Approved March 5, 1991
Date

MINUTES OF THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT.

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

3:35 ~~a.m.~~/p.m. on Wednesday, February 6, 1991 in room 423-S of the Capitol.

All members were present except: Representatives Wagnon 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

The meeting was called to order at 3:35 p.m.

Minutes of January 30, 1991 were approved.

Chairperson Gjerstad stated she had requests from several people for committee bill introduction. The Chair requested that the committee introduce four bills. One by Stanley Lind, Kansas Association of Financial Services, dealing with collection of attorney fees on bad check charges. Several individuals from the education community requested a bill that would allow USD's to exceed their budget authority subject to protest, to acquire equipment for technology education; and two bills relating to United Telecommunications, Inc., amending the corporate income tax law to single factor apportionment, and other to creation of a training program using training certificates modeled after Iowa and Missouri.

Representative Chronister made a motion the bills be introduced. Representative Edlund seconded the motion. Motion carried.

The Chair then recognized Dr. Anthony Redwood. Dr. Redwood introduced a member of his staff, Henry Schwaller, who assisted in the preparation of the study, "Economic Development Expenditures of Ten States: A Comparison", presented by Dr. Redwood, Attachment 1. The study was funded by Kansas, Inc. and the Department of Commerce, and includes data on other states having similar funding programs or close proximity to Kansas. The comparison is of expenditures only on programs and projects occurring because of the state's planned or deliberate commitment to encourage economic development. It excludes programs which rely solely on federal funding, expenditures through tax concessions and programs that exist that were not making an economic development impact. Seven of the ten states in the study supported over sixty percent of their total economic development budgets using state funds. Major emphasis in FY 1990 were business environment, technology/innovation and human capital.

Dr. Redwood responded to questions from the committee.

When questioned about suggested cutbacks, Dr. Redwood paraphrased his remarks that the evaluation of reductions could not be done without also discussing the programs which have been routinely underfunded. He suggested industrial recruitment, tax credits on R&D, the enterprise zone program, and the office in Germany could be examined to evaluate if the state's needs have altered. A suggested increase would be to expand the office in Japan.

When asked to explain the dramatic decrease (63%) in financial capital between 1989 and 1990, he responded that much of our effort in the financial capital is not shown on the chart in Attachment 1 in the sense it would be included as a tax credit area. But, it does include the venture capital funding area and monies made available through KDFA.

Regarding financial capital programs of comparison states, Montana, North Dakota and Hawaii do not have interstate banking.

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 HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT,

room 423-S, Statehouse, at 3:35 ~~a.m.~~/p.m. on Wednesday, February 6, 1991.

Chairperson Gjerstad asked Dr. Redwood to comment on the Governor's budget recommendations such as funding third year of Margin of Excellence. Dr. Redwood responded that he felt everything state does is economic development. Although the Margin of Excellence is of great importance to the State of Kansas, he would argue it should be funded from other sources. He felt that it is inadequate finanacial management to have monies from lotteries used for permanent funding of the universities. Responding to why would you keep the EDIF for economic development, Dr. Redwood gave an example of dedicated funds such as fuel taxes for roads or other similar levies. The fundamental argument here is that the state has decided to distinguish economic development as a long-term programatic endeavor. Also, there is an ethical issue here that when the constitutional amendments authorizing parimutuel and lottery were put on the 1986 general ballot, they were clearly linked to future revenues being dedicated to economic development.

Dr. Redwood's final observation was that Kansas policy makers should note that our funding effort is relatively weak. The goal in Kansas is to look at what we have done and what modifications need to be made. We need to get into an ongoing evaluative mode using systematic evaluations to assure that the programs we are engaged in are doing what they are supposed to do, and if not, free those resources for other needs.

The meeting adjourned at 4:30 p.m.

Date: Feb 6, 1991

GUEST REGISTER

HOUSE

Committee on Economic Development

NAME	ORGANIZATION	ADDRESS
Beth Khuenter	IPPBR	KU
Dr. Tony Redwood	IPPBR	KU
Henry Schwaller IV	IPPBR	KU
Dave Cleveland	KDOC	Topeka
J Bowser	United Tel	Junction City
Thomas McBird	observer	Lawrence
Jamie Rutherford	KTEC	Topeka
Cindy Diehl	"	"
ALAN COBB	KASB	WICHITA
Dick W. Jsaver	The Coleman Co.	Wichita
Freda Culver	R1 Riverton	Kansas
Josserand		

INSTITUTE FOR PUBLIC POLICY AND BUSINESS RESEARCH
THE UNIVERSITY OF KANSAS

ECONOMIC DEVELOPMENT EXPENDITURES OF TEN STATES: A COMPARISON

Presented to

The House Committee on Economic Development

Presented by

Anthony L. Redwood
Executive Director, Professor of Business

February 6, 1991

Eco-Devo
Attach. 1
02-06-91

INTRODUCTION

For some time the Kansas economy has been in a state of transition and performing below national averages. Therefore, the state initiated an economic development strategy in 1986 in order to encourage economic growth. Other states have also undertaken economic development efforts to improve their economies. This study, which was funded by Kansas Inc. and the Kansas Department of Commerce, compares Kansas' economic development program expenditures (FY 1989) and allocations (FY 1990) to nine selected states. Comparison states were chosen largely based on their geographic proximity to Kansas or because they had similar funding sources. The ten states included in the study were Arkansas, Colorado, Indiana, Iowa, Kansas, Minnesota, Missouri, Nebraska, Oklahoma, and Oregon.

The purpose of the study was to determine: (1) overall spending for economic development programs in Kansas and the selected states and (2) distribution of state funds across seven areas of economic development program activity. Programs were categorized by function or activity according to the following strategic foundations: business environment, commitment/capacity capital, financial capital, human capital, infrastructure development, quality of life, and technology/innovation.

