funds are appropriated. Kansas, Inc. shall have the responsibility to raise the matching funds.

Sec. 2. K.S.A. 1987 Supp. 74-8009 is hereby repealed.

Sec. 3. This act shall take effect and be in force from and after its publication in the Kansas register.

fair market

in kind

, as determined in accordance with a consistent, written policy adopted by the members of Kansas, Inc.,

up to 20% of the

Attachment #I
Senate Eco Devo
3-29-88

Attachment I

Attachment II

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.

Attachment II
Senate Eco Devo
3-29-88

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.

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.

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%.

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.

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.