

MINUTES OF THE HOUSE ECONOMIC DEVELOPMENT COMMITTEE

The meeting was called to order by Chairman Kenny Wilk at 3:30 p.m. on January 13, 2004, in Room 526-S of the Capitol.

All members were present except: Rep. Valdenia Winn, Excused

Committee staff present:

Alan Conroy, Director, Office of Revisor of Statutes
Helen Pedigo, Office of Revisor of Statutes
Kathie Sparks, Office of Legislative Research
Susan Kannarr, Office of Legislative Research
Fulva Seufert, Secretary

Conferees appearing before the committee: Dr. Mark Drabenstott, Vice President and Director, Center for Study of Rural America, Federal Reserve Bank of Kansas City

Others attending:

See Attached List.

Chairman Wilk called the meeting to order at 1:30 p.m. by welcoming all committee members. He introduced Dr. Mark Drabenstott, Vice President and Director, Center for Study of Rural America, Federal Reserve Bank of Kansas City, who addressed the members about new paths to the new rural economy. His expertise concerned the rural economy and how Kansas legislators might drive prosperity in that area. Dr. Drabenstott's testimony included a power point presentation which gave a broad picture of what his organization sees happening specifically in Kansas now and in the future. Many of his concepts were particularly relevant to Wichita and Kansas City, but also included ways to reinvent the state's rural economy.

Dr. Drabenstott said the nation needs a new rural economy because economic growth is lagging in 6 of every 10 rural areas nationally, and possibly 7 out of 10 in Kansas. He stressed that consolidation is the traditional economic engine for rural places, the state's stewards of values and resources. Consolidation causes loss of population and fewer and fewer opportunities. He believes even in Kansas that manufacturing is more important than agriculture because 90% of farm household incomes derive from non farm sources. Thus the need for a new rural economy that will encourage kids and grand kids from leaving the farm for the suburbs. There is a strong need to create more economic opportunities for second and third generations. He spoke about rural factory jobs being hurt by shutdowns and about how unevenly distributed the rural economy is.

Dr. Drabenstott asked the following questions: 1) Where do we find the opportunities; 2) Where are they located; 3) and How can we get there? He said that globalization creates a new imperative to become the low-cost producer. He presented a graph showing the share of world soybean production and stressed that globalization changes everything, especially commodity agriculture and the rural economy landscapes. Agriculture is a prime example of agriculture becoming low cost by becoming bigger. He mentioned that Brazil and Argentina grow more soy beans than the U.S., but this trend is less noticed than the 200 factories that have closed in rural America. Factory shutdowns are highly noticed because they represent the higher paying jobs in a community. He said that a business assumption is that labor and land are cheaper in rural areas and the comparison is now between labor and land. As globalization reaches into the Kansas economy, an uneven rural economy forms. Dr. Drabenstott said the new horizons include technology transforming industries and traditional business models which put a new premium on entrepreneurs. He specifically mentioned the following three new technologies:

- Genomics (Pharmaceutical crops)
- Advanced Manufacturing Technologies (Precision products with consistent quality)
- Telecommunications (Branding new rural products and services)

An example might be forming a team of farmers and tying the group in with Cabelas to bring world class hunting to Kansas. He also said these business opportunities will require a very different model, and in many cases, world class niches require marketing muscle. One farmer alone cannot do this, so it may take 200 to 300 working together to agree to precision products with consistent quality. Dr. Drabenstott suggested the following four strategies:

CONTINUATION SHEET

MINUTES OF THE HOUSE ECONOMIC DEVELOPMENT COMMITTEE at 3:30 p.m. on January 13, 2004 in Room 526-S of the Capitol.

- Think regionally. (World class means critical mass and is defined by economic opportunity.)
- Find your region's niche. (Could be selling your area's scenery)
- Grow the farm system. (referred to the Royals) Entrepreneurs need great coaches and a lot of support. Key is high growth entrepreneurship using local wealth, local roots, and local jobs.
- Reinvent public institutions. (No one solution for Kansas. Land Grant Universities, Regional Universities, Community Colleges, and Extension service.)

One of the slides referred to "The Arrowhead Model." With the re-invention of a region's community colleges, new philanthropic investments, new government partnering, and new business investments, all were spurred. Dr. Drabenstott closed his presentation by saying that the new rural economy has exciting promise on the horizon, but it will only be reached by charting a new course for public policy and practice (Attachment 1).