Excluded from the analysis were: (1) programs that did not receive state dollars; (2) programs that granted tax adjustments/ credits/exemptions/etc.; (3) major capital expenditures on infrastructure, such as highway projects, water projects, etc.; (4) bond funded programs; (5) social services, such as training/ retraining to the unemployed and housing for the homeless; (6) historical preservation programs; and (8) administrative or support budgets for state agencies. In essence, this comparison is of state expenditures only on programs and projects that have occurred because states have undertaken a planned or deliberate commitment and effort to encourage economic development. It excludes programs which rely solely or predominantly on federal funding, expenditures through tax concessions of any form, and state programs that would or have existed were the state not making an economic development thrust.

MAJOR FINDINGS

1. While most of the states base their economic development efforts on the desire to create jobs and diversify the states' economic base, their economic development strategies involved much more than "smokestack chasing". States have developed a more sophisticated mix of programs which are adjusted to take into account changing local, national, and global economic forces.

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2. Because of the mix of economic development programs, numerous organizations in both the public and private sector were involved in program administration. While each state's Department of Economic Development or Commerce was heavily involved, it was not the only player. Other state agencies and public/private partnerships were involved as well.

3. Seven of the ten states supported over 60 percent of their total economic development budgets using state funds, supplementing state support with federal funds and other sources, such as private sector contributions.

4. State funding of economic development programs averaged $34,626,538 in FY 1989 and $41,231,443 in FY 1990. Kansas was below average in state funding of economic development programs, with funding at $20,940,569 in FY 1989 and $19,676,133 in FY 1990. (See Table 1)

5. In FY 1990, Minnesota invested more economic development funds ($90,426,996) than any other state, while Nebraska invested the fewest ($19,504,115), just below Kansas. Kansas ranked seventh out of the ten states in total state investment in FY 1989 and ninth in FY 1990. When compared to its contiguous states, Kansas ranked fourth: (1) Oklahoma; (2) Missouri; (3) Colorado; (4) Kansas; and (5) Nebraska. (See Table 1/Figure 1)

6. During the FY 1989-FY 1990 period, Arkansas had the largest increase in economic development funding (99.26%), while Indiana had the smallest increase (0.62%). Of the ten states, Kansas was the only state to reduce funding over the period (-6.04%). (See Table 1/Figure 2)

7. Per capita funding for the ten states averaged $10.29 in FY 1989 and $12.25 in FY 1990. Kansas was below average at $8.39 in FY 1989 and $7.88 in FY 1990. Kansas ranked seventh out of the ten states in per capita funding in FY 1989 and eighth in FY 1990. When compared to its contiguous states, Kansas ranked third: (1) Oklahoma; (2) Nebraska; (3) Kansas; (4) Colorado; and (5) Missouri. (See Table 1/Figure 3)

8. Kansas' funding emphases in FY 1990 were business environment, technology/ innovation, and human capital. (See Tables 2,3,12/Figure 4)

9. Strategic foundations receiving the greatest funding in FY 1990 were business environment (four states) and technology/ innovation (three states), while foundations receiving the lowest funding in FY 1990 were infrastructure (six states) and quality of life (four states). Two states provided no support for either area. (See Tables 3, 12)

10. Six states (Colorado, Indiana, Iowa, Kansas, Oklahoma, and Oregon) rely on a strategic plan to guide their economic development effort, and four (Indiana, Kansas, Oklahoma, and Oregon) utilize a public/private planning organization to carry out the plan. Five states (Arkansas, Indiana, Kansas, Minnesota, and Oklahoma) rely on a technology authority to develop their technology/innovation foundation for sustained business competitiveness. (See Table 15)

Note: Please refer to Figures 14-20 for illustrations of per capita funding for the ten comparison states across the seven foundations for 1989 and 1990. Particular attention should be given to Figure 17 (Human Capital) and Figure 20 (Technology/Innovation).

IMPLICATIONS

Comparison of state's economic development budgets revealed considerable diversity among the ten states, despite common problems. These differences were evident in terms of overall funding levels, distribution of funding across the seven foundations, and the variety and mix of programs within each foundation. Kansas policy makers, especially those involved in economic development, should note that:

1. Our funding effort is relatively weak. Any further erosion would place Kansas last in the region and the ten-state comparison group.

2. Our funding distribution appears to be better balanced than others, undoubtedly due to the comprehensive, strategic approach we have undertaken.

3. There is increasing emphasis in all states on the key foundations of (1) human capital and (2) technology and innovation. We are fifth in per capita expenditures in human capital and sixth in technology and innovation, indicating a need for greater emphasis on these two foundations in future funding. In its recent report to the 1991 Legislature, the Joint Committee on Economic Development ranked these foundations as first and second priority, respectively. These priorities should be adopted statewide.

4. It must be realized that the fiscal difficulties facing Kansas are similar to those facing our neighbors and are the result of persistent, slow growth in state economies. The objective of economic development is to enhance the pie in the long run in order to facilitate the state's ability to fulfill its other important obligations i.e public/higher education, social services, physical infrastructure, etc.

5. While Kansas and the nation face a recession, it is important to see this as an opportunity rather than a threat. By maintaining or increasing our state's economic development efforts during a recession, it will provide us with a competitive advantage which will create greater growth opportunities during the economic recovery.

6. It is now time to implement a systematic evaluation of our economic development programs, to determine whether they are moving towards achieving their goals, and whether changes are necessary to enhance their effectiveness. Kansas Inc. has developed a strategy for program evaluation and its implementation should be given priority.

