Approved: January 29, 2003
Date

MINUTES OF THE SENATE COMMERCE COMMITTEE.

The meeting was called to order by Chairperson Karin Brownlee at 8:30 a.m. on January 22, 2003 in Room 123-S of the Capitol.

All members were present except:

Committee staff present: April Holman, Legislative Research
Deb Hollon, Legislative Research
Mitch Rice, Revisor of Statutes
Jodie Anspaugh, Secretary

Conferees appearing before the committee: Dr. David Darling, K-State Research and Extension

Others attending: See attached list.

Chairperson Brownlee asked for bill introductions. Steve Kelly with the Department of Commerce introduced a bill on venture capital. Mr. Kelly gave an overview of the proposed bill. Senator Kerr moved to introduce the bill. Senator Steineger seconded. The motion carried. Mr. Kelly distributed copies of his proposed bill. (Attachment 1).

Chairperson Brownlee welcomed Dr. David Darling with K-State Research and Extension. Dr. Darling gave a presentation on rural economic development in Kansas. Dr. Darling has worked on programs in every county of the state. He handed out Kansas maps showing the 2002 economic strength and the growth levels during the 1990's of each county. Dr. Darling concluded his formal remarks with his professional recommendations for rural economic development. (Attachments 2 and 3).

Following his presentation, Dr. Darling answered questions from the committee on local leadership development, tourism, the PRIDE program, and the effectiveness of state programs for rural development.

The meeting was adjourned at 9:30 a.m.

The next meeting is scheduled for January 23, 2003 at 8:30 a.m.

SENATE COMMERCE COMMITTEE
GUEST LIST
DATE: Wednesday, Jan. 22, 2003

NAME	REPRESENTING
Mike Irvin	Kansas Farm Bureau
Ron Seeber	Hein Law Firm
Sook Park	Kansas Dept. of Commerce & Housing
Tom Burgess	Burgess & Associates
Kristin Heuertz	Senate Majority Leader
John Federico	KCTA

74-8222. Same; tax credits allowed for certified capital investments. (a) Any investor that makes a certified capital investment shall earn a tax credit against state tax liability equal to 50% of the amount of such investor's certified capital investment. The investor, or a person to whom the credits were duly transferred, shall be entitled to claim ~~not more than~~ *a percent of the credit proportional to the amount invested by the CFC in a qualified Kansas business, not to exceed* 10% of the credit per taxable year for taxable years commencing on and after January 1, 2005. *The investor, or a person to whom the credits were duly transferred, shall be entitled to claim in subsequent taxable years any credit unclaimed in a taxable year, provided the sum total of such credits does not exceed an average of 10 percent of the credits to which the investor is entitled.* If the amount of the tax credit allowed under subsection (a) exceeds the tax liability of the taxpayer for any taxable year, such excess amount shall be refunded to the taxpayer.

(b) No certified capital investment in a single CFC by any one person shall be less than $25,000 or more than $2,000,000; nor shall any one person's combined investment be deemed in excess of $5,000,000 for the purpose of earning tax credits.

(c) The total amount of tax credits which may be allowed shall not exceed $20,000,000. The total amount of tax credits which may be allowed under this act shall not exceed $2,000,000 per fiscal year.

74-8225. Same; requirements for continued certification of CFC; minimum investments thresholds; liquidating distributions; quarterly reports. (a) To continue to be certified, a CFC shall make qualified venture capital investments according to the following schedule:

~~(1) Within three years after the date on which a CFC is certified at least 33% of its capital originally certified shall be, or have been, used for making qualified venture capital investments;~~

~~(2) within four years after the date on which a CFC is certified at least 66% of its capital originally certified shall be, or have been, used for making qualified venture capital investments;~~

~~(3) within five years after the date on which a CFC is certified at least 100% of its total capital originally certified shall be, or have been, used for making qualified venture capital investments;~~

(1) ~~(4)~~ a CFC shall not make an investment in an affiliate of the CFC or an affiliate of an investor. For the purposes of this subsection, if a company is not an affiliate before a CFC initially invests in the company, it shall not be deemed to be an affiliate if such CFC provides additional qualified venture capital investment to such company subsequent to its initial

investment. No corporate officer, employee or shareholder, no limited or general partner or other person personally affiliated with any CFC shall personally invest in any portfolio company regardless of whether the portfolio company is affiliated with the CFC; and

(2) ~~(5)~~ all certified capital which is not then required to be invested in qualified venture capital investments or which has been previously invested in qualified venture capital investments and returned by the company, may be held or invested in such manner as the CFC, in its discretion, deems appropriate. The proceeds of all certified capital which is returned to a CFC after it was originally invested in qualified venture capital investments, may be invested in other qualified venture capital investments and shall be credited toward any requirement in this act with respect to placing certified capital in qualified venture capital investments.

(b) A CFC may make qualified distributions at any time. In order to lawfully make liquidating distributions, a CFC must have invested an aggregate amount equal to 100% of its certified capital in qualified venture capital investments or the fair value of its assets plus any prior qualified and liquidating distributions which equal or exceed 110% of its certified capital. In addition, to the extent that marketable securities have been received in liquidation of a qualified venture capital investment, such securities may be distributed as liquidating distributions. Notwithstanding any other provisions of this act, cash liquidating distributions are permitted solely for the purpose of providing funds to investors to pay income taxes attributable to earnings of the CFC.

(c) Liquidating distributions in excess of the certified capital formation company's original certified capital and any additional capital contributions to the certified capital formation company shall be subject to audit by a certified public accounting firm acceptable to the secretary, at the expense of the certified capital formation company.

(d) If at the time any liquidating distribution is made by a CFC, the aggregate sum of all liquidating distributions of the CFC exceeds the aggregate sum of the CFC's original certified capital and any subsequent qualified venture capital contributions to the CFC, as determined by audit, the CFC, prior to any additional distributions, shall pay to the state treasurer's office 10% of the proportion of the distribution in excess of such amount.

(e) Documents and other materials submitted by CFC's or by businesses for purposes of authorization or original certification or the continuance of certification as a CFC shall not be public records if it is determined by the secretary that disclosure of such information would compromise trade secrets of qualified Kansas businesses unless otherwise specified in this act.

(f) Each CFC shall report the following to the secretary:

(1) Within 90 days of the close of the CFC's fiscal year, annual audited financial statements. The audit shall address the methods of operation and conduct of business of the CFC to determine if the CFC is complying with the statutes and program rules and that the funds received by the CFC have been invested in accordance with the time limits provided by this act.

