

Approved February 7, 1991
Date

MINUTES OF THE Senate COMMITTEE ON Economic Development

The meeting was called to order by Senator Dave Kerr at
Chairperson

8:00 a.m./~~XXX~~ on February 5, 1991 in room 123-S of the Capitol.

All members were present ~~XXXX~~

Committee staff present:

Bill Edds, Revisor of Statutes' Office
Lynne Holt, Legislative Research Department
LaVonne Mumert, Committee Secretary

Conferees appearing before the committee:

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

Senator Dave Kerr, Chairman, called the meeting to order and introduced Dr. Redwood.

Dr. Anthony Redwood provided the Committee with a copy of the Economic Development Expenditures for Ten States: A Comparison (Attachment 1). Dr. Redwood described the factors used in the analysis, the major findings and implications and explained various charts and tables showing the results of the study.

Senator Petty asked Dr. Redwood his opinion of what manner cuts in funding should be made if there is a reduction in spending. Dr. Redwood responded that it takes time to get programs, such as the various economic development programs, going and that he would hope that through the evaluation process being administered by Kansas, Inc. it would be possible to identify which programs are less successful. He noted that the enterprise zone law is an example of a program that he does not feel is fulfilling its original intent and he would support a change in that area. He said it's necessary to keep in mind the problem that's being addressed when considering these programs. In response to other questions from Senator Petty, Dr. Redwood noted that there is great difficulty in measuring results when comparing other states because of the difficulty in sorting out other events and external factors.

Senator Moran asked about the indication that two or three of the subject states are using federal funds. Dr. Redwood explained that those states have taken funds from such programs as the Job Training Partnership Act and the Community Development Block Grant and used them as a part of their economic development efforts. In response to questions from Senator Moran, Dr. Redwood said he feels a greater effort should be made to keep tabs on what other states are doing in economic development efforts. He stated that Kansas has never made an attempt to "outbid" other states in tax credits but rather offered this type of incentive as a signal of its interest in attracting business.

Senator Winter asked further about other states' use of federal funds in economic development efforts. Dr. Redwood answered that it would be a matter of commitment and organizational arrangements in order to do the same in Kansas. Senator Winter also asked if the results of the comparison would have changed Kansas' ranking in proportion to the other states if tax credits and tax adjustments had been included. Dr. Redwood said he did not believe it would change Kansas' standing, but he was not sure. Senator Winter questioned what would be indicated by a similar comparison if more than 1989-90 figures were used. Dr. Redwood said that most of the states are and have been increasing expenditures at a faster rate than Kansas. In response to a question from Senator Winter, Dr. Redwood noted that Kansas has done as well as or better than the surrounding states in job creation and job retention. He stressed that many of the programs have only been operational for two years, and he feels they need two or three additional years before a valid assessment can be made.

Unless specifically noted, the minutes and 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 Senate COMMITTEE ON Economic Development,
room 123-S, Statehouse, at 8:00 a.m. ~~XXX~~ on February 5, 1991

Senator Salisbury expressed concern about using jobs as a measurement. It was noted that employment figures are also a poor measurement. Dr. Redwood observed that the make-up of the state's industry is small to medium sized firms and those generally do not do training themselves. He said the objective should be to get these companies to participate to a greater degree in training. Dr. Redwood feels that public education and vocational and technical training are key elements in tying together public and private efforts in the area of human capital.

Senator McClure moved that the minutes of the January 31, 1991 meeting be approved. Senator Winter seconded the motion, and the motion carried.

The meeting adjourned at 9:00. The next meeting of the Committee will be Wednesday, February 6.

Date 2/5/91

SENATE ECONOMIC DEVELOPMENT
VISITOR SHEET

(Please sign)

Name/Company

Name/Company

Name/Company	Name/Company
Len Evans	DEPT. OF COMMERCE
Walt Darling / Div. of Budget	
Terry Denker / Bd. of Ag.	
Henry Schwabber / IPPBR	
DR. ANTHONY REDWOOD / IPPBR	
Charles R. Ware	Kansas Inc.
Scott Hessel / Kansas Inc.	
Desh Hahn / KVAC	

INSTITUTE FOR PUBLIC POLICY AND BUSINESS RESEARCH
THE UNIVERSITY OF KANSAS

ECONOMIC DEVELOPMENT EXPENDITURES OF TEN STATES:
A COMPARISON

Presented to

The Senate Committee on Economic Development

Presented by

Anthony L. Redwood
Executive Director, Professor of Business

Attachment 1
2/5/91
Sen. Eco. Dev.

