

MINUTES OF THE SENATE COMMERCE COMMITTEE

The meeting was called to order by Chairperson Karin Brownlee at 8:30 A.M. on January 10, 2007 in Room 123-S of the Capitol.

All members were present except:

David Wysong- unexcused

Committee staff present:

Amy Deckard, Kansas Legislative Research Department

Kathie Sparks, Kansas Legislative Research Department

Norm Furse, Revisor of Statutes

Mike Heim, Revisor of Statutes

Jackie Lunn, Committee Assistant

Conferees appearing before the committee:

Stan Ahlerich-Kansas, Inc.

Others attending:

See attached list.

Chairperson Brownlee welcomed the Committee Members to the 2007 Legislative Session and introduced the staff. Chairperson Brownlee also announced the Chair, Co-Chair, Ranking Democratic and Staff would meet in room 123 S tomorrow morning at 8:00 a.m. for a Committee Planning meeting. She stated that tomorrow in the Senate Commerce Committee meeting the Committee would be working on their goals and the mission statement.

Chairperson Brownlee then introduced Mr. Stan Ahlerich, President, Kansas, Inc to give an update on the Kansas Economy. Mr. Ahlerich presented written copy: the *Indicator of the Kansas Economy (IKE) Report (copy available in the office of the Committee Secretary for the Senate Commerce Committee)*, written testimony, (Attachment 1); *Trends in the Kansas Economy, 1985-2006*, (Attachment 2) ; *Kansas Inc. Publication List*, (Attachment 3) Mr. Ahlerich gave a review of the IKE Report highlighting on the following variables:

- Total Nonfarm Employment
- Private Sector Employment
- Manufacturing Employment
- Service Employment
- Public Sector Employment
- Unemployment and Unemployment Rate
- Initial Claims of Unemployment
- Establishment Data
- Kansas Firm Birth and Termination
- Kansas Farm Management Association Data
- Summary of the Farm Economy
- Kansas Oil Production and Price
- Natural Gas Production and Price
- Gross State Product
- Personal Income/Per Capita Personal Income
- Chicago Fed National Activity Index (CFNAI)
- Consumer Price Index
- Kansas Consumer Sentiment-3rd Quarter 2006
- Building Permits
- Kansas Sales Tax Collections
- Population

Mr. Ahlerich stated Kansas, Inc worked with a broad range of professionals, including researchers, university professors, state program staff, and the Kansas, Inc. Board of Directors, as a set of 26 variables have been identified and review for their comprehensiveness and ability to depict key elements of the Kansas economy. Whenever possible, the regional and national data is included to illustrate how Kansas compares to both the 6-State Region and in the U.S. He went on to explain the 6-State region includes: Colorado, Arkansas, Iowa,

CONTINUATION SHEET

MINUTES OF THE Senate Commerce Committee at 8:30 A.M. on January 10, 2007 in Room 123-S of the Capitol.

Missouri, Nebraska and Oklahoma. And that the information in this version of IKE was collected in the time period beginning during 1996, enabling the data to include trends from the most recent national recession during 2001. This version includes 21 variables.

Mr. Ahlerich stated that even though Kansas lags in several of these variables in comparison to the 6-State Region and the U.S., the economy in Kansas is very good at this time.

There were several points discussed with the Committee during the review.

Upon the conclusion of the review of the IKE Report there was further discussion with the Committee. The Committee has concerns with Kansas lagging in several variables. It was noted that the three areas that are carrying the economy in the state of Kansas are: Oil, Gas and Aviation. The Committee requested additional information on the unemployment variable from Kansas, Inc. Mr. Ahlerich agreed to get the additional information requested to the Committee members.

The consensus of the Committee is that some of the initiatives of the Legislature are moving the state in the right direction.