Dr. Drabenstott fielded questions like what the legislature can do to address some of these issues. He said pharmaceuticals with production protocols are a key. If Kansas wants to be a player and lay the groundwork, then leading scientists and regulatory agencies must be at the forefront. He suggested a summit to determine exactly how all this is going to be developed. He also said there is a need to move toward an agreement involving regulatory agencies, scientists, universities, etc. The big payoff is in having the processing of these crops near the production. He cautioned that this is bigger than K-State or just one university. He suggested that a champion for this industry is missing, and Kansas needs more champions to solve the problems. When asked about some of the problems, he said that some people have questions about genetically modified crops that produce pharmaceuticals so that costs can be lowered. Another question was if there is a life cycle associated with this so that technology can catch up with demand. He responded that entrepreneurship is a process by which a region discovers what it does better than others. When asked if he were king for a day, what could he do with the Extension Service. He answered that the Extension Service thinks about agriculture along county lines and single producers, but needs to think regionally and to think about more than just agriculture. Chairman Wilk asked if there are any other niches in Kansas that are being overlooked. With a word of caution, he said he thinks it is unlikely that people will understand what all the best niches are, but regions must understand. The legislature needs to help them understand, and there is an opportunity for institutions to fill that void in ways that are not occurring. There is not one way, but rather several different solutions requiring a different view of the future.

Chairman Wilk thanked Dr. Drabenstott for his interesting and informative presentation. The Chair announced there would be no committee meeting Thursday, January 15, 2004.

The meeting adjourned at 4:30 p.m.

HOUSE ECONOMIC DEVELOPMENT COMMITTEE
GUEST LIST

DATE: Tuesday, January 13, 2004

NAME	REPRESENTING
Charles Kiffin	Helm Law Firm
Megan Dunn	" " "

New Paths to the New Rural Economy

Mark Drabenstott

Center for the Study of Rural America
Federal Reserve Bank of Kansas City

Center for the Study of Rural America, FRBKC

Why the nation needs a new rural economy.

- Economic growth is lagging in 6 of every 10 rural places.
- Traditional economic engines are consolidating.
- Rural places are stewards of national values and resources.
- In a post 9/11 world, we value diffusion more.

Center for the Study of Rural America, FRBKC

Why agriculture needs a new rural economy.

- 90% of farm household income derives from nonfarm sources.
- Commodity consolidation empties the landscape and narrows opportunity.
- The kids and grandkids are leaving.

Center for the Study of Rural America, FRBKC

New Paths to the New Rural Economy

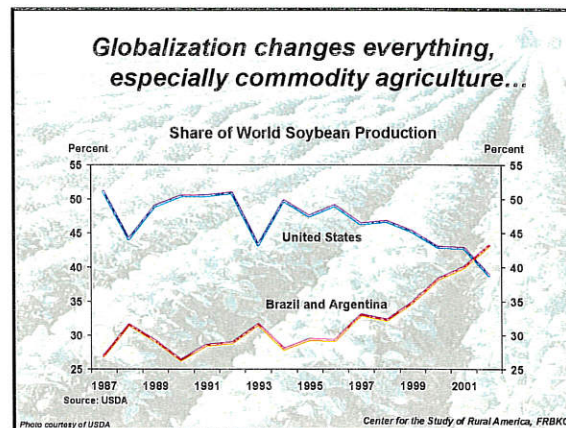
- The quest for a new rural economy.
- The new horizons.
- The new paths.

Center for the Study of Rural America, FRBKC

Globalization & The New Rural Landscape

- The old rural economy is fueled by commodities...
Agricultural, industrial, mineral, timber.
- Globalization creates a new imperative...
Be the low-cost producer.
- In most cases, "Be big...or be gone."
A consolidating economic map.

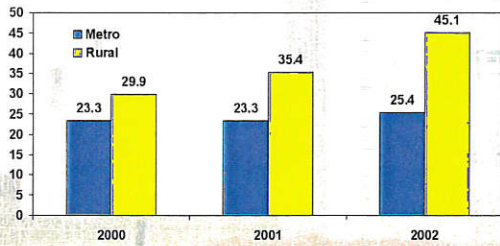
Center for the Study of Rural America, FRBKC



House Economic Development
1-13-2004
Attachment 1

Rural factory jobs hurt by shutdowns...

Percent of mass layoffs due to factory closures

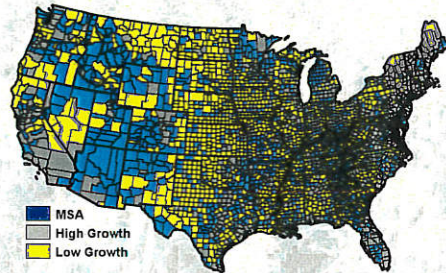


Source: Calculation based on Bureau of Labor Statistics data

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The rural economy is highly uneven.

Rural Employment Growth
1990-2000



Calculations based on BEA, REIS data

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The New Horizons

- Technology transforms industries...
- And traditional business models...
- And puts a new premium on entrepreneurs.