Table 1

TOTAL STATE ECONOMIC DEVELOPMENT FUNDING BY STATE

State	No. of Programs	STATE FUNDS 1989	STATE FUNDS 1990	PER CAPITA 1989	PER CAPITA 1990	Percent Change
Arkansas	20	$ 12,684,706	$ 25,275,203	$ 5.30	$10.55	99.26%
Colorado	15	19,801,547	20,912,567	6.00	6.34	5.61
Indiana	31	47,911,907	48,206,898	8.62	8.68	0.62
Iowa	47	45,087,785	47,194,774	15.91	16.65	4.67
Kansas	37	20,940,569	19,676,133	8.39	7.88	-6.04
Minnesota	29	58,814,722	90,426,996	13.66	21.00	53.75
Missouri	13	32,177,863	32,655,255	6.26	6.35	1.48
Nebraska	17	14,061,319	19,504,115	8.78	12.17	38.71
Oklahoma	31	37,840,673	42,864,048	11.67	13.22	13.28
Oregon	31	56,944,290	65,598,939	20.58	23.71	15.20
TOTAL:	**271**	**$346,265,381**	**$412,314,928**	**$10.29**	**$12.25**	**19.07%**
AVERAGE:	**27**	**$ 34,626,538**	**$ 41,231,443**			

Source: 1990 Institute for Public Policy and Business Research State Survey

Table 2

ECONOMIC DEVELOPMENT RESOURCES BY STRATEGIC FOUNDATION

KANSAS

Strategic Foundation:	No. of Programs	STATE FUNDS 1989	STATE FUNDS 1990	PER CAPITA 1989	PER CAPITA 1990	Percent Change
A) Business Environment	5	$3,852,825	$4,747,774	$1.54	$1.90	23.23%
B) Commitment/Capacity	3	1,268,826	1,632,037	0.51	0.65	28.63%
C) Financial Capital	5	5,760,000	2,130,000	2.31	0.85	-63.02%
D) Human Capital	2	1,999,999	2,750,000	0.80	1.10	37.50%
E) Infrastructure	1	1,738,845	800,000	0.70	0.32	-53.99%
F) Quality of Life	14	1,762,122	1,867,186	0.71	0.75	5.96%
G) Technology/Innovation	7	4,557,952	5,749,136	1.82	2.30	26.13%
TOTAL	**37**	**$20,940,569**	**$19,676,133**	**$8.39**	**$7.88**	**-6.04%**

Source: 1990 Institute for Public Policy and Business Research Survey of States.

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Table 3

STATES' FUNDING EMPHASIS FOR FY 1990:
RANK ORDER OF STRATEGIC FOUNDATIONS BY PERCENT OF TOTAL STATE FUNDING

Arkansas:

1.	Infrastructure	(40.8%)
2.	Business Environ.	(22.7%)
3.	Quality of Life	(15.0%)
4.	Technology/Innov.	(9.8%)
5.	Human Capital	(6.7%)
6.	Commitment/Capa.	(5.0%)
7.	Financial Cap.	(0.0%)

Colorado:

1.	Business Environ.	(50.0%)
2.	Commitment/Capa.	(21.2%)
3.	Technology/Innov.	(12.9%)
4.	Human Capital	(8.5%)
5.	Financial Cap.	(7.1%)
6.	Infrastructure & Quality of Life	(0.0%)

Indiana:

1.	Human Capital	(34.9%)
2.	Financial Cap.	(23.0%)
3.	Commitment/Capa.	(18.4%)
4.	Technology/Innov.	(16.4%)
5.	Infrastructure	(4.0%)
6.	Business Environ.	(3.3%)
7.	Quality of Life	(0.1%)

Iowa:

1.	Business Environ.	(20.2%)
2.	Financial Capital	(19.3%)
3.	Quality of Life	(17.7%)
4.	Technology/Innov.	(16.4%)
5.	Commitment/Capa.	(12.3%)
6.	Human Capital	(11.3%)
7.	Infrastructure	(2.9%)

Kansas:

1.	Technology/Innov.	(28.3%)
2.	Business Environ.	(23.4%)
3.	Human Capital	(17.0%)
4.	Financial Capital	(10.5%)
5.	Quality of Life	(9.2%)
6.	Commitment/Capa.	(7.8%)
7.	Infrastructure	(3.9%)

Minnesota:

1.	Commitment/Capa.	(34.3%)
2.	Technology/Innov.	(23.0%)
3.	Business Environ.	(18.5%)
4.	Human Capital	(17.1%)
5.	Quality of Life	(6.9%)
6.	Financial Capital	(0.5%)
7.	Infrastructure	(0.0%)

Missouri:

1.	Business Environ.	(37.8%)
2.	Human Capital	(17.2%)
3.	Quality of Life	(15.3%)
4.	Infrastructure	(15.3%)
5.	Technology/Innov.	(7.9%)
6.	Commitment/Capa.	(6.5%)
7.	Financial Capital	(0.0%)

Nebraska:

1.	Technology/Innov.	(64.1%)
2.	Business Environ.	(12.2%)
3.	Financial Capital	(10.9%)
4.	Human Capital	(6.8%)
5.	Commitment/Capa.	(6.1%)
6.	Infrastructure & Quality of Life	(0.0%)

Oklahoma:

1.	Technology/Innov.	(35.1%)
2.	Business Environ.	(24.8%)
3.	Commitment/Capa.	(16.2%)
4.	Human Capital	(11.7%)
5.	Quality of Life	(11.6%)
6.	Financial Capital	(1.0%)
7.	Infrastructure	(0.0%)

Oregon:

1.	Business Environ.	(27.3%)
2.	Infrastructure	(24.0%)
3.	Commitment/Capa.	(22.8%)
4.	Technology/Innov.	(18.0%)
5.	Human Capital	(5.1%)
6.	Financial Capital	(2.9%)
7.	Quality of Life	(0.0%)

Source: 1990 Institute for Public Policy and Business Research State Survey.