February 5, 1991

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.

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		PER CAPITA		Percent Change
		1989	1990	1989	1990	
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		PER CAPITA		Percent Change
		1989	1990	1989	1990	
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:		Minnesota:	
1. Infrastructure	(40.8%)	1. Commitment/Capa.	(34.3%)
2. Business Environ.	(22.7%)	2. Technology/Innov.	(23.0%)
3. Quality of Life	(15.0%)	3. Business Environ.	(18.5%)
4. Technology/Innov.	(9.8%)	4. Human Capital	(17.1%)
5. Human Capital	(6.7%)	5. Quality of Life	(6.9%)
6. Commitment/Capa.	(5.0%)	6. Financial Capital	(0.5%)
7. Financial Cap.	(0.0%)	7. Infrastructure	(0.0%)
Colorado:		Missouri:	
1. Business Environ.	(50.0%)	1. Business Environ.	(37.8%)
2. Commitment/Capa.	(21.2%)	2. Human Capital	(17.2%)
3. Technology/Innov.	(12.9%)	3. Quality of Life	(15.3%)
4. Human Capital	(8.5%)	4. Infrastructure	(15.3%)
5. Financial Cap.	(7.1%)	5. Technology/Innov.	(7.9%)
6. Infrastructure & Quality of Life	(0.0%)	6. Commitment/Capa.	(6.5%)
		7. Financial Capital	(0.0%)
Indiana:		Nebraska:	
1. Human Capital	(34.9%)	1. Technology/Innov.	(64.1%)
2. Financial Cap.	(23.0%)	2. Business Environ.	(12.2%)
3. Commitment/Capa.	(18.4%)	3. Financial Capital	(10.9%)
4. Technology/Innov.	(16.4%)	4. Human Capital	(6.8%)
5. Infrastructure	(4.0%)	5. Commitment/Capa.	(6.1%)
6. Business Environ.	(3.3%)	6. Infrastructure & Quality of Life	(0.0%)
7. Quality of Life	(0.1%)		
Iowa:		Oklahoma:	
1. Business Environ.	(20.2%)	1. Technology/Innov.	(35.1%)
2. Financial Capital	(19.3%)	2. Business Environ.	(24.8%)
3. Quality of Life	(17.7%)	3. Commitment/Capa.	(16.2%)
4. Technology/Innov.	(16.4%)	4. Human Capital	(11.7%)
5. Commitment/Capa.	(12.3%)	5. Quality of Life	(11.6%)
6. Human Capital	(11.3%)	6. Financial Capital	(1.0%)
7. Infrastructure	(2.9%)	7. Infrastructure	(0.0%)
Kansas:		Oregon:	
1. Technology/Innov.	(28.3%)	1. Business Environ.	(27.3%)
2. Business Environ.	(23.4%)	2. Infrastructure	(24.0%)
3. Human Capital	(17.0%)	3. Commitment/Capa.	(22.8%)
4. Financial Capital	(10.5%)	4. Technology/Innov.	(18.0%)
5. Quality of Life	(9.2%)	5. Human Capital	(5.1%)
6. Commitment/Capa.	(7.8%)	6. Financial Capital	(2.9%)
7. Infrastructure	(3.9%)	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.

