

MINUTES OF THE SENATE COMMERCE COMMITTEE

The meeting was called to order by Chairperson Karin Brownlee at 8:30 a.m. on January 14, 2004 in Room 123-S of the Capitol.

All members were present.

Committee staff present:

Kathie Sparks, Legislative Research
Helen Pedigo, Revisor of Statutes
Nikki Kraus, Committee Secretary

Conferees appearing before the committee:

Lew Ebert, President, Kansas Chamber of Commerce and Industry

Others attending:

See Attached List.

Chairperson Brownlee called the meeting to order. The Chair discussed with the committee members some of the past goals the committee had set for itself in 2001. She evaluated its progress as being positive, stating that the committee had successfully been able to focus on a variety of topics without limiting themselves only to large-scale issues. Chairperson Brownlee mentioned that both the Rural Economic Development subcommittee and speaker Mark Drabenstott, Federal Reserve Bank of Kansas, had both confirmed that the committee was heading in the right direction.

The Chair introduced the new committee staff, including Kathie Sparks of Kansas Legislative Research, Helen Pedigo of the Office of the Revisor of Statutes, and Nikki Kraus, committee secretary.

Chairperson Brownlee introduced Mr. Lew Ebert, President of the Kansas Chamber of Commerce and Industry and welcomed him to the committee.

Mr. Ebert discussed the ongoing changes in the Kansas Chamber. He outlined one project currently underway as being an extensive tour of 30 cities in the state; the goal of the research is to learn about Kansas businesspeople at the grassroots level. He stated that through public opinion polls, the KCCI sought to identify some of the greatest concerns of the Kansas business community. The first ever CEO poll is currently in production, and will serve as another tool to help determine how business leaders feel about the Kansas economy and business climate.

Mr. Ebert provided the committee with a presentation entitled "The Kansas Chamber's Annual Competitiveness Index". (Attachment 1) The presentation emphasized many of Kansas' positive qualities for business including: good roads, skilled labor, natural resources, high quality schools, and solid economic development; it went on to analyze reasons for losing ground including: loss of population, more economic development in competing states, and a growth deficit. The presentation offered the solutions of other states to similar problems and then covered a variety of studies consistently illustrating Kansas' mediocre ranking relative to other states in the nation.

Mr. Ebert also provided the committee with a sheet entitled "Business Climate, State Taxes and Economic Growth: Executive Summary" which concisely presents the findings of the thirteen studies referred to in the larger presentation. (Attachment 2)

Chairperson Brownlee thanked Mr. Ebert for his presentation and thoroughness in presenting a number of different studies; she then requested questions from the committee.

Senator Buntin thanked the presenter and asked if there would be a substantial change if additional monies from gaming went to economic development. He commented that Topeka is an example of a city that has not grown in the past two decades.

Mr. Ebert stated that in North Carolina and some other states, there have been a variety of successful tools;

CONTINUATION SHEET

MINUTES OF THE SENATE COMMERCE COMMITTEE at 8:30 a.m. on January 14, 2004 in Room 123-S of the Capitol.

he emphasized that Kansas is *good* in quite a few areas, but that “good” was the enemy of “great”. He stated that ultimately, success for business is dependent upon driving down costs.

Senator Barone pointed out that the majority of economic development in the state has focused on large companies such as Boeing, Waddell and Reed, the speedway, and Nebraska FurnitureMart, among others. He questioned if past bill language has ignored small businesses.

Mr. Ebert stated that while specific legislation does help specific businesses, there are hundreds of small businesses that support their large counterparts. While he suggested that there is more that might be done in support of small business, he stated that what Kansas is doing now, by focusing efforts on driving down costs, would be of key importance, in addition to increasing incentives.

Senator Kerr stated that this approach seemingly abandoned last year’s focus on taxes and that it seemed to him that healthcare costs would dwarf tax expenses. He commented that the committee should focus on studies that look at returns, as opposed to those that ignore how marginal rates are used.