Mr. Ahlerich turned the Committee's attention to *Trends of the Kansas Economy 1985-2006* (Attachment 3) which is a synopsis of Dr. Crider's report. He began a brief review highlighting on the following:

- The New Integrated Economy
- Innovation and Technology
- Access to Financial Capital
- Demographic and Labor Force Trends
- Changing Role of Historically Dominant Industries
- Focus on Services as a Source of New Employment Opportunities
- Growing Importance of Well-Educated and Skilled Workforce
- Continuing Lag in Personal Income
- Competitive Position and Economic Dynamism

A discussion followed regarding Dr. Crider's report. During the discussion there was some discussion regarding why Iowa was doing so much better than Kansas. The Committee requested more detailed information on Iowa compared to Kansas. The Committee also wanted a more detailed comparison with the Midwestern states and Kansas. Mr. Ahlerich agreed to get that information to the Committee members.

Upon the conclusion of the discussion Mr. Ahlerich was asked by the Committee if there was one area the State should focus on, what he would recommend. Mr. Ahlerich stated the Business tax environment would be his recommendation, adding it needed to be more competitive as it is in other states.

Chairperson Brownlee adjourned the meeting at 9:30 a.m. with the next meeting scheduled for tomorrow, January 11, 2007 at 8:30 a.m. in room 123S.

Kansas, Inc. Testimony
Senate Commerce Committee
January 10, 2007
Stan R. Ahlerich, President

Co-Chairperson Brownlee and Co-Chairperson Jordan, members of the Commerce Committee, Kansas, Inc. appreciates the opportunity to share with you the current status of the Kansas economy.

The framework for our testimony will be centered on two Kansas, Inc. reports.

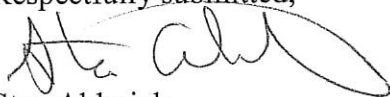
1. Kansas, Inc.'s Indicators of the Kansas Economy (IKE); and
2. Trends in the Kansas Economy 1985-2006, prepared by Dr. Charles Krider, School of Business, University of Kansas.

We will use the IKE data to provide a current "snapshot" of the State economy and then we believe it prudent to follow this with a discussion of the twenty year trends, so as to place the current data in the context of a larger analysis.

Within the information we have provided you, we have included a listing of Kansas, Inc.'s recent research and initiatives, and stand ready to answer your questions.

Again, thank you for the opportunity and we applaud the common sense approach of your Committee to assess where our state economy currently finds itself so as to build prudent policies for our future.

Respectfully submitted,



Stan Ahlerich
President

Senate Commerce Committee
January 10, 2007

Attachment 1

Overview

Trends in the Kansas Economy, 1985 – 2006

This report will serve as background information for the state's strategic economic development planning effort that is being undertaken by Kansas, Inc. This report analyzes the current state of the Kansas economy as well as discusses the major trends facing the state. An understanding of the Kansas economy's strengths and weaknesses is essential to strategic planning, but, just as important is an understanding of the major trends that are taking place in the state, national, and international economies. Significant trends are changing the way businesses operate, and these trends are the focus of this analysis.

Within this report, several trends and conclusions are drawn in each section. The following highlights a few of these:

The New Integrated Global Economy – More than importing and exporting is involved in the emerging global economy, as firms integrate their operations across the national boundaries, resulting in competition, outsourcing, new markets, and new sources of capital investment.

Innovation and Technology – Crucial to Kansas economic development, technological change occurs rapidly and firms must have access to new technology to remain competitive.

Access to Financial Capital – Crucial for economic growth, the state needs to support the financing needs of entrepreneurs and existing firm expansions.

Demographic and Labor Force Trends – Population growth in urban areas, population decline in rural areas, population growth from Hispanics and Latinos, and the aging of the state's overall population are all trends affecting Kansas.

Changing Role of Historically Dominant Industries – Manufacturing, agriculture, and oil & gas industries have historically been the cornerstones of the Kansas economy, and the roles of these industries may be changing as we transition into a new integrated economy.

Focus on Services as a Source of New Employment Opportunities – The relative growth of service sectors, such as financial activities, health care, social assistance, and business demonstrates that much of the state's growth in employment will come from service-providing industries.