Table 12

ECONOMIC DEVELOPMENT FOUNDATIONS: FY 1990 STATE FUNDING LEVEL RANKINGS

Foundation:	Number of States Ranking it: 1	2	3	4	5	6	7
Business Environ.	4	4	1	0	0	1	0
Commitment/Capa.	1	1	3	0	2	3	0
Financial Capital	0	2	1	1	1	3	2
Human Capital	1	1	1	4	2	1	0
Infrastructure	1	1	0	1	1	2	4
Quality of Life	0	0	3	0	3	2	2
Technology/Innov.	3	1	1	4	1	0	0

Source: 1990 IPPBR Survey of States.

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Table 15

OVERVIEW OF STATE ECONOMIC DEVELOPMENT ACTIVITIES

State	Strat. Plan	Pub./Private Planning Org.	Tech. Authority	Prim.Fund. Source	Top Two Foundations	Prim.Focus of Bus.Devo.
Arkansas	N	N	Y	federal	Infra./Bus.Env.	retention
Colorado	Y	N	N	state	Bus.Env./Com.Cap.	attract./retention
Indiana	Y	Y	Y	state	Hum.Cap./Fin.Cap.	attraction
Iowa	Y	N	N	state/lottery	Bus.Env./Fin.Cap.	retention
Kansas	Y	Y	Y	state/lottery	Tech.Inn./Bus.En	retention/start-ups
Minnesota	N	N	Y	state	Com.Cap./Tech.Inn.	attraction
Missouri	N	N	N	federal	Bus.Env./Hum.Cap.	attraction
Nebraska	N	N	N	state	Tech.Inn./Bus.Env.	retention/start-ups
Oklahoma	Y	Y	Y	state	Tech.Inn./Bus.Env.	retention
Oregon	Y	Y	N	state/lottery	Bus.Env./Infra.	retention

Source: 1990 Institute for Public Policy and Business Research State Survey.

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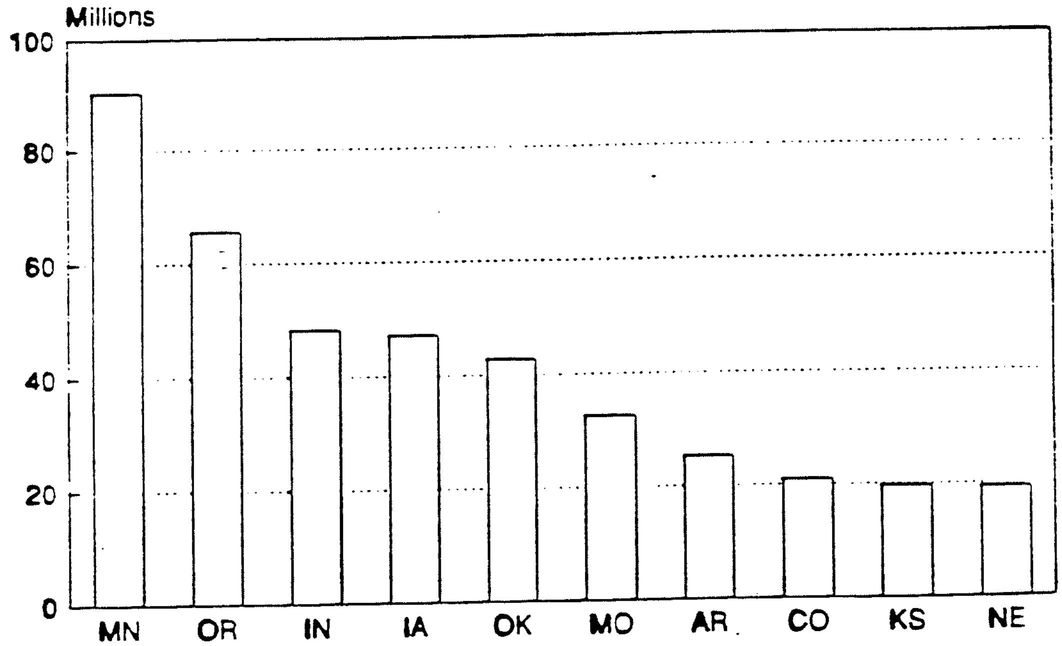
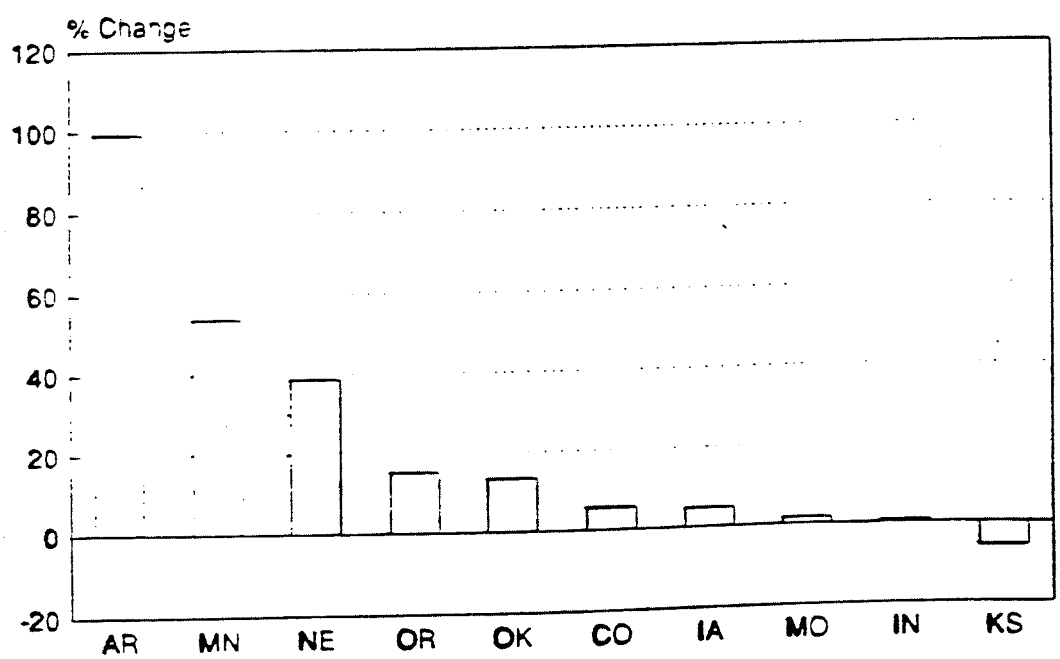
Figure 1
State Funding of Eco Devo Programs:
1990 Rank by Level of State Support



