

Approved

April 26, 1991
Date

MINUTES OF THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT

The meeting was called to order by Representative Diane Gjerstad at
Chairperson

3:35 ~~xxx~~ p.m. on Thursday, January 31, 1991 in room 423-S of the Capitol.

All members were present except:

Representatives Wagon and Wisdom. Excused.

Committee staff present:

Lynne Holt, Research
Betty Manning, Secretary

Conferees appearing before the committee:

Dr. Anthony Redwood, IPPBR, School of Business,
University of Kansas, Lawrence, KS

Chairperson Gjerstad called the meeting to order at 3:35 p.m.

The Chair welcomed Dr. Anthony Redwood. Dr. Redwood presented the background of understanding as to where we are and how we got there with regard to the Kansas strategy for economic development. Material was handed out highlighting the most important elements of his testimony. Attachment 1. Basically, he stressed what the strategy is and where we are in the implementation of these particular challenges and what we need to focus on at this stage.

In 1985, the Kansas Legislature appropriated funding for an economic development study and strategy to be undertaken. This was matched by private sector funds. The purposes were to analyze the Kansas economy and business climate and then develop a state strategy for economic development. The main concern was that Kansas industry seemed to be losing its competitive edge. Also, it was apparent that to the east of us, most states had in one way or another, started to undertake economic development initiatives and programs. There was a realization that the states fiscal crunch was somewhat tied to the state's economic performance and the direct link between economic growth and state revenue growth. A report was prepared five months into the exercise and at that point the legislative leadership and governor decided to go with the strategy as it existed at that stage. The 1986 legislature enacted ten basic pieces of legislation underpinning the Kansas strategy for economic development. The report comprised of fifty basic recommendations and all fifty recommendations have been implemented and supplemented by a whole series of additional recommendations emanating out of the work of Kansas, Inc.. During 1986, the state passed seven constitutional amendments and one was closely tied to funding for economic development.

The crucial organizations of the Kansas strategy are Kansas, Inc., a public-private partnership created to undertake ongoing strategic planning for economic development; KTEC, a public-private partnership created to develop the technology/innovation foundation for Kansas business competitiveness, and the Kansas Department of Commerce charged with the implementation and management of the state's economic development programs. The key points of the study constituted the basis for a comprehensive strategy for Kansas based on the best available information at that time regarding the state's economy and

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT,
room 423-S Statehouse, at 3:35 ~~am~~/p.m. on Thursday, January 31, 1991

the effectiveness of economic development initiatives in other states. The basic findings of the 1985-1986 study of the Kansas economic structure were dominated by mature and declining industries and under represented with growth-type industries. If existing trends continue there will be erosion of the state's tax base. Kansas needs to increase global competitiveness, needs rapid technological change and growth in the services sector.

The strengths in Kansas business development in 1985-1986 are sound diversity of our economic base, sound fiscal management, above average entrepreneurial environment, and above average public and higher education. We are more diversified than any of the states in our region in terms of our economic structure. Workforce productivity in Kansas puts us in the top ten in the nation in the manufacturing sector.

The weaknesses of the strategy included inadequate R&D, lack of financial capital, inadequate funding and inappropriate emphasis in that state economic development effort, distance from major markets and inadequate focus on vocational and technical education.

In formulating specific approaches, there are some very important guiding principles. One is our strategy should be a Kansas strategy. It should also be a public-private partnership. The approach recommended would be a balanced focus on startups through entrepreneurships. We need to attract new industry on basis of a favorable business climate and favorable conditions for business development. We would do all that by essentially attacking the weaknesses we have and build on our strengths.

The objectives were to try to bring Kansas, in terms of economic performance, up to the national average. How do we get there? Go subsidy and incentives approach and focus on the fundamentals associated with business functioning and make those fundamentals as good as possible so that business can operate in the best possible climate.

The legislature has played a major leadership role and the economic development strategy has enjoyed bipartisan support from the start. The major challenges for the 1990's are employment and training, focusing on creating quality jobs, management assistance and adequate funding. We need to concentrate on making Kansas the home of entrepreneurship in this region. Our non-metropolitan development is lagging far behind our urban centers and behind most other states' non-metropolitan areas across the country. The state needs to review the allocation of funding within each of the key foundations of the strategy. There were questions from the committee during Dr. Redwood's presentation.