Senate Commerce Committee
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Attachment 1-2

(2) At the end of each quarter, that no more than 20% of the greater of: (A) The original certified capital investment in the CFC; or (B) the original certified capital investment plus the amount equal to the net gains, losses, income and expenses realized by the CFC at such time shall be invested by a CFC in a single qualified Kansas business at any one time unless the CFC can demonstrate that a greater percentage in a single qualified Kansas business at any one time is the result of losses suffered by the CFC in other qualified venture capital investments.

(g) Any material related to the sale of ownership in a CFC or soliciting investment in a CFC shall include the following statement: "By authorizing or certifying a certified capital formation company, the State of Kansas does not endorse the quality of management or the potential for earnings of a particular company. The use of the word "certified" or "authorized" in an offering does not constitute a recommendation or endorsement of an investment by the Kansas Securities Commission or any other State Official."

(h) The secretary may establish reasonable initial filing fees for applications for authorization and certification pursuant to this act and may also establish an annual nonrefundable fee for CFC's seeking continued certification.

74-8226. Same; annual review by secretary; decertification of CFC. (a) To ensure that no qualified venture capital investment or investor's certified capital investment has been made in violation of this act, the secretary shall conduct an annual review of each CFC to determine if the CFC is complying with the requirements of certification. The costs of the annual review shall be paid by each CFC according to a reasonable fee schedule adopted by the secretary.

(b) Any material violation of this act by a CFC shall be grounds for decertification under this section. If the secretary determines that a CFC is not in compliance with the requirements for continuing certification, the secretary, by written notice, shall inform the officers of the CFC and the board of directors, managers, trustees or general partners that they shall be decertified within 120 days from the date of mailing of the notice, unless they correct the deficiencies detailed in the notice and demonstrate to the secretary's satisfaction that the CFC is again in compliance with the requirements for certification as determined by the secretary.

(c) At the end of the 120 day grace period, if the CFC is still not in compliance, the secretary may send a notice of decertification to the CFC and to the secretary of revenue including a list of the decertified capital investments by investor and transferee.

~~(d) Decertification of a CFC prior to the CFC meeting all requirements of paragraphs (1) through (4) of subsection (a) of K.S.A. 74-8225, and amendments thereto, shall cause the recapture of all tax credits previously allowed to an investor or transferee and the forfeiture of all future tax credits to otherwise be claimed by an investor or transferee with respect to any certified capital investment in the decertified CFC.~~

(d) ~~(e)~~ Decertification of a CFC after it has met all requirements of paragraphs (1) ~~through (4)~~ of subsection (a) of K.S.A. 74-8225, and amendments thereto, shall cause the forfeiture of tax credits commencing with the taxable year of the investor or transferee in which the decertification arose ~~and for all future taxable years with no recapture of tax credits allowed to an investor or transferee with respect to the taxable years which ended before the decertification occurred. Once a CFC has invested 100% of its certified capital in qualified Kansas businesses, all future tax credits to be claimed pursuant to this act by investors or transferees with respect to such CFC shall not be subject to recapture.~~

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Attachment 1-4

Testimony by Professor David L. Darling

Community Development Economist

Kansas State University

to the Kansas Senate Commerce Committee

Chaired by

Senator Karin Brownlee

January 22, 2003

Professor David L. Darling

"My mission is to help groups make good decisions as they focus on the future and work to resolve community and economic development issues."

"My job description is to provide leadership to the Cooperative Extension Service and through it, to educate and assist all Kansans who are focused on community economic development"

Senate Commerce Committee
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Attachment 2-2

TESTIMONY: THE SENATE COMMERCE COMMITTEE

By Dr. DAVID L. DARLING

Community Development Economist
K-State Research and Extension

January 22, 2003

Opening remarks: Let me introduce myself and tell you who I am, my responsibilities, and my mission.

All economic development is local. State policy, laws, and regulation can enrich or impoverish the business environment. Two key questions that I always ask economic development groups to address are:

1) Economic development for whom, and
2) Economic development for what purpose?

Who prospered in the recent prosperous times?

Present findings of the KSU study
Update of trends by region

Who is prosperous now?

Review the new Strength Index and
The new County Trade Pull Factors.

CED for the 21st Century, a synthesis of concepts.

Kansas, Inc. and a strategic approach to development.

Open up for questions.

Sources of Measuring Outcomes

- Expanding Diverse, Inclusive Citizen Participation

- Expanding Leadership Base

- Strengthened Individual Skills

- Widely Shared Understanding and Vision

- Strategic Community Agenda

- Consistent, Tangible Progress Toward Goals

- More Effective Community Organization and Institutions

- Better Resource Utilization by the Community

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Source: Take Charge Manual, Appendix A, pg. 11
From the Aspen Institute Study

David L. Darling
February 2001

Who's Prospering in Prosperous Times? A Study of Economic Progress Across Kansas

David L. Darling
Xiaolou Yang

David Darling is Extension Specialist, and Xiaolou Yang is a graduate student, Cooperative Extension Service, Department of Agricultural Economics, Kansas State University.

Introduction

The U.S. and the Kansas economies have been expanding since the second half of 1991. For this reason, this report provides a county-by-county analysis of the economic progress of people living across Kansas, as the authors try to discover "Who is prospering in prosperous times"?

Four different variables are used in the analysis: employment, total personal income, retail trade, and population. In an ideal scenario the people living in a county will be progressing to better jobs and higher incomes as retail trade activity expands along with the population. Unfortunately, from our analysis, we have discovered that this is what is happening in only 16 out of 105 counties. A county-by county analysis of the four variables follows.

Civilian Employment Changes

Civilian employment in Kansas has increased 15 percent from 1991 through 1999. Job growth occurred all across the state. For example, employment went up 65 percent in Jackson County, 31 percent in Wilson County, 17 percent in Ottawa County, 20 percent in Sumner County, 22 percent in Sherman County, and 28 percent in Gray County, showing that gains were made by people living in all regions of Kansas. These numbers reflect employment by place of residence as reported by the Labor Market Information Services in the Kansas Department of Human Resources; therefore, these examples show gains made by people living in all regions of Kansas (Map 1).

