

MINUTES OF THE HOUSE COMMERCE AND LABOR COMMITTEE

The meeting was called to order by Chairman Don Dahl at 9:00 A.M. on January 19, 2006 in Room 241-N of the Capitol.

All members were present except:

Broderick Henderson- excused  
Patricia Kilpatrick- excused  
Scott Schwab- excused

Committee staff present:

Jerry Ann Donaldson, Kansas Legislative Research Department  
Rena Jefferies, Office of Revisor of Statutes  
June Evans, Committee Secretary

Conferees appearing before the committee:

Dr Art Hall, School of Business, University of Kansas

Others attending:

See attached list.

Dr. Art Hall, Center for Applied Economics, Kansas University School of Business, gave a briefing on the trends in economic growth in Kansas. Kansas lags the United States and the Plains States, which are the states north of Kansas and Missouri, in labor productivity and the economy. Productivity drives wages. Kansas has an educated work force and should be getting \$5,000 a year more per person in total compensation. International production complicates the growth and economy, but productivity is what would get Kansas out of this situation. We live in a global investment market. The only growth has been in Johnson and Leavenworth County. Kansas is 13<sup>th</sup> in union labor costs. The more the local and Kansas government grows, the slower the economy. Most people in Kansas that want employment have a job. The 30-year growth (1972-2002) of local full time employees in Kansas was 79%, private employment 90% and the population 20%. Government crowds out private industry (See Attachment 1).

The meeting adjourned at 10:15 a.m. and the next meeting will be January 20, 2006.

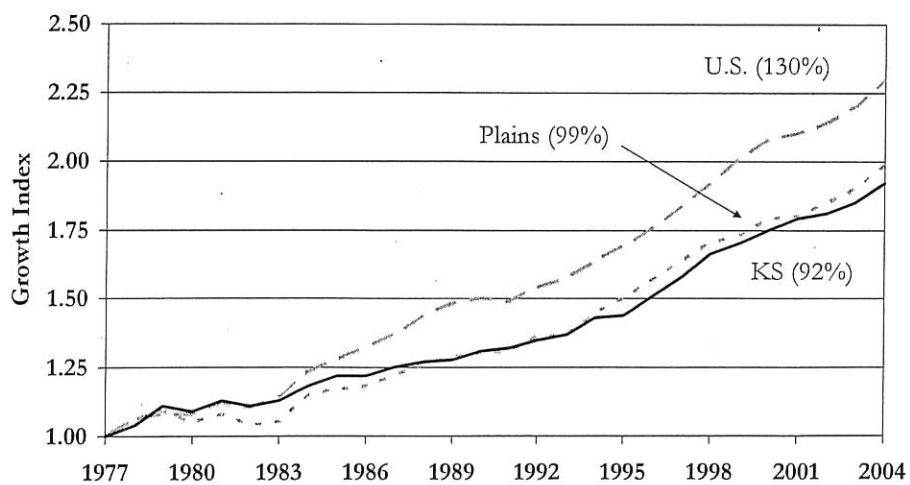


# Local Government and the Kansas Productivity Puzzle

Center for Applied Economics  
KU School of Business  
[www.cae.business.ku.edu](http://www.cae.business.ku.edu)

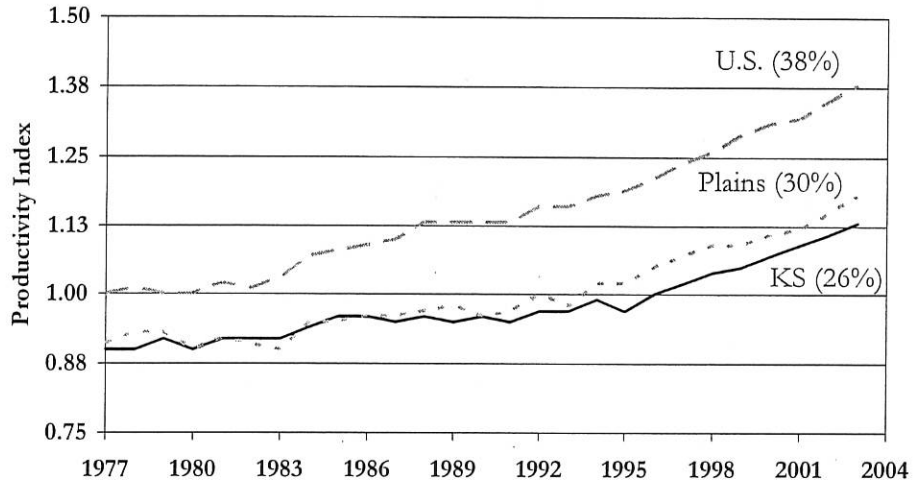
## Trends in Economic Growth (GSP)

