

MINUTES OF THE HOUSE ECONOMIC DEVELOPMENT COMMITTEE

The meeting was called to order by Chairperson Lana Gordon at 3:30 P.M. on March 8, 2005 in Room 526-S of the Capitol.

All members were present except:
Carl Krehbiel- excused

Committee staff present:
Kathie Sparks, Kansas Legislative Research Department
Susan Kannarr, Kansas Legislative Research Department
Rena Jefferies, Revisor of Statutes
Carlene Maag, Committee Secretary

Conferees appearing before the committee:
Lew Ebert, CEO, Kansas Chamber of Commerce and Industry

Others attending:
See attached list.

A motion was made by Representative Novascone and seconded by Representative Treaster to approve the minutes of the February 15, 17, and 22 meetings. The minutes were approved.

Chairperson Gordon welcomed Lew Ebert, President and CEO of The Kansas Chamber of Commerce and Industry who gave a presentation pertaining to the Kansas Chamber and the Kansas economy.

The Kansas Chamber of Commerce and its members are working together to make Kansas the best state in America in which to conduct business. The Kansas Chamber's 2nd Annual Competitive Index ranks the state's performance in five major areas utilizing dozens of metrics that systematic measure numerous economic determinants.

- Education & Workforce
- business Costs & Productivity
- Government & Regulation
- Infrastructure & Quality of Life
- Dynamism & Entrepreneurism

Currently, five states including Kansas use this indicator to compare their competitive position when comparing themselves to surrounding states. Kansas scored high in the Education & Workforce category and low in the Dynamism & Entrepreneurism category.

In the area of business cost, Kansas scores a C. In the area of productivity, Kansas scored a D; having the 41st worst personal income growth in America. Kansas companies are not making the kind of investment needed to make a productive workforce.

Kansas scored a B in overall regulatory environment. The low grades in government efficiency draw the grade down. The largest sector of employment in Kansas are government employees at all levels. Government has no choice but to become more efficient and effective.

Dynamism & Entrepreneurism is an area Kansas needs to develop. A way needs to be found to make the Kansas economy more dynamic. Two areas Kansas needs to look at are: friendliness to small businesses and what does it take to make Kansas a leader among states and have a dynamic and entrepreneurial economy.

Education, regulator environment, physical infrastructure are strengths that have served Kansas well, but things like productivity, government efficiency, entrepreneur financing are real weakness that need attention. You don't get better improving on your strengths, you get better by improving on your weakness.

A public opinion poll conducted in November of 2004, indicated Kansans are more concerned about their jobs in 2004 than in 2003. It is believed the best way to spur the economy is to cut taxes, slow government

CONTINUATION SHEET

MINUTES OF THE House Economic Development Committee at 3:30 P.M. on March 8, 2003 in Room 526-S of the Capitol.

spending, make health insurance more affordable and stop lawsuit abuses. Kansans believe that frivolous lawsuits are a leading cost driver for health care cost. Kansans prefer to address the problems of high costs instead of subsidizing the costs.

The key findings in a survey taken of business owners/operators in Kansas in November, 2004 were:

- Business leaders in Kansas are becoming optimistic about the economy in the state.
- Business taxes remain a top concern
- Instead of incentives or subsidies, business leaders would prefer addressing the actual cost of doing business (Attachment 1)

Mr. Ebert pointed out Kansas Voters and Business Owners share some of the same concerns.

- Managing health care costs
- Lower taxes on business
- Stop frivolous lawsuits/tort reform

Several of the Committee Members thanked Mr. Ebert for sharing the report with the committee.

An informative question and answer session followed the presentation.

The meeting adjourned at 5:10 p.m. The next meeting is scheduled for March 10, 2005.

HOUSE ECONOMIC DEVELOPMENT COMMITTEE GUEST LIST

DATE: 3-8-05

NAME	REPRESENTING
Lew Ebert	KS Chamber
Ray Schallerting	Emporia St. Univ.
JOHN DOUGHERTY	ESU
Robert Inocer	ESU
Dan Kerr	Dinegar - Smith
DICK CARTER	TCG
Zandy Stinson	KFMC
TON GACHES	KS CHAMBER
Bill Martin	KDOL
Stephanie Buchanan	DOB

The **Kansas** Chamber

The State of Kansas Business

Lew Ebert
President & CEO

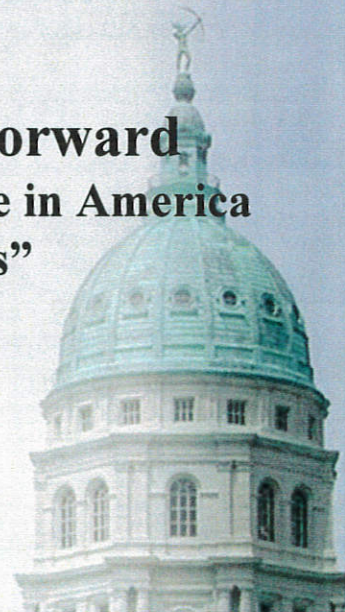


The **Kansas** Chamber

Kansas on Fast Forward “Becoming the Best State in America to Do Business”

Data-Driven

- Competitive Benchmarking
- Voter Polls
- Business Leader Polls



The **Kansas** Chamber

Annual Competitiveness Index

Kansas	2004	2003	2002	2001	2000
Composite Grade	C-	C	C+	C+	C+
Education & Workforce	B	B+	B+	A-	B+
Business Costs & Productivity	C-	C-	C+	C	C
Government & Regulation	C-	C-	C-	C	C-
Infrastructure & Quality of Life	C	B-	B-	B-	C+
Dynamism & Entrepreneurism	D-	D-	D+	D-	C+

The **Kansas** Chamber

Annual Competitiveness Index

	2004	2003	2002	2001	2000
Kansas	C-	C	C+	C+	C+
Colorado	B-	B	B	B	B-
Missouri	C	C	C	C	C
Oklahoma	D+	C-	D+	D+	D+
Nebraska	C	C	C	C	C
Iowa	B-	B-	C+	C+	C+

A Survey of 500 Registered Voters in Kansas

Surveys conducted
November 7 – 10 , 2004
margin of error: +/-4.3%

by

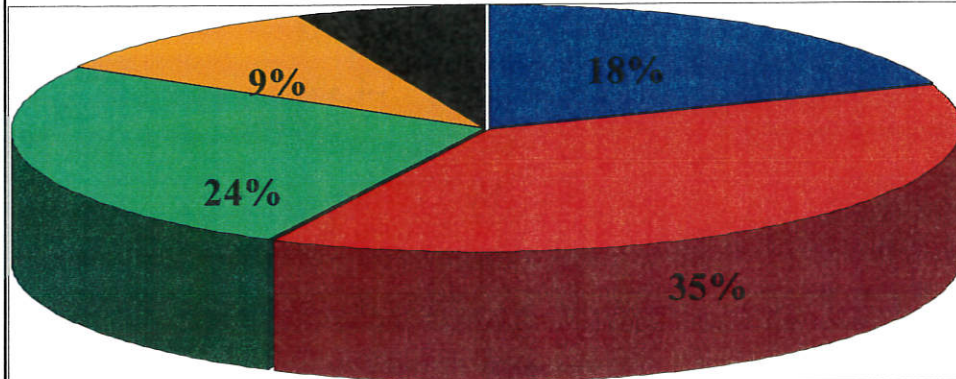
Cole Hargrave Snodgrass & Associates

General Mood of the Electorate

- **General mood is more positive than last year**
- **More concerned about their job than in 2003**
- **Voters continue to give the state legislature poor marks**
- **Believe the best way to spur the economy is to cut taxes, slow government spending, make health insurance more affordable and stop lawsuit abuses**