Chairperson Brownlee announced that there would be no meeting tomorrow because of an upcoming agricultural field trip that some of the committee members would be attending. The Chair suggested that if the committee had additional questions or wanted more information, Mr. Ebert might visit again later in the session. She concluded by noting the consistency among the studies’ rankings of Kansas; this consistency through so many studies makes the conclusion both more valid and reliable.

The meeting adjourned at 9:20 a.m. The next meeting will be at 8:30 a.m. on January 16, 2004 in Room 123-S.

Senate Commerce Committee Guest List

Date: January 14, 2004

Lew Ebert	Kansas Chamber
D.S. Koch	SBC
Bill Sneed	SBC
Ed Cross	Kansas Indep. Oil & Gas Assn.
Martha New Smith	KMH A
Natalie Bright	WIBA
Erik Sartorius	City of Overland Park
Megan Chalfant	Burgess & Associates
Matt Jordan	Dept. of Commerce
Bob Vancrum	Greater KC Chamber
John Frederick	Boeing
Chad Heller	Hein Law Firm
Stephanie Buchanan	DOB
John Federico	General Motors
Wayn Maichel	KDHR
Will Viker	KS AFL-CIO
Jim DeHoff	KS AFL-CIO
Bernie Koch	Wichita Area Chamber of Commerce
Georg Peters	KS Taxpayers Network
Wes Ashton	Overland Park Chamber of Commerce
Bob Totkin	KS Contractors Association
Ashley Sherard	Lenexa Chamber of Commerce

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 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

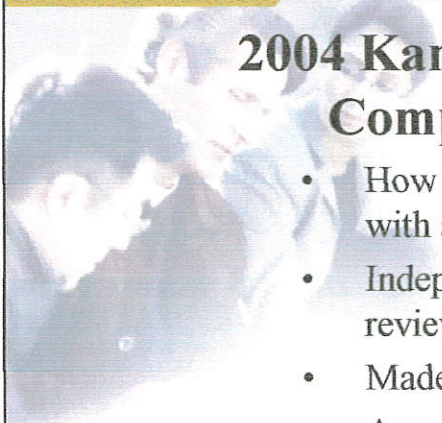
- Have attacked spiraling **health care costs**
- Have attacked increasing **workers compensation expenses**
- Have attacked unfriendly **unemployment compensation formulas**
- Have attacked the high **costs of litigation**
- Create a business **friendly tax climate**



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
2) Ohio University Study	36th best
3a) Corp of Enterprise Development	19-23 average
3b) Corp of Enterprise Development	"C" Grade
4) US Chamber – Liability Systems	15th best
5) Small Business Survival Index	32nd
6) Health Grades	"As Expected"
7) Personal Health Care Expenditures	25th highest
8) Business Health Care Costs	"Average"
9) Site Selection Magazine	25th best
10) Business Tax Burden Study	NA
11) CFO 2004 State Tax Survey	"Average"
12) New Hampshire Econ Development	27th highest
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 29th
- Knowledge Jobs 20th
- Globalization 34th
- Economic Dynamism 34th
- Digital Economy 22nd
- Innovative Capacity 28th
- High Tech Jobs 27th
- Venture Capital 23rd

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)

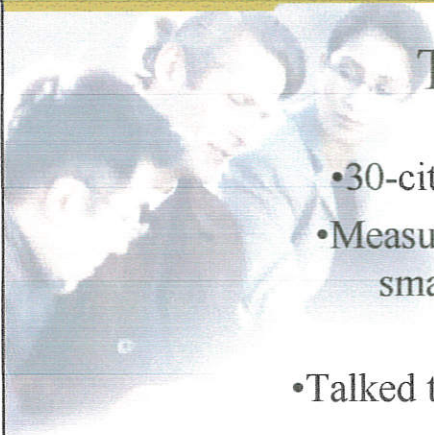
- 30% Economy/Jobs
- 21% Education
- 9% Gov't Spending/Budget
- 8% Taxes

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

Business Climate, State Taxes and Economic Growth
EXECUTIVE SUMMARY

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
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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.

Senate Commerce
01/14/04
Attach #2