Kansas Lags the U.S. and the Plains States



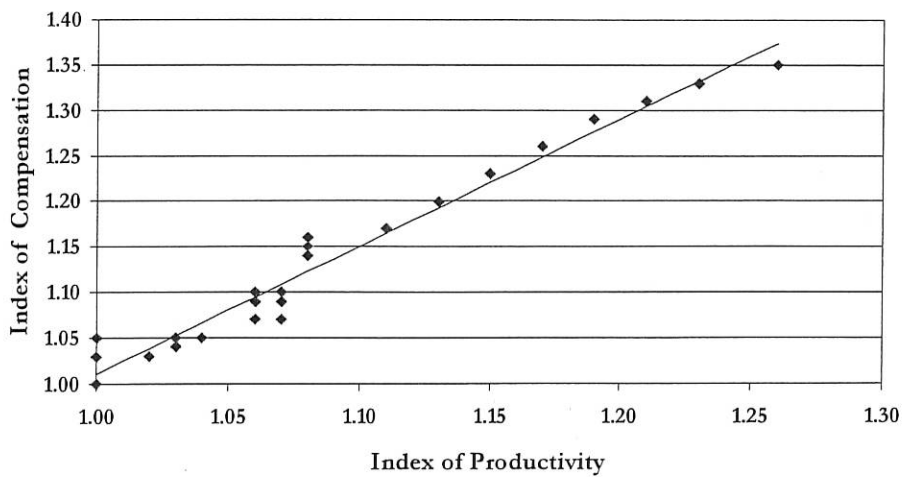
# Trends in Labor Productivity

Kansas Lags the U.S. and the Plains States



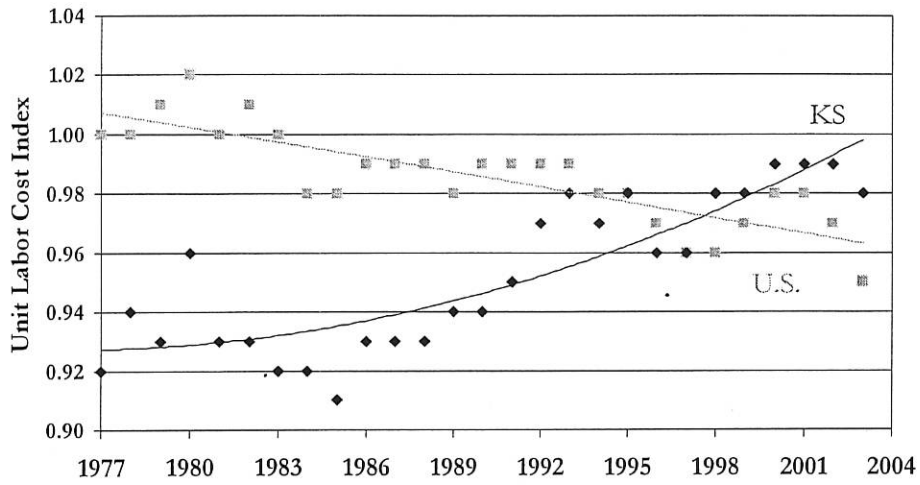
# Productivity Drives Wages

98% Correlation in KS: 1977 to 2003



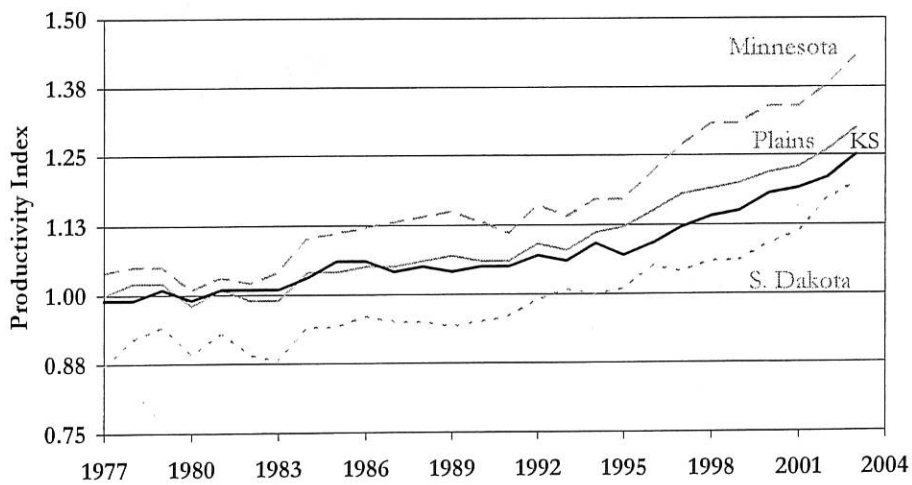
# Kansas Has Lost Its Cost Advantage

Unit Labor Cost = Compensation/Productivity