Most Important for Economic Improvement

- | | |
|--------------------------------|-----------------------------|
| ■ Stop Frivolous Lawsuits | ■ Lower Taxes/Slow Spending |
| ■ Lower Health Insurance Costs | ■ Increase Gov't Spending |
| ■ Business Tax Incentives | |



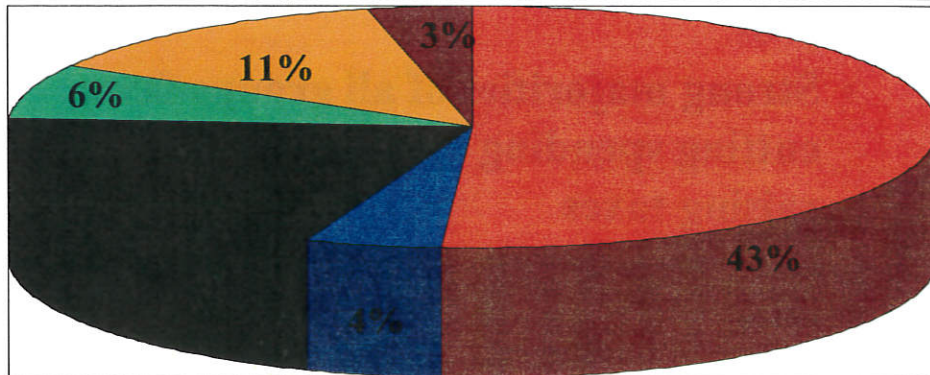
Voters on Cost of Health Care

- While most voters are secure in their own ability to retain healthcare, such security is not universal
- Among registered voters, availability of health insurance is not at crisis level
- Cost of prescription drugs and the cost of health insurance are the top health care concerns of Kansans
- Kansans believe that frivolous lawsuits are a leading cost driver for health care costs
- Kansas prefer to address the problems of high costs instead of subsidizing the costs

Kansans on Lawsuit Reform

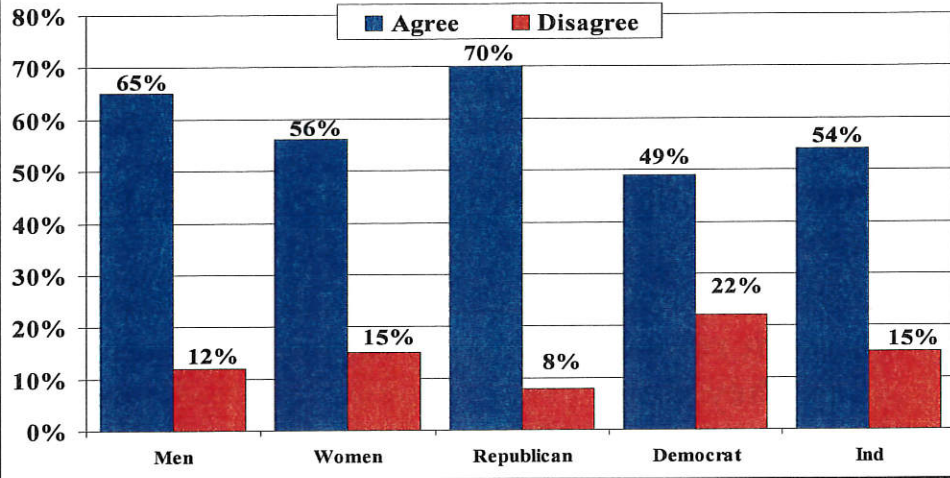
- Two-thirds believe the system needs to be changed
- Personal injury trial lawyers, far and away, receive the most blame for the problems of the current system
- A strong majority believes that meaningful lawsuit reform will help the economy
- Voters want to cap attorney fees and believe lawsuit reform is an issue that may decide how they vote

Who Is to Blame for Liability Lawsuit System Problems?



Lawsuit Reform = Economic Growth?

*29% Strongly Agree vs. 32% Somewhat Agree vs.
8% Somewhat Disagree vs. 6% Strongly Disagree vs.
26% Undecided*

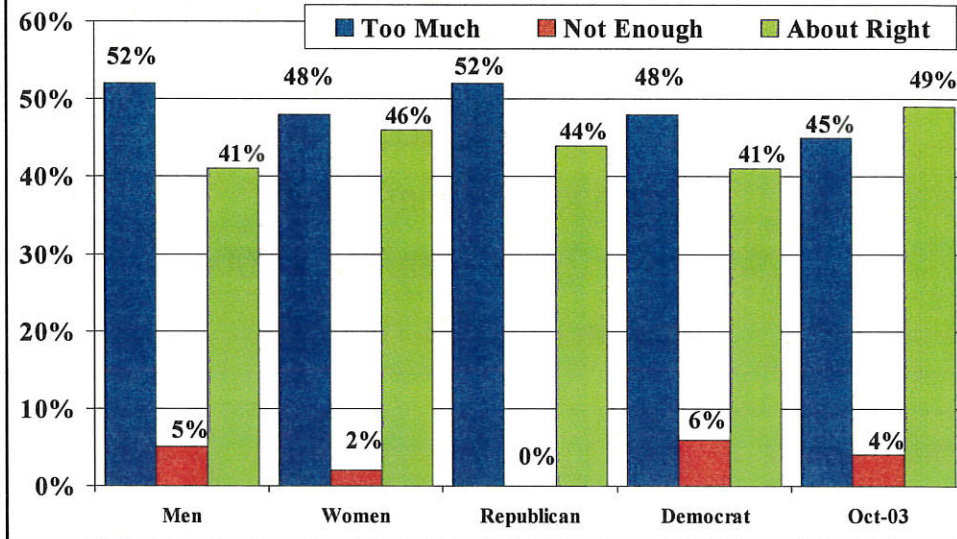


Voters on Taxes

- Marginally more anti-tax than last year
- Strong majorities of all groups favor cutting spending as opposed to raising taxes

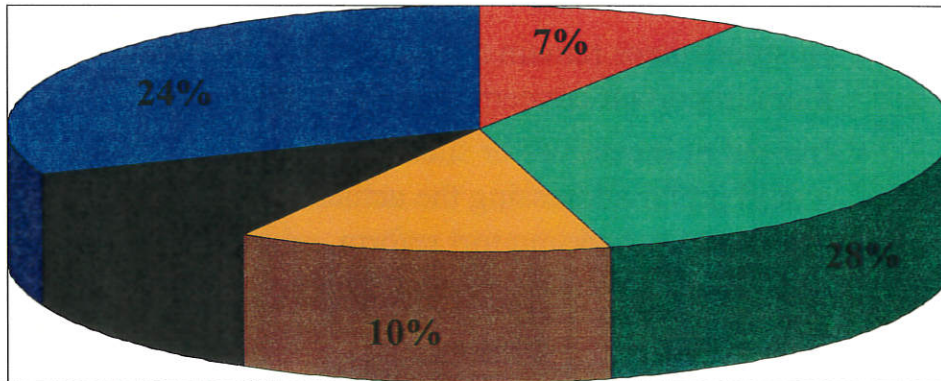
Tax Sentiment by Groups

50% Too Much vs. 3% Not Enough vs. 43% About the Right Amount vs. 3% Undecided



Cut Before Raising Taxes by Groups

■ No Cuts / Raise Taxes
 ■ Cut Up to 5%
 ■ Cut 6% to 10%
■ Cut 10% Plus
 ■ Never Raise Taxes