Table 15

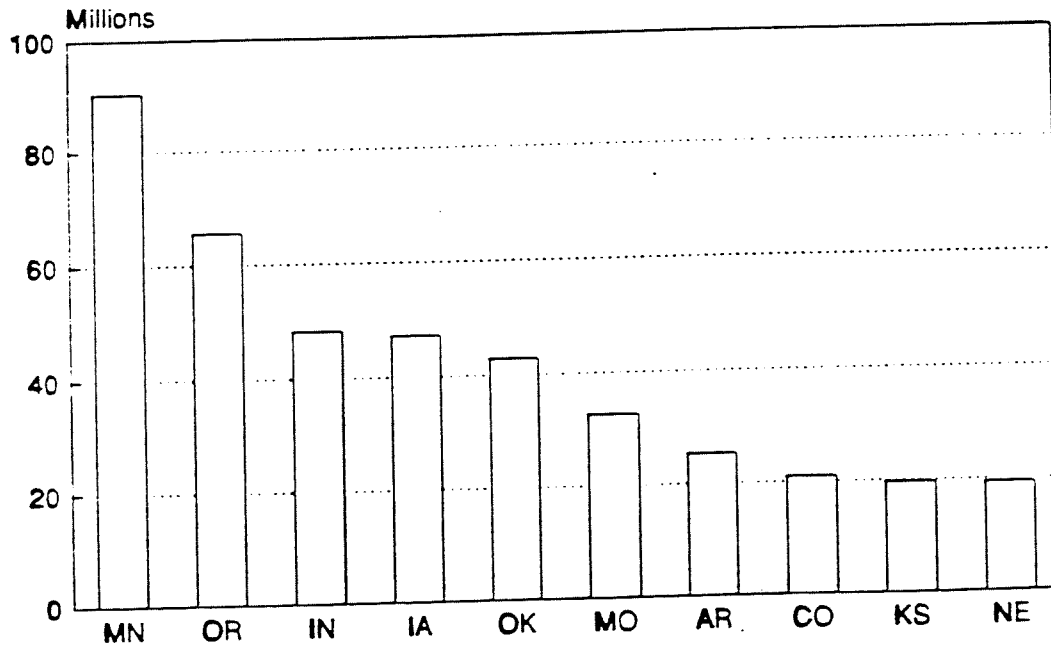
OVERVIEW OF STATE ECONOMIC DEVELOPMENT ACTIVITIES

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.

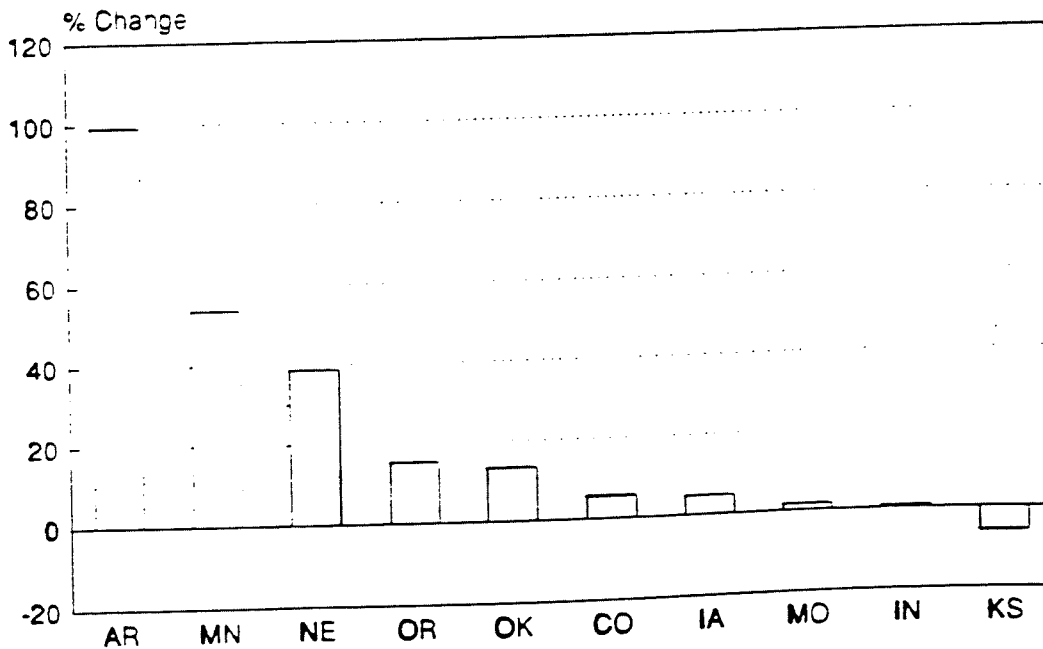
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Figure 1
State Funding of Eco Devo Programs:
1990 Rank by Level of State Support



