

MINUTES OF THE SENATE COMMITTEE ON COMMERCE.

The meeting was called to order by Chairperson Senator Karin Brownlee at 8:30 a.m. on February 06, 2002 in Room 123-S of the Capitol.

All members were present except:

Committee staff present: April Holman, Legislative Research
Norman Furse, Revisor of Statues
Sherman Parks, Revisor of Statues
Lea Gerard, Committee Secretary

Conferees appearing before the committee: Rae Anne Davis, Fiscal Officer
Kansas Department of Commerce and Housing
Ashley Sherard, Johnson County Government
Charles Ranson, President & CEO, Kansas, Inc.

Others attending: See attached list.

Chairperson Brownlee recognized Ashley Sherard, Johnson County Government, who requested the introduction of a bill that would empower Johnson County to utilize certain economic development tools to redevelop the Sunflower Army Ammunition Plant. Senator Steineger moved, seconded by Senator Jordan to introduce the bill relating to Johnson County utilizing economic development tools. The voice vote was unanimous in favor of the motion.

Senator Steineger moved, seconded by Senator Jenkins that a bill be introduced regarding additional STAR Bond authority for tourist destination sites in the state. The voice vote was unanimous in favor of the motion.

Chairperson Brownlee recognized Rae Anne Davis, Kansas Department of Commerce and Housing, who requested the introduction of two bills relating to the Kansas Business Incentive Program (KBIP) and Investments in Major Projects and Comprehensive Training Program (IMPACT). Senator Jenkins moved, seconded by Senator Jordan to request introduction of the two bills relating to KBIP and IMPACT. The voice vote was unanimous in favor of the motion.

Senator Emler moved, seconded by Senator Steineger to request introduction of a bill that relates to workers compensation and appointing one member to the advisory board from the Physical Therapy Association. The voice vote was unanimous in favor of the motion.

Senator Emler moved, seconded by Senator Brungardt to request introduction of a bill that provides Broadband service in rural areas. The voice vote was unanimous in favor of the motion. It was noted that this is the Southwestern Bell "deregulation" bill.

Senator Brownlee moved, seconded by Senator Barone to request introduction of a bill that would restructure economic development heads (Department of Commerce, KTEC and Kansas Inc.) The voice vote was unanimous in favor of the motion.

Senator Emler moved, seconded by Senator Jordan to request introduction of a bill that would fund KAN-ED utilizing KSUF. The voice vote was unanimous in favor of the motion.

Senator Steineger moved, seconded by Senator Jordan to request introduction of a prompt-pay bill related to the construction industry. The voice vote was unanimous in favor of the motion.

Senator Jenkins moved, seconded by Senator Jordan to request introduction of a multiple dwelling unit bill related to the cable industry. The voice vote was unanimous in favor of the motion.

Charles Ranson, President, Kansas, Inc. briefed the Committee on the Kansas Inc. Strategic Report entitled "Making the Knowledge Economy Work for All Kansans"(Attachment 1). The report represents recognition of fundamental changes that need to be made in the Kansas economy.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON COMMERCE at on February 06, 2002 in Room 123-S of the Capitol.

Meeting adjourned at 9:30 a.m.

The next meeting is scheduled for February 7, 2002 at 8:30 a.m.

Testimony to the Commerce Committee of the Kansas Senate
Charles Ranson, President
Kansas, Inc.
30 January 2002

"Making the Knowledge Economy Work for All Kansans" embodies recognition of fundamental change in our economy. In it we do not distinguish our economy as "new" or "old", but as one that requires the application of technologies to an economic structure faced with rapidly increasing global competition at the lower end of the value-added chain in such a way that we create and sustain our "competitive advantage."

So, as we look at a changing economic playing field, we must adapt to new competitive forces or risk being pushed to the sidelines and marginalized as an economic player in the 21st century.