A Survey of 300
Business Owners / Operators
in Kansas

Interviewing conducted
November 29 - December 2, 2004
margin of error: +/-5.6%

by

Cole Hargrave Snodgrass & Associates

Key Findings

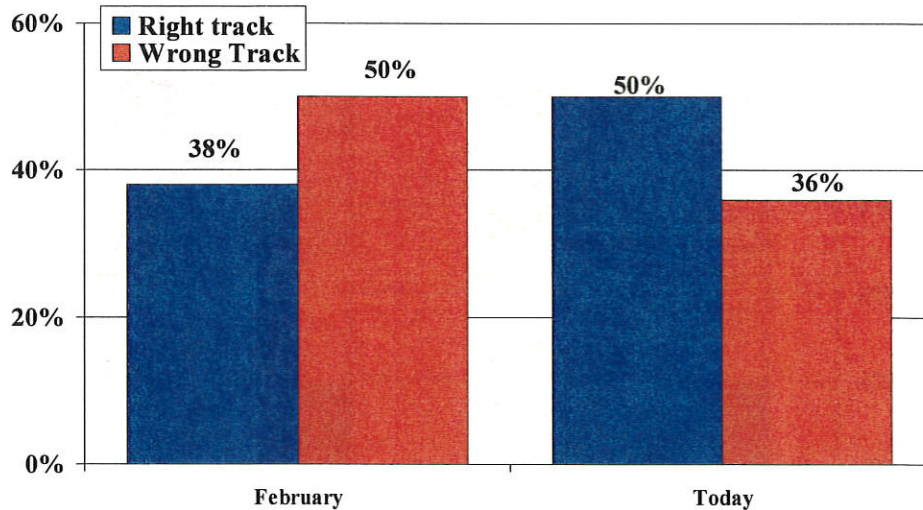
- Business leaders in Kansas are becoming optimistic about the economy in the state – though it is fragile and at this time significant job growth is not expected.
- Business taxes remain a top concern – and are a more important concern than 10 months ago.
- Instead of incentives or subsidies, business leaders would prefer addressing the actual costs of doing business, i.e. tackling tort reform, reigning in taxes and reducing health care cost drivers.

Optimism

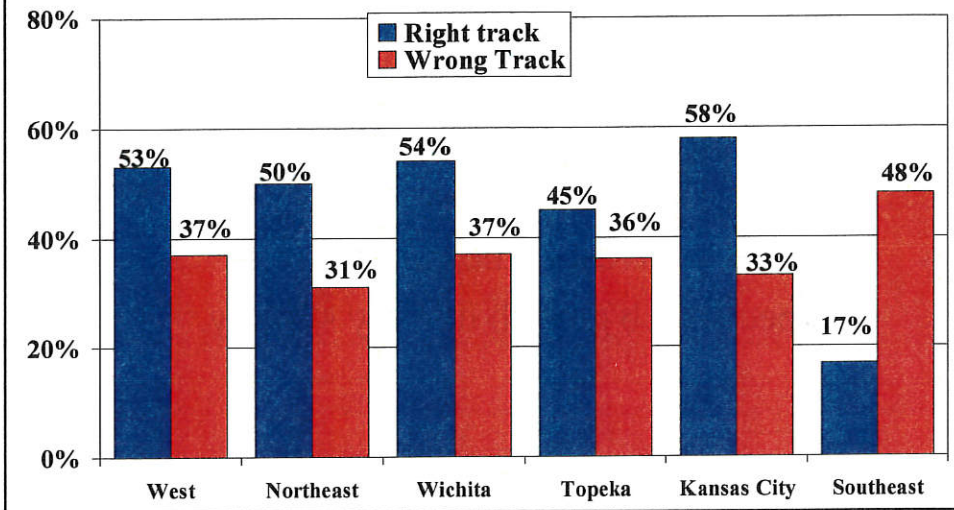
- Opinion about direction of the economy has dramatically improved.
- Give better marks to government and business leaders.
- Expect to invest in the coming year.
- Expected job growth up very slightly.

Direction of Kansas Economy

*50% Right track vs. 36% Wrong track vs. 14% Undecided
February 2004
(38% Right Track vs. 50% Wrong Track vs. 12% Undecided)*

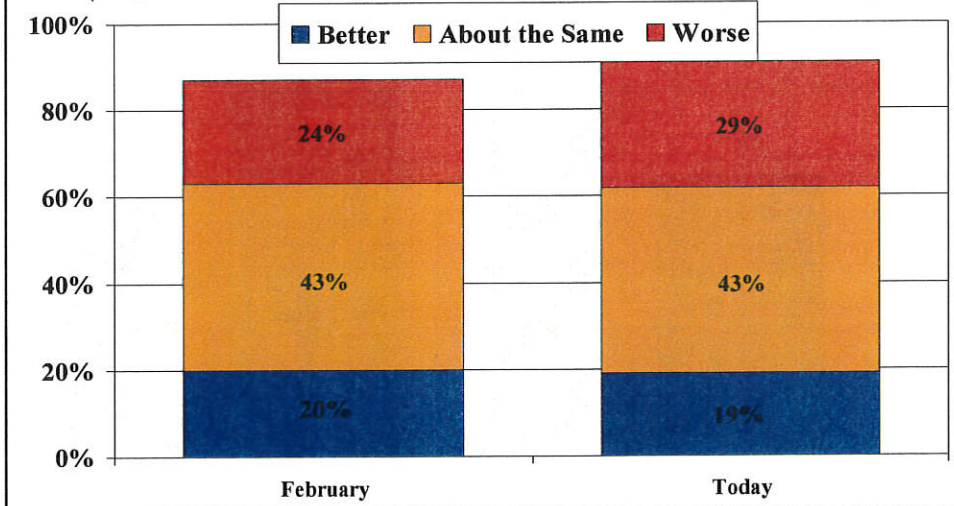


Direction of Kansas Economy by Region of the State



Kansas Business Climate vs. Other States

20% Better vs. 24% Worse vs. 43% About the Same vs. 13% Undecided
February 2004
(19% Better vs. 29% Worse vs. 43% About the Same vs. 10% Undecided)

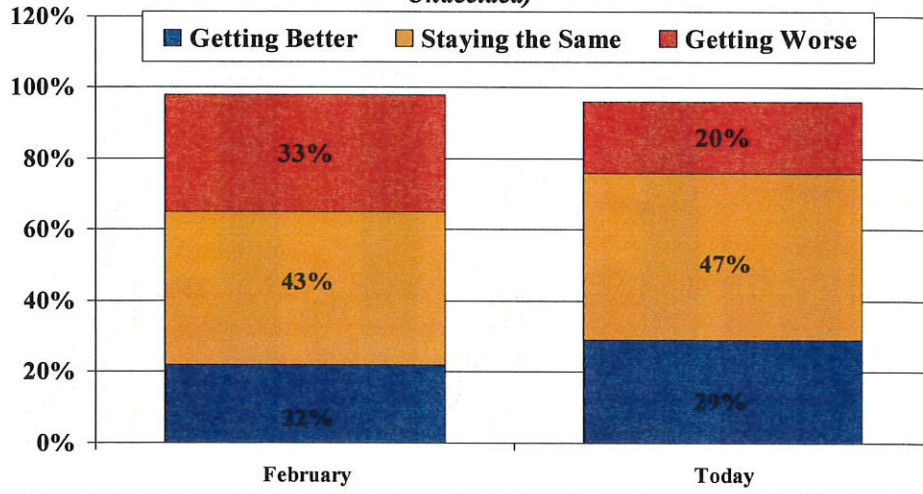


State of Kansas Business Climate

29% Getting Better vs. 20% Getting Worse vs. 47% Staying About the Same vs. 3% Undecided

