

MINUTES OF THE HOUSE ECONOMIC DEVELOPMENT COMMITTEE

The meeting was called to order by Vice Chairman Lana Gordon at 3:30 p.m. on January 22, 2004, in Room 526-S of the Capitol.

All members were present except:

Representative Sydney Carlin- excused

Committee staff present:

Kathie Sparks, Office of Legislative Research
Susan Kannarr, Office of Legislative Research
Renae Jefferies, Office of Revisor of Statutes
Helen Pedigo, Office of Revisor of Statutes
Fulva Seufert, Secretary

Conferees appearing before the committee:

S. Lewis Ebert, President and CEO, Kansas Chamber
of Commerce & Industry
Representative Kenny Wilk
Senator Nick Jordan

Others attending:

See Attached List.

Vice Chairman Lana Gordon opened the meeting on Thursday, January 22, 2004, at 3:30 p.m. The Vice Chair welcomed S. Lewis Ebert, President and CEO, Kansas Chamber of Commerce & Industry, who briefed the committee on the Business Competitive Index.

Mr. Ebert pointed out the importance of a competitive state tax climate in order for Kansas to have a healthy business climate and prosperous economic growth. The Chamber's survey included the big picture of "two decades plus." He said that from the survey results, it was concluded that Kansas ranks in the middle of the pack. Kansas is considered to be an average state while some of its neighboring states are considered to be "above average." He said that for Kansas to grow its business climate, attention needs to be paid to the neighboring states as well as all the other states. His testimony included a table showing the summary of business climate studies and Kansas' ranking (Attachment 1.) Mr. Ebert said that this study will be done every year so that progress can be measured. He reported that from feedback, they believe 9 out of 10 Kansans believe this is a good idea.

During questioning, Rep. Huntington thanked Mr. Ebert and commented that constituents look at a state like North Carolina which has ranked No. 1 three years in a row and has accomplished phasing out income tax as a wake up call for Kansas. The committee members asked questions concerning the skilled workforce in Kansas and health care issues, and Mr. Ebert said that health care issues are probably the most complex which more than 30 organizations have been studying.

Vice Chair Gordon thanked Mr. Ebert for his time and excellent presentation, and welcomed Rep. Kenny Wilk and Senator Jordan who presented a briefing on the Economic Growth Act. Rep. Wilk spoke first and said that many people had been working hard for the past six months, and they hoped to have all the components ready to introduce the week of January 26, 2004. He said the Economic Growth Act has some exciting components, and that its intent is not to steal from our neighbors but to grow the Kansas economy by making new discoveries. The three components - Intellectual property, capital, and leadership - are all necessary to make this happen. Rep. Wilk addressed the bio sciences component which encompasses all human, plant, and animal research. He described bio sciences as being to the economy today what computer technology was sixty years ago. He believes it is truly the next great economic wave across America. He pointed out the fact that legislators can look at where the federal government invests its research and development dollars today. About half of all the research money being spent is going to the bio sciences, and that bio sciences will soon make up 15 - 18% of the general economy. He referred to the billions being spent at the K.U. Medical Center, Wichita's Medical facility, Stowers Institute in K.C., Kauffman Foundation, and the plant and animal research at K-State in Manhattan. He commented that the Stowers Institute is of great value to Kansas, and compared it to Howard Hughes in Houston. Stowers has already recruited some of the best scientists in the world.

CONTINUATION SHEET

MINUTES OF THE HOUSE ECONOMIC DEVELOPMENT COMMITTEE at 3:30 p.m. on January 22, 2004 in Room 526-S of the Capitol.