Source: 1990 IPPRR Survey of States

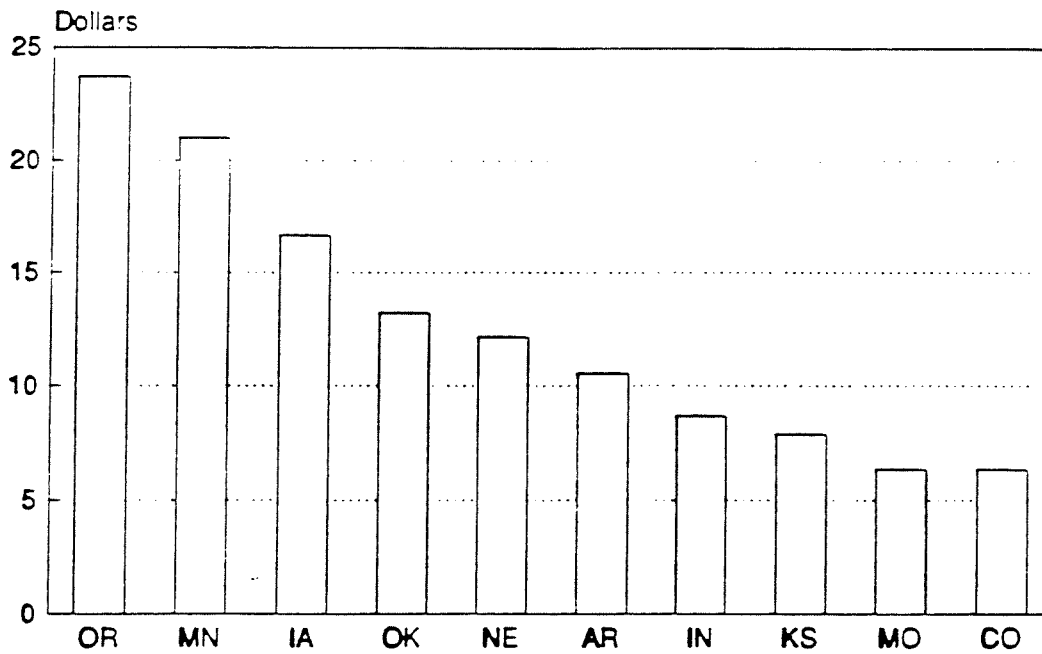
Figure 2
State Funding of Eco Devo Programs:
Rank by % Change in Support, 1989-1990



Source: 1990 IPPBR Survey of States

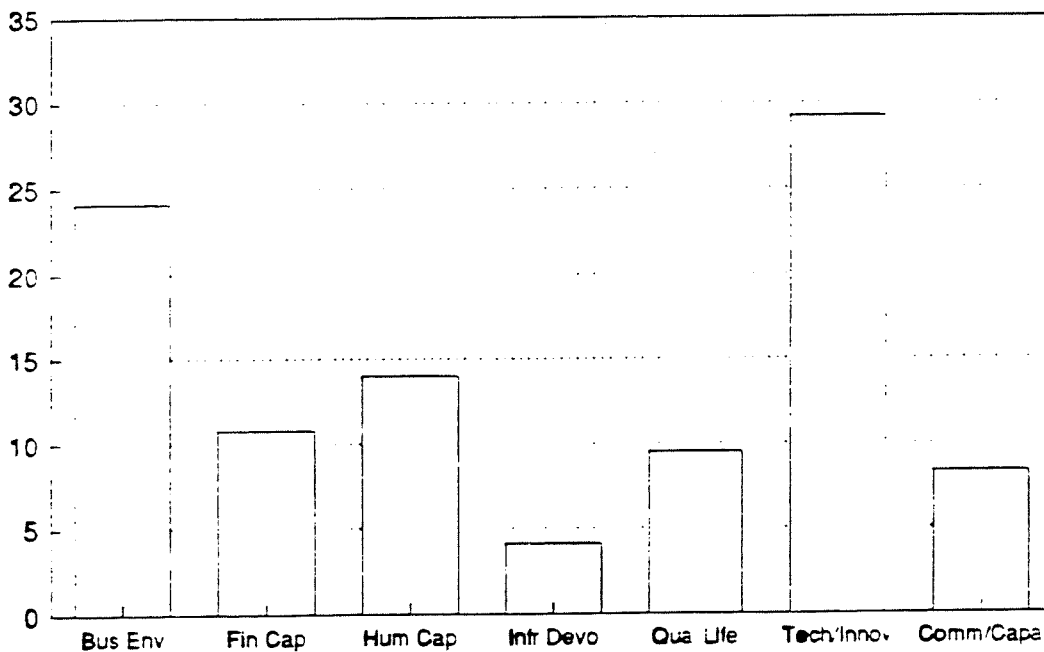
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Figure 3
State Funding of Eco Devo Programs:
1990 Rank by State Per Capita Support