Using the 15 percent state rate as a benchmark for comparison purposes, 29 counties experienced growth in the employed portion of their population at or greater than the rate of 15 percent. Fifty-five grew at a slower rate and 21 either had no growth or negative growth.

The region with the best performance was the northeast. In the Kansas City Metropolitan Area, Johnson, Leavenworth, and Miami counties grew at a rate faster than 15 percent. Wyandotte County grew at the modest rate of 5 percent. Also, people in adjacent counties all around the core counties of Johnson and Wyandotte experienced expanded job markets. Job growth was strong in Atchison, Jefferson, Douglas, and Franklin counties at rates of 15 percent, 16 percent, 24 percent, and 22 percent, respectively.

Job growth was strong in the counties surrounding Topeka; it was strong in Butler and Sumner counties, near Wichita; and it was strong in two counties near Salina: Ottawa and McPherson. Ellis County grew at the rate of 19 percent; Sherman and Thomas counties grew at the rate of 22 and 15 percent. Finally, both Gray and Hodgeman counties, near Dodge City, have done well.

Growth was spotty along Highway 36. Decatur, Rawlins, and Republic counties lost employed population, while Norton, Marshall, Brown, and Doniphan experienced above-average gains.

A number of counties stretching from the Oklahoma border in south central Kansas all the way up to Republic County on the Nebraska-border lost employed population. Finally the Flint Hills counties of Chautauqua, Elk, Greenwood, and Woodson lost some employed population.

Personal Income Changes

Total personal income for the state of Kansas, as reported annually by the U.S. Bureau of Economic Analysis, increased by $20.4 billion, up 44 percent from 1991 to 1998, the most recent year for which personal income data are available. This excellent performance was shared across Kansas. For instance, incomes in Chase County went up 66 percent, while Rawlins, Wilson, Brown, Wallace, Rush, and Kingman counties increased by 38 percent, 34 percent, 38 percent, 41 percent, 30 percent, and 39 percent, respectively (Map 2).

Using the 44 percent state rate of growth as the benchmark for comparison, 18 counties went up at this rate or a faster rate, Another 85 counties increased at a slower rate, and only two counties went down.

The northeast region had the best performance. In the Kansas City Metropolitan Area, total personal income in Johnson, Miami, and Leavenworth counties grew at rates of 65 percent, 58 percent, and 41 percent, respectively; Wyandotte County grew at the slower rate of 25 percent. Income gains in the adjacent counties of Osage, Franklin, Douglas, and Jefferson out-performed the state's gain.

Total personal income increased sharply in other places. Following Interstate Highway 70 west, Shawnee, Wabaunsee, Geary, Dickinson, Saline, Ellsworth, Ellis, Thomas, and Sherman counties did well; unfortunately, the other two counties along

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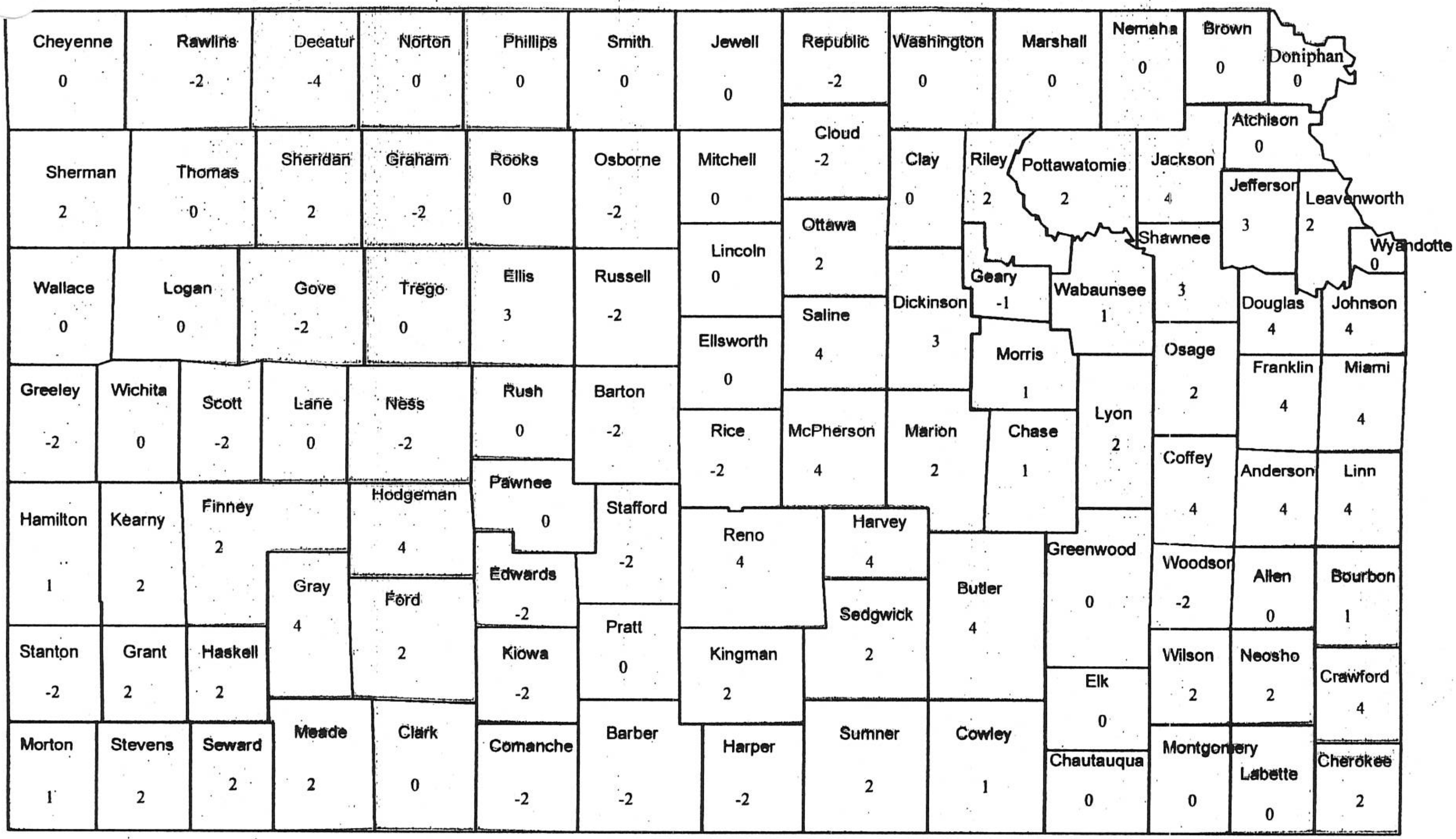
Map 5: WHO's PROSPERING IN PROSPEROUS TIMES: AN INDEX OF PROGRESS DURING THE 1990's