Source: 1990 IPPBR Survey of States

Figure 2
State Funding of Eco Devo Programs:
Rank by % Change in Support, 1989-1990



Source: 1990 IPPBR Survey of States

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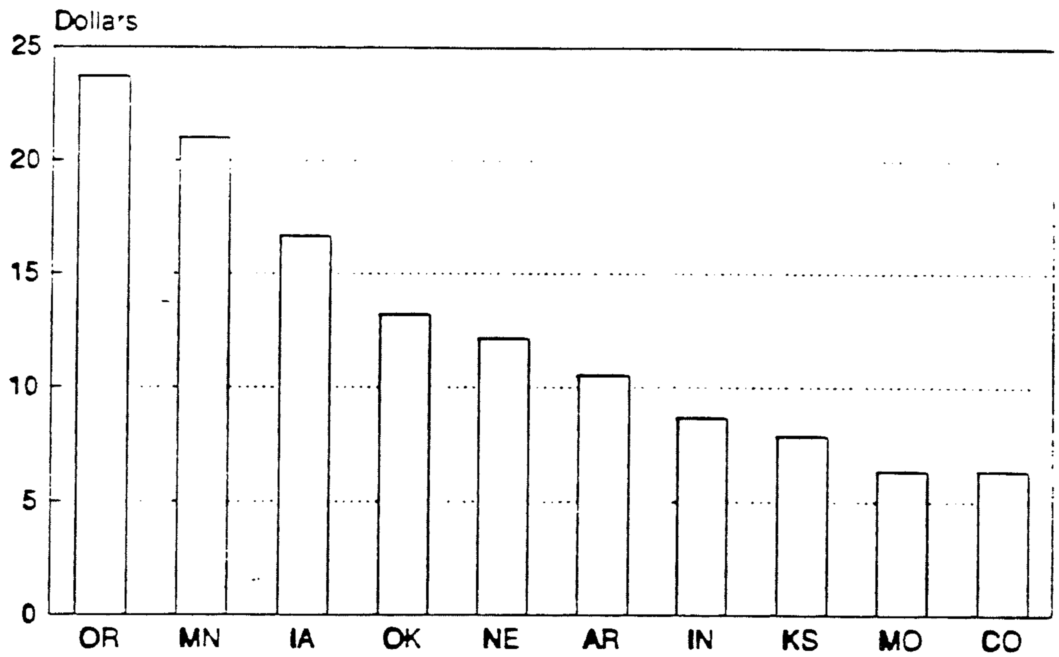
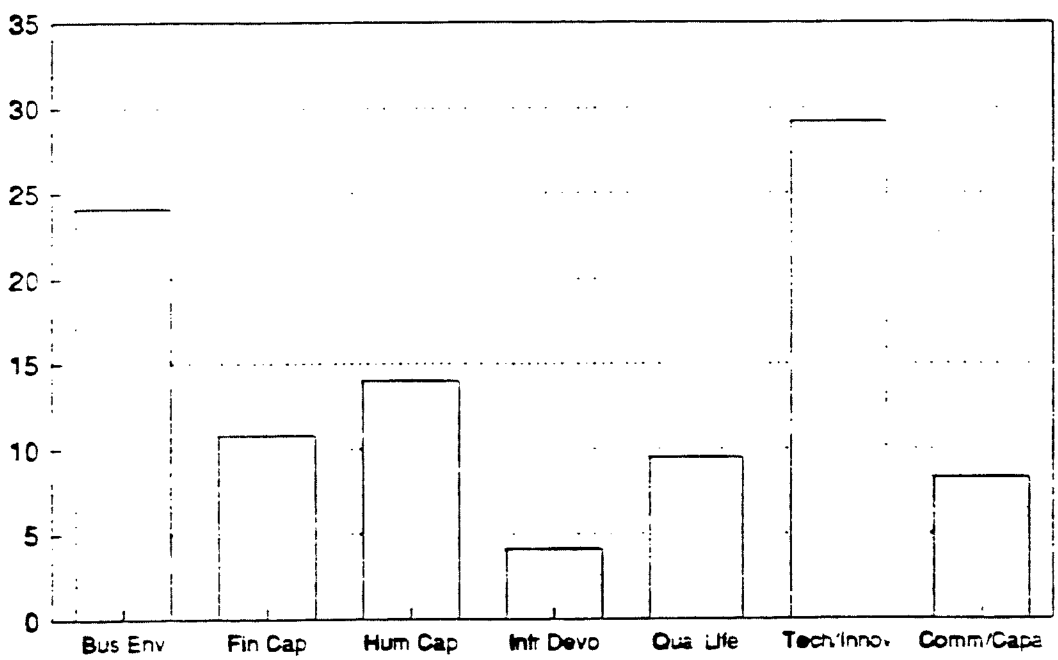
Figure 3
State Funding of Eco Devo Programs:
1990 Rank by State Per Capita Support



