

MINUTES OF THE SENATE COMMERCE COMMITTEE

The meeting was called to order by Chairperson Karin Brownlee at 8:30 A.M. on January 12, 2006 in Room 123-S of the Capitol.

All members were present.

Committee staff present:

Kathie Sparks, Kansas Legislative Research Department
Helen Pedigo, Revisor of Statutes
Jackie Lunn, Committee Secretary

Conferees appearing before the committee:

Lew Ebert-KCCI
Dr. Art Hall-University of Kansas, Center for Applied Economics

Others attending:

See attached list.

Chairperson Brownlee introduced Lew Ebert with the KCCI to give his presentation on the "Trends in the Kansas Economy". Mr. Ebert presented written copy. (Attachment 1) Mr. Ebert stated the poll he is presenting was conducted at the end of October and 96% of the businesses that responded had less than 100 employees. Mr. Ebert stated the first question they always ask is to find out if the economy is on the right track. Fundamentally it has not changed since they asked this question last year. He stated the poll indicates it is on the right track. Business people by nature are optimistic so part of what they are trying to do is capture the sense of optimism. When asked what are the most important issues facing Kansas, taxes show up continually as the dominant concern. When asked if the Kansas business climate was better or worse by regions of the state, particularly in Kansas City and the northeast, those are the only two areas where better tops out over worse. Wichita, southeast, and west show up as worse compared to other states. When asked if they would leave Kansas if they could, 23% replied in the affirmative with the main reason being taxes. When companies were asked what they thought they would be doing in the coming year, 4% thought they would decrease their headcount, 21% thought they would have an increase. When asked a year later what actually happened, 18% actually decreased their headcount and only 16% had an increase. Even business people trying to be optimistic did not necessarily experience what they predicted the following year. Particularly large decreases in the work force occurred in the Southeast, Kansas City, and Wichita. When asking the employers about the quality of the Kansas workforce they produced numbers in the 70th percentile. Senator Wysong asked if this was due to the quality of intelligence, education or work force ethics? Mr. Ebert state the question was phrased to ask "what is your overall sense of the quality of the workforce in Kansas", so probably all those factors came into play. Mr. Ebert stated a good indication of the confidence Kansas businesses have is exhibited by the size of their capital investment. There was a slight increase in major investments from 2004 to 2005 and also a slight increase in minor investments. It is important to not tax the very thing that can grow the economy. Taxing investments and innovation is probably a practice that needs to end quickly. Businesses were asked to outline the best economic strategy to grow the economy over time; what would be the most effective way? 54% believe in reducing the cost to do business and this is an area that the legislature can make a big impact in their economic future. Increase spending on education was also listed. Health care costs, taxes, and the legal system are some of the issues which do show up consistently over time as problems and concerns for businesses. Two out of three businesses, 62%, feel they pay too much tax versus 35% who feel it is just about the right amount and in some cases with vast differences noted in Wichita and the Southeast feeling high taxes are a deterrent to growth. Property tax shows up as the dominant concern followed by personal income tax, corporate income tax, estate tax, and franchise tax. Businesses were asked if they thought Kansas was the best state in America to do business. In every region, by a large margin, very few business leaders agreed that it was. Mr. Ebert said this was a trend they were trying to change and they are looking for ways to jump start the economy. Kansas is not keeping pace with the national economy and that is not acceptable.

Upon the conclusion of Mr. Ebert's presentation, Senator Jordan asked what were the exciting proposals to reduce business costs mentioned in the State of the State Address. He also stated there is conversation

CONTINUATION SHEET

MINUTES OF THE Senate Commerce Committee at 8:30 A.M. on January 12, 2006 in Room 123-S of the Capitol.

that by eliminating the business equipment tax you may be raising the local mil levy. Mr. Ebert said they are still working on that and part of what they are looking for is a way to quit taxing investment. They have contracted with Wichita State to help work on this issue. This is what is referred to as a growth deficit issue. Senator Jordan agreed with Mr. Ebert and also felt they needed to find a way to address this issue. Senator Emler entered the discussion stating that most of the County Commissioners tell him that if the business and equipment tax is eliminated it would be detrimental. Senator Emler asked which state was better. Mr. Ebert stated North Carolina was named the best state to do business in for the past three years and that Kansas and North Carolina are some what alike. He also stated that Kansas has made some choices which have worked against the economy over time and it will take a little time to unravel. Senator Kelly entered the discussion asking if a comparison of the same questions asked in the survey of other states was available. Mr. Ebert stated he did not have that information and it could possibly be difficult to get from other states. Senator Wagle entered the discussion regarding taxes in Kansas and what could be done. Senator Barone entered the discussion asking Mr. Ebert which taxes he would recommend. Senator Barone suggested that Mr. Ebert present that information to the Committee at a later date. Senator Reitz entered the discussion with concerns and stated that no alternatives have been given to the Committee to solve the problem of taxes in Kansas.

Chairperson Brownlee introduced Dr. Art Hall from the Center for Applied Science at the University of Kansas to give his presentation on the Trends of the Economy of Kansas. Dr. Hall presented written copy. (Attachment 2) Dr. Hall stated he has spent the last year digging into the Kansas Productivity Puzzle and comes before the Committee today to give updated information on this issue. Dr. Hall stated that he would start with the trends in economic growth in Kansas, (GSP, the final value of goods, services produced within the borders of Kansas). He referred to the chart on page 1 of his written copy and stated Kansas lags in comparison to the United States and the Plains States; the Plains States being, Kansas, Missouri, Nebraska, Iowa, the Dakotas and Minnesota. He stated economic growth can be divided into two parts, employment and productivity; the volume of people producing goods and services and the efficiency with which they are producing. You want more and more people working and increasing their efficiency. Kansas lags in labor productivity in comparison to the Plains States and the United States. He stated Kansas productivity drives wages and in the state of Kansas wages are growing faster than productivity. Kansas has lost its cost advantage. Productivity is growing much faster in other places. Dr. Hall stated that the way to solve the productivity puzzle in Kansas is to look at private capital investment. Kansas lags in the Plains States and the United States in this area. Kansas has the 4th highest number of local government employees per person in the nation and is also the 4th fastest growing over the same number of years. According to research completed in 1991, the higher the government spending the slower the economy grows. Over the past 25 years state and local spending in Kansas has grown systemically faster than the economy. He stated according to his charts, local government growth trends for full time employment has caused the source of the growth trends. Kansas has one of the highest labor participation rates in the country. Every time Kansas hires 9 new private sector employees they are hiring 1 local government employee. His question is what does that one employee do? Are they adding valued services? If they are not, they are a lag on the economy. Dr. Hall stated that all his information comes from the Bureau of the Census. Dr. Hall stated that in the school system we have flat enrollment but have doubled in the amount of people working in the system. If these people are not adding value and are not worth what they are being paid, they are also a lag on the economy. According to the charts, Kansas has doubled input but not the output. In closing, Dr. Hall stated that if all the state workers are not worth what they are being paid then they cause a lag in the economy creating excessive overhead.

Chairperson Brownlee thanked Dr. Hall and stated the information he presented was very valuable but because of the time, they would have to adjourn. She also stated the Committee would like to have him back to finish his presentation and answer questions.

Meeting adjourned at 9:30 a.m. with the next meeting scheduled for January 17, 2006 at 8:30 a.m. in room 123S.