February 2004

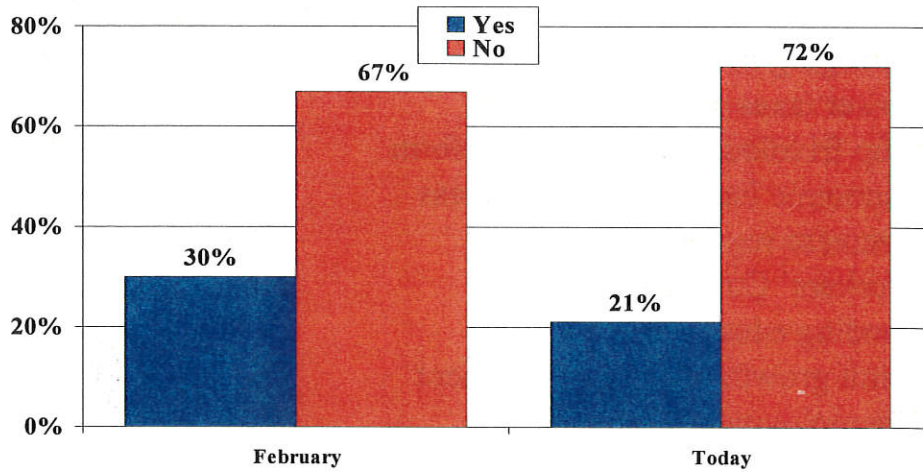
(22% Getting Better vs. 33% Getting Worse vs. 43% Staying About the Same vs. 2% Undecided)



Consider Leaving Kansas Due to Business Climate

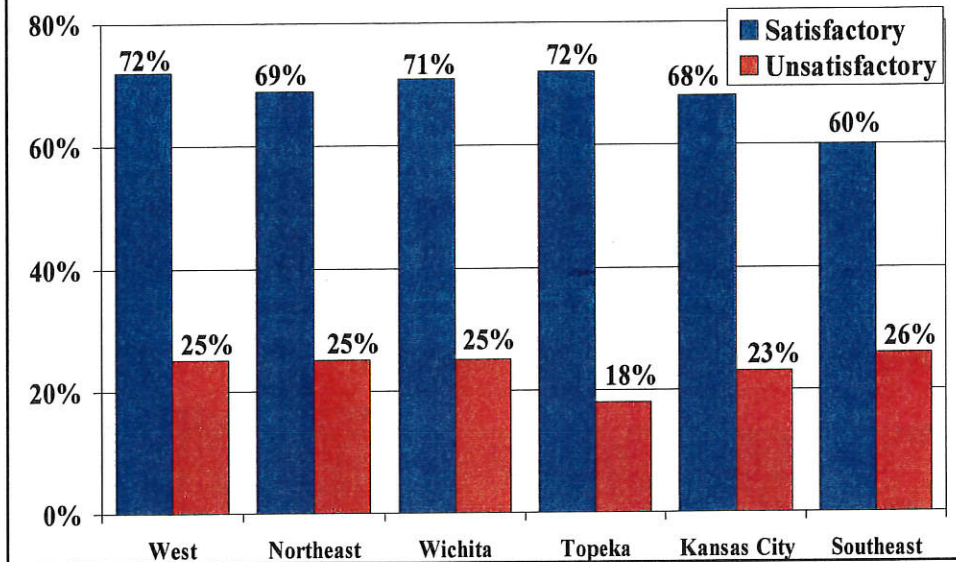
21% Yes vs. 72% No vs. 7% Undecided

February 2004: 30% Yes vs. 67% No vs. 3% Undecided



Kansas Workforce Quality

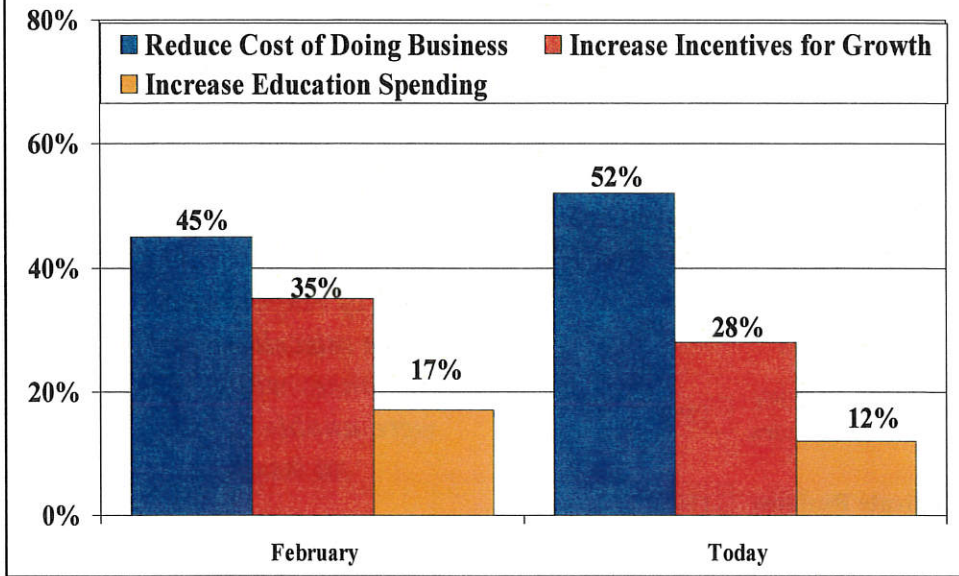
22% Very Satisfactory vs. 48% Somewhat Satisfactory vs. 14% Somewhat Unsatisfactory vs. 10% Very Satisfactory vs. 7% Undecided



Most Important for Profitability of Your Business? (Two Responses Accepted)

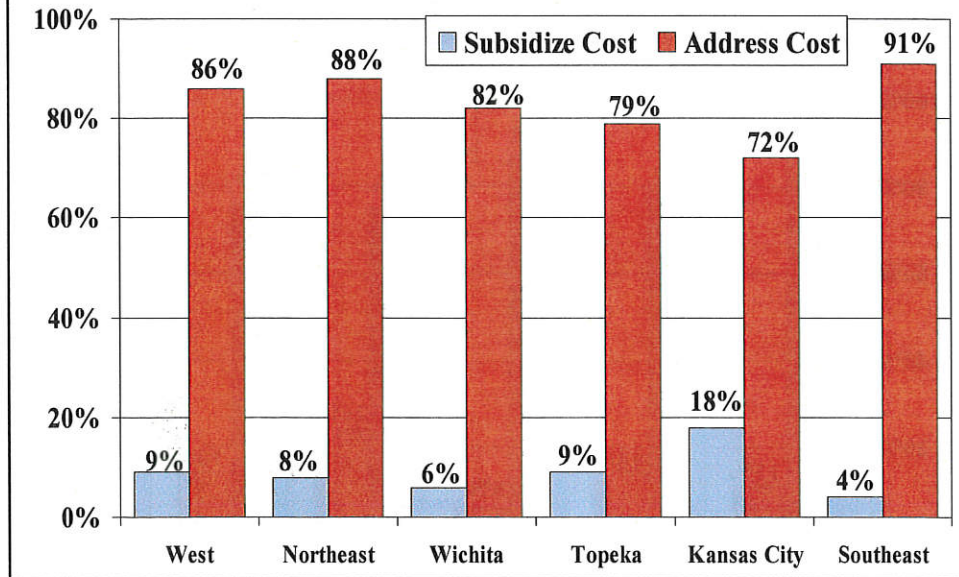
	<u>Today</u>	<u>Feb.</u>
Managing health care costs	42%	61%
Lower taxes on business	38%	40%
Stop frivolous lawsuits/Tort reform	21%	20%
Economic incentives for business	15%	10%
Decrease regulation/mandates	13%	19%
Workers' Compensation	11%	21%
Funding education	11%	NA
Limit growth of state government	8%	6%
Unemployment Compensation	5%	7%