To assure that we adapt to strengthen our hand requires that we have a clear and unbiased understanding of our strengths and weaknesses. Based on such an understanding, we must then identify and pursue opportunity that builds upon our human, institutional, natural resource, or vocational strengths. This process is what leads to creating the "competitive advantage" that will sustain Kansas in the years ahead.

Our "competitive advantage" in agriculture, for example, lies in applying today's and tomorrow's technology to new product creation – moving up the value-added chain. Fortunately (as an aside) we are very well positioned to do so, if we are willing to make a sustained investment in research, commercialization, and marketing of new products.

More than 1100 Kansans actively participated in developing the analysis upon which this plan is based. The report released on 7th of January 2002 consists of

- deep analysis of the state of the Kansas economy;
- benchmarking of Kansas to surrounding states & to the nation;
- a best practices review of successful economic development strategies in states that have similar characteristics to our own;
- exploration of future trends in global economy;
- assessment of our readiness to sustain global competitiveness;
- assertion of goals and objectives for our state's economy;
- articulation of longterm strategies that will enable Kansas to remain an economic force in the years ahead; and,
- for your consideration, 47 specific steps that we believe should be taken to strengthen Kansas where it is presently at risk and to reposition Kansans as 21st century pioneers, equipped to replicate globally the success of our forebearers who created the economic engine that drives Kansas.

Senate Commerce Committee
Feb. 06, 2002
Attachment 1-1

For the sake of time today, I have chosen not to go into a detailed review of the findings contained in the "Technical Report" component of the document delivered to you at the beginning of the 2002 Session. I would like to mention a few points that will set the stage for discussion of specific recommendations.

Kansas, as has the nation, has experienced unprecedented economic expansion over the past decade, highlighted by strong GSP growth and low unemployment rates. Insufficient diversity in our industrial structure, however, has potential to hurt Kansas in future periods of recession.

Kansas is experiencing a growing and aging population. Our growth is less than at the national level - largely due to an out-migration of younger Kansans, and thus our aging is more pronounced than the national trend. The out-migration and aging trend is particularly acute in non-urban areas. This leads to increased demand for government services and declining revenue base.

Imports / exports are rising as a share of GSP. Advances in technology have made capital more mobile and require quicker global responses to information. Kansas has shared in the growth of international trade activity. Combined, manufacturing, service and agriculture figures reflect that nearly 10% of our GSP is derived from export activity. The challenge we face is to grow our services and information-based exports while maintaining our current agriculture and manufacturing base.

Throughout the 1990's Kansas' unemployment rate has consistently been below that for the U.S. and for states in our region. Kansas has enjoyed strong employment growth since 1994, reaching 12% for the period. We have operated at / near full employment for quite some time. To continue growth, we must develop new human resources inputs or we will plateau.

Regarding Metro & Non-Metro Area Disparities.

- From 1990 - 1998 - population growth in Metro counties approached 12%; in non-metro counties, growth was approximately 1/3 of 1%.
- 57 counties lost population from '90 - '99; 7 counties experienced growth greater than 13.5%.
- in 61 counties, 17.5% of population is age 65 or older
- as a percentage of average per capita income, Kansas' non-metro counties are losing ground compared to Kansas metro.

Clearly, the social, political, and economic fabric of Kansas is under great and growing stress.

While Kansas falls slightly below the U.S. in terms of Public K-12 School expenditures per capita, Kansas graduates a considerably higher percentage of its students than the U.S. average, and we are substantially above the U.S. average in terms of the percentage of our people with at least a bachelor's degree. We do well in measuring

attainment on standardized academic tests where Kansas exceeds the national average.

We fall substantially below the national average, however in measuring math/science degrees as a percentage of all undergraduate degrees awarded. At the same time, in terms of graduate degrees conferred, we exceed the national average by 40%. We must find ways to reverse the "brain drain" - the exportation of our most valuable resource - young, well-educated Kansans.

In terms of our manufacturing productivity, relying upon the 1997 Economic Census, Kansas (\$60) substantially lags the national figure (\$75) in the value added per production worker per hour. This is not an indictment of Kansas workplace ethic, but instead it speaks to the extent to which we have deployed technology in our manufacturing plants.