Growing Importance of Well-Educated and Skilled Workforce – A major trend is for firms to outsource lower-skilled work to other countries with lower wages, of which Kansas may not be able to compete, and as a result the state must focus on developing a workforce that can compete for higher-skilled, higher-wage jobs.

Continuing Lag in Personal Income – Two major trends, Kansas' per capita income and average annual pay lag the U.S., and per capita personal income in non-metropolitan areas of Kansas lags that of metropolitan areas by about 25 percent.

Competitive Position and Economic Dynamism – These measures paint a picture of Kansas as a good area in terms of infrastructure, education, and environmental policy, but mediocre to bad in terms of business incubation and the government/fiscal environment for business.

Senate Commerce Committee

January 10, 2007

Attachment 2-1

Overview

Issues and Trends Identification in Kansas

This report identifies major issues and trends that could affect the Kansas economy over the next decade. Using a literature search, an examination of statistical trends and personal interviews, 30 trends and issues are identified.

Trends and Issues – A Summary

Four trends emerge from the examination of Kansas demographic data:

- A declining labor force
- Fewer school-aged children
- More people aged 65 and older
- A larger Hispanic population

From the work force and industry data and information gathered, these trends emerge:

- A slower job growth rate than the nation
- An expected shortfall of workers through 2012
 - A reduced labor force participation rate
 - A need for skilled workers for high-paying jobs
 - A need to reverse net outflow of workers to other states and increase inflow of foreign-born workers
- A current industry structure unlikely to maximize employment growth through 2012
- Continuing unequal pay and employment opportunities for women

Below are the trends and issues surrounding Kansas trade and globalization:

- Kansas exports are growing
- The U.S. trade deficit is growing
- Outsourcing is expected to grow
- More international education is needed

The following trends emerge regarding technology infrastructure in Kansas:

- Technology infrastructure and economic growth
- Increasing Internet use
- Legislative issues
- Technology security
- The Farm Security and Rural Investment Act of 2002

Five trends emerged in our discussion of the environment:

- Declining water supply
- Polluted streams and lakes
- Loss of wetlands
- Continuing issues regarding solid waste
- Increasing development of alternative sources of energy

Five trends emerge from our rural development data:

- Depopulation in rural areas
- Continuing environmental issues
- Rural health care needs
- Changing rural economics
- Agricultural prosperity that could be dampened by lowered productivity

The issues below emerged in our discussion of agriculture and homeland security:

- Threat of foot-and-mouth disease
- Crop vulnerabilities related to terrorism
- A water supply dependent on the vigilance of day-to-day management



Kansas, Inc. Publications List

The following publication list outlines recent Kansas, Inc. research. Several publications are available through our website www.kansasinc.org or a copy may be obtained by contacting our office. Depending on availability, a charge may be associated with a hard copy. Please contact us for more information at (785) 296-1460.

Annual Publications

Kansas, Inc. FY 2006 Annual Report, Kansas, Inc., October 2006

Grants and Loans: Report for Fiscal Year 2006, Kansas, Inc., December 2006.

County Economic Vitality and Distress, 2005 Report Update, Kansas, Inc., August 2006.

Economic Development Legislation in Kansas: A Chronological History FY 2006 Report Update, Kansas Inc., December 2006.

Indicators of the Kansas Economy

Indicators of the Kansas Economy, Kansas, Inc., March 2006, July 2006, September 2006, & December 2006.

Economic Trends Reports

Trends in the Kansas Economy 1985 – 2006, by Charles Krider, Professor, School of Business, University of Kansas, and Genna Hurd, Research Associate and Dane Hanson, Research Assistant, Institute for Policy and Social Research, University of Kansas for Kansas, Inc., August 2006.

Issues and Trends Identification in Kansas, by Mary Jane Townsend, Research Associate, Debra Franklin, Regional Labor Force Analyst, Janet Harrah, Director, and Anne Gallagher, Senior Research Associate, Center for Economic Development and Business Research, W. Frank Barton School of Business, Wichita State University for Kansas, Inc., December 2006.