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New Technologies Beckon

- Genomics
Pharmaceutical crops

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New Technologies Beckon

- Genomics
- Advanced Manufacturing Technologies
Precision products

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New Technologies Beckon

- Genomics
- Advanced Manufacturing Technologies
- Telecommunications
*Branding new rural products & services
Kansas & Cabelas*

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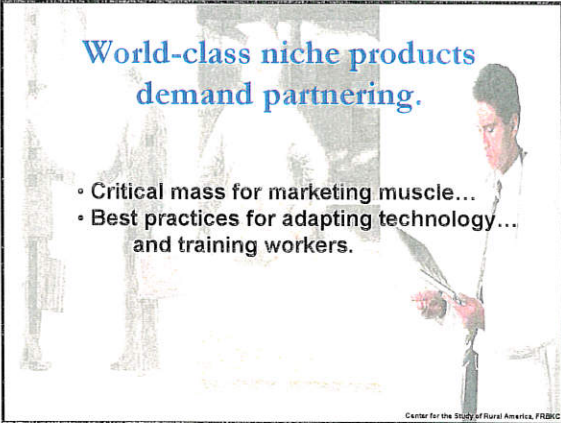
But new technologies mean
new business models.
Commodities foster independence...



Center for the Study of Rural America, FRB/C

World-class niche products
demand partnering.

- Critical mass for marketing muscle...
- Best practices for adapting technology... and training workers.



Center for the Study of Rural America, FRB/C

Changing the rural business culture

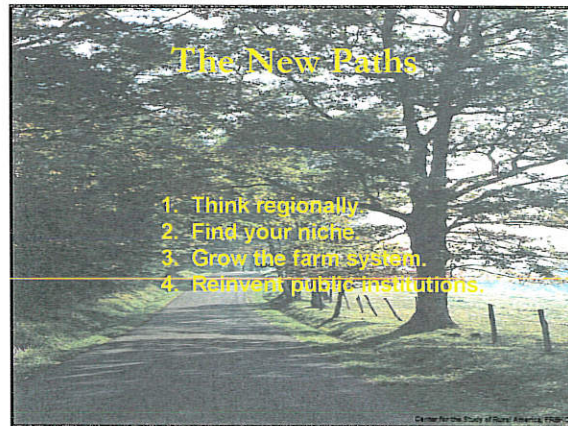
- We celebrate *Lake Wobegon*...
- But we need *Research Triangle*



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The New Paths

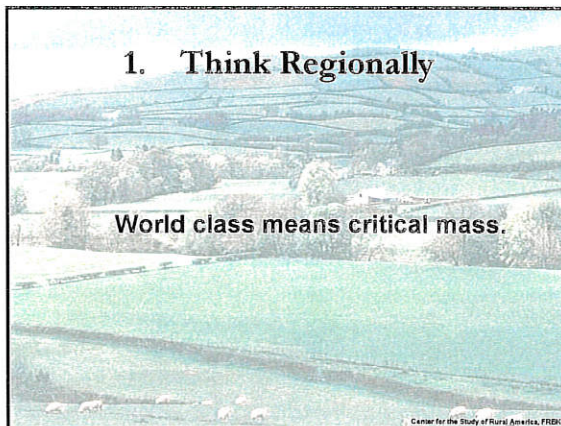
1. Think regionally
2. Find your niche
3. Grow the farm system.
4. Reinvent public institutions.



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1. Think Regionally

World class means critical mass.



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What is a region?

Region is defined by the economic opportunity.

- For some... **a few counties.**
- For others... **a score of counties**
- For yet others... **a few states.**

*21st century economic regions are no
respecters of 19th century surveyors.*



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New regions are forming...

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2. Find your region's niche.

- It must stand the test of the global marketplace.
- It must include "selling" something beyond the region...
You probably can't sell just within the region.
- It may be more than one niche...but the menu is almost certainly short.
- "Copy-cat" development simply does not work.

Center for the Study of Rural America, FRBKC

The Quad Cities Niche

World Class Distribution Center

Center for the Study of Rural America, FRBKC

3. Grow the Farm System.

- Industrial recruiting is \$\$\$\$... and doesn't work well in a global economy.
- The key is high-growth entrepreneurs... local roots, local wealth, local jobs.
- Like a farm system...
Entrepreneurs need great coaches...
And a *lot* of support.

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Industrial recruitment is \$\$\$\$
and high risk.


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4. Reinvent roles of public institutions.

- How to *think* like a region?
New governance.
- How to *act* like a region?
Reinvent public institutions...

Land Grant Universities
Regional universities
Community colleges
Extension service

Center for the Study of Rural America, FRBKC



The Arrowhead Model

Reinvented the region's community college...

- Spurred new philanthropic investments...
- Spurred new government partnering...
- Spurred new business investment.

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**New Paths to the
New Rural Economy**

The new rural economy has
exciting promise...

But it will only be reached by charting
a new course for policy and practice.

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