We fall below the national average in R & D spending by industry. In terms of patents issued, we are only half the national average. Our "firm formation" rates lag the national average by nearly 2%, while our "firm failure" rates are roughly equal the national average. In sum, these last three points support the assertion that we are far from the leading edge of innovation.

Capital available either through commercial banks or via venture capital is well below the national average, and the value of our commercial & industrial loans per worker falls well below ½ the national average value.

With regard to physical infrastructure, we rate very well in terms of highway miles per 1,000 population (tripling the national average) and we exceed by \$150, the national measure of state highway disbursements per capita. Clearly Kansas takes seriously highway development and maintenance. But, in terms of Internet connectivity, the "information highway", Kansas shows at roughly ½ the national average in terms of hosts per 1,000 population, and we are far removed from having a fully-developed broadband Internet network.

Turning to taxes, many assert that Kansas is a high tax state. While taxes are the burden we bear for a civil society, the price we pay must be reasonable and the tax burden must not make us non-competitive in the market place. How do we compare?

Kansas collects a relatively large share of total state revenues from individual income taxes (37.5% vs 34% US average). Kansas corporate income taxes as percent of state revenue is slightly above the U.S. average and well above the shares for all regional competitor states. The state's sales tax rate is at the high end within the region, and Kansas is well ahead of the national average (and our competitor states) in "County per capita property tax revenue", with property taxes accounting for 81% of local tax revenues in Kansas.

These are but a sampling of the measures of statistical analysis contained in the strategic planning document.

Let me next speak for a moment about the analysis of Kansas' economic development institutional infrastructure. The analysis was conducted by the consulting team based on their interviews of senior officials and program managers in KDOCH, KTEC and Kansas, Inc. and others who consume services that these agencies provide. In summary, the consultants found that the agencies were run with a degree of professionalism that would be the envy of many states in which they have worked, and that program managers with KDOCH and KTEC cooperate effectively to advance the economic development of Kansas. At the same time, the consultants found that there appears to be limited cooperation at the leadership levels of the agencies, exacerbated by unhealthy competition for a piece of the fixed pool of funds available from the capped EDIF and that there exists a need to clarify the mission of Kansas, Inc. The consultants also report that there appears to be limited coordination among all Kansas agencies involved in workforce development.

As we recognize and respond to the challenges that global change brings, we distilled all of the findings that I have just enumerated into a set of challenges and strategic objectives.

The challenges include:

- 1) the need for sufficient and sustainable enhancement of our economic development effort.
- 2) meeting the need for a better-educated, better-trained and more adaptable workforce.
- 3) implementing a strong information technology and communications plan that will bring the benefits of cutting edge technologies to all of our citizens.
- 4) stabilizing and rebuilding rural Kansas, and
- 5) enhancing Kansas through
 - a) globalizing & diversifying our markets and our economic base
 - b) improving the tax structure for business & individual taxpayers
 - c) developing Kansas' largely untapped potential as a tourist destination

To meet these challenges, we present policy recommendations to

- 1) better integrate statewide economic development efforts
- 2) satisfy the demands for workforce development
- 3) enhance development and commercialization of technology and its diffusion
- 4) improve rural, environmental and natural resource utilization
- 5) make Kansas industries and communities more competitive.

How do we propose, or perhaps more succinctly, what do we propose in the way of policy recommendations for your consideration.

First with regard to enhancing our economic development effort, we remind you of the original intent underlying creation of the state lottery and the Economic Development Initiative Fund. As stated at page 7 of the Redwood-Krider Report, that intent is:

To achieve a significant long-term improvement in the economic base, the state will need to make a large and sustained funding investment over the next decade to support a well-designed package of economic development initiatives. This will be necessary not only because the economic problem facing Kansas is a difficult one, but also because most other states are already making large investments in economic development and have been doing so for several years...