Florida has passed a 300 million package for the Scripps Institute because Gov. Jeb Bush has said it is as important to Florida as Disney or NASA. Rep. Wilk also spoke to the following specifics:

- New Research Authority for reaching responsibility and accountability
- Funding - Emerging Industry Investment Act

Senator Jordan next addressed the members and said that it was an honor to stand before the committee. He said one might refer to him as the dog and to Rep. Wilk as the pony. He specifically spoke about the entrepreneur part of the plan. He said that entrepreneurs make up about 67% of new jobs which makes it of primary importance. The goal is to have a one stop resource for entrepreneurs where they can find all the information and assistance they need. The Kansas Center for Entrepreneurs would have experts to assist in every resource with people trained to walk an entrepreneur through the whole process. He suggested that Wichita State is a definite possibility for expansion and that this Center would report all policies, programs, rules, and regulations yearly to the Legislature which would provide the key for accountability and responsibility. He also mentioned that Farmaceuticals with an "F" is the leading edge of a growing industry and that Kansas wants to be in on the ground floor. This involves designing protocols and procedures and contracting with farmers to grow high value crops. An added plus is that manufacturing plants usually locate near the crops. He talked about the grant fund known as Angel Investment Tax Credit. This would involve a broader group to help with startup seed money and would be attractive to private investors. Rep. Jordan said the state needs to find a way to make rural downtown buildings more affordable in order to transform them into viable businesses with qualified entrepreneurs. In other words, he said that Kansans must become visionaries.

During questioning, how Venture Capital fits into the Angel Investment plan was addressed, and Rep. Brunk expressed his excitement over the emerging components and the challenges for the 21st Century.

Rep. Jordan said, "If you want to predict the future, create it." Rep. Burroughs said he liked the fact that the measurable components were all under one umbrella and that there are goals and baselines to determine success. Representative Wilk commented that this legislation hopefully would enable entrepreneurs to do what they do to the best of their abilities.

Vice Chair Gordon thanked both Rep. Wilk and Senator Jordan for the exciting content of their presentations.

Rep. O'Malley made a motion to approve the minutes of the January 20, 2004, meeting. Rep. Boyer seconded. Motion passed.

The meeting adjourned at 4:55 p.m.

Kansas Chamber Annual Competitive Index

EXECUTIVE SUMMARY

(January 2004)

For the past 25 years, economists have been doing empirical studies and surveys that conclude "taxes and business climate do matter." In short, a competitive state tax climate matters in relation to both a healthy business climate and prosperous economic growth.

States are in competition: States are currently in competition with each other for jobs and other measures of state economic growth.

The "two decade plus" survey of the tax and business climate literature looks at the bigger picture. As states change their tax positions, in relation to other states, those states that "lower their relative tax burdens" and become "lower taxing bodies" appear to be the top winners over the past 25 years.

In addition, other business costs matter to Kansas' competitive position. Costs such as workers compensation, unemployment compensation, health care and tort reform can make Kansas an advantageous place to locate a business or put Kansas at a competitive disadvantage. Now that numerous studies document that state/federal tax policy do matter as well as other business taxes, *How do these costs relate to business climate, state taxes and growth in Kansas?*

Current Comparisons of Kansas and its Business Climate:

According to the most recent studies and surveys, by most business climate measures, Kansas ranks in the middle of the pack. This means Kansas is an "average" state. But at the same time, many of the neighboring states are "above average." This makes it even harder for Kansas to grow. To really compete for economic growth, Kansas will need to pay attention to its neighbors as well as all other states.

The following Table summarizes the results from the 13 business climate studies included in this paper. From the work done by the Tax Foundation (1), through the study done by the University of Kansas (13) – the results are fairly stable. The average Kansas rank is 26-27th best out of the 50 states, or a grade of "C" to "C+".

Summary of Business Climate Studies and Kansas Rankings

<i>Study</i>	<i>Kansas Ranking</i>
1) Tax Foundation	36 th best
2) Ohio University Study	36 th best
3a) Corp of Enterprise Development	19-23 average
3b) Corp of Enterprise Development	"C" Grade
4) US Chamber – Liability Systems	15 th best
5) Small Business Survival Index	32 nd
6) Health Grades	"As Expected"
7) Personal Health Care Expenditures	25 th highest
8) Business Health Care Costs	"Average"
9) Site Selection Magazine	25 th best
10) Business Tax Burden Study	NA
11) CFO 2004 State Tax Survey	"average"
12) New Hampshire Econ Development	27 th highest
13) University of Kansas 2003 Update	"competitive within the region"
AVERAGE	26-27 th best out of 50
KANSAS RANK	or a C to C+ grade

Taxes and business climate matter in the 50 United States. Kansas needs to be aware of its position, relative to the other states, and take the necessary steps to make sure that it strives to become "above average." Only then can Kansas expect to win the battle for more jobs and other measures of economic growth.