Industry-Specific Reports

Kansas Aerospace Industry Forecast, by Janet Harrah, Director and Steven Miller, Ph.D., Regional Economic Analyst and Anne Gallagher, Senior Research Associate, Center for Economic Development and Business Research, W. Frank Barton School of Business, Wichita State University for Kansas, Inc., May 2006.

Agriculture Commodities Future: Assess Competitive Threats to the Kansas Economy, by James Mintert, Ph.D., Professor and Michael Woolverton, Ph.D., Professor and Terry Kastens, Ph.D., Professor and John Leatherman, Ph.D., Associate Professor, Department of Agricultural Economics, Kansas State University for Kansas, Inc., January 2006.

Energy Research Survey & Database for Kansas, by Richard Nelson, Director, Engineering Extension Programs and Andrew Barkley, Department of Agricultural Economics, Kansas State University and Scott White, Energy Research Center, University of Kansas for Kansas Inc., January 2006.

Senate Commerce Committee
January 10, 2007

Attachment 3-1

Taxation Reports

The County-to-County Migration Patterns of Kansas Taxpayers, 1985-2004, by Arthur P. Hall, Ph.D., Executive Director, Center for Applied Economics, University of Kansas School of Business and J. Scott Moody, President and Wendy P. Warcholik, Ph.D., Vice-President, Economic Analysts, Inc. for Kansas, Inc., October 2006.

Property Tax Comparisons Among Kansas Localities and Select Cities of the United States, by Arthur P. Hall, Ph.D., Executive Director, Center for Applied Economics, University of Kansas School of Business for Kansas, Inc., May 2006.

Consumer Sentiment Reports

Kansas Consumer Sentiment & Rating of State Government's Performance at Assisting the Kansas Economy 2006, by Brett Zollinger, Ph.D. Director, The Docking Institute of Public Affairs, Fort Hays State University for Kansas, Inc., December 2006.

Kansas Consumer Sentiment 3rd Quarter 2006

Kansas Consumer Sentiment 2nd Quarter 2006

Kansas Consumer Sentiment 1st Quarter 2006

Miscellaneous Reports

Attracting and Retaining National Corporate Headquarters in Kansas, by David Burress, Ad Astra Institute of Kansas, Inc. for Kansas, Inc., November 2006.

A Brief History of Workforce Development in Kansas, Kansas, Inc., June 2006.

Kansas Industry Concentration Initiative: Further Analysis of the Southeast Kansas Region, Kansas, Inc., June 2006.

Productivity Reports

A Brief Economic History of Kansas, 1969-2003: An Executive Summary for a Series of Reports, by Arthur P. Hall, Ph.D. and Peter F. Orazem, Ph.D., University of Kansas School of Business for Kansas, Inc., August 2005.

Long-Term Economic Trends in the Regions of Kansas, 1969-2003

Long-Term Industry Trends in the Regions of Kansas, 1969-2000: Part I - An Industry Focus

Long-Term Industry Trends in the Regions of Kansas, 1969-2000: Part II - A Regional Focus

Economic Trends Along the Kansas-Oklahoma Border, 1969-2003

Economic Trends Along the Kansas-Nebraska Border, 1969-2003

Economic Trends Along the Kansas-Missouri Border, 1969-2003

Economic Trends Along the Kansas-Colorado Border, 1969-2003



Upcoming Publications/Research

The following list outlines upcoming Kansas, Inc. publications and research. (This list is subject to change.) As publications are completed, they will be available through our website www.kansasinc.org or a copy may be obtained by contacting our office. Depending on availability, a charge may be associated with a hard copy. Please contact us for more information at (785) 296-1460.

Research

In-House – Vitality & Distress, Grants & Loans, Chronological History, Indicators of the Kansas Economy

Post K-12 Education & Technical Training: Meeting the Needs of the Business Community

Quantifying the Financial Burden of Health Insurance for Small Employers

Evaluation and Assessment

Evaluation of the Kansas Department of Commerce – Expected to be completed by June 2007.

Evaluation of the Kansas Technology Enterprise Corporation – Will be staged after the completion of the Commerce evaluation.