Index Ranges from a +4 (high) to a –4 (low)

Produced By: David L. Darling, Kansas State University Extension Agricultural Economics

April 2000

Senate Commerce Committee
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Attachment 2-6

2000-2001 STRENGTH INDEX:

A MEASURE OF THE

PROSPERITY OF KANSANS

CD STUDY REPORT # 208

MS. SANDHYARANI PATLOLLA

AND

DR. DAVID L. DARLING

K- STATE RESEARCH AND EXTENSION
DEPARTMENT OF AGRICULTURAL ECONOMICS

APRIL 2002

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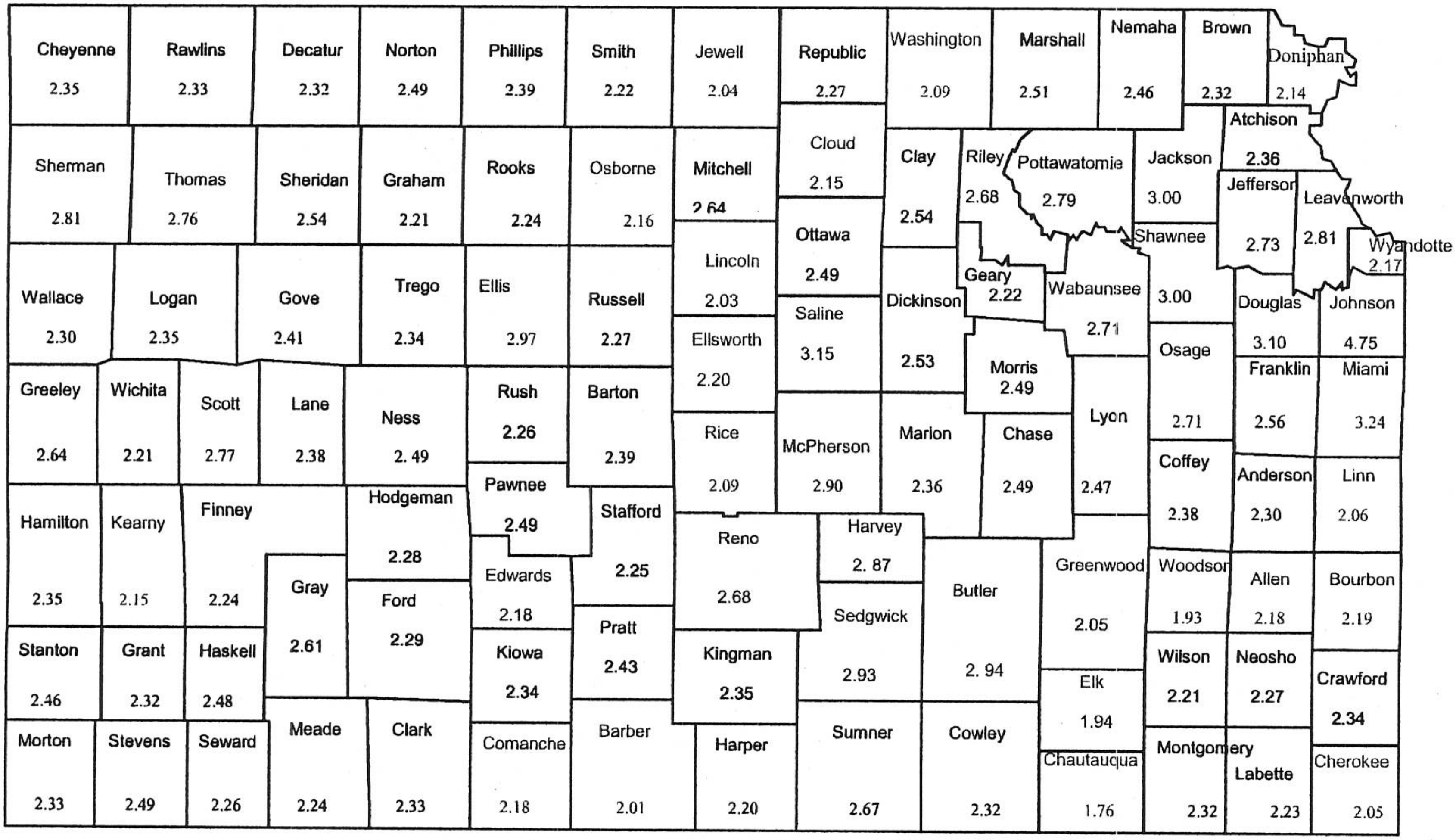
105 County Average = 2.43
Maximum Value = 4.75
Minimum = 1.76

MAP-4
Strength Index
2002

David L. Darling
Sandhyarani .P
April 2002



Legend
Top 20% Red
Bottom 20% Blue

Data Source: The Governor's Economic and Demographic Report 2000-2001
K –State Research and Extension.

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Attachment 2-8

Economic Development Strategies and Resources

Table 1

Resources

Strategies	Human Capital	Financial Capital	Social Capital	Human Engineered Capital	Environmental and Natural Resources Capital
Retention & Expansion					
Firm Creation					
Local Linkages					
Capture Dollars					
Attraction					

Strategies: KSU's five basic strategies are ordered from top to bottom. Retention and expansion of existing business, industry and other employers is ranked first.

Resources: Five basic resources are the types of capital used by the private, public, and not-for-profit sectors as inputs in the production process.