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)

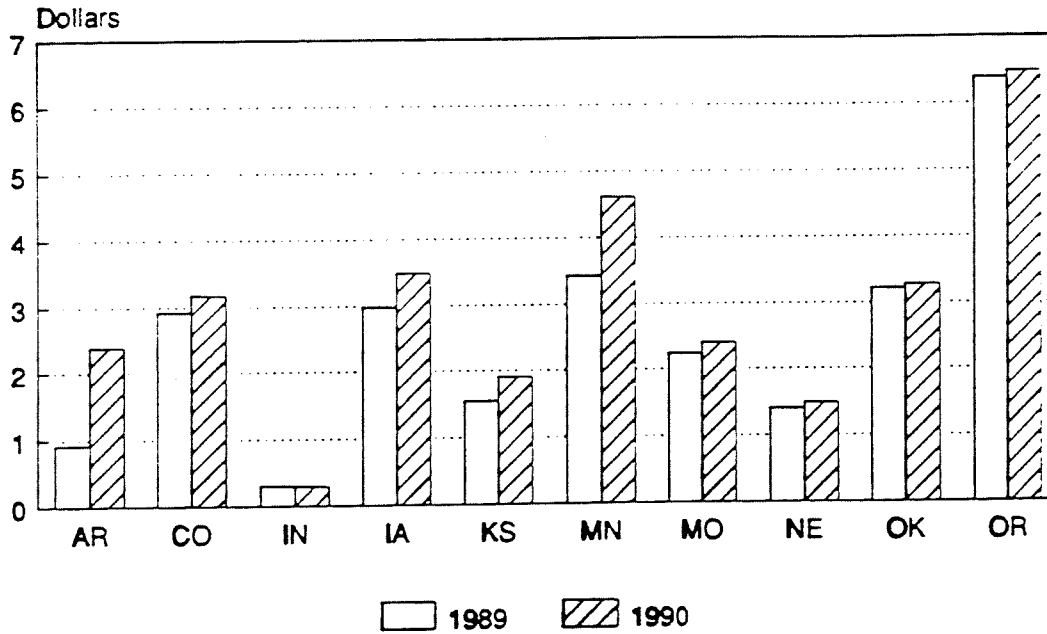


Figure 15
Commitment/Capacity Capital Programs
Total State Funding (Per Capita)