The minutes of January 29, 1991 meeting were approved.

The meeting was adjourned at 4:50 p.m.

Date: Jan 31, 1991

GUEST REGISTER

HOUSE

Committee on Economic Development

<u>NAME</u>	<u>ORGANIZATION</u>	<u>ADDRESS</u>
Michelle Kister	John Potoczny & Associates	Topeka
BOB GRANT	KCTI	Topeka
Lyan Rundle	KFB	2627 KFB Plaza Manhattan
Terry Decker	Ks. St. Bd. of Ag.	Topeka
Scott Hessell	Kansas Inc.	Topeka
Jerry Longman	Kansas Inc.	Topeka
Carol J. High	City of Topeka	Topeka
Judy Frost	" "	" "
J. Bowser	United Tel	Junction City
JEFF RUSSELL	UNITED Tel. Co. of KS	TOPEKA
TONY REDWOOD	KU	LAWRENCE
Ken Evans	DEPT. of Commerce	TOPEKA
David Orend	" "	" "
CLYDE ENGERT	KTEC	"
Bill Brunorse	KTEC	
Cindy Siehl	"	

REVIEW OF THE KANSAS STRATEGY FOR ECONOMIC DEVELOPMENT

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

Presented to the
House Economic Development Committee
Kansas Legislature

January 31, 1991

My testimony will address three questions:

1. What is the KS investment strategy for economic development?
2. Where are we with its implementation?
3. What are the particular challenges and problems that our evolving strategy needs to focus upon at this stage?

QUESTION 1: What is our strategy?

I. HISTORICAL BACKGROUND OF THE REDWOOD/KRIDER REPORT (1985/86 KANSAS ECONOMIC DEVELOPMENT STUDY)

A. The 1985 Legislature appropriated funding, which was matched by the private sector, for a study to:

1. Analyze the Kansas business climate.
2. Develop a state strategy for economic development.

My colleague in the School of Business and Institute, Chuck Krider, and I were asked to undertake the study.

B. This initiative was a result of several factors:

1. Kansas was losing its competitive edge.
2. Other states were making significant efforts to foster economic development.
3. Slow economic growth caught up with state revenue.

C. An interim report was prepared for 1986 legislative guidance. It was endorsed by KBA, KCCI, KFB, and both political parties.

1. The 1986 Legislature proceeded with acting on the initial recommendations.

D. The final report, comprised of 3 volumes and 50 recommendations, was submitted after the adjournment of the 1986 session.

1. The 1987 and 1988 Legislatures were responsible for implementing the balance of recommendations outlined in the final report.
2. Virtually all 50 recommendations were implemented and supplemented.
3. During the 1986 elections, 7 constitutional amendments were passed.

E. Crucial organizations:

1. Kansas Inc., a public-private partnership, was created to undertake ongoing strategic planning for economic development.
2. KTEC, also a public-private partnership, was created to develop the technology/innovation foundation for Kansas business competitiveness.
3. KDOC was charged with the implementation and management of the State's economic development programs.

F. Key point - the study constituted the basis for a comprehensive, tailor-made strategy for Kansas based on the best available information at that time regarding the state's economy, and the effectiveness (or otherwise) of economic development initiatives in other states.

II. BASIC FINDINGS OF THE 1985/86 STUDY

- A. The Kansas economic structure is dominated by mature and declining sectors, and under represented with growth sectors.
- B. A continuation of existing trends would result in relative erosion of the state's tax base.
- C. Key trends affecting Kansas include:
 - 1. Increasing global competitiveness.
 - 2. Rapid technological change.
 - 3. Growth in the service sector, particularly in the evolution of information transfer technology.

Key implication

The new international economic order has created forces that are harmful to our traditional industrial base (agriculture, oil and gas, manufacturing).

Having said that, we need to recognize:

- D. The existing Kansas economic foundation is dominated by industries suited to the state's environment and, as such, is based on comparative advantage.