While the challenge facing Kansas is not an insurmountable one, it will be difficult, and it will require substantial investment. A strong commitment will be necessary in funding by the Legislature, in planning by the executive branch, and in cooperation by Kansas organizations.

By way of funding, we propose that the Legislature remove the cap on lottery funds available for economic development programs, and the transfer of non-economic development programs currently financed from lottery proceeds to the state general fund. We are pleased that the Interim Joint Economic Development Committee agrees with this proposal, and we support favorable consideration and enactment of HB2628, which would achieve this end result.

In terms of planning and execution, we propose the annual convening of a Governor's Economic Development Summit, to facilitate dialogue among business and government leaders in a practical, problem-solving environment. And we call for establishment of a Governor's Economic Development Cabinet, by executive order, to coordinate and set an agreed upon economic development agenda in advance of each annual legislative session.

Because people throughout Kansas have expressed frustration over common and perhaps conflicting themes – "my issues aren't being understood" and "we don't fully comprehend the inter-relatedness of statewide issues", we propose development and implementation of a series of economic development orientation programs that will support legislative understanding of the complexity that we face.

So that our past does not stand as an impediment to our future, we are proposing to identify and remove all legal barriers to inter-governmental cooperation at the local level, and we will encourage this legislature to enforce a performance based management and budget system for Kansas' agencies based on better data collection and analysis of the results achieved by expenditures on current programs.

We also call for the use of performance-based incentives that will increase multi-county initiatives that promote innovative service delivery.

Finally, we propose that the mission of Kansas, Inc. as an evaluative and strategic planning organization be clarified by setting aside its coordination function while reaffirming the agency's role as an independent, objective, and non-partisan organization that seeks to build consensus in support of long range strategies relating to Kansas' economic well being locally, nationally and globally.

In support of a better educated, trained and adaptable workforce, we propose to increase funding for the Kansas Training Equipment Grant program and that the state assume responsibility for the School-to-Career Program in FY 2003, when federal funding expires.

Vital to our future success is implementation of a workforce development infrastructure that:

- 1) develops a seamless regional system of appropriate education resources, such as vocational and technology education;
- 2) emphasizes remedial adult education;
- 3) addresses the need for increased math, technology and science education in grades K-12;
- 4) encourages lifelong learning;
- 5) recognizes the need for immigrant education;
- 6) provides soft skills training;
- 7) assures adequate early childhood care, education and health, and financing;
- 8) provides appropriate business incentives for training;
- 9) provides career information including information on wages and benefits
- 10) supports development of career fairs
- 11) activates interactive online training; and
- 12) builds a reliable system that identifies employer needs and worker availability.

In addition, we propose adoption of a technical education system that is market driven and which recognizes business as the primary consumer of the educational services delivered. And, we propose that efforts be undertaken to assure that the state funding formula for community colleges and vocational schools supports employment growth and enhances the Kansas economy. Finally, we urge appropriate investment in a state-of-the-art training center that will assure a workforce sufficient to meet the needs of Wichita's world-class aviation manufacturing center.

Concerning Information technology & telecommunications we must stop talking and start investing to diffuse broadband Internet technology statewide. To this end, we must leverage all existing resources as part of the statewide network, and we must

incent both industry and government to create the network. Build-out of the KAN-ED system is of utmost importance to our future - in cities's, towns, and in rural areas. It is an investment that we must not postpone. As an adjunct to this, we propose developing a CDBG-based low-interest, revolving loan fund to be used for telecommunication infrastructure purposes by communities whose percentage of low-to-moderate income residents does not meet the existing threshold requirement for CDBG eligibility. And, we support full funding of the 5 year Kansas Strategic Technologies Initiative and require that the plan be regularly updated. As an aside, the Board of Regents research infrastructure proposal is an important element in realizing the potential of our post-secondary institutions to be engines of economic growth for all of Kansas.