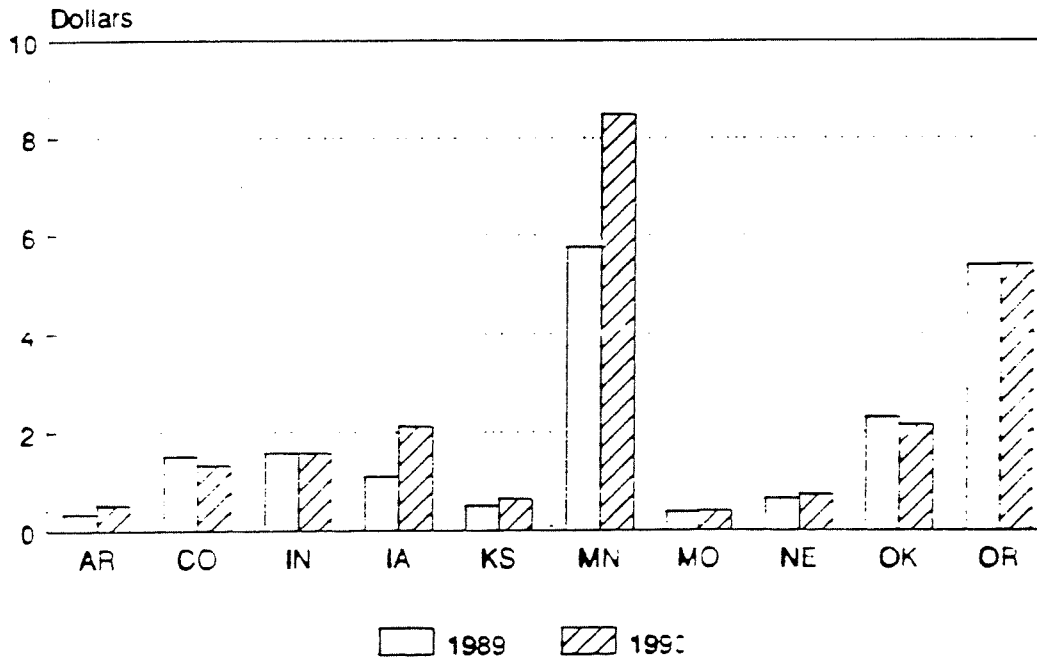
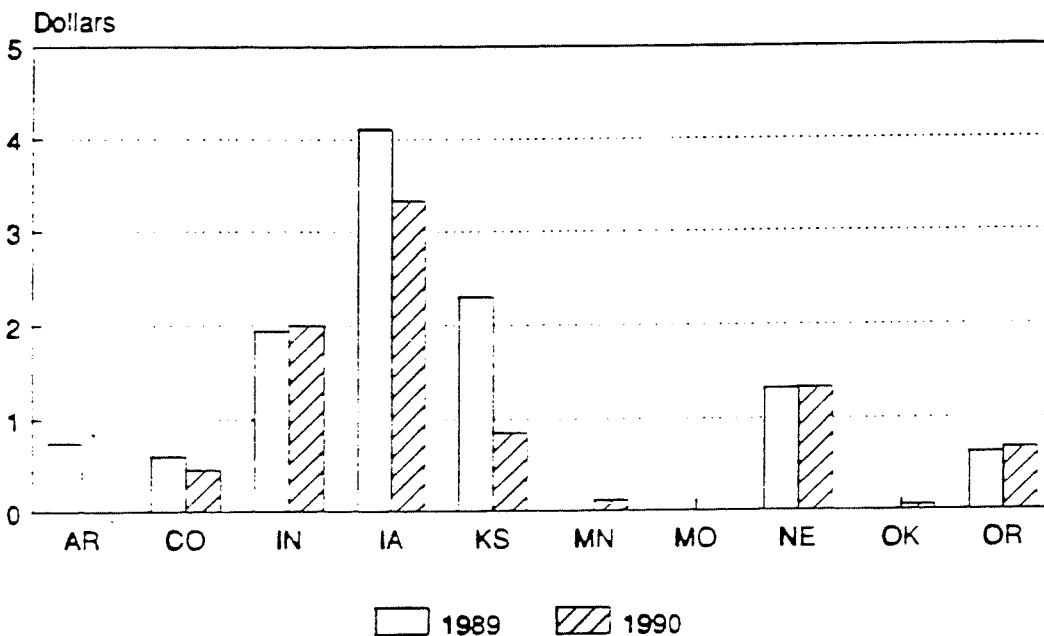
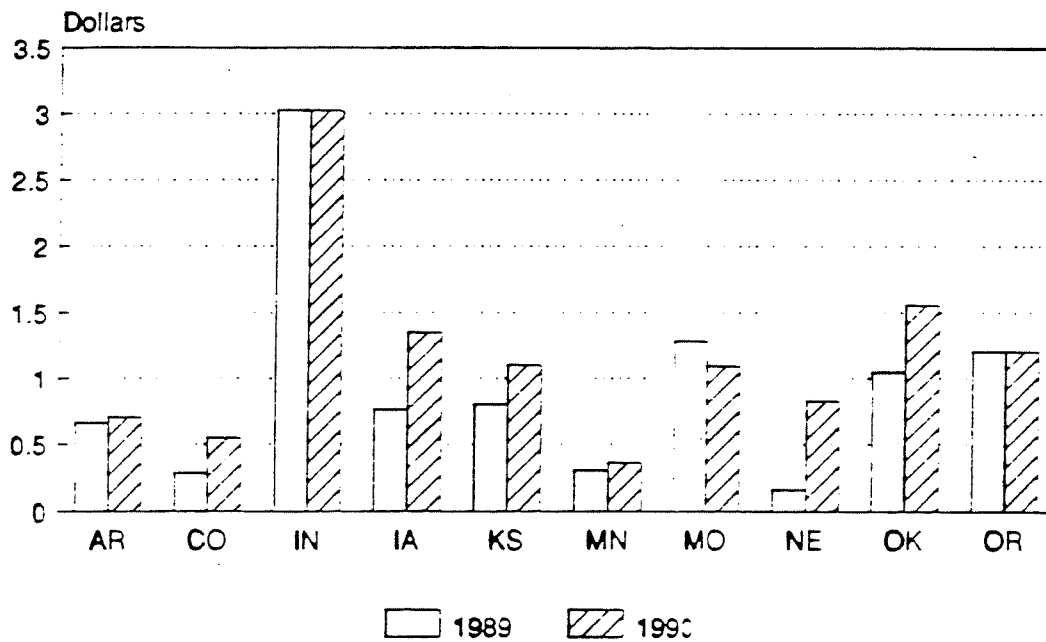