Key implication

To abandon this foundation for a substitute economy based on an artificial comparative advantage, induced by an incentives approach to economic development, would be expensive & risky.

- E. Kansas industry is mostly homespun.
- F. Strengths regarding business development (at 1985/86)
 - 1. Sound diversity of economic base
 - 2. Above average public and higher education
 - 3. Higher work force productivity than US
 - 4. Sound fiscal management
 - 5. Below average costs of production
 - 6. Above average entrepreneurial environment
- G. Weaknesses of business development (at 1985/86)
 - 1. Inadequate R&D and barriers to technology transfer/innovation
 - 2. Major impediments in state tax structure
 - 3. Lack of financial capital
 - 4. Insufficient links between government, business, and universities.
 - 5. Inadequate funding and inappropriate emphasis in the state economic development effort.
 - 6. Weak self image, and relatively neutral image externally.
 - 7. Conservatism in business and government.
 - 8. Distant location from major markets.
 - 9. Deteriorating infrastructure, particularly roads.
 - 10. Inadequate focus on vocational and technical education.

III. THE KANSAS STRATEGY

- A. Vision: taking all these factors into account, namely:
1. the external economic environment,
 2. the Kansas economic structure, and
 3. the state's strengths and weaknesses in relation to the three forms of business development, (retention/expansion, creation, and attraction);
- the only realistic vision is one of a Kansas economy in the next 25 years that will evolve out of, and be based upon, the existing structure.

- B. Given this vision, we need to take into account the following strategic considerations or guiding principles:

1. The strategy should be tailored to Kansas.
2. The strategy should have a private sector basis.
3. The state's power is limited, but it can:
 - . identify what it is able to influence effectively
 - . establish basis for response
 - . facilitate change
4. State resources are limited.
5. The strategy must be responsive to geographic diversity and the role of the community.
6. Success= f(public/private partnerships)

C. Broad Approach

The optimum approach is a balanced focus on:

1. Start-ups, through entrepreneurship.
2. Retention/expansion of existing Kansas industry
3. Attraction of new industry to the state on the basis of a favorable business climate and favorable production conditions by:

removing the barriers, minimizing the weaknesses, and building on our strengths underlying these three forms of business development.

D. Specific Objectives

PHASE I: bring the Kansas economic growth rate up to the U.S. average growth rate on a consistent basis.

PHASE II: maintain the Kansas economic growth rate **above** the national average.

E. Basic Alternatives To Get There

1. Incentives Approach (tax breaks, subsidies, etc.)

Advantage- short term visible results

Disadvantages-

- . focusses on attraction, KS's weakest card
- . diverts resources from enhancing strengths and minimizing weaknesses
- . total funds available for incentives are not sufficient to make a significant impact

2. Investment Approach

Advantages-

. focusses on enhancing strengths and minimizing weaknesses to sustain long term growth

. focusses on business formation through start-ups and expansion of existing industry, the more successful modes in KS

Disadvantage- requires patience as results are long term

IV. IMPLEMENTING THE STRATEGY

A. Strategic investment in the following seven foundations of business development: (See Appendix C for definitions)

1. Human capital
2. Financial capital
3. Innovation or technology capital
4. Infrastructure capital
5. Institutional capacity
6. Business environment (NOTE: the objective is to neutralize tax and incentives as factors affecting business development, and thus to compete and foster growth on the basis of non-tax factors)
7. Quality of life

- B. Determine the optimal allocation of state resources across those foundations to maximize the three forms of business development.
- C. Develop synergism through interrelationships and involvement.
- D. Foster on-going change.

QUESTION 2: Where are we with implementation?