Preferred Economic Growth Strategy for Kansas

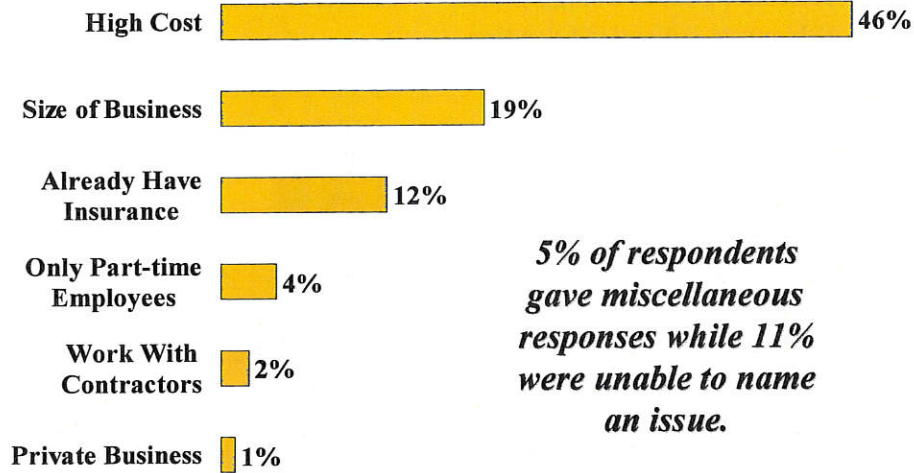


Preferred Approach to Healthcare

9% Subsidize Cost vs. 82% Address Cost vs. 8% Undecided

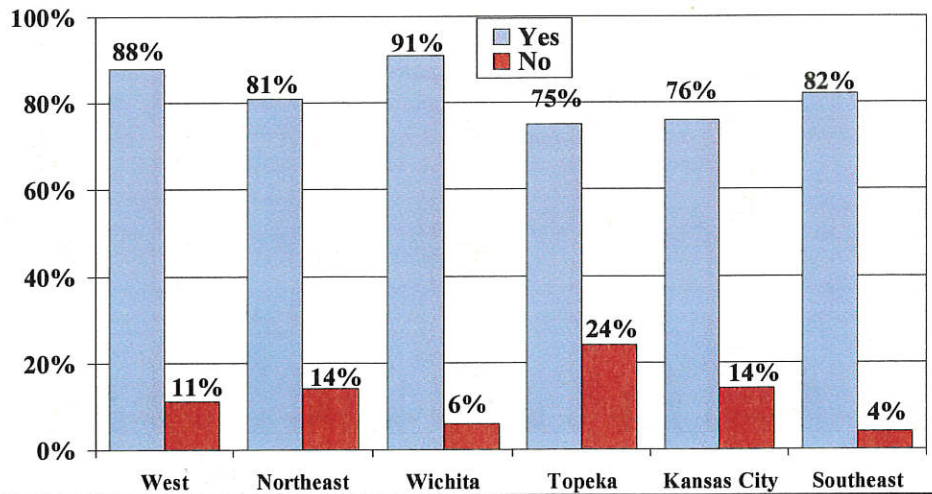


Why Company Does Not Provide Healthcare



Frivolous Lawsuits Increase the Cost of Business

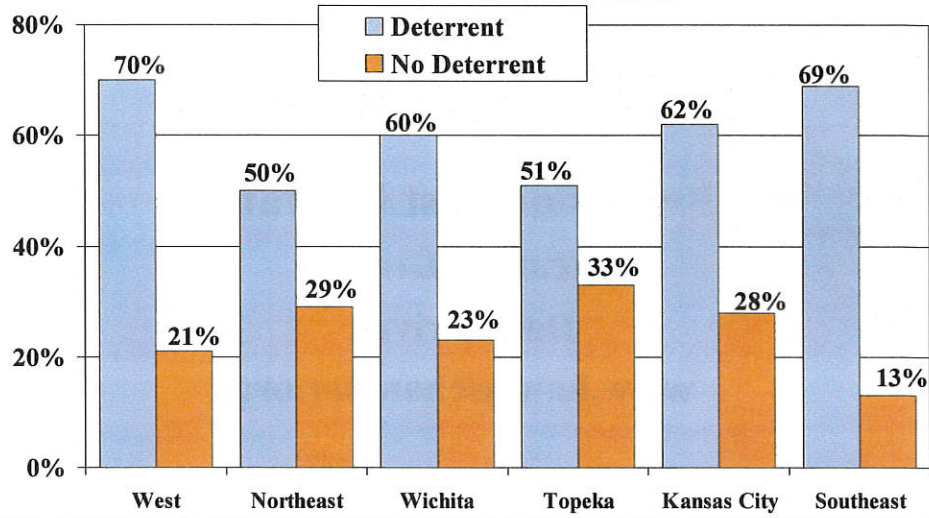
72% Strongly Yes vs. 11% Yes vs. 4% No vs. 8% Strongly No vs. 5% Undecided



Current Lawsuit System Is A Deterrent

To Businesses Growth

28% Major Deterrent vs. 32% Minor Deterrent vs. 25% Not a Deterrent vs. 14% Undecided.



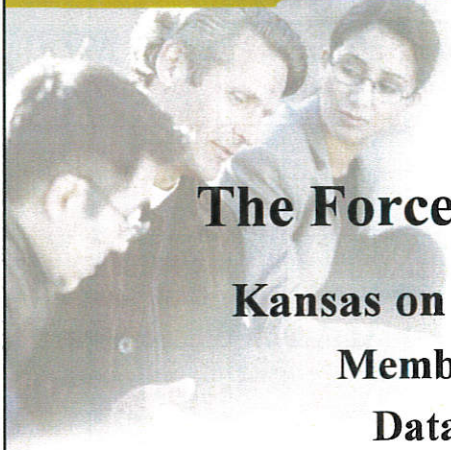
The Kansas Chamber

Kansas on Fast Forward

The Employer Agenda

1. Manage the Rising Cost of Health Insurance
2. Improve the Legal Environment
3. Decrease the Kansas Business Tax Burden
4. Enact Workers Compensation Changes
5. Reduce Unemployment Compensation Costs
6. Maintain Current Economic Development Incentives
7. Continue Fighting the War on Red Tape
8. Maintain our Consistent Support of a Well Educated Workforce

The **Kansas** Chamber



The Force for Business

Kansas on Fast Forward

Member-Driven

Data-Driven

www.kansaschamber.org

The Kansas Chamber of Commerce 2005 Kansas Jobs First Package

The Kansas Chamber of Commerce and its over 7,500 members are working together to make Kansas the best state in America in which to conduct business. The Kansas Chamber Job's First Package summarizes what policy makers must do to tackle the tough issues that hinder the Kansas economy, limit our growth and stifle our prosperity. Once implemented, these initiatives will help make Kansas the best state in the nation to conduct business.

Businesses across the state have said there are several cost drivers that inhibit economic growth and prosperity. The following are issues that businesses, large and small, believe can make a difference in competing for business and growing jobs in Kansas.

1. Manage the Rising Cost of Health Insurance
2. Improve the Legal Environment
3. Decrease the Kansas Business Tax Burden
4. Enact Workers Compensation Changes
5. Reduce Unemployment Compensation Costs
6. Maintain Current Economic Development Incentives
7. Continue Fighting the War on Red Tape
8. Maintain our Consistent Support of a Well Educated Workforce

Manage the Rising Cost of Health Insurance

Rising health care costs are a significant concern for all businesses. Through the Kansas Chamber's Health Care Working Group and the Health Care Now Tour employers voiced that market-driven solutions to manage the increase in health insurance costs would help make their companies more competitive and allow more employers to offer health care benefits to their employees.