A Survey of 300 Business Owners / Executives in Kansas

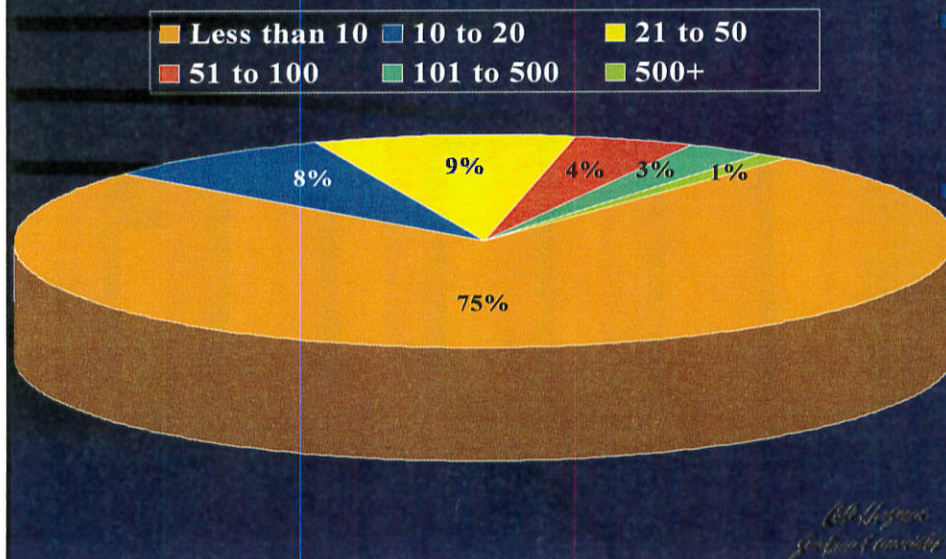
Margin of error: +/- 5.6%

Surveys conducted October 31 – November 3, 2005

by

*Cole Langrave
Surveys & Analytics*

Number of Employees in Businesses Polled



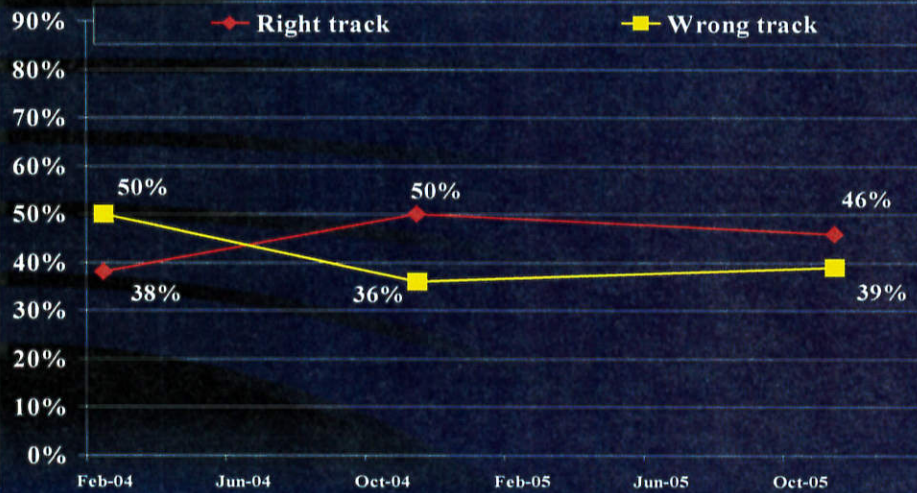
Senate Commerce Committee

January 12, 2006

Attachment 1-1

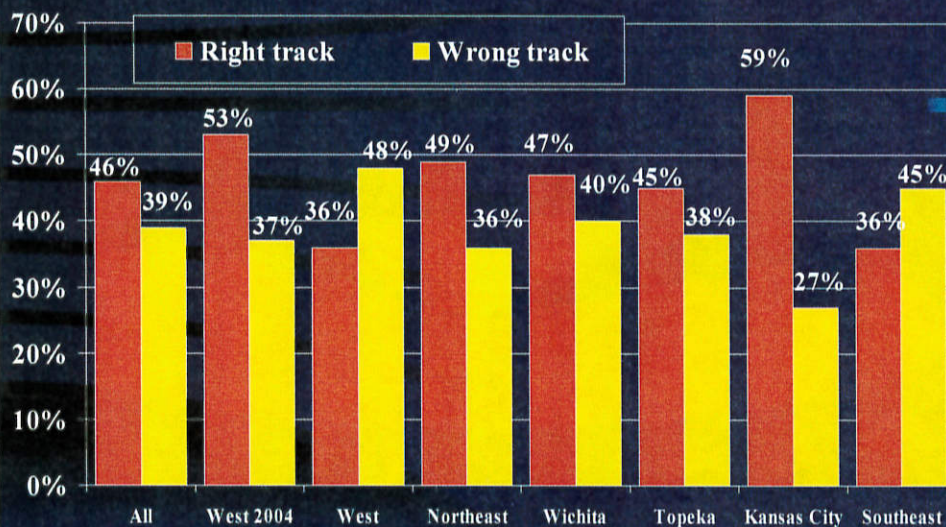
Right / Wrong Track Kansas Economy Over Time

46% Right track vs. 39% Wrong track vs. 15% Undecided



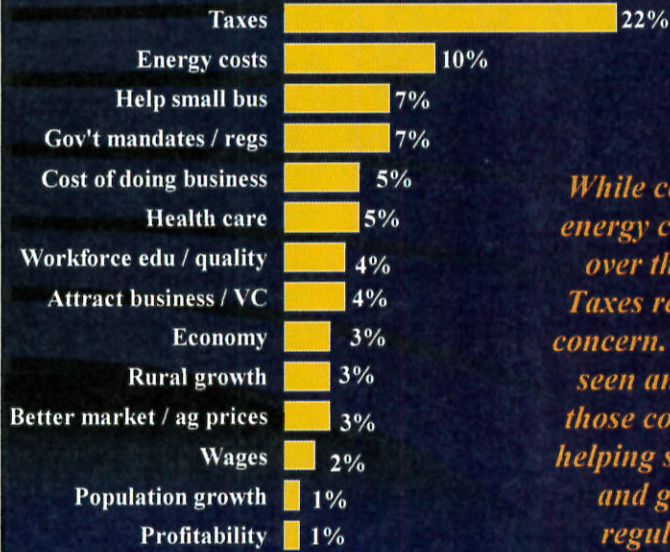
While we saw a little positive movement from February to November of last year, that trend has begun to reverse itself.

R/W Track Kansas Economy by Area of State



Outlook has dropped most in the West from a year ago (53% Right vs. 37% Wrong). All other regions remain similar.

Most Important Issue Facing Kansas Business

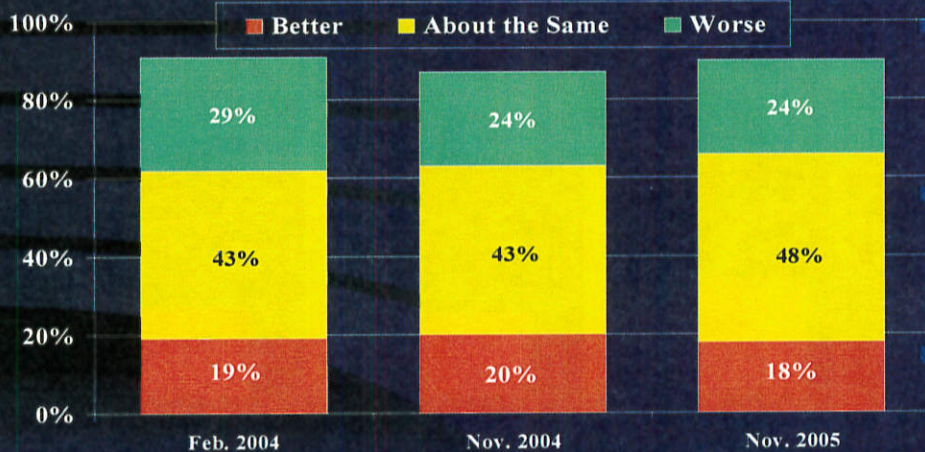


While concern about energy costs has risen over the past year, Taxes remain the top concern. We have also seen an increase in those concerned with helping small business and government regulations and mandates.

*Challenger
Joseph J. Curran*

Kansas Business Climate vs. Other States

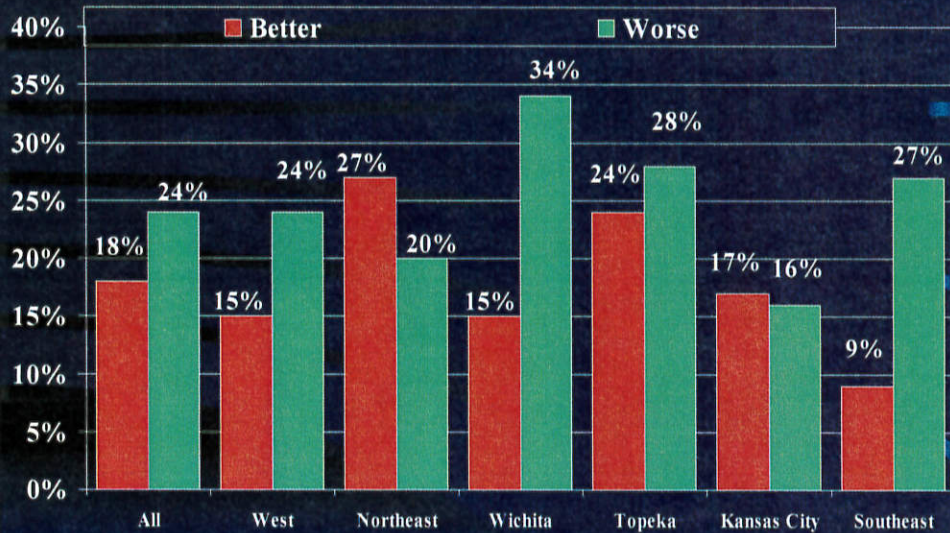
18% Better than others vs. 24% Worse than others vs. 48% About the same vs. 11% Undecided



As has been the case, more CEOs believe the business climate in Kansas is worse than other states than believe it is better than other states.