V. INITIATIVES/PROGRAMS TO DATE

- A. Initiatives since 1986 (Appendix A)
- B. Programs by focus of business development and key foundations (Appendix B)
- C. Key points:
 - 1. Programs are integrated into a broader strategy that has a purpose: overcome weaknesses/build strengths.
 - 2. Approach is strategic and dynamic.
- D. Accomplishments
 - 1. A sound strategy is in place. It is:
 - comprehensive
 - . research based
 - . tailored to Kansas
 - . purposeful
 - . integrated
 - . continuously evolving

2. Implementation has been successful, particularly since the availability of lottery monies in 1987/88.
 - . Programs have been systematically implemented
 - . Core programs have been consolidated within KDOC
 - . Public-private partnerships, (Kansas Inc., KTEC) have ensured the productive involvement of the private sector and the universities.
3. Funding for economic development programs has increased significantly since 1986.
4. The economic development strategy has enjoyed bipartisan support from the start.
5. The state has made the most progress in addressing the problems that are more amenable to legislative action, particularly in:
 - . business environment
 - . infrastructureNow, the harder challenge is to address the more convoluted, long term problems, particularly in:
 - . human capital
 - . technology/innovation capital
6. Business and community confidence and the overall climate for economic development have improved significantly in Kansas since 1986. There is a clearer recognition that the future lies largely in our own hands.

7. Indicators of state economic performance suggest that Kansas is now doing as well as, or better, than surrounding states, and is approaching the national average.

QUESTION 3: What are the particular challenges and problems that our evolving strategy needs to focus on at this stage?

VI. MAJOR CHALLENGES FOR THE 1990s

A. Human Capital

1. Traditionally a strength, thus not much attention
2. Critical for KS to sustain this advantage
3. Issues to be addressed include:
 - . weak links between public ed and world of work
 - . limited employer training
 - . inadequate vocational-technical training programs
 - . inadequate retraining of an aging work force
4. A focus on creating quality jobs is needed

B. Technology Development/Transfer

1. Great progress, particularly KTEC programs
2. Yet, long way to go
3. What is missing at this stage?
 - . technology transfer and technical assistance to small and medium sized KS firms
 - . management assistance
 - . adequate funding

C. Business Environment

1. We have successfully achieved our objective of neutralizing TAX as a determining factor in the attraction of industry from outside, but sectoral problems exist with respect to the tax burden for existing industry.
2. The primary challenge is to make Kansas the home of entrepreneurship in this region, particularly in technology oriented start-ups.

D. Institutional Capacity

1. Non-metropolitan development is lagging well behind the state's urban centers in nearly every measure of economic vitality and is also lagging behind most other non-metropolitan areas across the country in employment diversity, employment growth, and population retention. (Source: CED)
2. Our economic development strategy is state-wide, but its impact tends to be the greatest in metropolitan communities.
3. Key question: Should additional resources be targeted specifically to support non-metropolitan business development?
4. The community strategic planning program, initiated by the 1990 legislature, is an important start in meeting the non-metropolitan challenge.

E. Program Evaluation

1. It has been recognized that programs need time and consistent funding to be effective.
2. Nevertheless, the time has come to implement a systematic evaluation of these programs to determine whether they are moving towards achieving their objectives, and whether changes are necessary to enhance their effectiveness.
3. Kansas Inc. has developed a strategy for program evaluation and its implementation should be given priority.

F. Funding/Support

1. The state needs to review, not only the overall level of funding, but the relative allocation of funding within each of the key foundations.

VII. CONCLUSION

- A. Increased national/regional emphasis has been placed on the key foundations of human capital and technology/innovation. In its report to the 1991 Legislature, the Joint Committee on Economic Development placed first and second priority on upgrading human capital skills and increasing the degree of technological development, respectively. These priorities should be adopted statewide.

B. Renewed commitment is crucial to sustain, if not enhance, consensus support from all sectors of the Kansas community. Additionally, it must be realized that the fiscal difficulties facing the state are the consequence of persistent slow growth in Kansas. The objective of economic development is to enhance the pie, and in doing so, facilitate the state's ability to fulfill its important obligations in supporting both public and higher education, social services, physical infrastructure, and the many other needs.