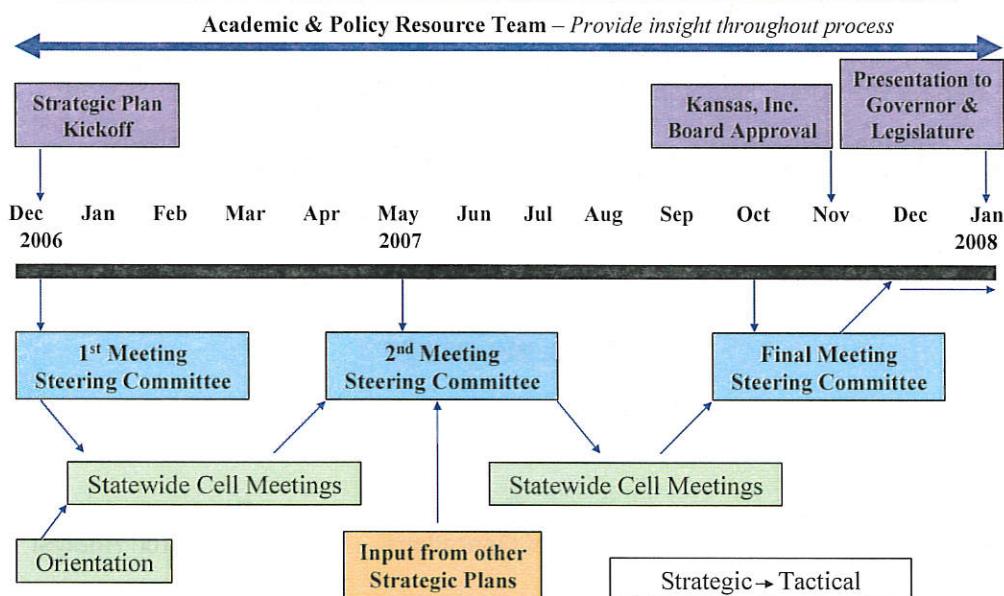
Evaluation of the Kansas Center for Entrepreneurship – As designated by statute, Kansas, Inc. will deliver the Center for Entrepreneurship evaluation to the Legislature during January 2008.

Evaluation of the Kansas Bioscience Authority – Tentatively, Kansas, Inc. will deliver the Bioscience Authority evaluation after the Center for Entrepreneurship evaluation.

Strategic Planning

Kansas, Inc. 2007 Statewide Economic Development Strategic Plan – Leveraging our Foundations & Designing the Future: A Kansas Economic Renaissance – Expected to be completed by January 2008.

2007 Strategic Planning Timeline



KANSAS, INC.

Created by the Legislature in 1986, Kansas, Inc. is an independent, objective, and non-partisan organization designed to conduct economic development research and analysis with the goal of crafting policies and recommendations to insure the state's ongoing competitiveness for economic growth. To attain our mission, Kansas, Inc. undertakes these primary activities: 1) Identifying, building, and promoting a Strategic Plan for economic development efforts in the State of Kansas; 2) To complement the Strategic Plan, Kansas, Inc. develops and implements a proactive and aggressive research agenda, which is used to identify and promote sound economic development strategies and policies; 3) Through collaboration and outreach with economic development entities and other potential partners, Kansas, Inc. conducts evaluation reviews and provides oversight of economic development programs to benchmark development efforts in the State of Kansas.

Co-Chaired by the Governor, Kansas, Inc. is governed by a 17-member Board of Directors. Board members, as mandated by legislation, include four members of Legislative leadership, a representative from the Board of Regents, the Secretary of Commerce, the Commanding General of the Kansas Cavalry, a representative from labor, and eight other members from the private sector representing key Kansas industrial sectors. Private sector members are appointed by the Governor and confirmed by the Kansas Senate.

Through analysis and open dialogue, Kansas, Inc. identifies policy options and builds the consensus essential for concerted action on vital economic issues. Kansas, Inc. is designed to be a public-private partnership with expectations that state investments are leveraged with other funds to maintain a strong research portfolio.

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