House Economic Development
1-22-2004
Attachment 1

The **Kansas** Chamber

The Kansas Chamber's

Annual Competitiveness
Index

The **Kansas** Chamber



We have good roads

- 4th largest number of public roads in the country.
- 3rd in number of bridges.
- U.S. Highway system traverses state east to west and north to south.
- Comprehensive Transportation Program of 1999 is the largest public works program in the state's history.

The **Kansas** Chamber

We have excellent strategic
location

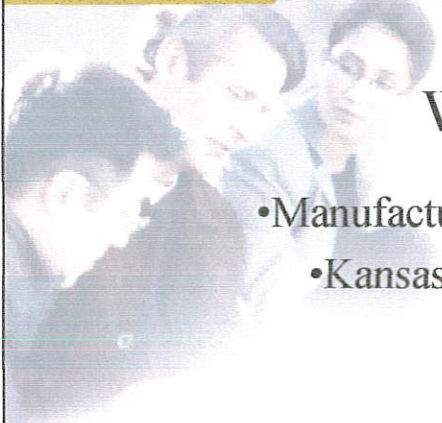
Crossroads of America



The **Kansas** Chamber

We have skilled labor

- Manufacturing base has available labor.
- Kansas has reputation for good work ethic.
- Right-to-Work state.
- Workforce Development efforts will help prepare state for growth.



The **Kansas** Chamber



We have natural resources

- Available land
- Clean air
- Clean water
- Temperate climate
- Energy resources and affordable utility rates

The **Kansas** Chamber

We have a good educational system

- 7th highest in country for SAT exam scores – NEA
- 15th highest for high school completion rate
- Kansas considers education a priority
- Education held harmless in 2003 session



The **Kansas** Chamber

We have solid Eco Devo

- Incentives, like other states
- Processes, like other states
- Professionals, like other states
- Commitment, like other states



The **Kansas** Chamber

So, why are we losing ground?

- Kansas is losing population
- Other states are getting the big eco devo wins, i.e. Mississippi, other southern states
- In 2002, Kansas was a net job loser
- Three Kansas cites led the nation in net job loss (Lawrence, Topeka and Wichita)

American City Business Journals

The **Kansas** Chamber

“Growth Deficit” is Bigger
Problem for Kansas than the
“Budget Deficit”

The **Kansas** Chamber

Winning States

- Have attacked spiraling **health care costs**
- Have attacked increasing **workers compensation expenses**
- Have attacked unfriendly **unemployment compensation formulas**
- Have attacked the high **costs of litigation**
- Create a business **friendly tax climate**



The **Kansas** Chamber

2004 Kansas Chamber Annual Competitiveness Index

- How Kansas compares and competes with all 50 states
- Independent economist compiled and reviewed state studies
- Made summaries and conclusions
- Annual survey—each year this data will be re-examined so we can measure our progress

The **Kansas** Chamber

1) Tax Foundation	36th best
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13) University of Kansas 2003 Update	"competitive with region"

The **Kansas** Chamber



Site Selection Magazine 2003

- Kansas ranked 25th overall
- Kansas did not make the top half of the rankings last year
- North Carolina was named #1
- Colorado (21st), Missouri (23rd), Oklahoma (19th), and Texas (6th)

The **Kansas** Chamber

The Business Tax Climate

- Kansas ranked 36th Tax Foundation's *State Business Tax Climate Index*
- Council on State Taxation, *Business Tax Burden Study* found that businesses paid an increase of 5.3% in taxes in the last year—43% of all state and local taxes collected in 2003