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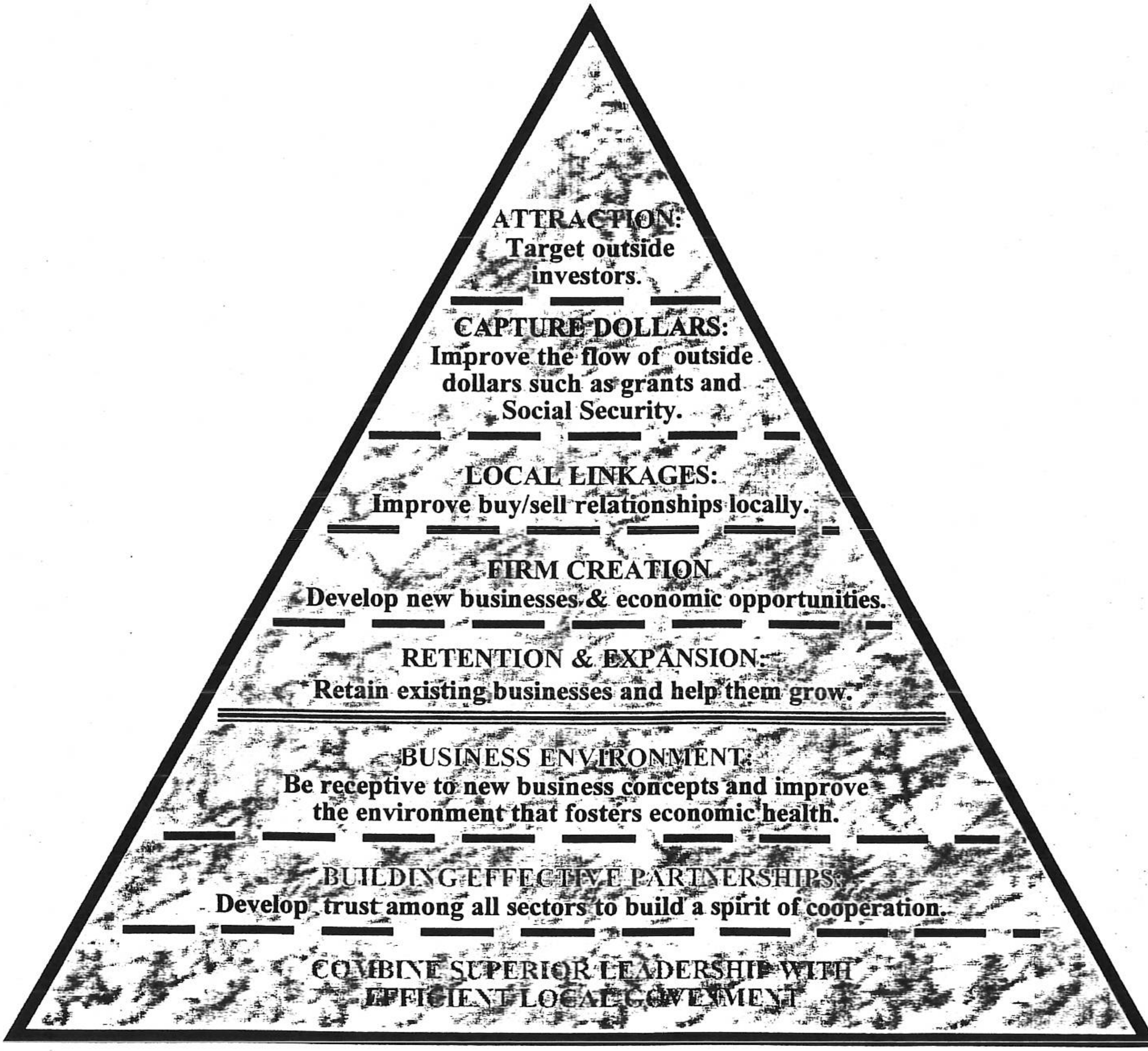
ECONOMIC DEVELOPMENT PYRAMID



START AT THE BOTTOM.
BUILD A FIRM FOUNDATION THAT WILL SUPPORT A SUCESSFUL ECONOMY.

Kansas State University Agricultural Experiment Station and Cooperative Extension Service.

David L. Darling,Ph.D.
K-State Research and Extension
Dept. of Ag.Economics
216 Waters Hall
Manhattan, KS 66506-4026
(785) 532-1512 Office (785) 532-6925 FAX
Web Site: www.agecon.ksu.edu/ddarling

Present/ New Triangle
July 2002

Senate Commerce Committee
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YOUR COMMUNITY'S GOALS

****

The following six major types of goals encompass most areas. The examples are provided to stimulate thinking and discussion. After a group process has taken place and many goals are collected, they should be prioritized based on the ***vision statement***. Then a solid strategic plan can be produced.

RANK GOALS

A: GROWTH GOALS

For Example: __________

1. Retain and expand existing industry __________
2. Boost retail sales locally __________
3. Build more housing
4. Other ____________________________ ^ __________

B: DEVELOPMENT GOALS

For Example:

1. Diversify the economic base __________
2. Create a community foundation __________
3. Train new community leaders __________
4. Other ____________________________ ^ __________

C: STABILITY GOALS

For Example:

1. Stabilize the current economic decline __________
2. Increase the rate of reinvestment by those with capital __________
3. Decrease retail dollar leakage __________
4. Other ____________________________ ^ __________

D: SOCIAL GOALS

For Example:

1. Preserve the local culture __________
2. Enhance public safety __________
3. Improve the local justice system __________
4. Remove discrimination in lending practices __________
5. Other ____________________________ ^ __________

E: STEWARDSHIP GOALS

For Example:

1. Control soil erosion ____________
2. Better manage water resources for city and farm uses ____________
3. Plan land use to avoid sprawl ____________
4. Other ______________________________^ ____________

F: BUILD TRUST WITHIN THE COMMUNITY GOALS ------------------

For Example:

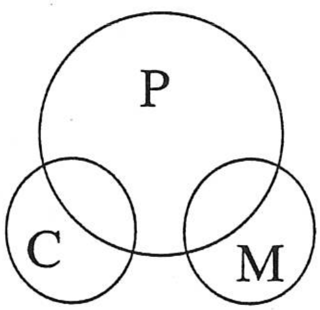
1. Conduct an annual town meeting ____________
2. Do an annual community survey ____________
3. Go through a strategic planning process ____________
4. Other ______________________________^ ____________

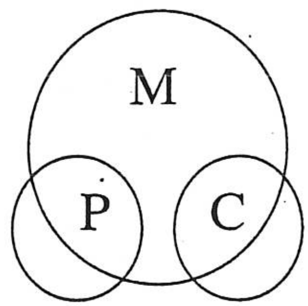
Produced by David L. Darling, Community Development Economist
Department of Agricultural Economics