1. **Reduce the Impact of Insurance Mandates** -- Kansas should examine the costs of all mandated insurance benefits and allow for the sale of limited benefit policies that do not include cost-inflating mandates. Some studies indicate that mandates may add 20%-30% to the cost of a health insurance plan while others say 5%-10%. No matter the actual increase, even a modest reduction will make health insurance more affordable to more employers and employees.
 - a. **Enact a two-year moratorium on mandates in Kansas.** Mandates add to the costs of health insurance. Three states have enacted a moratorium on mandates. This will help ensure, for two years, that no additional costs drivers will be added to health insurance policies.
 - b. **Require a periodic review of the true cost of all health insurance mandates.** Knowing the true costs of mandates enacted in Kansas is essential. Utilization costs, treatment costs and lengths of stay are factors in the costs mandates add to health insurance policies. These costs and

benefits should be assessed on a regular basis to determine the overall impact on the health care consumer.

c. Offer limited benefit plans to uninsured small business owners.

Offering a limited mandate plan or a "mandate-lite" plan to businesses that do not currently offer health insurance to their employees will help insure more Kansans. This coupled with high deductibles can create an affordable plan for those currently uninsured. These plans can currently be structured and offered through the Kansas Business Health Partnership.

2. **Authorize broader approval discretion for more flexible plan design—** Currently, the Insurance Department has relied on statutes that limit the approval of certain plan designs to be approved. Legislative changes should be made so that sound, more cost effective, market driven policies can be offered to consumers.
3. **Encourage Administrative Simplification** – Kansas should encourage efforts to simplify health care administrative processes as a way to lower costs to payers. Roughly 25 cents of each health care dollar is spent on administrative overhead. Reducing hassle factors, streamlining policies and procedures, and decreasing nonproductive work should be a focus of improving the health care system. Administrative simplification should include harmonizing business practices (billing, claims, computer systems and communication) so that providers and payers can interact cost effectively.
4. **Adopt the Consumer Right to Know Act** -- Cost and quality information from all types of doctors, hospitals, procedures and pharmaceuticals is already collected by the State of Kansas, the Insurance Department and Kansas companies and should be organized in a useable form so that patients can make educated decisions about their health care options in Kansas.
5. **Promote Health Savings Accounts** – Promote the use of HSA's as a way of controlling health care costs to companies and individuals. HSA's will help employees control their own health care costs and become more efficient and effective users of the health insurance system.
6. **Expand Consumer Education** -- Kansas should make sure health care consumers have ready access to health education and consumer information. When consumers have access to sufficient information they can make more intelligent choices. State health education programs should be strengthened to emphasize personal responsibility for important lifestyle choices. They should also help consumers learn about various treatments and insurance options, and the qualifications, performance, and cost records of medical care providers.
7. **Encourage Long-Term Care Insurance** -- Kansas should create incentives that encourage companies to offer and encourage individuals to purchase long-term care insurance.

Tort Reform

The litigation environment in a state affects business investment decisions and plays a large role in the cost and affordability of health care. The Kansas Chamber supports

litigation reforms that reduce the cost of doing business as well as health care costs for all companies.

- **Conduct and Publish Judicial Evaluations.** The Judicial Branch of government makes decisions everyday that affect the business climate in Kansas. To shed light on the Kansas Supreme Court and the Kansas Court of Appeals, the Kansas Chamber will publish an evaluation that will rate the Judges and Justices and determine if they are legal expanders or follow the letter of the law.
- **Modify the Common Law Collateral Source Rule.** The collateral source rule of the common law says that evidence may not be admitted at trial to show that plaintiffs' losses have been compensated from other sources, such as plaintiffs' insurance, or workers compensation. As a result, 35% of total payments to medical malpractice claimants are for expenses already paid from other sources. The Chamber encourages Kansas to join the ranks of the twenty-five states have modified or abolished the collateral source rule.
- **Enact Sound Science Reform.** Sound Science Reform will ensure that state courts follow the same guidelines as federal courts in admitting expert opinions about scientific and technical evidence. By ensuring that the federal and state standards are similar, the change will prevent forum shopping and overburdening state courts with cases that involve so-called "junk science" that would not pass muster in the federal system.
- **Promote the Commonsense Consumption Act.** The Commonsense Consumption Act clarifies that food suppliers are not liable for health conditions that flow from long-term food consumption except under specific situations. The Act also includes procedural provisions that require a court to make a determination of the likelihood the suit is one in which a food supplier is potentially liable, thus preventing the unnecessary expenditure of resources on plainly frivolous claims.
- **Advocate for Appeal Bond Reform.** While many large verdicts are overturned or reduced on appeal, defendants in many states are required to post an appeal bond sometimes equal to 150 percent of the verdict in question. In an era where billion-dollar verdicts are common, appealing an outrageous verdict can force a company or an industry into bankruptcy. Appeal bond waiver legislation limits the size of an appeal bond when a company is not liquidating its assets or attempting to flee from justice.

Business Taxes

The Kansas Chamber supports a fair and stable tax environment that promotes the success and growth of Kansas businesses.

- **Enact Tax Study Commission.** The Kansas Chamber encourages a study of the tax environment in Kansas, focusing on business taxes and tax credits. We encourage the legislature to undertake a full and comprehensive look at the tax structure in Kansas and if it helps or hinders business growth and expansion.

- **Simplify Economic Development Tax Credits.** The Kansas Chamber will work with the Department of Revenue and the Department of Commerce to streamline the current tax credit system for job growth and expansion.
- **Repeal the Estate/Death Tax.** The Kansas estate tax is often an obstacle for small business owners who want to pass down their business to family members. A family-owned business stands to lose 55% of all its assets when it passes from one generation to the next. Because of this tax, 70% of families choose to cash out or abandon their business after one generation and only 13% of businesses survive into a third generation. The Kansas Chamber supports repeal of the estate tax so that the penalty for passing down a family owned businesses is removed in Kansas.
- **Promote a Constitutional Amendment for Property Tax Relief.** The tax on machinery and equipment has been a source of concern for Kansas business for many years. In Kansas, machinery and equipment is assessed at 25% of market value when new, less depreciation. In 1998, the Kansas Legislature passed a 15% refundable income tax credit for property taxes paid on business machinery and equipment. This tax credit will be increased to 25% over the next few years. A 1997 report by Kansas, Inc. indicates that a 50% reduction in machinery and equipment property tax would create over 2,500 new jobs in Kansas and boost state personal income by \$59 million in its first year of implementation. The Kansas Chamber proposes a constitutional amendment to change the assessed valuation on this tax on business growth and investment.
- **Support the Streamlined Sales Tax.** The Kansas Chamber will continue to support the Streamlined Sales Tax Project while taking into consideration the effect the destination sourcing requirements has on small retailers in Kansas.

Enact Workers Compensation Reform

The Kansas Chamber will again advocate for improvements in workers' compensation system. In Kansas, workplaces have gotten safer while attorney involvement has increased. The Kansas Chamber will work on ways to ensure that the injured worker receives the maximum amount of his workers compensation payments or settlement.

- **Reform the Date of Accident Definition.** Determining a date of accident for a traumatic injury is a simple process. However, it is a challenge in non-traumatic injury cases such as back injuries or carpal tunnel injuries. The Kansas Chamber supports establishing in law, a date of accident in non-traumatic injury cases.
- **Limit Attorney Fees.** While litigation of workers compensation claims may be inevitable in certain situations, cases involving attorneys tend to delay the prompt delivery of care and compensation to the injured worker. The Kansas Chamber will support legislation to limit the amount an attorney can receive in compensation above a settlement offer by the employer, thus encouraging fair settlements and prompt resolution of claims.

- **Examine Benefit Increases.** The Kansas Chamber will continue to look into benefit increases that help the injured worker that will not overburden Kansas employers.

Reduce Unemployment Compensation Costs

Unemployment compensation taxes will increase again this year. This is a tax increase on employers in which the legislature does not vote, but is dictated by state statute. Rates will go up for all employers and there will be more employers will be paying the maximum UC tax rate for the next year. The Kansas Chamber proposes changes that better defines when an employee is eligible for benefits so that the system is fair for employers and employees and costs are mitigated where ever possible.