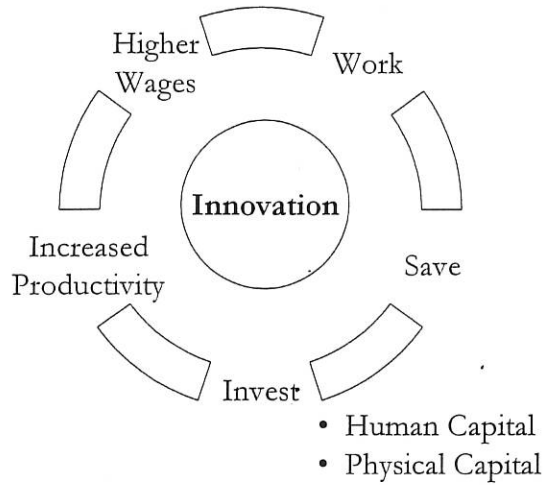
# Productivity in the Plains

Convergence and Divergence



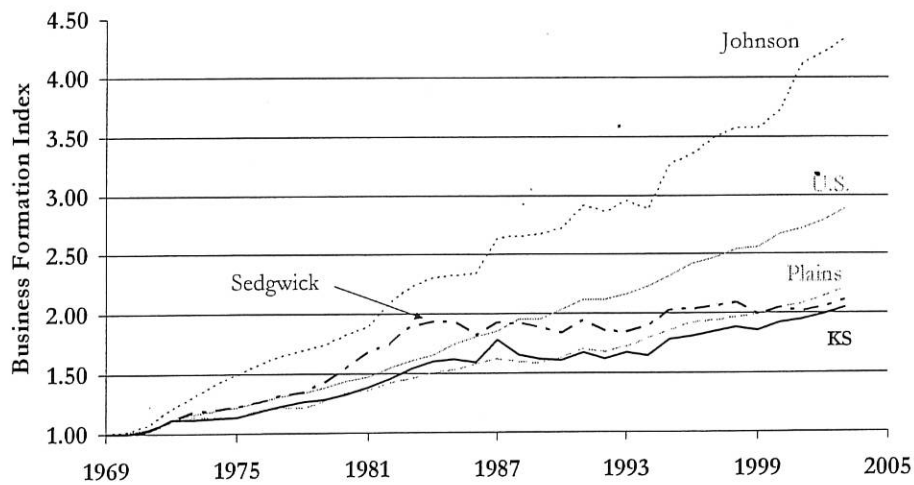
# Why Does KS Have Low Productivity?

The Economic Growth Process



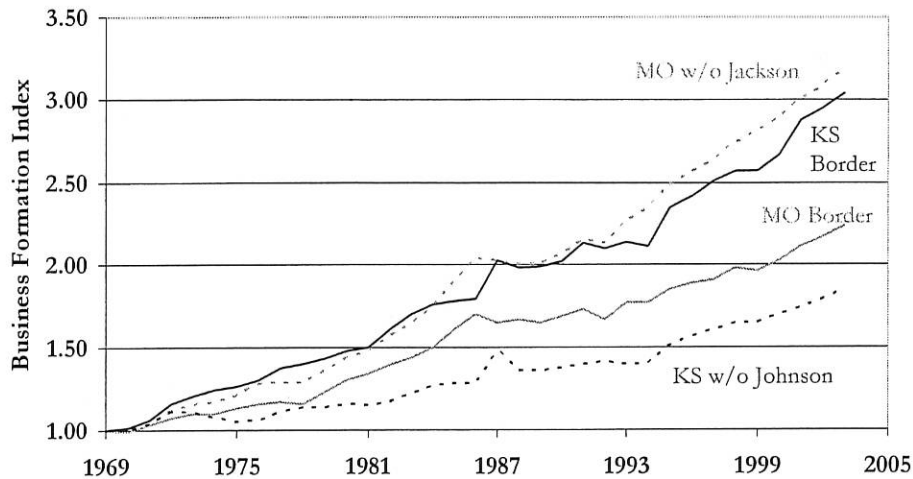
# Rate of New Business Formation

Does Kansas Have a Poor Investment Climate?