Increased funding for the Technology Acquisition, Development and Commercialization Program, would enable the potential of donated patents to be fully exploited to create new revenue sources for post-secondary institutions and to spin-off startup companies that will create new jobs and new tax revenues. In the plan before you, we encourage private-public partnership's that will promote the development of industry clusters, increase funding for applied research and product development, and explore all alternatives to meet community and carrier needs for air transportation service - for example, through NASA's and the National Institute of Aeronautics' new Small Aircraft Transportation System.

Rebuilding Rural Kansas is another daunting challenge. But it is one we must meet head on. Housing is a critical issue in most small towns. We propose development of a funding support mechanism for first-time home buyers in qualifying communities, and we seek to bridge existing gaps that deny disaster recovery funding for small town small business. Broadening access to KIT and KIR programs could support the revival of small rural businesses, create new jobs and increase local tax bases.

Well-conceived, and well-executed, even modest investments can pay handsome dividends as we increase marketing support for small communities targeting companies with a specific interest in locating in rural areas, and we increase technical and financial assistance for Kansas agricultural producers and distributors in the development of value-added products.

Finally, with regard to rural Kansas, creation of a state energy council and a state energy policy will support our traditional oil and gas interests while enabling the emergence of alternative energy sources such as wind, solar or bio-mass suitable for large-scale development in open spaces.

The final category that I would like to discuss this morning has to do with making Kansas' industries and communities more competitive. Many of the issues already discussed are expected to contribute to this result, but there are more initiatives that must be considered.

Because of its exceptional strength in aerospace, basic manufacturing, and agricultural production, Kansas has readily adapted to the new global marketplace. Unlike some states, Kansas has enjoyed a competitive advantage in these industries, and it has more recently emerged as a significant player in the provision of global services. Yet, our State's full global potential remains largely untapped. To achieve the full potential of our economy and our people in the global knowledge economy, a strong and sustained policy commitment must be made to opportunity identification, to skill development, to building relationships, and to facilitating transactions that will maximize Kansas' role in the world marketplace. The state must develop and aggressively pursue programs that will get more companies involved in world markets, and help increase the exports of those already selling their goods outside the United States.

Although international business already plays a significant role in the Kansas economy, the export potential of many Kansas businesses remain largely untapped. The proposals in this section are directed to realizing our full potential, by making business aware of global opportunities for their services or product, making communities more aware of international trade issues, and increasing awareness of Kansas and its products in the minds of customers and investors in other countries.

A first proposal for achieving his goal is to work with university global business programs to develop an international business mini-course, and expand technical assistance to companies that have the capacity to / or are in the beginning stage of establishing international marketing plans, but who may be reluctant to enter export markets for lack of technical assistance. Assistance would be directed toward rural areas, and small business owners/managers through online delivery or through availability of "help-lines."

Additionally, we should expand the presence of Kansas' full service export marketing services in areas that hold the greatest potential for growth.

Our existing advertising and trade show participation programs yield measurable benefit. These programs are underfunded.

Notwithstanding concerns spurred by events of September 11, we should enhance efforts that support university recruitment of international students by linking universities and the KDOCH international offices in organizing missions for student recruiters. International students in Kansas, who pay full, out-of-state tuition and fees bring more than \$100 million annually to local communities, they increase local understanding and appreciation of cultural differences and, by extending our outreach to international students, we create in their minds a positive impression of Kansas that will long survive their short stay in our state.

In a similar vein, Kansas has (unchallengeably) a unique resource within its borders that we must fully exploit if we are to realize our full global potential. That resource is

the Command and General Staff College at Ft. Leavenworth. Hundreds of high ranking foreign military officers from U.S. - allied nations regularly cycle through the College. Many of these officers go on to become senior government officials - even heads of state. While they are here, we must take advantage of the unique opportunity that is ours alone to build lasting relationships with them and their families. A welcoming experience - educationally and socially, for the officers and their families, will result in enduring relationships that can strengthen existing (and open new) markets to Kansas products in the years ahead.