*Challenger
Joseph J. Curran*

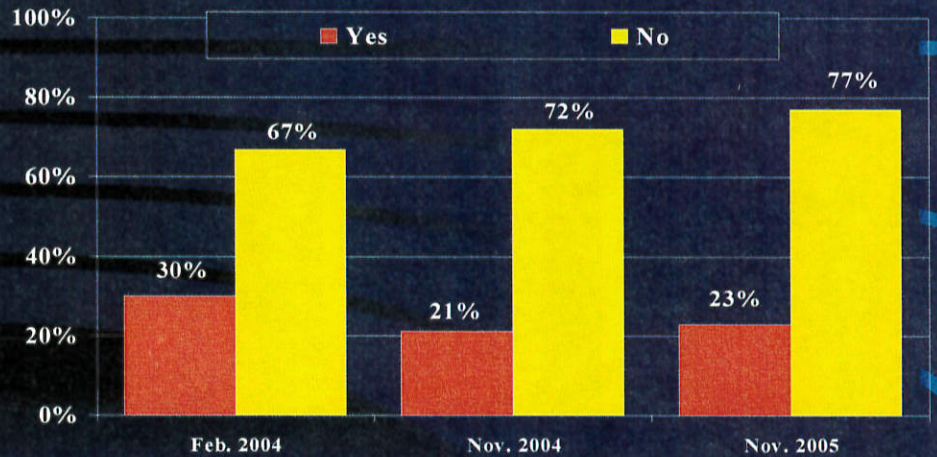
KS Bus. Climate vs. Others by Area of State



Only in the KC and Topeka areas do more business leaders believe that Kansas is better than believe it worse than in other states. Dissatisfaction is highest in the SE and Wichita areas.

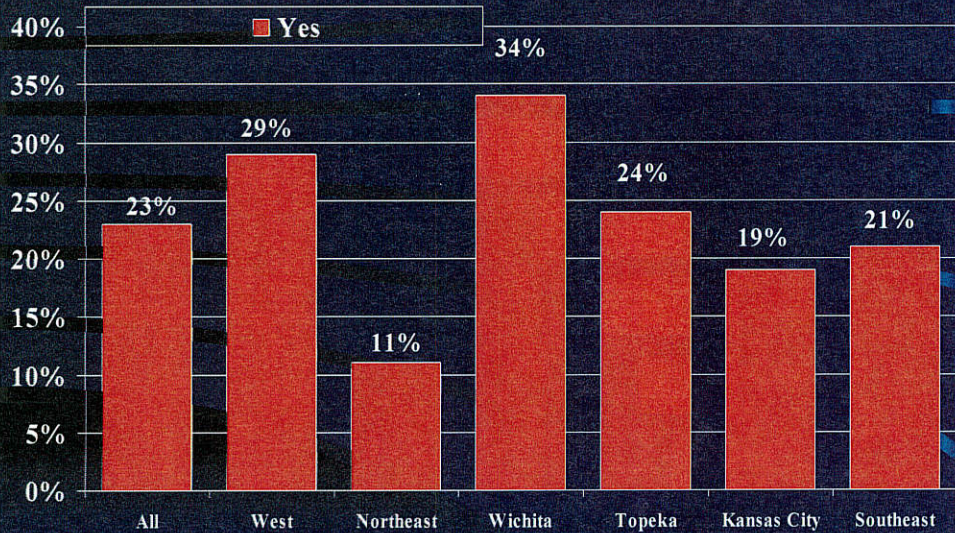
Consider Leaving Kansas Over Time

23% Yes vs. 77% No



While the percentage saying they would consider leaving Kansas is not as high as February of 2004, it is slightly higher than last November, and still represents almost a quarter of the businesses in Kansas.

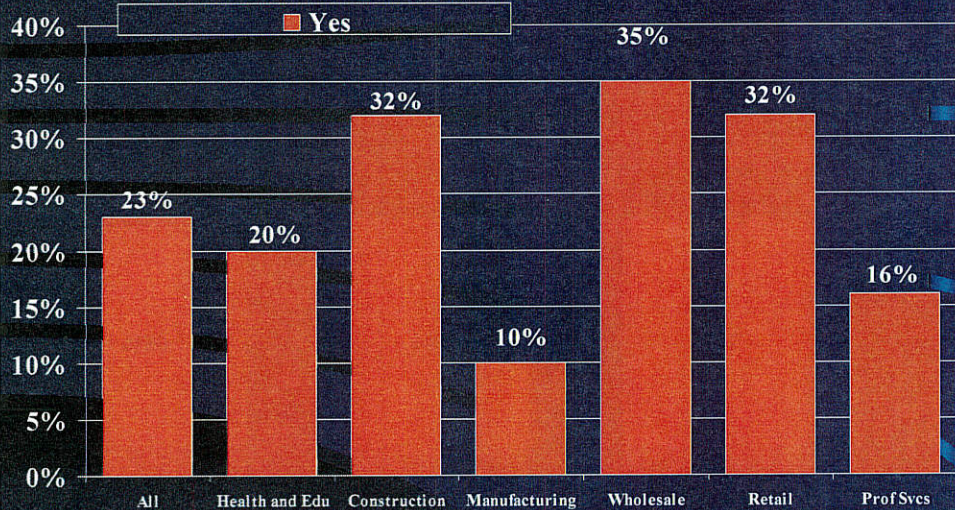
Consider Leaving Kansas by Area of State



Businesses in Wichita and the West are the most likely to consider leaving the state.

*Bill Maguire
Governor of Kansas*

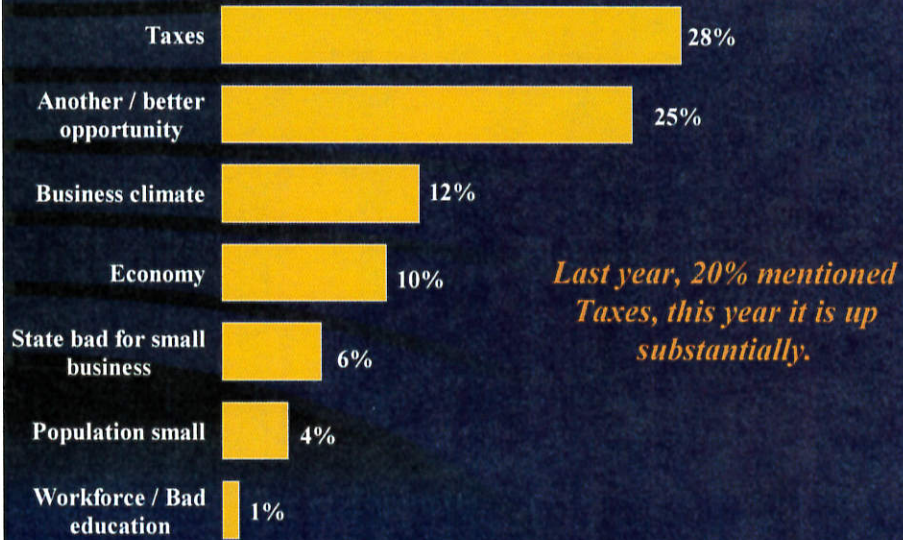
Consider Leaving Kansas by Industry



As has been the case in past surveys, those in the construction, wholesale and retail sectors are the most likely to consider leaving the state – but even 10% of manufacturers and 16% of professional services would also explore this option.

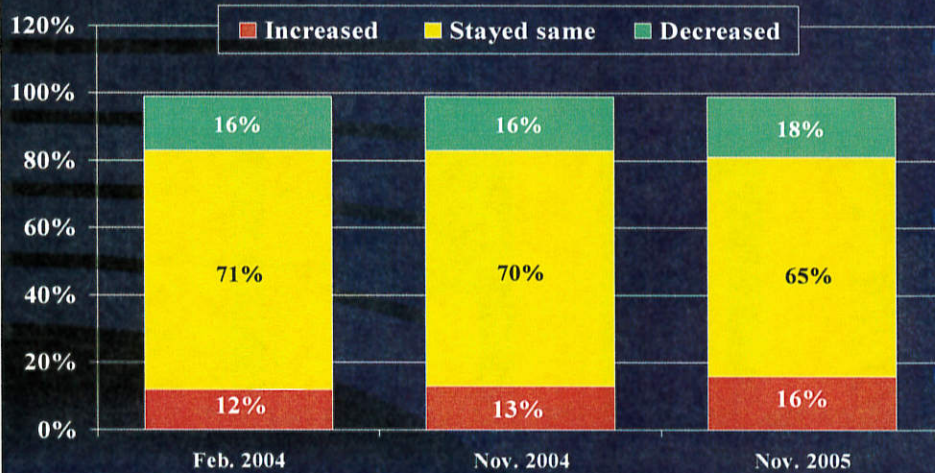
*Bill Maguire
Governor of Kansas*

Why Consider Leaving Kansas?



Past Year Workforce Size Over Time

3% Increased substantially vs. 13% Increased moderately vs. 13% Decreased moderately vs. 5% Decreased substantially vs. 65% Stayed about the same



While the percentage saying they actually increased jobs rose slightly over the past year....