## New Businesses Along the KS-MO Border

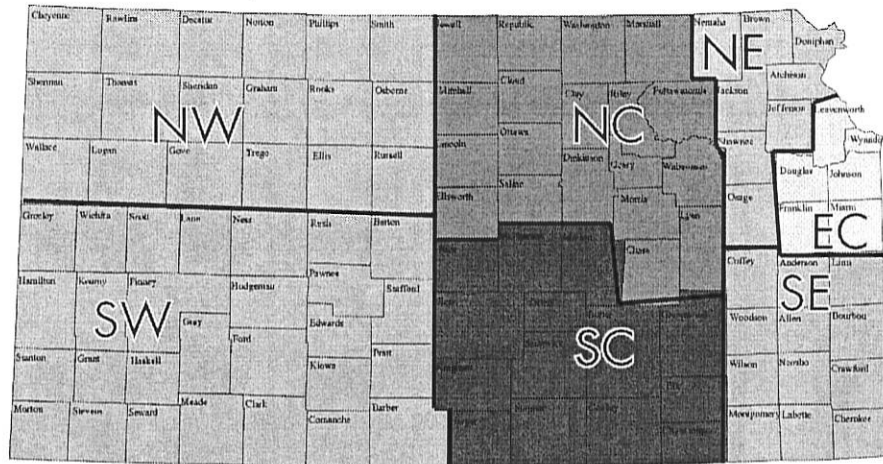
Does Kansas Have a Poor Investment Climate?



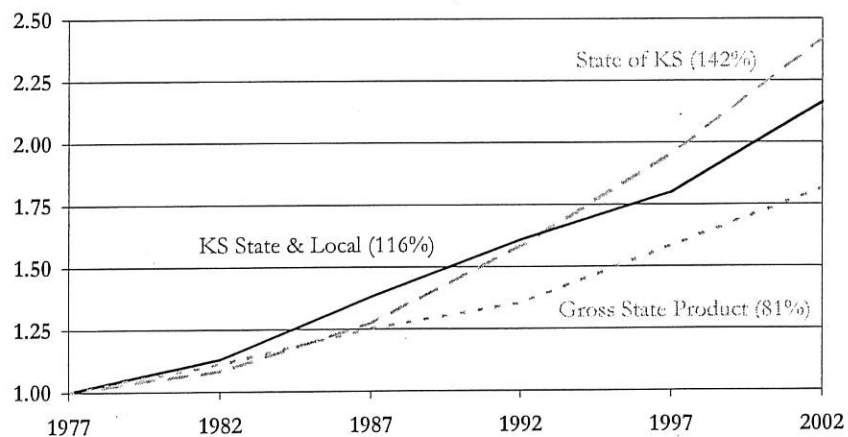
## Important Considerations

- Productivity growth is a **process** that requires continual trial and error on the part of individual businesses.
- State leaders should focus on creating a policy environment that allows for maximum business experimentation at the least possible cost.
- More investigation is required to determine if the overall policy mix in Kansas deters capital investment and new business starts.