Figure 16
Financial Capital Programs
Total State Funding (Per Capita)



Source: 1990 IPPBR Survey of States

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



Source: 1990 IPPBR Survey of States

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

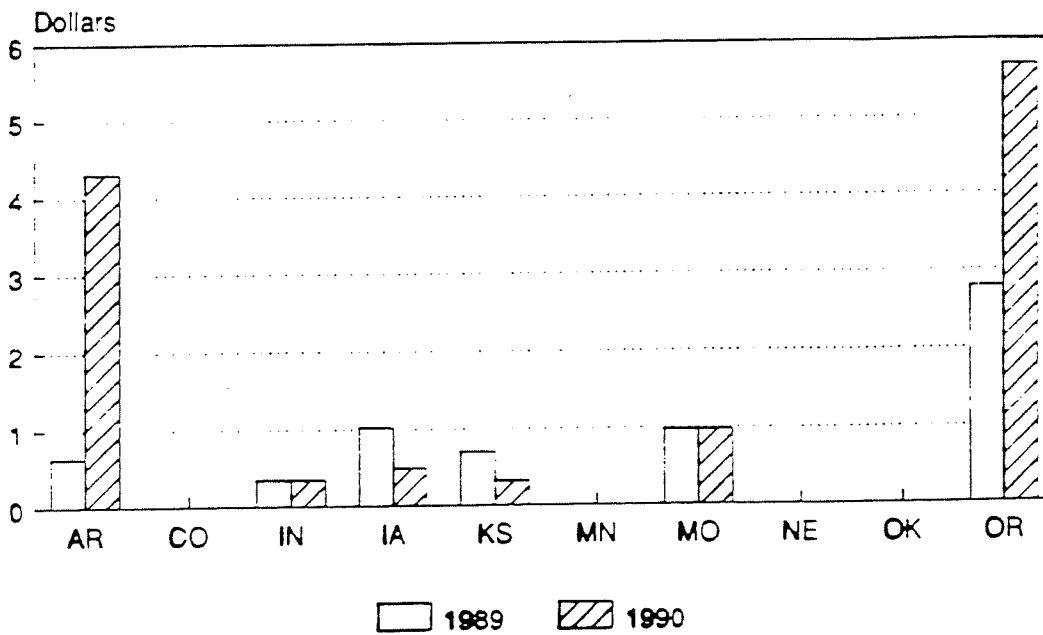
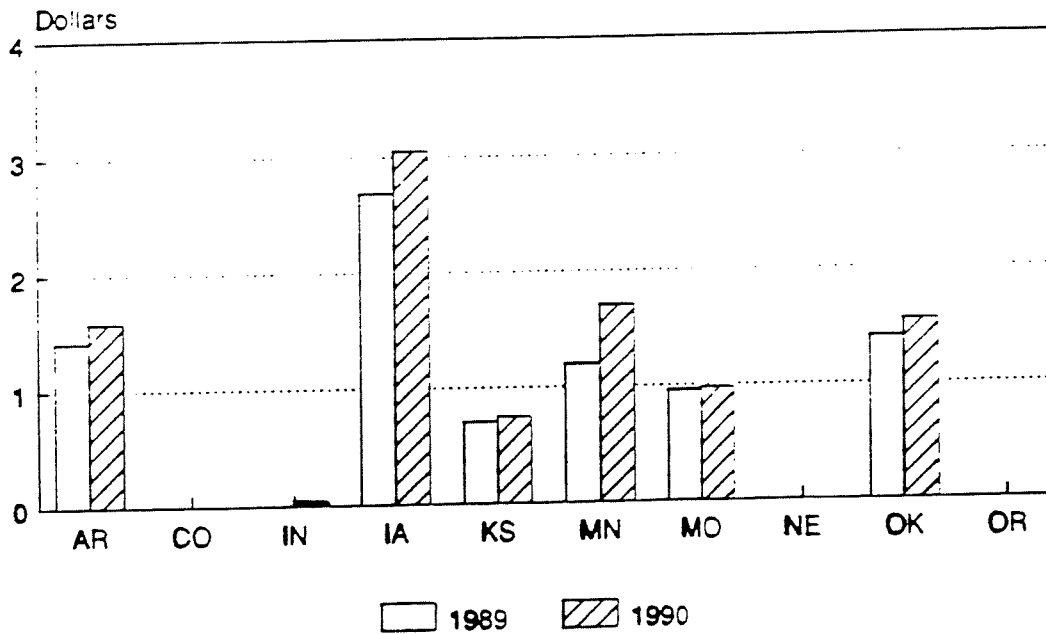