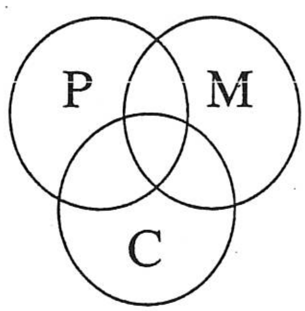
May 8th, 2000

Balance in the Political Economy

- √ Public Sector (P)
- √ Civil Society (C)
- √ Private, Market Driven, Sector (M)







Balanced

FY Info —

David L. Darling, Ph.D.
Extension Specialist, Community
Economic Development
Department of Agricultural
Economics
K-State Research and Extension

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Attachment 2-13

Source: Dr. Cornelea Flora, Iowa State University

Dr. David Darling's thoughts and professional recommendations:

- Rural Development is turning wilderness into frontier; frontier into settled space; and settled space into urban places surrounded by productive rural landscapes.
- All economic development is local.
- Understand what is and what is not CED for the 21st century.
- Understand the five basic strategies for CED.
- Understand the five types of capital used in CED.
- Understand the six basic goals of CD and CED. These are stewardship, social goals, building social capital, growth, development, and stability.
- Assist and help formulate an integrated role for the State to play in CED.
- Strengthen the ability and commitment of all stakeholders to do action planning on CED at the local and regional level.
- Reform the laws that allow too much money to be packaged into incentive programs to attract outside investors.
- Enhance the role of higher education in CED.
- Encourage regional efforts in ED.
- Corporations and other forms of businesses are citizens of Kansas and should pay their fair share of taxes.
- Sales tax is a tax on the consumption of a product by the final consumer and should never be levied on business purchases used in the production process.
- As a general rule, tax revenues should be raised from a tax on wealth, income, and consumption in equal proportions.
- Disconnect the Kansas tax policy and structure from the federal one.

- **To perform the role of the State ED policy implementer the Department of Commerce and Housing should act like a facilitator not an agency that tries to control every other ED player.**
- **Keep Kansas, Inc alive and functioning within its mission.**
- **Fund State ED initiatives at a level that allows the State to proactively implement a comprehensive program - $75,000,000?**
- **Tourism is big business; let's pursue it vigorously.**
- **Education at all levels produces the human capital that is the lifeblood of CED. Thus, the State needs to improve the role of higher Ed and other training programs to train the current and future workforce.**
- **Strengthen the commercialization of inventions from all sources such as from the State's universities. Keep KTEC alive and well.**
- **Finally, do not allow the budget crisis to lead to short term fixes at the expense of the health of the State, such as actions that damage the natural and environmental resource base.**

Testimony of Dr. David L. Darling. These are his professional opinions and do not reflect the views of the K-State and College of Agriculture's administration.

K·STATE
Kansas State University
Research and Extension

CREATING ECONOMIC OPPORTUNITIES

KANSAS STATE UNIVERSITY AGRICULTURAL EXPERIMENT STATION AND COOPERATIVE EXTENSION SERVICE

A Community Development Newsletter

No 53 Fall 2002

INSIDE THIS ISSUE:

OUR MISSION:

"Dedicated to a safe, sustainable, competitive food and fiber system and to strong, healthy communities, families and youth through integrated research, analysis and education."

IDEAS YOU CAN USE

COMMUNITY ECONOMIC DEVELOPMENT

CED for the 21st Century

By David Darling, K-State and Mark Peterson, Univ. of Ark. Ext.

This article presents a 21st century approach to development. The authors start with a list of eight major new realities. Then five key concepts are presented that will deepen the reader's understanding of a civic process of economic development. In so doing, the authors will point out the limitations of a *job development approach* to CED as compared to *a 21st century approach.*

MAJOR NEW REALITIES IN THE 21st CENTURY

One of the features of the new era, the **Age of Uncertainty**, is the speed, number, and variety of forces that impact communities. This opens up new opportunities for communities to do business worldwide. However, it also is more challenging. The following major forces and trends have powerful implications on the vitality of U.S. communities and their economies.

1. **Terrorism and threats of terrorism threaten our peace and security** - Terrorism is a reality that many nations have been dealing with for years. On September 11, 2001, terrorists struck the United States and Americans are still trying to come to grips with its impacts.

2. **The arrival of the service and knowledge-based economy** - Growth of jobs related to services and knowledge work is expected to continue, particularly in the U.S. Driven by the explosion of information, knowledge, and technology, this new economy is expressed not only by the rise of hi-tech firms, but also by the incorporation of information technologies into all sectors of our economy. This economy has no borders, thrives in an environment of networking and free markets, and operates all the time and on compressed time (Internet time).

3. **Globalization** – The collapse of the Soviet Union, the lowering of trade barriers, the reduced cost of transportation, and the use of new information technologies to send information, knowledge, technology, human capital, and financial capital across borders are some of the forces driving the integration

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Attachment 3-1

(Continued from page 1)

of ideas, people, cultures, and economies worldwide. This increases the levels of interdependence. The global economy includes knowledge-based workers who can work any where in the world and commodities that are marketed on the basis of world prices.

4. **The rise of regional economies** - Just as the forces of globalization impact us, so do regional economies. The formation of the European Common Market and the North American Free Trade Agreement make it easier for goods, services, capital, and technology to flow across borders within these regional economies. On a smaller basis, state economies increasingly are becoming less relevant than dynamic regional economies that cut across state lines and are anchored by a central city or an urban cluster.

5. **Demographic changes impact our work force and communities** – Hispanics now out number African-Americans in the U.S. The diversity of our nation increases as immigration represents 40 percent of our population growth. The Baby Boom age cohort will soon hit retirement age. Also, the rural population continues to decline while the urban and suburban populations continue to increase.

6. **Changing nature of our workplace** – There are several dimensions to the changes in the workplace: an increase in the number of knowledge workers, more temporary workers, and greater attention to virtual workplaces. Computer skills are now an absolute requirement for an increasing number of jobs. There is greater demand for highly skilled workers and unskilled immigrant workers. Those in the middle will be increasingly left out.

7. **Increasing concern for the natural environment** – Population growth and other developments have put greater pressure on these elements of our natural environment: green space, water quality and quantity, wildlife habitat, waste disposal, and recycling areas.

8. **Trust in the key institutions of society** – In the spring of 2002, Americans realized that the institutions that govern and support the equity markets were not trustworthy. The 500 biggest publicly traded corporations lost market value and millions of people experienced either a paper loss of net worth or a real loss.

It is in the context of these larger forces and trends that our discussion of community economic development takes place.