# Kansas Department of Commerce Economic Development Regions

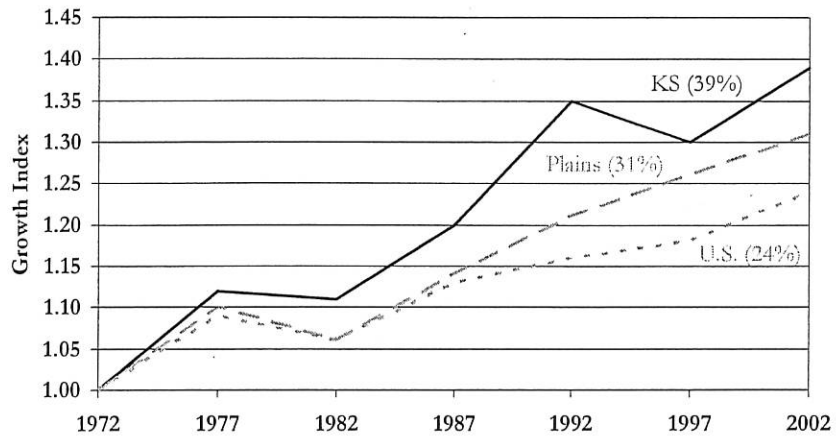


## Real KS Government Spending (Federal Funds Omitted)

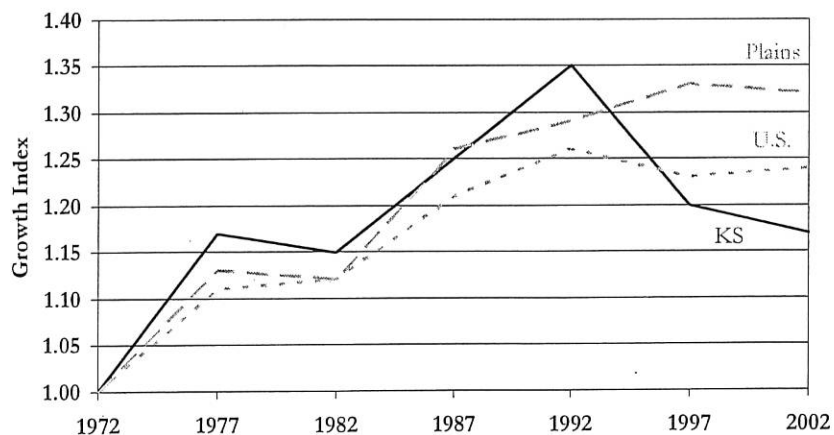




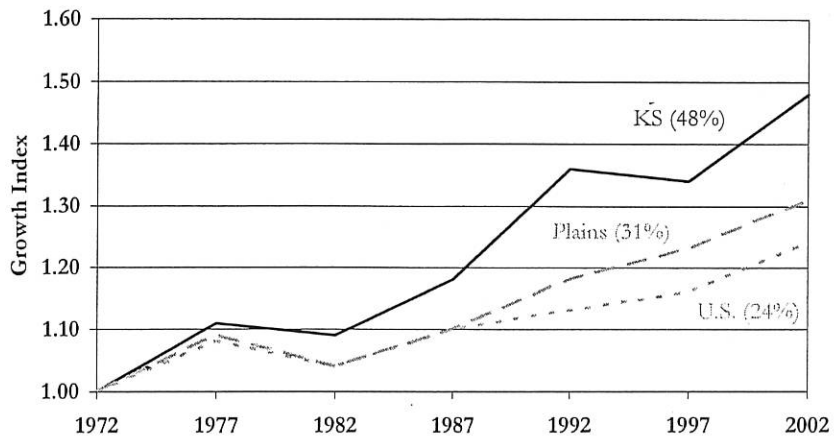
## S-L Government Growth Trends: FTEs as a Share of Population



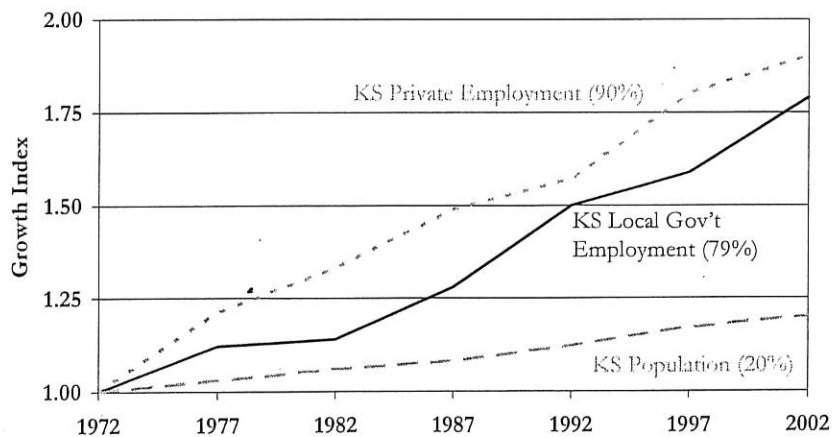
## State Government Growth Trends: FTEs as a Share of Population



## Local Government Growth Trends: FTEs as a Share of Population.



## Private vs Local Gov't Employment



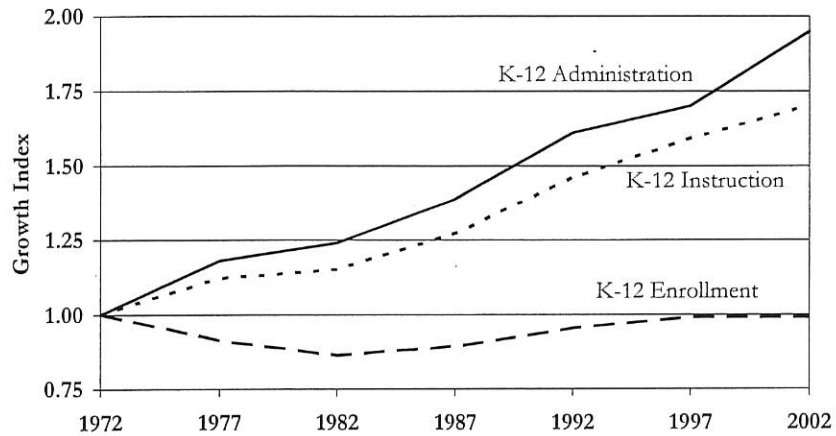
**30-Year Growth (72-02) of:  
Local FTEs, Private Employment, Population**