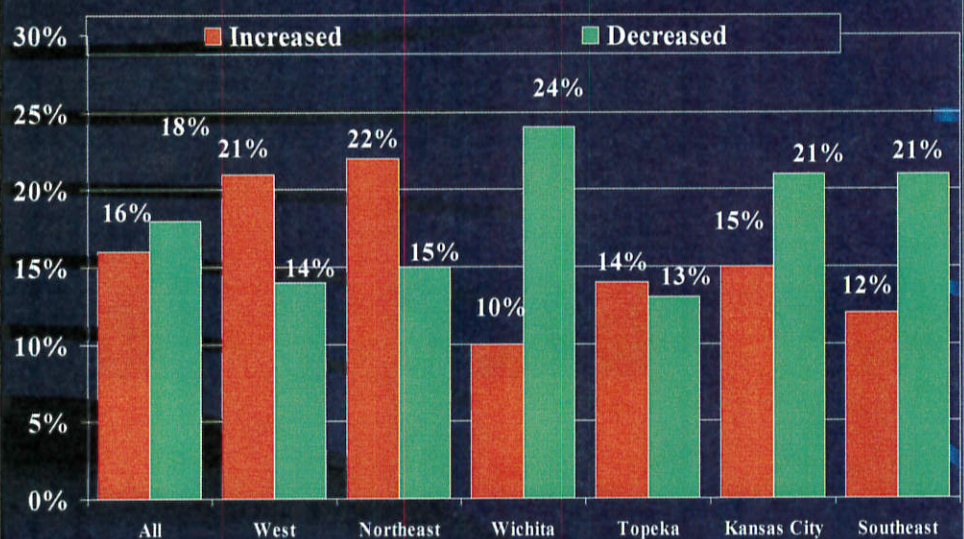
This Year's Reality Does Not Match Last Year's Expectations



...it is much lower than what they told us they would do last year. Whereas only one in 25 thought they would lose workforce, in actuality, it was almost one in five.

Joseph Cavallaro

Past Year Workforce Size by Area of State



In Wichita, KC and the SE, more companies decreased employment during the last year than increased it.

Joseph Cavallaro

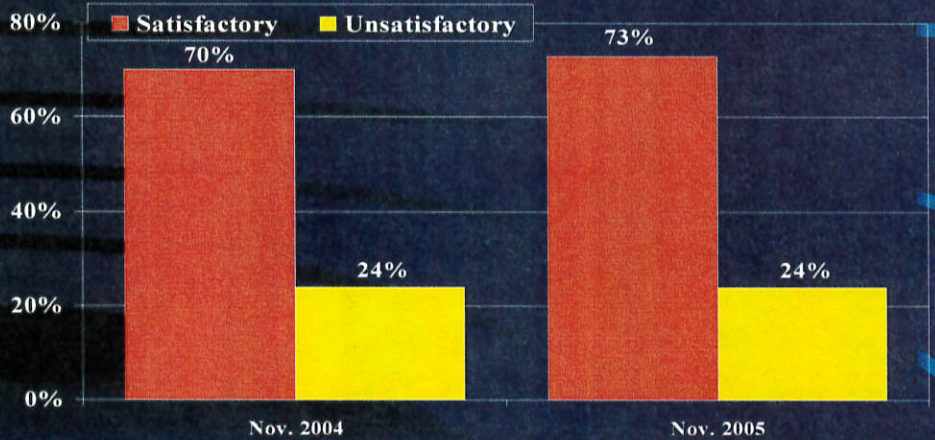
Past Year Workforce Size by Industry



Manufacturing bounced back during the past year, and professional services showed modest gains, however, most other areas, especially retail showed substantial decreases.

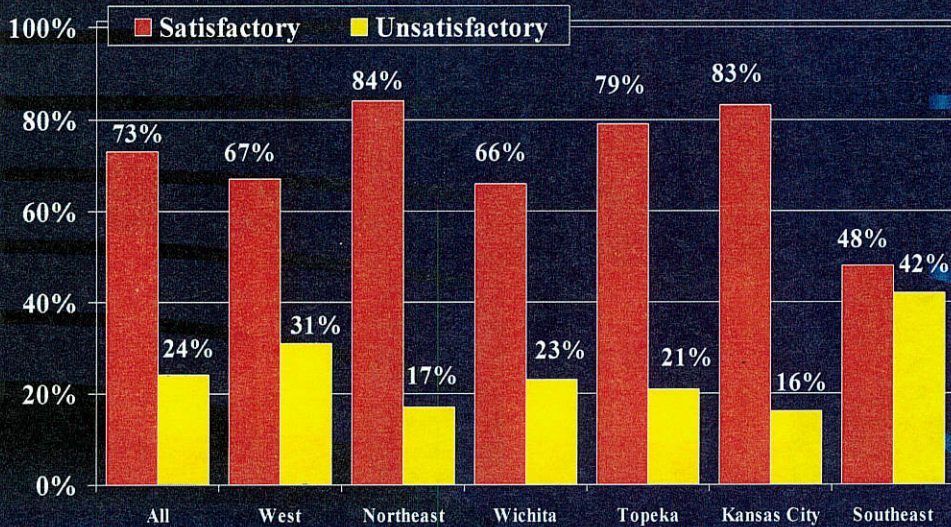
Quality of Kansas Workforce (2004 vs. 2005)

2005: 24% Very satisfactory vs. 49% Somewhat satisfactory vs. 18% Somewhat unsatisfactory vs. 6% Very unsatisfactory vs. 4% Undecided



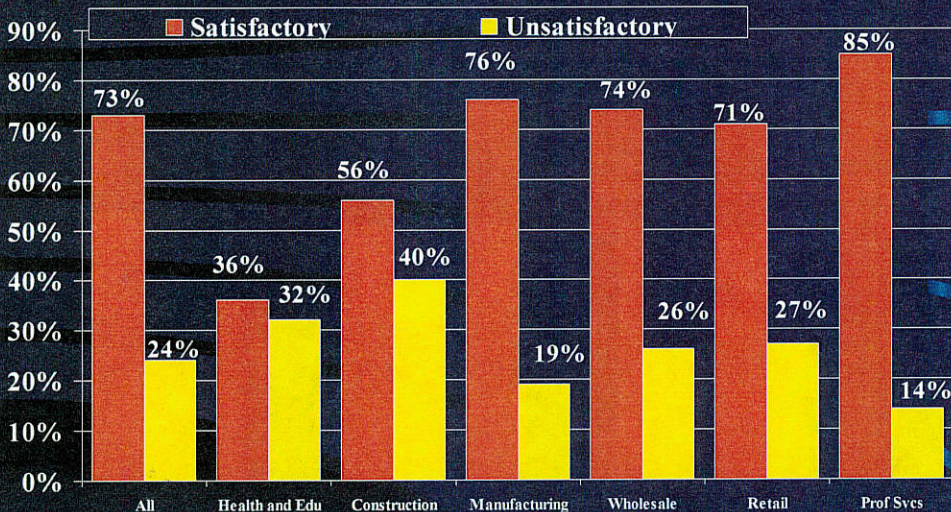
The vast majority of Kansas business owners have no qualms with the quality of the workforce. In fact, over the past year, their impression has slightly improved.

Quality of KS Workforce by Area of State



Satisfaction with the workforce is highest in KC, the northeast and Topeka.

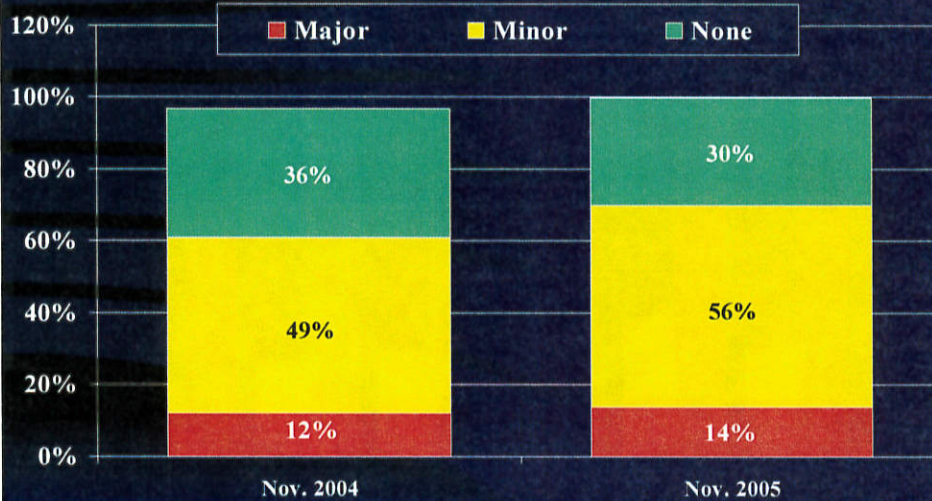
Quality of Kansas Workforce by Industry



Only in the education sector, itself, are fewer than 50% of business leaders satisfied with the workforce.