Appendix A

IPPBR/KU
Dr. Redwood

**KANSAS INVESTMENT STRATEGY FOR ECONOMIC DEVELOPMENT:
INITIATIVES (1986-1990)**

I. Human Capital

Capital outlay for vocational education
Legislative Task Force on vocational education
Expansion of Kansas Industrial Training Program
Creation of Kansas Industrial Retraining Program
Economic development focus for JTPA reviewed
Kansas Inc. funding of work fore training study
Margin of Excellence
Educational Excellence Grant Program

II. Infrastructure Capital

Constitutional amendment permitting internal economic
development improvements
Kansas loan Partnership Fund established to provide loans
for local infrastructure improvements
Economic development focus for Federal Community Development
Block Grants reviewed
Allocation of EDIF monies for physical infrastructure
Kansas Inc. capital planning/budgeting study
State Highway Improvement Plan
State Water Plan funded

III. Financial Capital

Kansas Venture Capital Inc.
Tax credit for venture capital investment
Tax credit for seed capital investment
KTEC seed capital program funded through Ad Astra Fund
Annual Midwest Venture Capital Conference
Div. of Existing Industry performance grants to CDCs
Kansas Export Finance Program
KDFa Industrial Revenue Bond Program
Savings & loans interstate branching
Intrastate branch banking
Allocation of private activity bonds
KDFa Basic Enterprise Loan Program
Trade Show Assistance Program

IV. Innovation/Technology Capital

Corporate tax credit for R&D expenditures
Expanded funding for Centers of Excellence
Kansas Value Added Center for agriculture
KTEC grants to industry liaison offices
Expanded funding for Applied Research Matching Grant Program
Kansas Inc. research study on Oil & Gas Industry
Small Business Innovation Research Matching Grants
Training Equipment Grants
Regional Technology Service Centers

V. Commitment/Capacity Capital

Ks. Technology Enterprise Corp. (KTEC)
Kansas Inc.
Kansas Department of Commerce (KDOC)
Legislative Eco Devo Committees
Legislative Task Force on Agriculture
KDOC's Targeted Industries Program
Board of Agriculture marketing program
Governor's Task Force on Rural Development
IPPBR/Kansas Inc. Strategic Database
Small Business Development Centers
Main Street Program
Task Force on non-food uses of Ks. agriculture products
Rural Assistance Center
Huck Boyd Institute for Rural Development
Community Strategic Planning Assistance Program
Information Network of Kansas

VI. Business Environment

Property tax exemption for inventories
Local property tax abatements
Reappraisal/Classification
Existing Industry Division, KDOC
International Trade Division, KDOC
Industrial Development Division, KDOC
Trade Development Division, KDOC
Corporate tax reform
Investment Credit Act expansion
Sales tax exemption for manuf. machinery/equipment
Sales tax exemption for farm machinery
Enterprise Zone Program
Travel and Tourism Commission
Limited Liability Company Act

VII. Quality of Life

Kansas Arts Commission
Joint Committee on Arts and Culture
Public Broadcasting Commission study
Center for Historical Research

Appendix B

IPPBR/KU
Dr. Redwood

**KANSAS ECONOMIC DEVELOPMENT PROGRAMS:
BY KEY FOUNDATION AND FOCUS OF BUSINESS DEVELOPMENT
(1986 - 1990)**

<u>FOUNDATION</u>	<u>FOCUS OF BUSINESS DEVELOPMENT</u>		
	<u>Attract</u>	<u>Expand/ Retain</u>	<u>Create</u>
<u>Human Capital</u>			
1. Margin of Excellence	(X)	X	
2. Educational Excellence Program	(X)	X	
3. Industrial Training Program	X		
4. Industrial Retraining Program		X	
5. Job Training Partnership Act		X	
<u>Infrastructure Capital</u>			
1. Loan Partnership Fund	(X)	X	
2. State Highway Program	(X)	X	
3. State Water Plan	(X)	X	
4. Recreation/Water Projects	(X)	X	
<u>Financial Capital</u>			
1. Kansas Venture Capital, Inc.			X
2. Community Venture Cap. Tax Credit			X
3. Community Seed Capital Tax Credit			X
4. Seed Capital-Ad Astra Fund			X
5. Export Finance Program		X	
6. Basic Enterprise Loan Program		X	
7. KFDA Indust.Devo.Rev.Bond Program		X	
8. Certified Development Companies		X	
9. Community Develop. Block Grants		X	
10. Trade Show Assist. Program		X	
<u>Innovation/Technology Capital</u>			
1. Centers of Excellence			X
2. Value Added Agriculture Center	X		(X)
3. Industrial Liaison Program	X		
4. Applied Res. Match. Grant Program	X		
5. SBIR Matching Grants	(X)		X
6. Training Equip. Grants	X		
7. R & D Tax Credit	X		
8. Regional Technical Service Centers	X		