<b>Region</b>	<b>Local Gov't FTEs</b>	<b>Private Employment</b>	<b>Population</b>
Kansas	79%	90%	20%
East Central	112	184	52
North Central	62	59	0
North East	75	56	7
North West	37	43	- 17
South Central	56	73	25
South East	59	34	- 5
South West	68	53	12

**Allocation of KS Local Gov't FTEs**

<b>Function</b>	<b>1972</b>	<b>2002</b>
K-12 Instruction	39%	39%
K-12 Administration	15	18
Transportation	7	5
Public Safety	9	11
Health	7	8
General Administration	10	6
Other	12	14

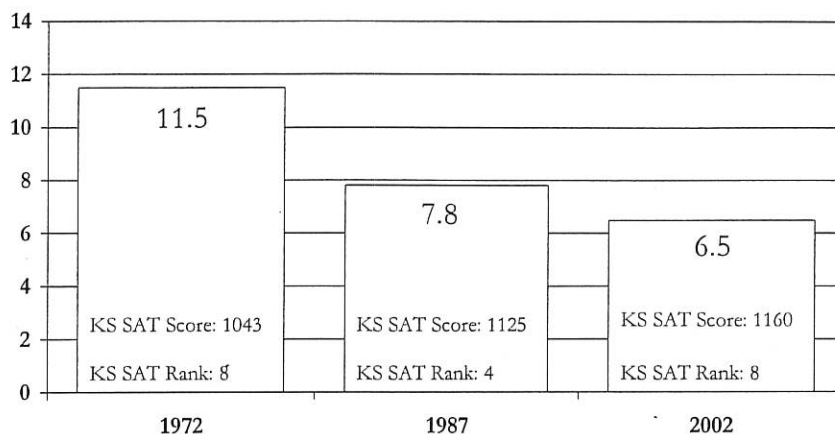
## Kansas K-12 FTEs and Enrollment



## 30-Year Growth (72-02) of: K-12 FTEs and Enrollment

Region	K-12 FTEs Instruction	K-12 FTEs Administration	K-12 Enrollment
Kansas	70%	95%	- 1%
East Central	102	127	19
North Central	61	89	- 16
North East	58	114	- 14
North West	28	46	- 37
South Central	69	72	- 1
South East	51	109	- 6
South West	61	87	7

## K-12 Students per K-12 FTE



## Cost to KS Taxpayers of K-12 Student-to-FTE Ratio

Region	K-12 Students per K-12 FTEs	Dollar Cost of KS Difference*
Kansas (2002)	6.46	n/a
United States	7.70	\$363 Million
Plains States	6.92	\$151 Million
Contiguous States	7.40	\$286 Million
Kansas in 1987	7.82	\$391 Million
Kansas in 1972	11.51	\$985 Million

\* Estimated 2002 cash compensation for K-12 FTE in KS was \$30,801.

## Cost to KS Taxpayers of Non K-12 FTE-to-Population Ratio

Region	Non K-12 FTEs per 100 People	Dollar Cost of KS Difference*
Kansas (2002)	2.08	n/a
United States	1.74	\$303 Million
Plains States	1.36	\$641 Million
Contiguous States	1.37	\$753 Million
Kansas in 1987	1.73	\$316 Million
Kansas in 1972	1.52	\$504 Million

\* Estimated 2002 cash compensation per Non FTE in KS was \$32,645.

## Cost to KS Taxpayers of Local Gov't FTE-to-Population Ratio

Region	Local Gov't FTEs per 100 People	Dollar Cost of KS Difference*
Kansas (2002)	4.77	n/a
United States	3.96	\$693 Million
Plains States	4.15	\$537 Million
Contiguous States	3.16	\$1,386 Million
Kansas in 1987	3.94	\$712 Million
Kansas in 1972	3.34	\$1,228 Million

\* Estimated 2002 cash compensation per FTE in KS was \$31,606.