Size of Capital Investment Next Year (2004 vs. 2005)

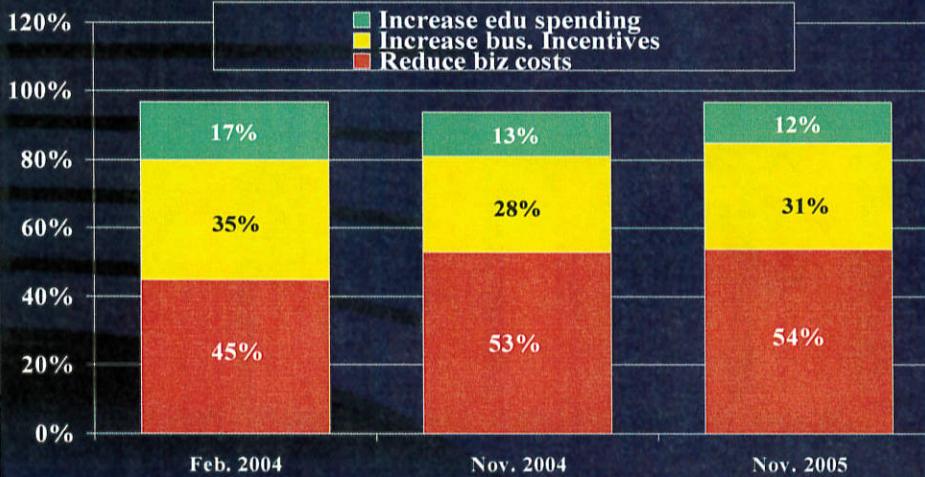
2005: 14% Major investment vs. 56% Minor investments vs. 30% None



There is only slight movement when it comes to the capital investment companies in Kansas plan to make over the next year.

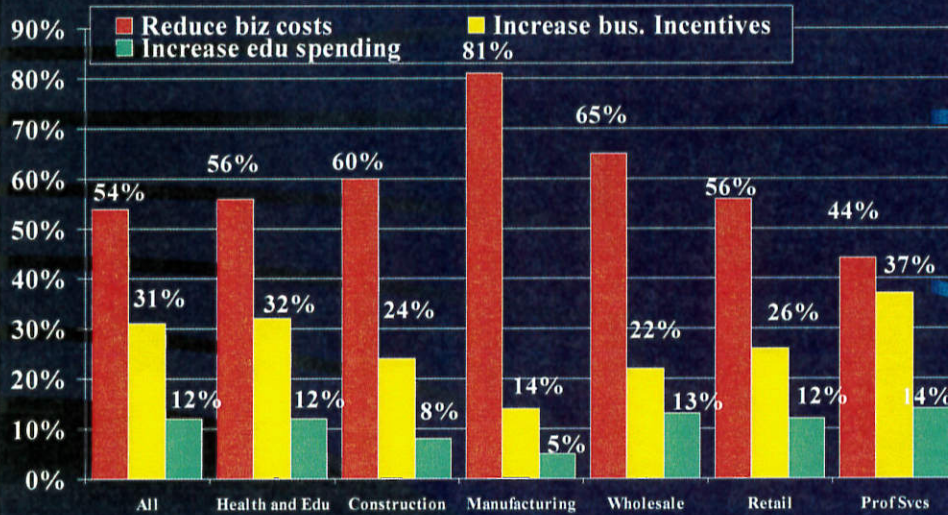
Best Economic Strategy Over Time

2005: 54% Reducing biz costs vs. 31% Increased incentives for business vs. 12% Increasing public school spending vs. 3% Undecided



A majority of Kansans still believe that reducing the cost of government is the best economic strategy.

Best Economic Strategy by Industry



Reducing business costs is far and away the preferred method in all but professional services where increasing incentives rivals it.

*Bob Higgins
Senior Consultant*

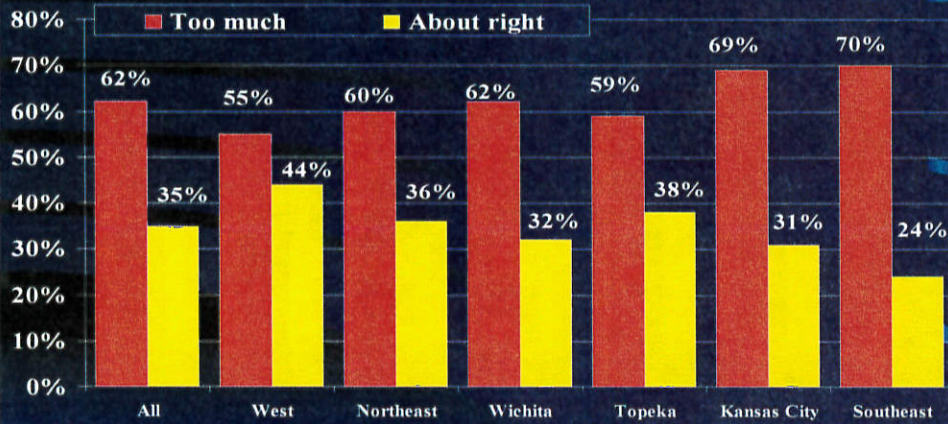
Most Important for Profitability of Your Business? (Two Responses Accepted)

	<u>Today</u>	<u>Nov. 04</u>	<u>Feb. 04</u>
Managing health care costs	46%	42%	61%
Lower taxes on business	39%	38%	40%
Stop frivolous lawsuits/Tort reform	21%	21%	20%
Economic incentives for business	20%	15%	10%
Decrease regulation/mandates	14%	13%	19%
Workers' Compensation	14%	11%	21%
Funding education	NA	11%	NA
Limit growth of state government	10%	8%	6%
Unemployment Compensation	9%	5%	7%

*Bob Higgins
Senior Consultant*

Amount of State / Local Taxes Paid by Area of State

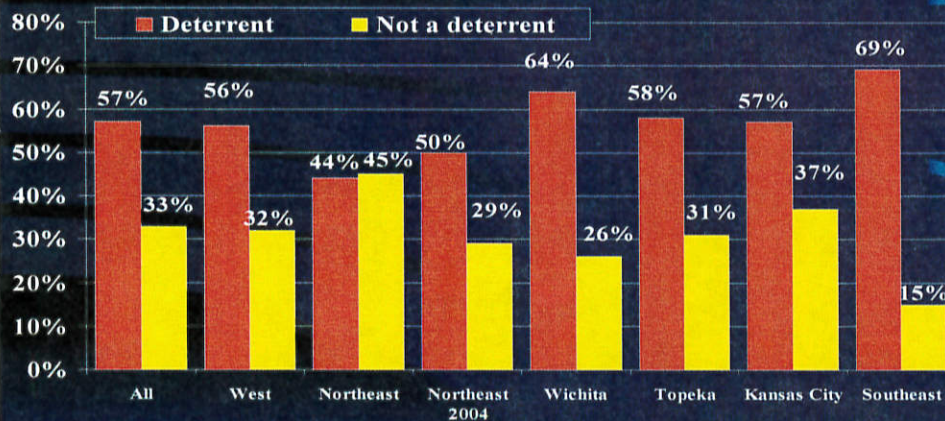
62% Too much vs. 0% Not enough vs. 35% About the right amount vs. 3% Undecided



All areas of the state believe they simply pay too much in taxes.