CONCEPT ONE—Sustaining Progress, A change model

Change models are constructed to explain and predict progress. In 2002, K-State Research and Extension published a new change model – Sustaining Progress. The reader can find it on the Web at www.agecon.ksu.edu/ddarling. Then click on Extension Resources. Also view the PowerPoint presentation.

Sustaining Progress Model *(featured in the Summer 2000 newsletter)*

Progress = f (A, V, P, R, B) **Where:**

A *stands for a set of attitudes based on an underlying set of values and principles that shape the culture of an organization, define the character of its leaders, and prepare the community for the challenges in the 21st century.*

V *stands for a compelling vision in the knowledge-based economy. The vision gives focus and direction to planned efforts while challenging, motivating and uniting the members of the team.*

P *stands for a strategic plan that is designed to guide actions as the vision is pursued.*

R *stands for a set of resources that are needed to implement the plan (Discussed in the next section)*

B *stands for a set of outcomes that benefit all those involved in the process and other stakeholders.*

A mathematical way to express the above generalized formula follows:

Progress = (A x V x P x R x B)

This shows that the variables in the equation compound. No progress can occur unless all variables have positive values. A positive value for each variable of greater than zero and up to one allows progress to occur at different rates. Ideally, state all variables have a value of one.

(Continued on page 3)

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Attachment 3-2

(Continued from page 2)

CONCEPT TWO—Five Forms of Capital

A comprehensive approach to community economic development is well planned with adequate resources. These resources now are grouped into five forms of capital.

They are the following:

1. Human Capital
2. Social Capital
3. Financial Capital
4. Engineered Capital
5. Natural Capital

Human Capital is the knowledge and skills used in the production process. It includes the skills of production workers, marketing officers, financial managers, and organizational leaders. It includes the work ethic, attitudes, and values of the work force. *Social Capital* is the trust and working relationships in a community, state and nation. *Financial Capital* comes in different forms to pay for tasks such as starting a business, expanding a business, or building a school. *Engineered Capital* is the collection of human engineered things not already covered as human, social, or financial capital. Hard-engineered capital includes physical infrastructure such as fiber optic cable and soft-engineered capital includes the organizational and institutional infrastructure as well as the governance of these two. *Natural Capital* is nature's endowments.

CONCEPT THREE—Total Development Paradigm - *The Layer Cake Model*

The Total Development Paradigm is an important addition to the conceptual approach of community and economic developers. This model uses a systems approach to show how all components of development fit together. Industrial development is a subset of economic development. Both are a subset of community development. The conceptual model makes an important point. Industrial developers focus on a smaller set of resources or forms of capital than community developers. The industrial developers concentrate on engineered capital some times to the exclusion of all other types. The latest emphasis is on broadband connectivity and inter-modal facilities.

The conceptual model illustrates that what may be holding back one community may not be a problem in another one. For example, Community A may be losing its natural resource based economy while Community B may lack the leadership infrastructure to move forward. This illustrates the need for a holistic approach to development. The Total Development Paradigm is discussed below and shown in **Figure One.**

Economic Base: These economic production activities result in the output of goods and services for sale primarily to customers outside the functional economic region. Thus, the firms in the economic base bring dollars into the area economy. Examples include production agriculture, value-added agriculture, mining, forestry, fishing, manufacturing, tourism, and even call centers.

Physical Infrastructure (hard infrastructure): Physical installations provide the means for local business, industry, government, and residential dwellings to function. People and firms cluster together to collectively share in the burden of financing the engineering, construction, and operation of a waste water system, drinking water system, industrial parks, road system, and the like. Historically, industrial developers focused on these assests almost exclusively.

Support Systems: Services and activities that nurture a high quality of life support the other layers in the community. Communities have medical services and facilities, educational services and facilities, retail services and facilities, and the like.

Human and Social Capital: These include values and capabilities of people in the community, as well as the institutions, relationships, and norms that shape social interactions in the community. Human and social capital will become more important to progressive communities in the 21st century.

Leadership Infrastructure: Individuals and organizations that seek to develop and express leadership can be very helpful as the community pursues a vision of being a progressive and healthy place to live. The leadership infrastructure includes people with vision, spirit, enthusiasm, and leadership skills. They are the ones who are trusted, who cooperate, who empower others, and make local government and other systems work effectively. The leadership infrastructure is the bottom layer because, in many respects, it is the most critical one. Leaders from

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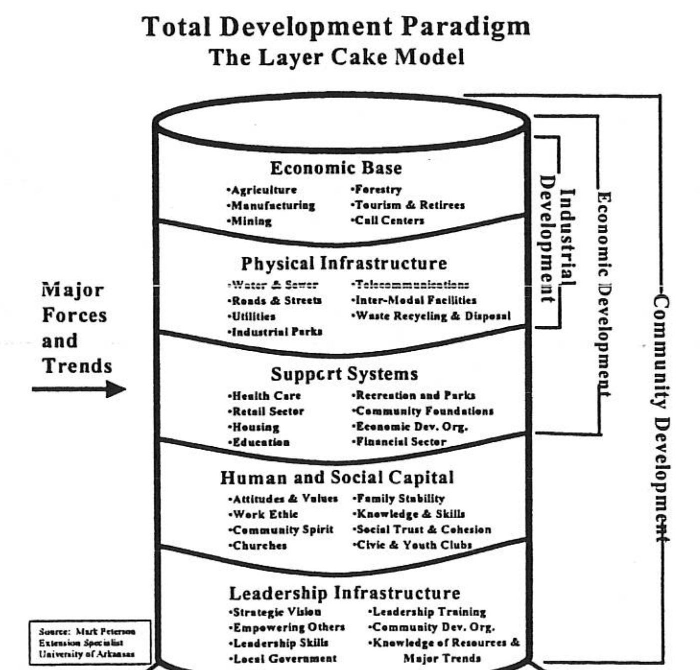
throughout all sectors of the community exert the most influence on what the community becomes. They set up the contextual conditions and then make decisions within that context. The results are development initiatives that succeed or fail the community.

Finally, this layer cake model rests on a foundation of *environmental and natural resources*. If the layer cake model was an automobile, the top four layers would be the four tires and the bottom layer, leadership, would be the driver. If one tire goes flat, the automobile cannot move forward. Similarly, if the driver is drunk, lost, or too young, the automobile will not reach its destination.