Source: 1990 IPPBR Survey of States

Figure 4
Percent Share by Strategic Foundation
1990 State Funding for Kansas



Source: 1990 IPPBR Survey of States

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Figure 14
Business Environment Programs
Total State Funding (Per Capita)

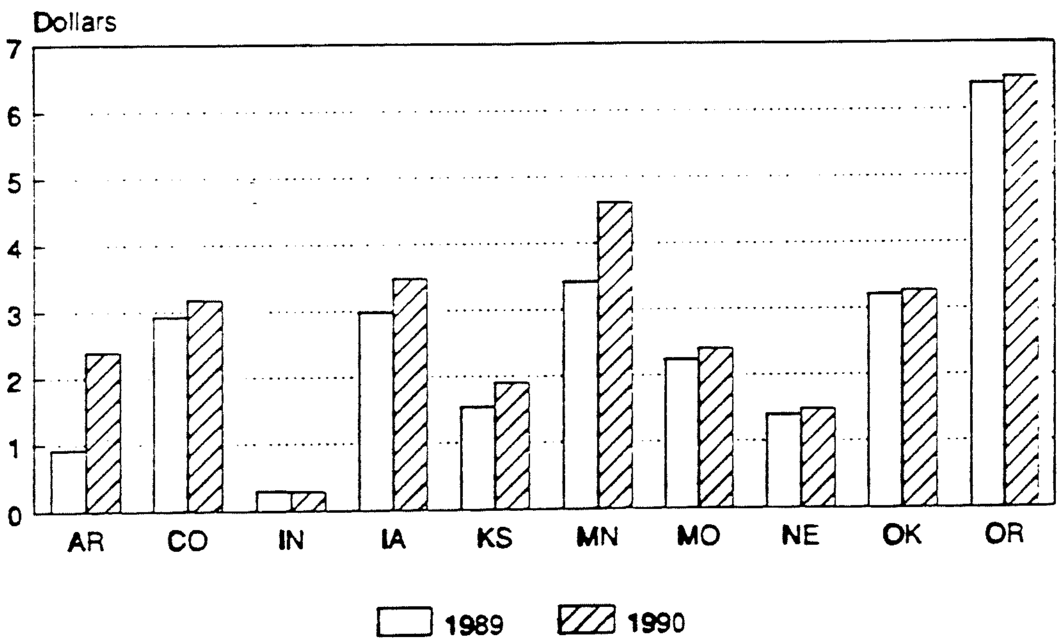
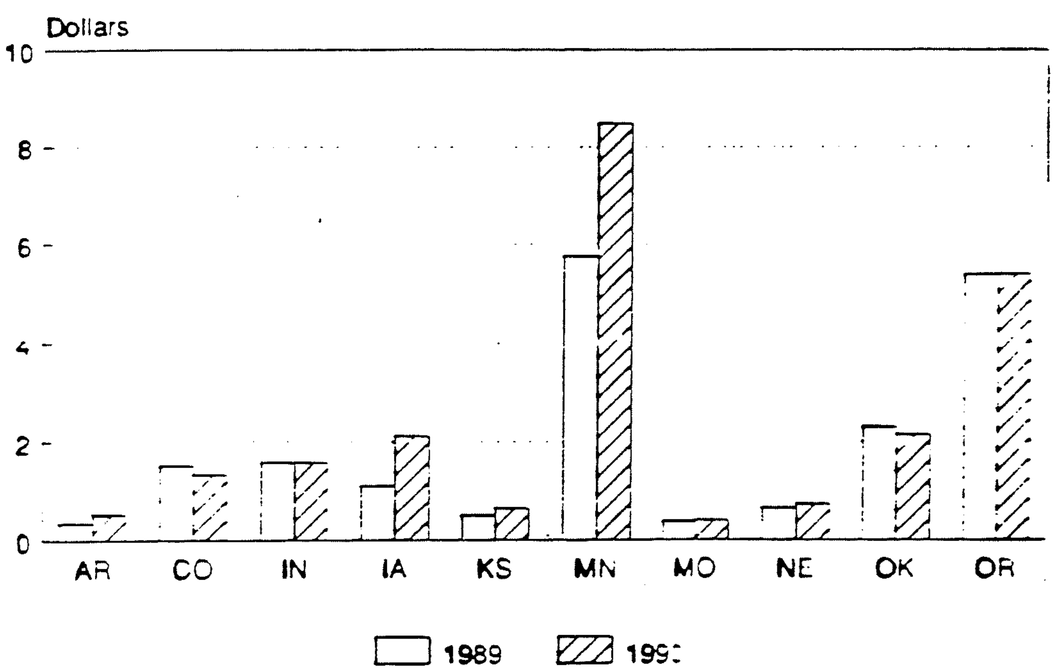


Figure 15
Commitment/Capacity Capital Programs
Total State Funding (Per Capita)