Commitment/Capacity Capital

1. Kansas, Inc.	X	X	X
2. Kansas Tech. Enterprise Corp.	X	X	X
3. Kansas Department of Commerce	X	X	X
4. Board of Ag. Marketing Program		X	
5. Legislative Eco.Devo.Committees	X	X	X
6. IPPBR/Ks. Inc. Strategic Database	X	X	X
7. Small Bus. Development Centers		X	(X)
8. Main Street Program		X	
9. Community Strategic Plan. Program		X	(X)
10. Rural Assistance Center		X	
11. Huck Boyd Instit.for Rural Devel.		X	

Business Environment

1. Mfg. Mach/Equip.Sales Tax Exempt.	X	X	
2. Farm Mach. Sales Tax Exempt.		X	
3. Inventory Property Tax Exempt.		X	
4. Property Tax Abatements.	X	(X)	
5. Corporate Tax Reform		X	
6. Enterprise Zone Program	X	(X)	
7. Existing Industry Division-KDOC		X	
8. International Trade Division-KDOC		X	
9. Industrial Development Div.-KDOC	X		
10. Trade Devo. Division-KDOC		X	
11. Travel and Tourism Division-KDOC		X	(X)

Quality of Life

1. Kansas Arts Commission	(X)	X	
2. Joint Comm. on Arts & Culture	(X)	X	
3. Center for Historical Research	(X)	X	

* secondary focus denoted by (X)

WORKING DEFINITIONS FOR THE SEVEN FOUNDATIONS

1. Human capital (development of labor resources)--state programs which assist in the long-term investment and development of labor resources. Efficient and responsive training, retraining, and general education programs are a central part of this, including programs which target and assist new/expanding/existing businesses utilize new processes and technologies, train, and improve employees' performance. Programs may also offer training/retraining to adults who may be unemployed or have skill deficiencies. Financial support and business/education linkages may also be provided and encouraged.
2. Infrastructure development/assistance--state programs which assist communities in creating and maintaining public infrastructure systems, such as site development for business/industrial parks.
3. Financial capital assistance--state programs designed to provide businesses in various growth/development stages with adequate capital. Improving business' access to financial capital encourages economic expansion, modernization, and innovation. Capital may be used in a variety of areas: purchasing facilities and equipment, general operations, working capital, development of prototypes, or general start-up needs. In addition, specific projects/areas may be targeted, such as export assistance, small businesses, or high technology.
4. Innovation/technology--state programs which stimulate technology development, coordination, application and transfer. The goals of these programs include improving the competitiveness and efficiency of manufacturing and service industries within the state, as well as diversifying and building on the current economic base. Industry/education linkages may be fostered with the focus on improving research and development of new technologies and commercialized products. Technology centers, offices, and information may be available to small businesses and entrepreneurs who wish to develop, produce or utilize new or higher levels of technology.
5. Commitment/capacity--agencies or organizations which form the infrastructure through which the state provides assistance and support for businesses and for economic development. These entities are more reactive in nature in that they are more service oriented, with administration of programs, general assistance and support, planning, etc. as their main activities. Programs categories include SBDCs, community and rural economic development, economic development research, economic development data bases and information systems, business incubators, organizational assistance, administrative support, business assistance centers, and regulatory assistance and reform.
6. Business environment--programs that are focused or targeted to create business, create business opportunities, or improve business competitiveness. Includes such program categories as industry recruitment (out-of-state and foreign), business export, business retention and expansion, tourism and image promotion, support for major industry, and film promotion.
7. Quality of life--state programs which seek to develop and maintain a positive cultural milieu within the state. Programs may increase the availability and diversity of cultural, artistic, recreational, environmental, and historical activities in order to improve the quality of life and economic potential of the state.

Excluded from the analysis were programs that did not receive state dollars and programs that granted tax adjustments/credits/exemptions/etc. Also excluded were highway projects, water projects, bond-funded programs, and historical preservation programs.