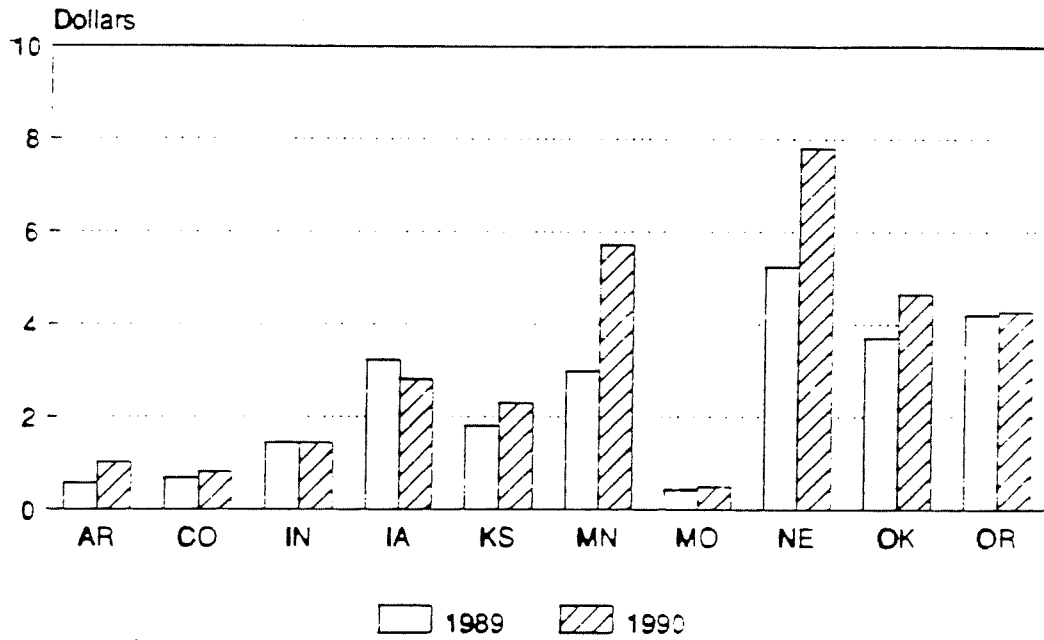
Figure 19
Quality of Life Programs
Total State Funding (Per Capita)



Source: 1990 IPPBR Survey of States

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



Source: 1990 IPPBR Survey of States

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