Source: 1990 IPPBR Survey of States

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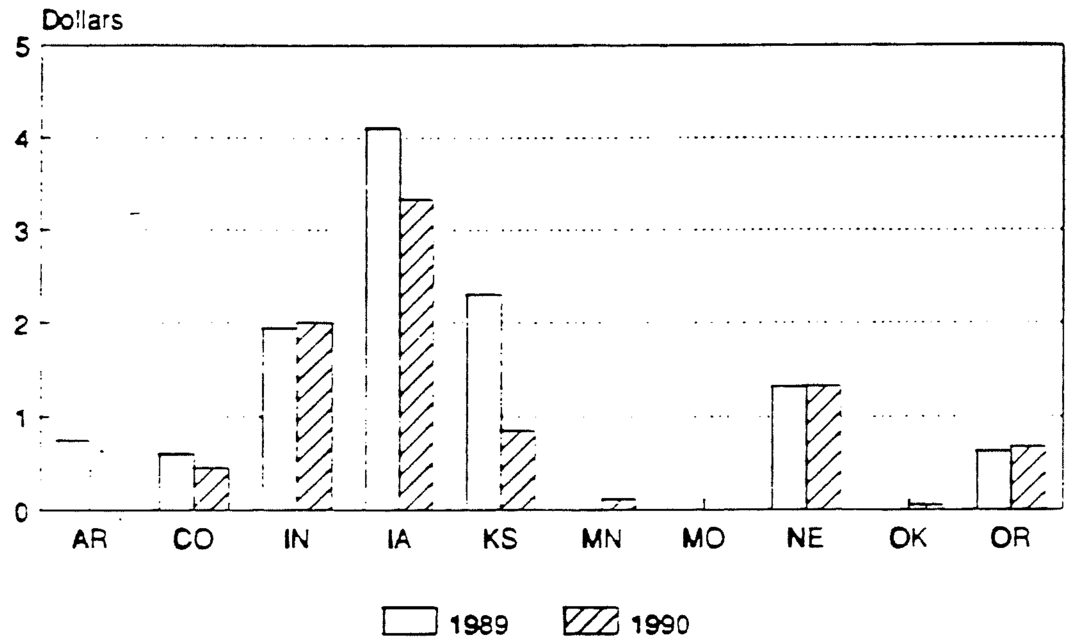
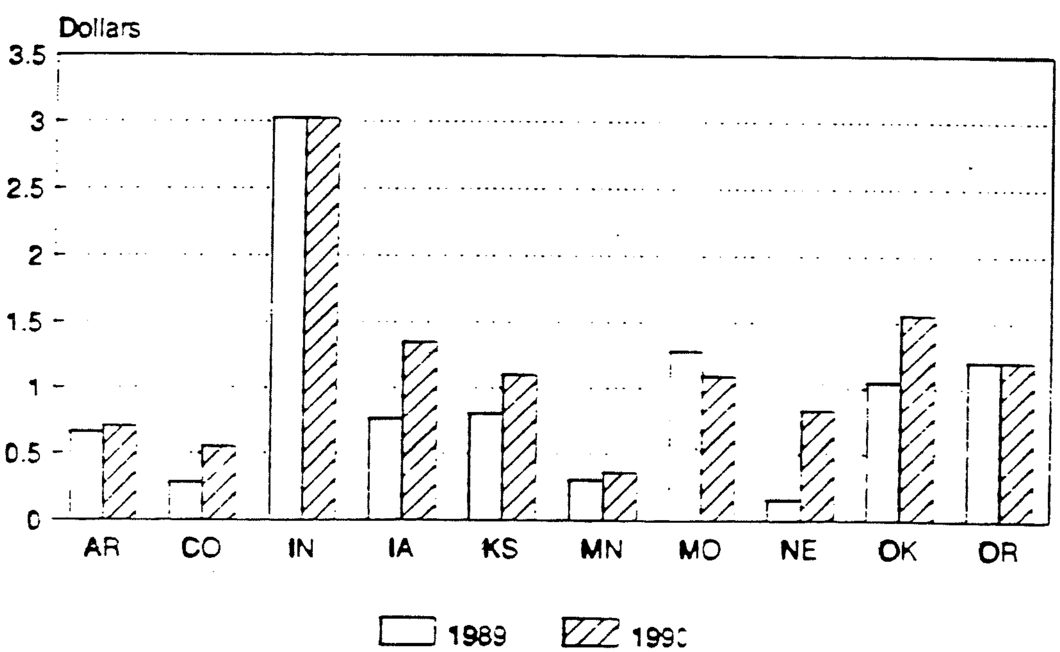
Figure 16
Financial Capital Programs
Total State Funding (Per Capita)



Source: 1990 IPPBR Survey of States

Figure 17
Human Capital Programs
Total State Funding (Per Capita)



Source: 1990 IPPBR Survey of States

Figure 18
Infrastructure Development Programs
Total State Funding (Per Capita)