We should ask and expect more of our post-secondary educational institutions in terms of their support for long-term economic development. One way to do this is to create a neutral platform, not associated with any single institution, that will allow the pooling of resources from around the state on a project specific basis to provide training or technical assistance in developing countries. These types of projects, fully-funded by a variety of entities (the World Bank, International Monetary Fund, USAID or the European Bank for Reconstruction and Development, for example) are often massive and require far more resources than any of our institutions individually can deliver. By pooling resources, we can compete in a new arena, institutions can bring new dollars into the state, our faculty and students can experience meaningful international contact, and (most importantly, from an economic development perspective) we build new relationships for Kansas in parts of the world likely to become customers for our products in the future. This neutral platform model is equally applicable to creating critical mass from among post-secondary institutions to conduct locally-based research, develop products, and conduct training that benefits all Kansans.

Let me talk for a moment about tourism, an untapped economic resource for Kansas. We have a great history and many appealing resources that would attract tourists from across the country and around the world. I have seen tourism based on history and ecology succeed elsewhere. We have not supported the growth of this incipient industry as we should.

We should, therefore, set as our goal to bring Kansas' tourism promotion expenditures up to the middle third among all states. This would include enhanced funding for general advertising, tourism alliance grants, trade show assistance, international tourism promotion, increased television advertising, and new travel information centers.

As an expected outcome of this investment, we would create additional revenue for all parts of the State, enhance the state's external image, and allow for stronger domestic and international marketing efforts through increased media exposure. In addition, an increase in foreign tourist visits will globalize Kansas' communities, and raise the profile of the state, which would provide assistance to our trade promotion efforts.

In conclusion, let me talk to the issue of tax incentives and tax policy. The State of Kansas has used a mix of incentives and programs available to business. These have

resulted in an impressive record of attracting investment that creates and retains jobs in Kansas. Business recruitment efforts, however, often encounter program rules that impair the effectiveness of these programs, or tax policies that discourage businesses from locating in Kansas. Changing some of these programs and policies could help the state attract even more business, while assuring that mature captive Kansas businesses are not unfairly disadvantaged by the giving of incentives to companies (perhaps even competitors) relocating to Kansas. Systematic review of programs and policies should target creation and maintenance of a fair, equitable, and transparent tax system.

Participants in our strategic planning process recommend that this Legislature act to allow the sale or transfer of tax credits among companies or individuals who have sufficient tax liability to use them. For investment that surpasses prescribed threshold levels, create an income tax rebate program that provides direct cash rebates to companies creating jobs, payroll, and investment in Kansas.

Additionally, we urge the Legislature to renew its commitment to providing incremental relief through increasing the rebate of property tax paid on machinery and equipment, and that it enact legislation that fills the gap for risk capital in Kansas.

Finally, with regard to Tax Policy, we recognize that taxes are necessary to help fund economical governmental services. But, to inspire public confidence, tax policy must be fair and clear to all taxpayers and it must respect private economic decisions in order for everyone to benefit from economic growth. State and local tax policy requires tradeoffs since there is no perfect tax or tax system. Therefore, all tax policy has to balance competing principles and criteria. An appropriately balanced tax system must strive to be:

- 1) Growth Enhancing: Tax policy should foster strong economic growth, job creation, and a rising standard of living for all Kansans.
- 2) Efficient: Tax structures should minimize distortions of both household economic decision and capital and labor allocations by business.
- 3) Economical: Each taxing jurisdiction should set tax collections as low as possible to finance justified levels of public expenditures over time.
- 4) Clear: Tax structures should be simple, understandable, and predictable and
- 5) The tax burden should be equitable in impact on all Kansans.

Tax rates, such as income and property, should be structured so that they are competitive with neighboring states. The Kansas Legislature should enact the recommendations set forth in the December 1998 *Report of the Governor's Tax Review Committee*, and the Legislature should provide for permanent analysis of Kansas' tax system designed to instill public confidence in the fairness, efficiency and transparency of our revenue generating system.

Madam Chairman, Committee members, thank you for your patience and your attention.