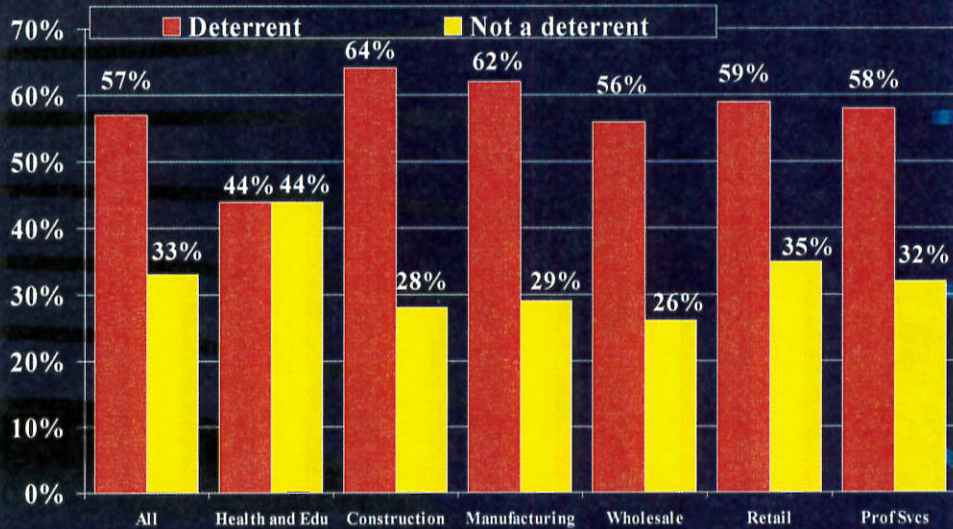
Is the Tax Structure a Deterrent to Growth? by Area of State

30% Major deterrent vs. 27% Minor deterrent vs. 33% Not a deterrent vs. 10% Undecided



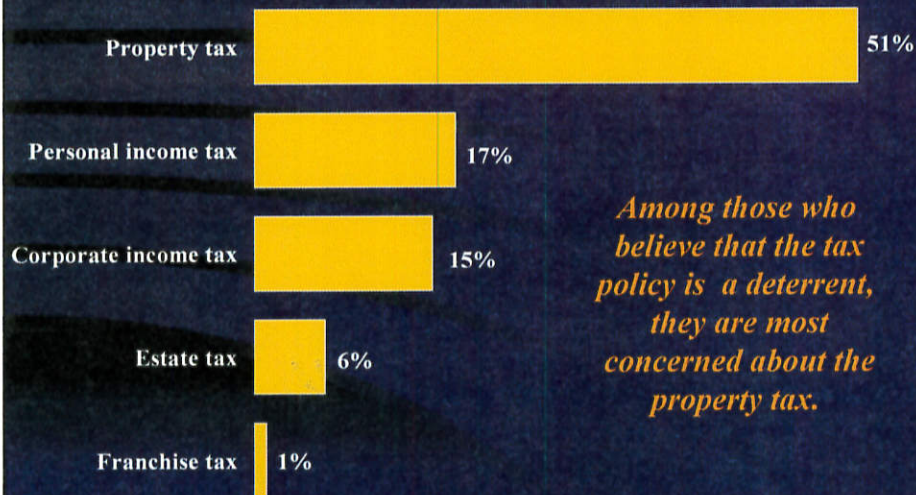
In all but the northeast, a majority of business owners believe that the current tax policy is a deterrent to economic growth.

Taxes Deterrent to Growth by Industry



Every industry cluster, aside from those in health and education, has a majority of its members believing that believe the current tax policies are a hindrance to job growth.

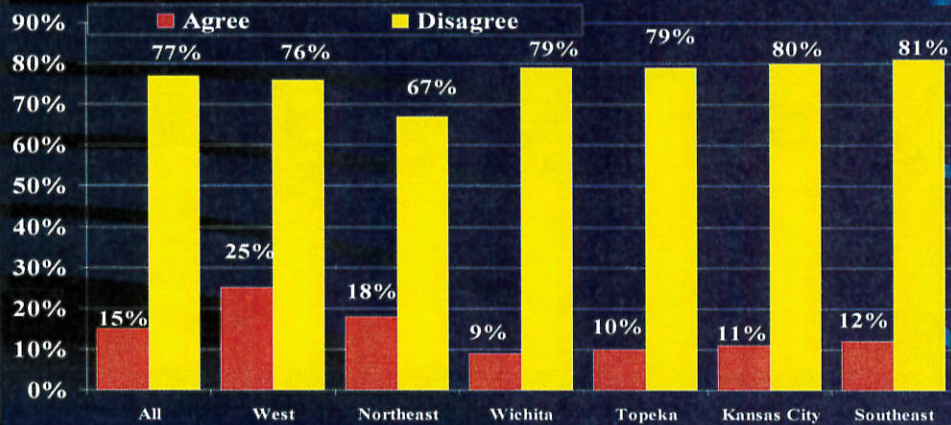
Which Tax is the Most Punitive to Growth?



Among those who believe that the tax policy is a deterrent, they are most concerned about the property tax.

Agree Kansas is Best Business Climate in America by Area of State

4% Strongly agree vs. 11% Somewhat agree vs. 38% Somewhat disagree vs. 39% Strongly disagree vs. 8% Undecided



Very few business leaders believe this claim.

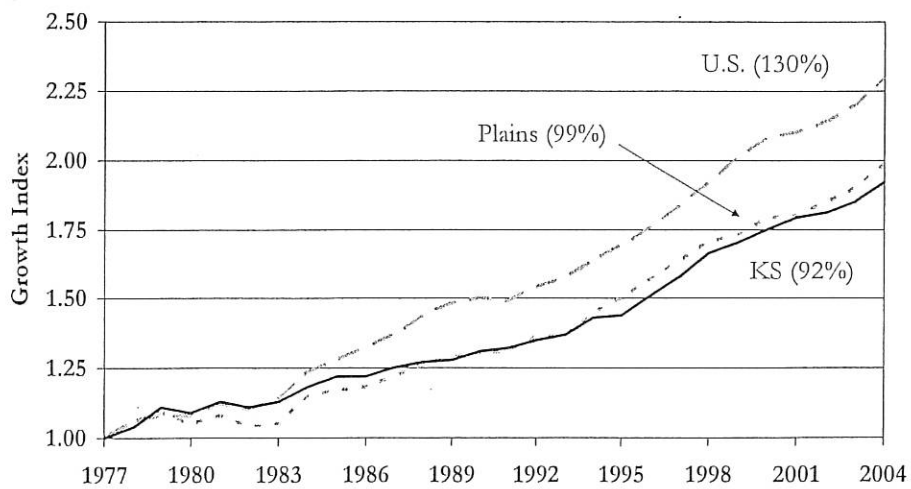
*Bill Gannon
January 14, 2010*

Local Government and the Kansas Productivity Puzzle

Center for Applied Economics
KU School of Business
www.cae.business.ku.edu

Trends in Economic Growth (GSP)