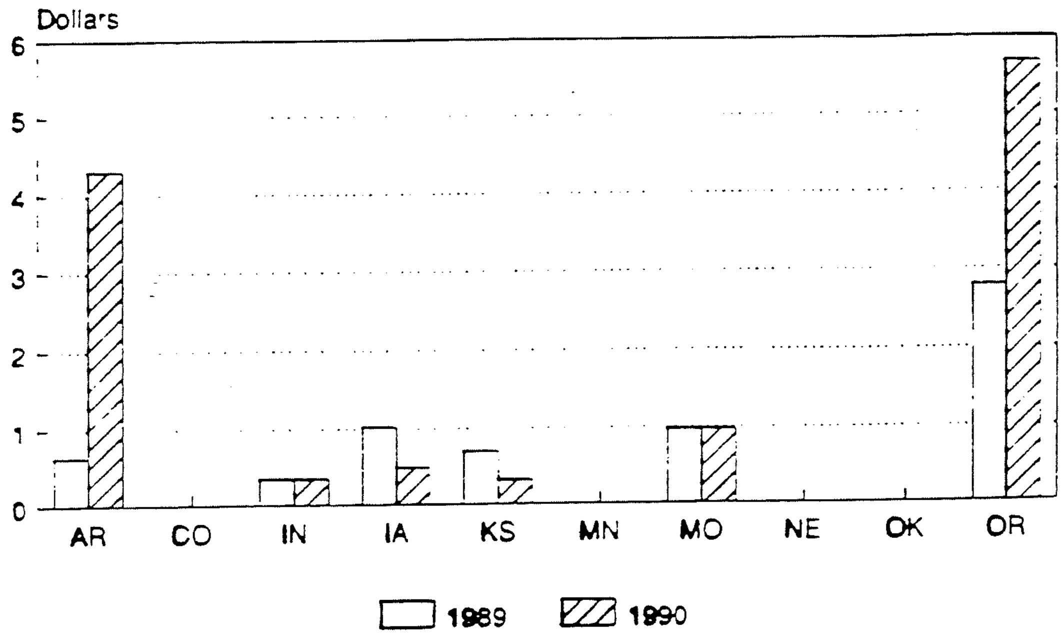
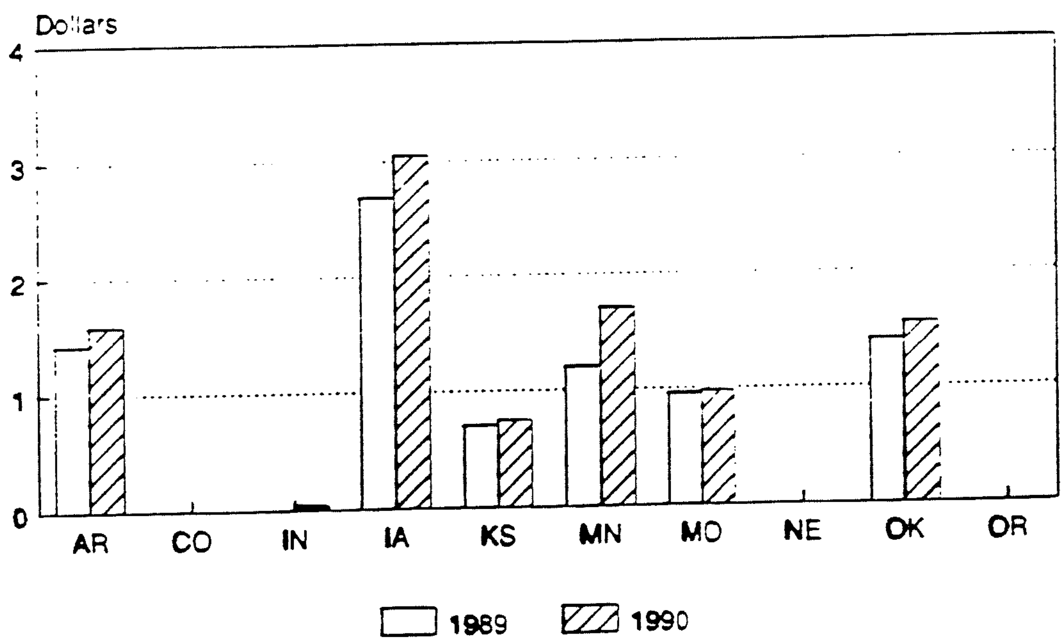
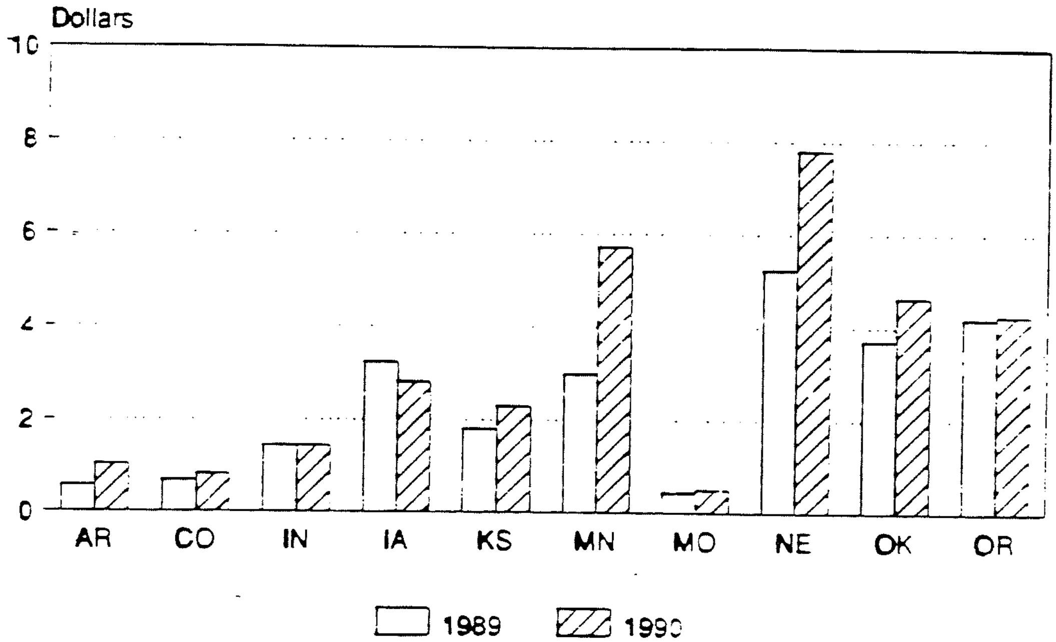


Figure 19
Quality of Life Programs
Total State Funding (Per Capita)



Source: 1990 IPPBR Survey of States

Figure 20
Technology/Innovation Programs
Total State Funding (Per Capita)



Source 1990 IPPBR Survey of States

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