The **Kansas** Chamber

Small Business Survival Index

- **Overall, Kansas ranked 32nd**
 - 35th in capital gains tax rate
- 26th in state and local property taxes
 - 25th in unemployment tax rate
 - 22nd in health care costs
- 20th in workers compensation costs
 - 22nd in electric utility costs
 - 45th in number of bureaucrats



The **Kansas** Chamber

Corp. for Enterprise Development

Grades 71 factors in a state

C in Performance
C in Business Vitality
B in Development Capacity



The **Kansas** Chamber

Ohio University Study

- Ranked the overall tax burden in the 1990's as 36th
- C+ overall grade for Kansas

Kansas University/Kansas, Inc.

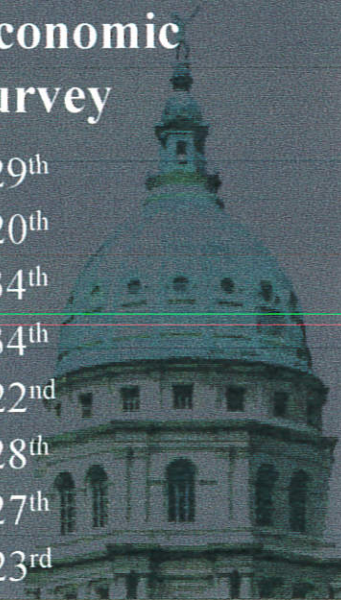
- State and local business taxes in 6 state region (Kansas, Colorado, Iowa, Oklahoma, Missouri and Nebraska)
- Kansas cost and tax climate is "competitive within region"



The **Kansas** Chamber

New Hampshire Economic Development Survey

• Overall State Rank	29 th
• Knowledge Jobs	20 th
• Globalization	34 th
• Economic Dynamism	34 th
• Digital Economy	22 nd
• Innovative Capacity	28 th
• High Tech Jobs	27 th
• Venture Capital	23 rd



The **Kansas** Chamber



Tort Reform

US Chamber Harris Survey

- Kansas moved from 4th to 15th in Legal Climate in past year
- Since that study 21 states have enacted some sort of tort reform
- Kansas has solid damage caps, but more can be done

The **Kansas** Chamber



Health Care

- *HealthGrades*—Kansas given 3 out of possible 5 stars
- *Personal Health Care Costs*—Kansas ranks #25 per individual
(Henry J. Kaiser Family Foundation)
- *Business Health Care Costs*—Kansas ranks as “Average”
(Mercer Human Resource Consulting)

The **Kansas** Chamber

Public Opinion Polling

Most important issue facing Kansas (open-ended)

- 30% Economy/Jobs
- 21% Education
- 9% Gov't Spending/Budget
- 8% Taxes

How to improve the economy (open-ended)

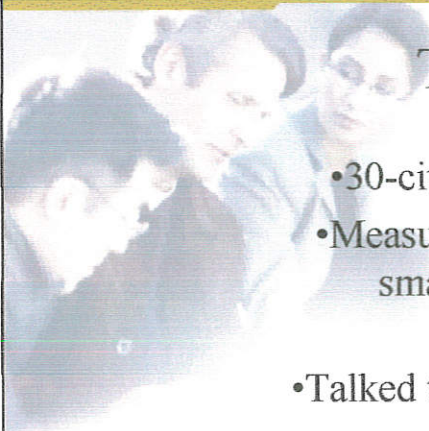
- 35% Job Creation/Higher Pay
- 16% Control Spending
- 13% Cut Taxes
- 6% Stop Exporting Jobs



The **Kansas** Chamber

The Kansas Express

- 30-city roundup of business insight.
- Measuring the economic concerns of small, medium and large business throughout the state.
- Talked to over 1500 business men and women
- Health Care, Workers Compensation, Unemployment Compensation, Tort Reform and Taxes were the top issues



The **Kansas** Chamber

Addressing the “Growth Deficit” The Kansas Chamber Legislative Agenda

1. Health care
2. Workers comp
3. Unemployment comp
4. Litigation expenses
5. Tax issues