The Total Development Paradigm can also be seen as a snapshot of a community at any particular point in time. If one asks community leaders knowledgeable about the knowledge based economy to describe what they hope each layer will look like in ten years, one would discover the utilization of information technologies woven into the community's fabric. Then people would be reminded that the macro-environment forces, such as new knowledge, as new technology, and global conflict, impact all communities.

Figure One



This brings us to the next major point. Every dimension of development fits together in a comprehensive system. Community development professionals, planners, community leaders, and elected officials cannot ignore anything. Housing problems can impede development just as much as shortages of labor, industrial sites, financial resources, or broadband Internet service.

CONCEPT FOUR—Six Sets of Goals

Progress will mean something different to every team or organization because every team has different goals and plans. Community residents have one simple gage of progress and that is a sense that their quality of life is improving. Here are six sets of goals that have to be addressed as community residents collectively vision, plan and act to improve their quality of life.
These are the following:

1. Growth goals
2. Stability goals
3. Development goals
4. Social goals
5. Stewardship goals
6. Building Social Capital goals

The following are short definitions. Growth is the expansion of existing facets of the community such as good quality jobs and the housing stock in an existing neighborhood. Development is the creation of new dimensions in the community such as a community foundation or an assisted living complex. Stability goals address problems due to decline or large variations in economic activity. Social goals are a set of things that directly affect the community's quality of life. Some examples are violence, injustice, and inequity. Stewardship goals address the quality and quantity of the stock and flow of our natural and environmental resources. And the building Social Capital goals are ones that address trust and cooperation within the community and its many organizations.

CONCEPT FIVE: Basic Strategies for Development

Resources are valuable only when put to work. Action planning is driven by intelligent development strategies.

Here are five.

1. Retain and expand existing business and industry,
2. Assist the creation of new firms

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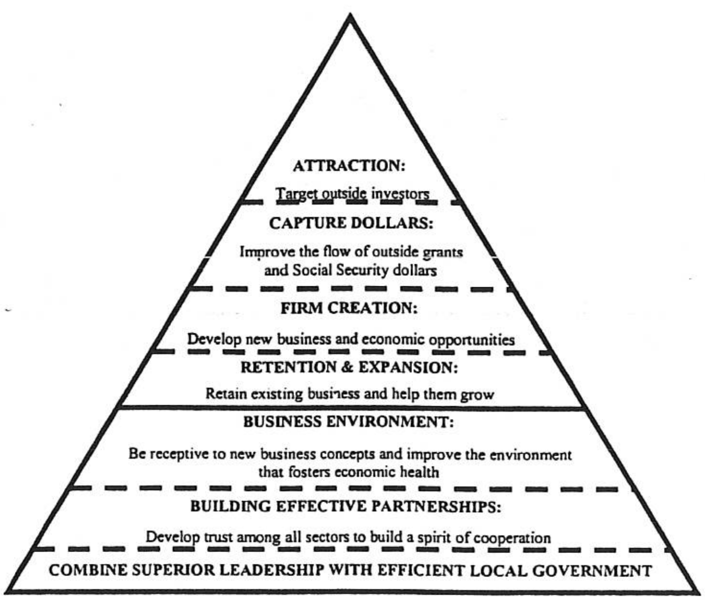
3. Improve the local linkages between buyers and sellers
4. Capture unearned dollars such as grants and inheritances
5. Attract compatible business and industry.

The Economic Development Pyramid. This visual not only displays the five basic strategies for community economic development, it also suggests that it takes more work than just the implementation of five development strategies. Local leaders, working with local governments, must build effective partnerships to create the environment for growth and development to occur. It takes concerted planning and coordination over many months and years to enrich the business environment to the point that business and industry will thrive. It is worth noting that a community cannot attract investors unless it is attractive.

This leads to a major point. Most industrial developers define economic development as a job creation process. The authors define economic development as a process of accumulating resources (capitals) to support and enhance production and thereby improving per capita output in the region. More capital should flow in than out. **This means that the mining of resources as a means to the goal, economic development, is acceptable in the old paradigm but prob n the new one.**

Figure Two

ECONOMIC DEVELOPMENT PYRAMID



START AT THE BOTTOM.
BUILD A FIRM FOUNDATION THAT WILL SUPPORT A SUCESSFUL ECONOMY

True development can be done when the producers of goods and services also are reinvesting continuously. Producers are not only private sector firms. The public sector, not-for-profit organizations, and membership organizations all produce products. Dr. Neal Flora makes the case that a balanced approach by all of these creates the best outcome. She divides up the world into three spheres, the market, the state, and the civil society. All compete for dominance. All overlap. Each needs the other two.

In summary, community economic development is a vision charged civic process. The vision helps focus attention on a set of key issues that when resolved will improve short, medium, and long-term economic health and vitality. Finally, this is made possible when local assets are effectively used and matched with outside resources.

FACTS YOU CAN USE

The new, **2000 –2001 Strength Index** is now available on the Internet. Click on C.D. Study Reports. This year's base data is better than ever. Population numbers are based on the 2000 Census numbers adjusted downward for the institutionalized population in each county.

The **Strength Index** is made up of the sum of the Wealth Index, the Personal Income Index, and The Employment Index. Only 6 counties have an index of 3.00 or better. Since an Index of 3.00 is one that reflects a perfect balance of county over state numbers, this is a small number. The distribution is distorted by Johnson County. Its index is 4.75, way above second ranked Miami at 3.25. The top ten are Johnson, Miami, Saline, Douglas, Jackson, Shawnee, Ellis, Butler, Sedgwick, and McPherson Counties. Johnson County has the highest Wealth Index (2.02) and Income Index (1.59). But, Jackson County has the highest Employment Index (1.41).

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A Pearl Collection

"I lived to laugh and laughed to live."

Milton Berle

K-STATE Kansas State University Research and Extension

Conference Date Book

4-State Heartland Community Development Conference

When: *November 7 and 8, 2002.*

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Price is $65, *Contact Ag Conferences, Oklahoma State University at 405-744-6489.*

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Theme: Building border to border prosperity: A memo to the new governor

When: *November 21st at the K-State Student Union*

Where: *Kansas State University in Manhattan*

Featuring *Mike Hayden and Sheila Frahm*

Price *to be announced.*

Register *online at http://www.ksu.edu/kcri/rps*

November 2002

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17	18	19	20	21	22	23
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K-State Students can choose to take the course for undergraduate or graduate credit.

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