Kansas Lags the U.S. and the Plains States



Senate Commerce Committee

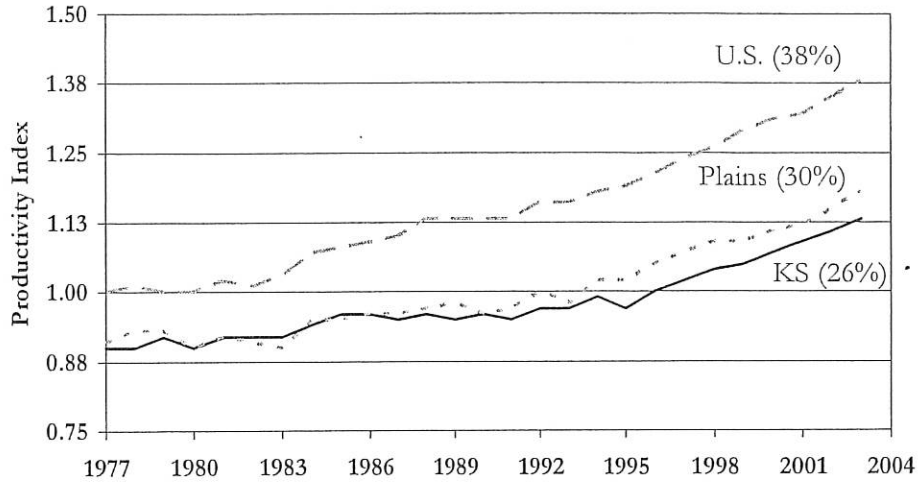
January 12, 2006

Attachment

2-1

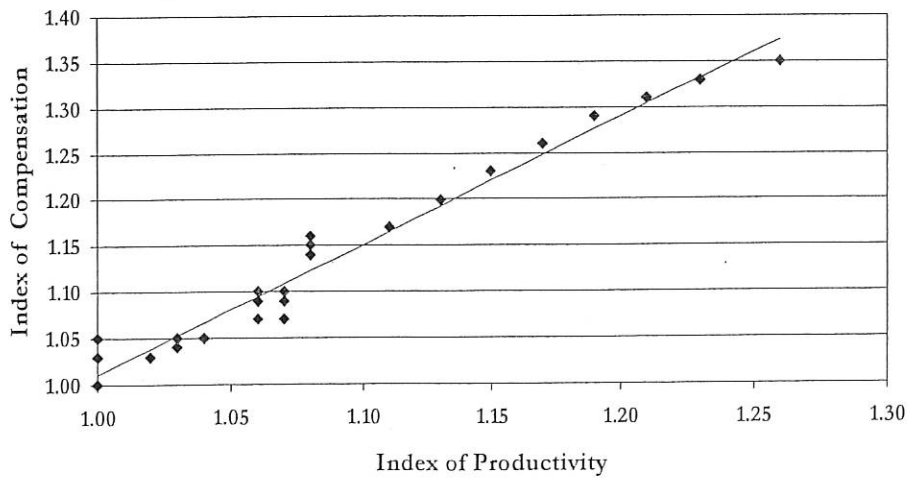
Trends in Labor Productivity

Kansas Lags the U.S. and the Plains States



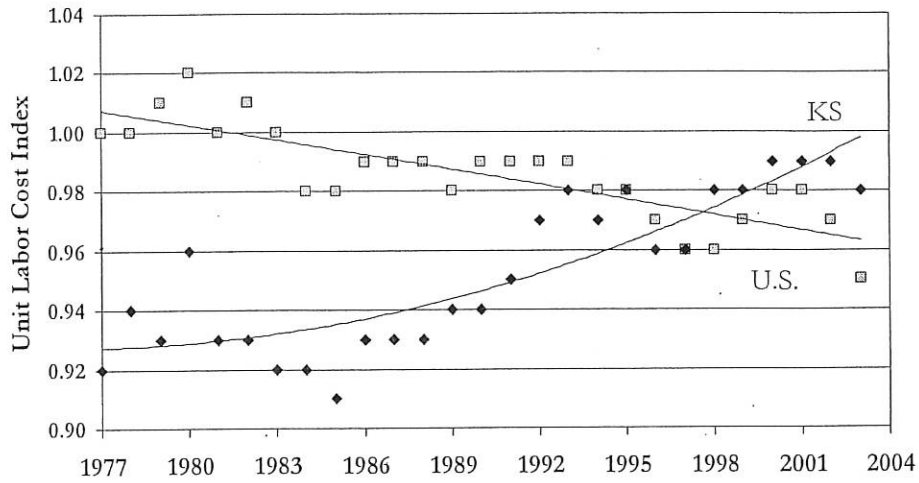
Productivity Drives Wages

98% Correlation in KS: 1977 to 2003



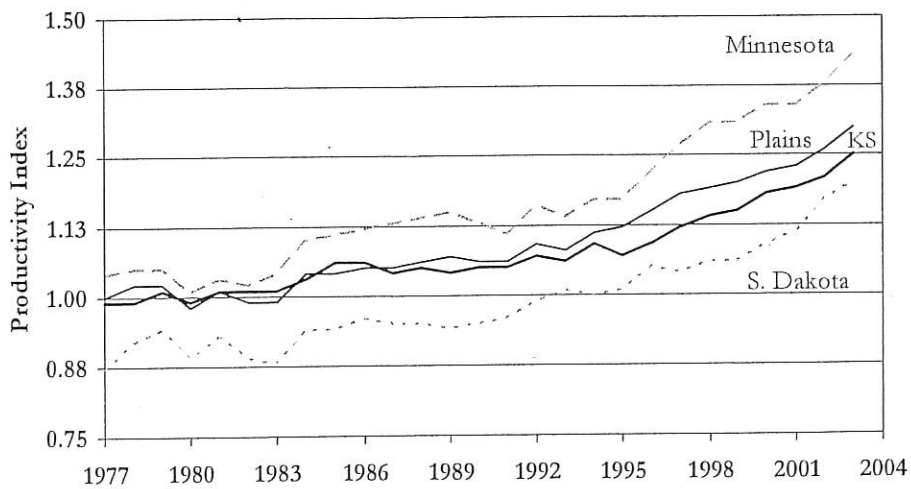
Kansas Has Lost Its Cost Advantage

Unit Labor Cost = Compensation/Productivity



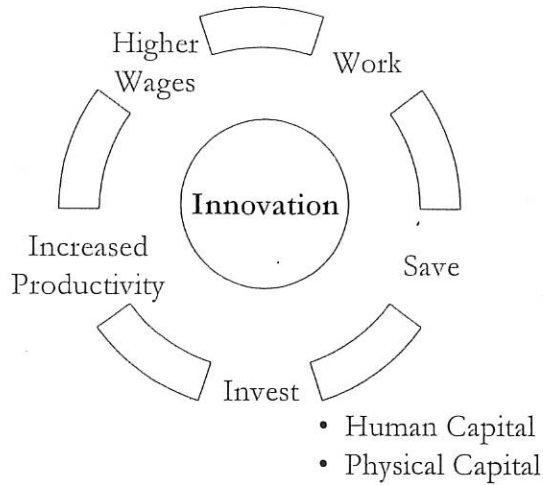
Productivity in the Plains

Convergence and Divergence



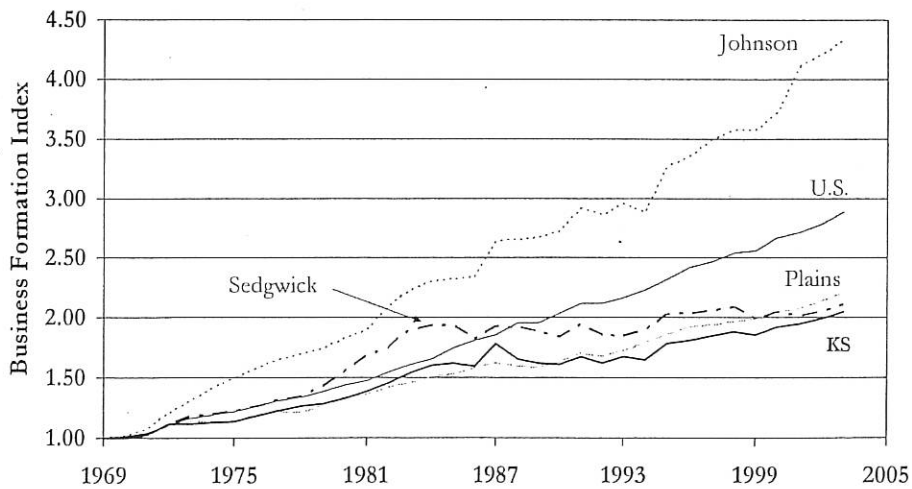
Why Does KS Have Low Productivity?

The Economic Growth Process



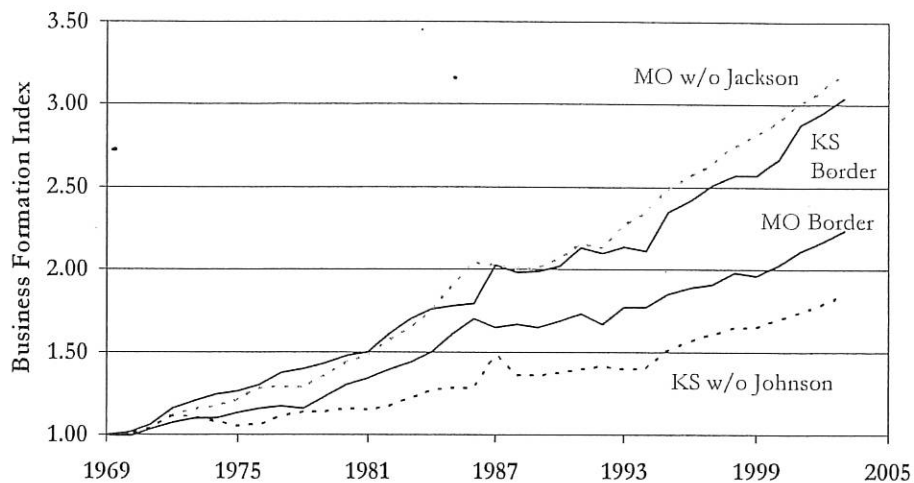
Rate of New Business Formation

Does Kansas Have a Poor Investment Climate?



New Businesses Along the KS-MO Border

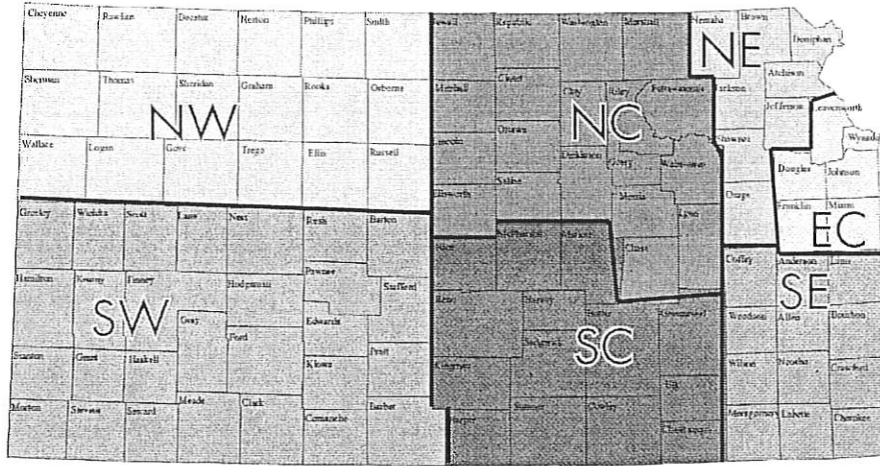
Does Kansas Have a Poor Investment Climate?