Maintain Current Economic Development Incentives

Economic Development incentives are important tools as businesses grow and expand. The Kansas Chamber will work to ensure that current benefits are maintained, work to streamline the economic development tax credit process, support the sale of tax credits and work with coalitions to preserve the state's eminent domain powers.

Continue Fighting the War on Red Tape

Even though the Kansas Legislature only meets to pass laws for a few months of each year, regulators from the agencies of the Executive branch of government are on the job year round. The rules and regulations issued by government bureaucracies have a profound effect on the costs of doing business in Kansas. The Kansas Chamber's War on Red Tape sheds light and heart on the regulations that don't make sense.

Maintain our Consistent Support of a Well Educated Workforce

The Kansas Chamber has a long history of supporting public education in Kansas. The key to a well-trained workforce is a good education system. The Kansas Chamber is for efficiency in the school systems, supports the Governor's Efficiency Audit Taskforce, is for getting more money into the classrooms and supports transparency in school budgeting. The Kansas Chamber has been a consistent supporter of a high quality education system in Kansas and will continue to ensure that the Kansas workforce is well trained, educated and an asset for businesses to locate and expand in the state.

MEMORANDUM

TO: Lew Ebert, President & CEO
Kansas Chamber of Commerce

FROM: Pat McFerron, Director of Survey Research
Cole Hargrave Snodgrass & Associates

RE: A Survey of 500 Registered Voters in Kansas
Conducted November 7-10, 2004; Margin of error: +/- 4.3%

DATE: November 18, 2004

This survey of registered voters reveals that while Kansans are more optimistic about the direction of the state since our fall 2003 survey, the percentage feeling secure in their job has actually dropped. This on-going apprehension possibly reflects continuing uncertainties with employer decisions to outsource, cut back and sell Kansas facilities. **Furthermore, the survey reveals that three areas dominate voters' minds when it comes to promoting economic growth: Driving down the cost of health care and health insurance; reforming an abused lawsuit system; and, cutting taxes while slowing government spending.**

On the issue of health care, Kansans are most concerned about the cost of prescription drugs (34%) and the cost of health insurance (46%). A strong correlation with age exists on this question. As a general rule, older Kansans are more interested in the cost of medicines, while younger Kansans focus more on the cost of insurance. **One issue, on which both groups agree, however, is the belief that lawsuits increase the cost of insurance (83% agree vs. 12% disagree).** In addition, the vast majority of Kansas voters believe that Kansas government should focus on reducing the cost of healthcare. Perhaps most important, however, is the fact that Kansas voters see the cost of health care as an economic development issue and that **24% say addressing the cost of health care is the single most important thing that can be done to improve the state's economy.**

Kansans are also united in their desire for meaningful lawsuit reform. Two-thirds of Kansans believe that the current system needs to be either reformed (35%) or radically changed (30%), while fewer than one in five (18%) is satisfied with the status quo. Concern about legal reform also is apparent when looking at the workers' compensation system. Fully 68% of the respondents believe that the workers' comp system is plagued by the over involvement of lawyers and that this keeps legitimately injured workers' from receiving their fair share. Additionally, 57% of Kansans believe that the abundance of lawyers in the workers' comp system keeps businesses from expanding in Kansas. Given this sentiment, it is no surprise that **Kansans are very united in their desire to cap attorney fees at 20% (85% favor vs. 8% oppose). Most striking is the fact that 67% of Kansas voters – cutting across all income, age and geographic groupings – strongly favor capping attorney fees.**

Even after arguments are made against lawsuit reform, Kansans remain committed to seeing a change. When presented with arguments that reform could jeopardize the "little person's day in court" and that big corporations would lose an incentive to make safe products and could calculate lawsuits as a cost of doing business, 68% still say that reform is needed.

Currently, 64% of Kansans feel secure in their job and the jobs of members of their immediate families, down slightly from the 68% who felt they were secure in their job last year. The region of the state with the most concern about jobs, however, has shifted. Whereas the Wichita area and the west showed the most concern in 2003, today, Topeka is the region with the greatest concern (55% secure vs. 24% insecure).

When given a list of possible action items that could be addressed in an effort to improve the economy, Kansans demonstrate a strong desire for smaller government. Fully 35% support slowing government spending and cutting taxes as the best way to improve the Kansas economy, while only 9% advocate more government spending. Additionally, 24% of Kansans see lowering the cost of health insurance as an economic remedy, while 6% favor providing tax incentives to businesses as an engine for growth.

Currently, 48% of Kansans believe they pay too much in taxes to fund state and local government (up from 45% in 2003), while only 3% believe they pay too little. While our survey experience reveals that those believing they pay too much in taxes generally exceeds those believing they pay too little, the current 16 to 1 ratio represents an anti-tax sentiment that we have not seen in the more than 30 states in which we have conducted polling. When coupled with the 43% of Kansans believe that the amount they pay in taxes is just about right, it is readily apparent that any general tax increase will be met with resistance from more than 80% of the electorate.

As was the case in 2003, Kansans remain prepared to back-up their aversion for tax increases by supporting budgetary cuts. When voters are asked to how much government should be cut, if at all, before raising taxes, the anti-tax sentiment is very clear. **Only 7% of Kansas voters say that taxes should be raised prior to cutting government services while almost a quarter (23%) say taxes should never be raised.** The majority of Kansans, however, are in the middle, with 28% saying the budget should be cut up to 5% before taxes are raised, and another 27% saying that the budget should be cut up to 10% before increasing revenue. Another 8% of the electorate wants to see cuts exceeding 10% before they would be supportive of a tax increase. **All totaled, 76% of Kansans believe that the state budget should be cut up to 5% before any consideration is given to a tax increase – and 48% believe it should be cut up to 10% before looking to tax increases.**

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Actual Question Verbiage

Hello Mr./Mrs. _____, I'm _____ of CHS & Associates, a national research firm. We're speaking with people in Kansas today about public leaders and issues facing us.

1. In general, do you think that things in Kansas are going in the right direction, or do you think that things have pretty seriously gotten off on the wrong track?

Right track54%
 Wrong track29%
 Undecided (vol.)17%

2. Do you think that the state legislature has done an excellent, good, only fair or poor job?

Excellent2%
 Good25%
 Only Fair55%
 Poorly14%
 Undecided (vol.)4%

3. Do you feel secure in your job and the jobs of other members of your immediate family? (After response, ask:) Would you say you feel very (secure / insecure) or only somewhat (secure / insecure)?

Very secure 43%
 Somewhat secure 21%
 Somewhat insecure 9%
 Very insecure 7%
 Retired (vol.) 19%
 Undecided (vol.) 2%

4. Do you feel secure in your family's ability to continue having your health insurance? (After response, ask:) Would you say you feel very (secure / insecure) or only somewhat (secure / insecure)?

Very secure 38%
 Somewhat secure 27%
 Somewhat insecure 13%
 Very insecure 3%
 Do not have health insurance (vol.) 3%
 Undecided (vol.) 5%

5. Which of the following do you think is most necessary to improve the economy in Kansas?

Stopping frivolous lawsuits 18%
 Lowering taxes and slowing government
 Spending35%
 Lowering health care insurance costs24%
 Increasing spending on government and
 Education 9%
 Providing tax incentives to businesses 6%
 Undecided (vol.) 7%

6. When it comes to taxes that fund state and local government, do you think you pay too much in taxes, not enough in taxes, or about the right amount?

Too much50%
 Not enough 3%
 About the right amount43%
 Undecided (vol.)3%

7. Thinking about state spending and taxes, how much should state government be cut before taxes are again raised? Would you say Kansas should...(Read list)

Raise taxes and you should never cut any services 7%
 Cut up to five percent before raising taxes28%
 Cut 6 to 10 percent before raising taxes 17%
 Cut more than 10 percent 8%
 Should never raise taxes to fund government23%
 Undecided (vol.) 16%

8. Thinking about liability lawsuits – that is lawsuits where a person or a business who says they have been injured sues another person or business for damages. Do you think this system in Kansas should be kept the same, slightly reformed or radically changed?