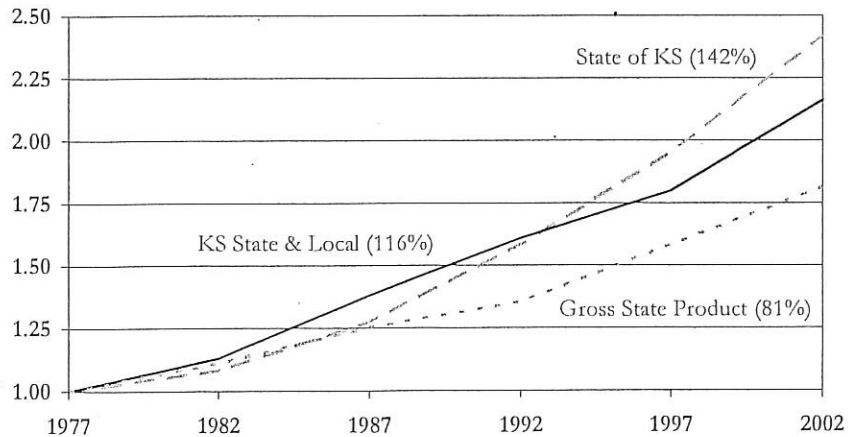
Important Considerations

- 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.

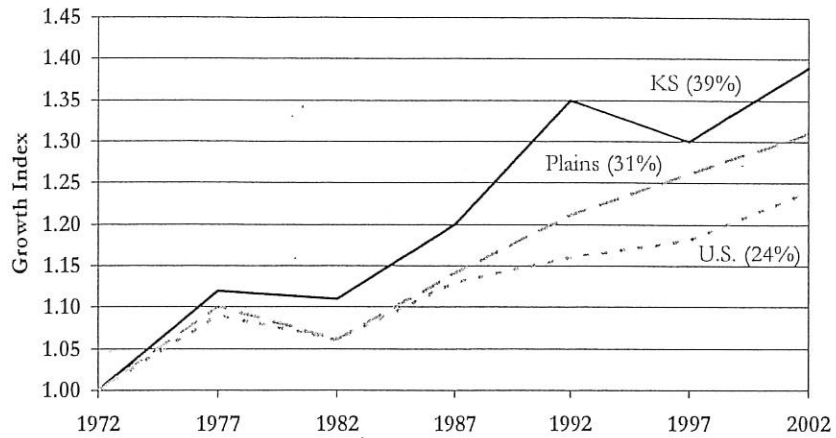
Kansas Department of Commerce Economic Development Regions



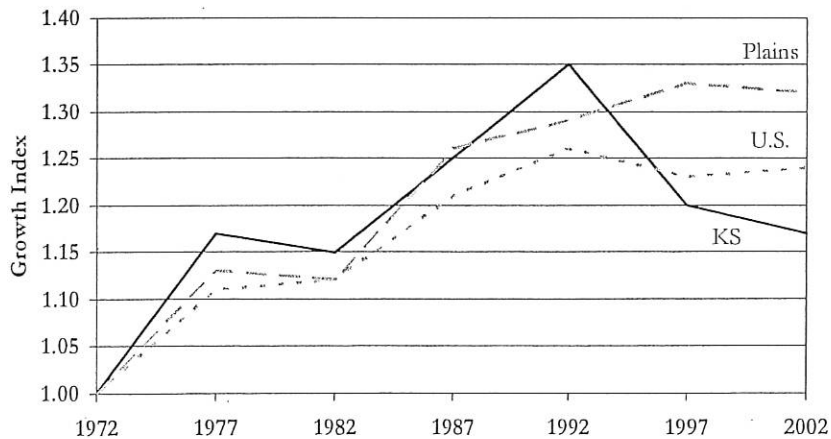
Real KS Government Spending (Federal Funds Omitted)



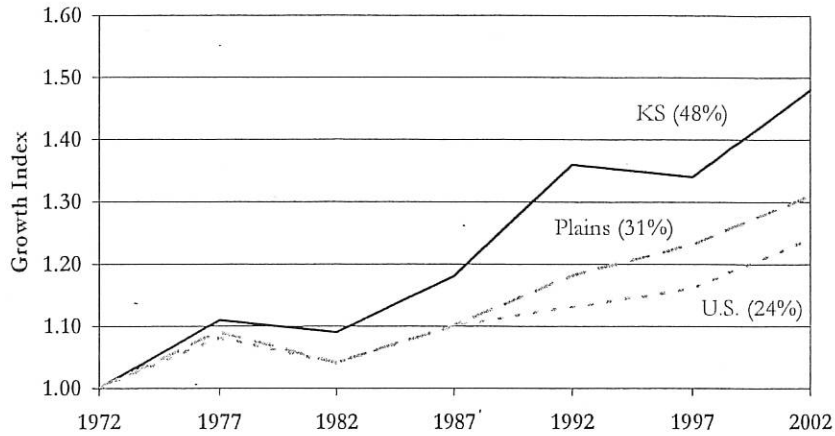
S-L Government Growth Trends: FTEs as a Share of Population



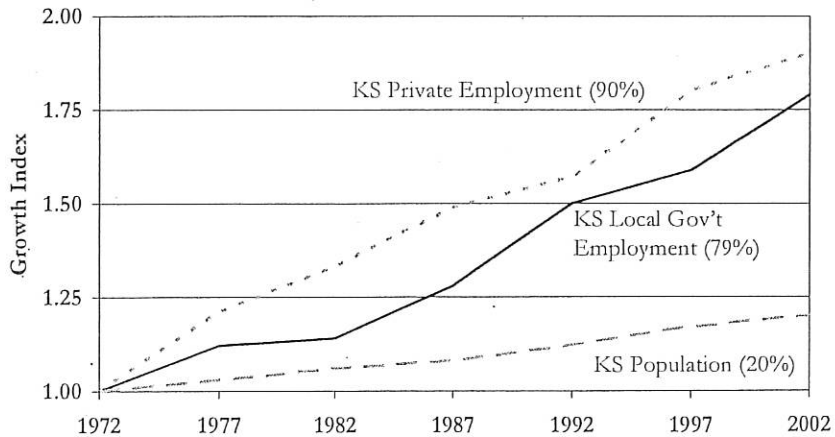
State Government Growth Trends: FTEs as a Share of Population



Local Government Growth Trends: FTEs as a Share of Population



Private vs Local Gov't Employment



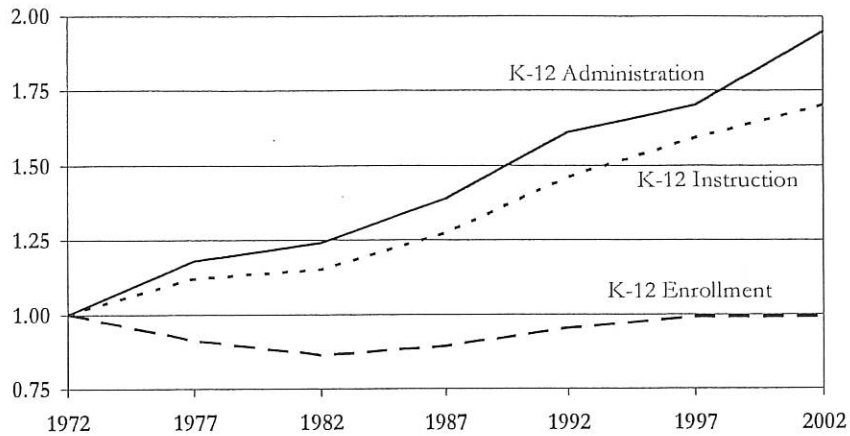
**30-Year Growth (72-02) of:
Local FTEs, Private Employment, Population**

Region	Local Gov't FTEs	Private Employment	Population
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

Function	1972	2002
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

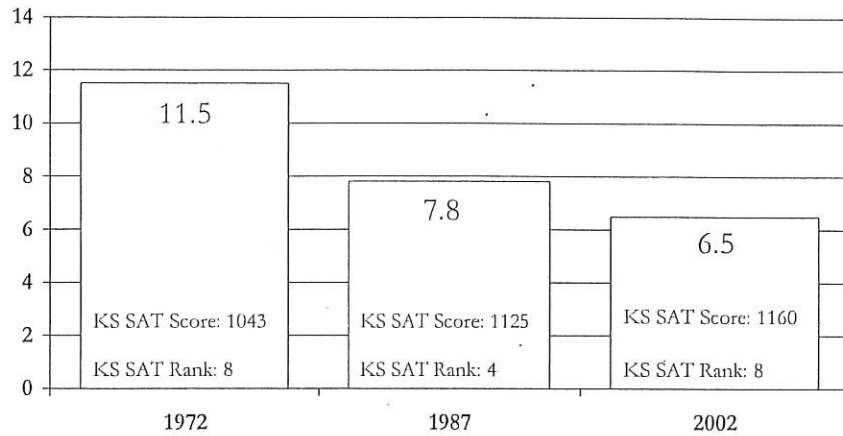
Kansas K-12 FTEs and Enrollment



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.