Kept the same 18%
 Slightly reformed 35%
 Radically changed 30%
 Undecided (vol.) 18%

9. Who do you think is the most to blame for any problems in the current liability lawsuit system in Kansas? (Rotate)

Personal injury lawyers43%
 Small businesses 0%
 Large businesses 4%
 People who bring lawsuits 17%
 Judges 6%
 Insurance companies 11%
 Juries 3%
 Undecided (vol.) 14%

10. What do you consider to be the most important healthcare problem that needs to be addressed?

The high cost or prescription drugs 30%
 The high cost of health insurance46%
 Keeping hospitals open and doctors in rural
 Kansas 11%
 Or is there something else? (Open ended) 7%
 Undecided (vol.) 6%

Now I'm going to read you a list of statements. For each one, I want you to tell whether you agree or disagree with that statement. (After each statement, ask:) Would you say you strongly (agree/disagree) or only somewhat (agree/disagree)?

(Rotate series)

11. Lawsuits increase the cost of goods, services and insurance for Kansas families.

Strongly agree 60%
 Somewhat agree 23%
 Somewhat disagree 7%
 Strongly disagree 5%
 Undecided (vol.) 5%

12. Kansas needs to adopt meaningful lawsuit reform because studies have shown that state's that adopt these reforms experience employment growth of 8.8%, productivity growth of 3.5% and total output growth of 12%.

Strongly agree.....29%
 Somewhat agree.....32%
 Somewhat disagree 8%
 Strongly disagree 6%
 Undecided (vol.)..... 26%

13. (half the sample) The Kansas workers' compensation system – a program designed to aid those injured on the job – is plagued by the over involvement of lawyers which keeps injured workers from getting their fair share of awards when they are legitimately hurt on the job.

Strongly agree.....37%
 Somewhat agree.....31%
 Somewhat disagree 8%
 Strongly disagree 7%
 Undecided (vol.).....16%

14. (half the sample) The Kansas workers' compensation system – a program designed to aid those injured on the job – is plagued by the over involvement of lawyers which discourages companies from expanding or locating in Kansas and costs us quality jobs.

Strongly agree.....31%
 Somewhat agree.....26%
 Somewhat disagree16%
 Strongly disagree10%
 Undecided (vol.).....17%

15. Would you favor or oppose reducing the percentage of the money awarded that attorneys can collect from their clients down to 20%? (After response, ask:) Would you say strongly (favor / oppose) or only somewhat (favor / oppose)?

Strongly favor67%
 Somewhat favor18%
 Somewhat oppose 3%
 Strongly oppose 5%
 Undecided (vol.) 7%

16. Some people say . . . While other people say . . . (Rotate arguments)

. . .that tort reform such as capping punitive damages awarded in lawsuits and reducing the percentage that attorneys can receive from awards. / such reform...

. . . is necessary. They say that lawsuit abuse has caused health care costs to increase, kept businesses from locating in Kansas, and have increased the costs of consumer goods and services. They say that the only winners of the current system are the personal injury attorneys and their friends. They say real reform will stop excessive damages and frivolous lawsuits that are harmful to our businesses and our economy, but will allow deserving lawsuits to go forward.

. . . is not necessary. They say that the courts are the only way to protect the people and that so-called reform would take away the "little person's" day in court. They say there would be no check on big corporations that would continue to take advantage of us and that if punitive damages are limited, big corporations will no longer have an incentive to make safe products and could just count lawsuits as a cost of doing business. They also say that capping lawyers' contingency fees will keep lawyers from taking complicated cases and that corporations could more easily put up roadblocks for attorneys working for a smaller fee.

After hearing these arguments, do you think that tort reform is needed or is not needed?

Is needed68%
 Is not needed15%
 Undecided (vol.).....17%

MEMORANDUM

DATE: December 21, 2004

TO: Lew Ebert
Kansas Chamber of Commerce

FROM: Pat McFerron
Cole Hargrave Snodgrass & Associates, Inc.

RE: A Survey of 300 Business Owners/Operators in Kansas
Conducted November 29 – December 1, 2004
Margin of error: +/- 5.6%

Cole Hargrave Snodgrass & Associates is pleased to present this summary of findings of its recent study of Kansas business leaders. This is the second survey of business owners and operators that we have conducted on behalf of the Chamber. The previous study, conducted in February 2004, utilized identical methodology and is referenced throughout this summary in order to demonstrate changes in the opinions business owners and operators in Kansas.

When it comes to their business, Kansans are primarily concerned about the costs associated with conducting business. When asked to name their top concern, a third (33%) of those offering a response mentioned taxation. An additional 21% of those answering mention other costs of doing business such as health care and insurance costs, government regulations and mandates and the general cost of doing business. The only other category to reach double digits was concern about the quality of employees – and it barely achieved that status (10%).

The concern over taxation and healthcare is also seen when business people were asked to select from a list their top two concerns. The following table reveals those results.

	<u>Today</u>	<u>Feb.</u>
Managing health care costs	42%	61%
Lower taxes on business	38%	40%
Stop frivolous lawsuits/Tort reform	21%	20%
Economic incentives for business	15%	10%
Decrease regulation/mandates	13%	19%
Workers' Compensation	11%	21%
Funding education	11%	NA
Limit growth of state government	8%	6%
Unemployment Compensation	5%	7%

As one can readily see, three issues: taxation, health care and tort reform separate themselves from other issues as the top concerns. These issues transcend all geographic regions of the state and penetrate all sectors of the economy.

While it comes as no surprise that business leaders want to lower the cost of doing business, it is somewhat startling that reducing these costs is the preferred economic development strategy – even when compared to government-provided economic incentives or increasing funding for education. **When tasked with selecting from three economic development models (reducing the government-driven costs of doing business; providing economic incentives for expansion/location; increasing funding for education), a majority of Kansas businesses select reducing the cost of doing business (52%), while just over a quarter (28%) prefer economic incentives and less than one in eight would rather increase education funding.** This represents a statistically significant change from February as the percentage opting for “cutting the cost of doing business” has increased by 7%, indicating that businesses are becoming more and more focused on reducing these costs.

One of the most significant changes in the survey from February is that business leaders are now more optimistic about the direction of the state’s economy than they were at the start of 2004. While still far from a ringing endorsement of the direction of the state’s economy, the fact that 50% believe the economy is moving in the right direction is a significant improvement from the 38% recorded in February. This optimism is strongest in the manufacturing sector (64%) and in the Kansas City area (58%).

While business leaders are more optimistic about the direction of the state, their attitudes toward adding new positions has remained stagnant. The percentage of companies who expect to expand their workforce is virtually no different today (21% increase vs. 4% decrease) than in February (20% increase vs. 7% decrease) indicating fragility in business attitudes toward the economy.

Similarly, Kansas’ business leaders have not changed their attitudes when it comes to comparing the business climate in Kansas to those of other states. While 43% see no difference, almost a quarter (24% -- down from 29% in February) rate Kansas’ business climate as worse than other states, while only one in five (20% -- up from 19% in February) see it as being better. Once again, a distinct difference exists between the Johnson County area and the rest of the state. In Johnson County, 37% see Kansas’ business climate as better than other states – in no other region of the state does this percentage exceed 17%.

While down from 30% in February, more than one in five (21%) Kansas businesses say they would consider relocating to another state because of their dissatisfaction with the business climate in Kansas. Willingness to relocate is particularly high among those in wholesale (33%), professional services (24%) and manufacturing (23%) sectors.

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