

MINUTES OF THE SENATE COMMERCE COMMITTEE
JOINT WITH THE HOUSE ECONOMIC DEVELOPMENT AND TOURISM COMMITTEE

The meeting was called to order by Chairperson Karin Brownlee at 9:00 A.M. on March 7, 2008 in Room 123-S of the Capitol.

All members were present except:

Roger Reitz- excused
Ruth Teichman- excused
Susan Wagle- excused

Committee staff present:

Jennifer Thierer, Kansas Legislative Research Department
Jason Long, Revisor of Statutes
Jackie Lunn, Committee Assistant

Conferees appearing before the committee:

Dr. John D. Wong, Wichita State University

Others attending:

See attached list.

To read testimony submitted by conferees go to

<http://skyways.lib.ks.us/government/KansasSenateCommerceCommittee>.

SB 525--Kansas investments in major products and comprehensive training act (IMPACT) amendments

Chairperson Brownlee called the Committee's attention to **SB 525**.

Senator Kelly made a motion to move SB 525 out favorably. Senator Schodorf seconded.

A brief discussion followed regarding the fiscal note verification. Senator Barone stated he intended to offer an amendment on the Senate floor to change from a revenue transfer to a demand transfer so the impact on the SGF is clear..

Chairperson Brownlee called for a vote on the motion. Motion carried.

Chairperson Brownlee called on Stan Ahlerich, Kansas, Inc., to introduce Dr. Wong to review the study he did for Kansas, Inc. regarding the economic development expenditures of the state government and how they compare to other states. Dr. Wong presented written copy ([Attachment 1](#)) which can be found in its entirety on the link shown above.

Upon the conclusion of Dr. Wong's review there were questions and discussion with the Committee and Dr. Wong. The Committee would like to know where the \$418 million federal money is coming from. It was noted that the state needs to target their spending; focusing on what the state can do better than any other state and the state needs to be a good manager and say no when necessary. The discussion touched on the fact that the state needs to develop a strategic plan and follow that plan. Stan Ahlerich, Kansas, Inc., joined the discussion stating that Kansas, Inc. does have a strategic plan citing the 5 strengths of the state and where the state needs to focus.

Upon the conclusion of the meeting, Representative Gordon asked Mr. Ahlerich for copies of Kansas Inc.'s strategic plan and he stated they were having more printed up and he would get copies to her for her Committee.

Chairperson Brownlee adjourned the meeting at 10:10 a.m. with the next meeting scheduled for March 11, 2008 at 8:30 a.m. in room 123 S.



**Strategic Analysis of Economic Development
Expenditures by Kansas State Government and Five
Surrounding State Governments:
FY 1989 - FY 2007**

Before the Joint Meeting of Senate Commerce and House Economic Development and Tourism Committees

Kansas Statehouse, Room 123-S

Friday, March 7, 2008, 8:45 A.M.

By John D. Wong, Professor

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No state can rest on its laurels when it comes to economic development and jobs. No policymaker wants to be seen creating the sort of business climate that drives firms away and discourages employment creation and private investment. But investing scarce public monies unwisely can harm state economies. Citizens have a right to know if they are getting their money's worth. (Mejia, Nordstrom, and Schweke, 2007: 4)



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Research Report

INSTITUTE FOR PUBLIC POLICY AND BUSINESS RESEARCH
THE UNIVERSITY OF KANSAS

ECONOMIC DEVELOPMENT INVESTMENTS OF TEN STATES:
A DESCRIPTIVE ANALYSIS

A Report to
Kansas, Inc.
Kansas Department of Commerce

by
M. Elizabeth Stella
Research Associate
Charles E. Krider
Professor of Business, Director of Business Research

Anthony L. Redwood
Executive Director

June, 1990
Report No. 176

**Strategic Analysis of Economic
Development Expenditures by Kansas State
Government and Five Surrounding State
Governments:
FY 1989 – FY 2007**

Prepared by:

John D. Wong
Professor

Matthew T. Stiles
Graduate Research Assistant

Hugo Wall School of Urban and Public Affairs
Wichita State University

Prepared for:



November 2007



Business Environment (Business/Community Support)

State programs which foster business development and create a favorable business climate by directly reaching communities and businesses. In addition, the state's image, both in-state and abroad, may be enhanced through trade offices and tourism efforts. Business support programs focus upon business creation, expansion, and recruitment in rural and urban areas. Promotion and development of a state's key industries and economic base are included. Also included in the budget data were expenditures or appropriations for economic development infrastructure, the institutional capacity to support these programs (i.e., divisions within the Department of Commerce).

A grayscale background image showing a close-up of several coins, likely US quarters, with their intricate designs and inscriptions visible.

Financial Capital Assistance

State programs designed to provide businesses in various growth/development stages with adequate capital. Improving business' access to financial capital encourages economic expansion, modernization, and innovation. Capital may be used in a variety of areas: purchasing facilities and equipment, general operations, working capital, development of prototypes, or general start-up needs. In addition, specific projects/areas may be targeted, such as export assistance, small businesses, or high technology.

Human Capital (Development of Labor Resources)

State programs which assist in the long-term investment and development of labor resources. Efficient and responsive training, retraining, and general education programs are a central part of this category, including programs which target and assist new/expanding/existing businesses utilize new processes and technologies, train, and improve employees' performance. Programs may also offer training/retraining to adults who may be unemployed or have skill deficiencies. Financial support and business/education linkages may also be provided and encouraged.



Infrastructure Development/Assistance

State programs which assist communities in creating and maintaining public infrastructure systems, such as site development for business/industrial parks.



Quality of Life

State programs which seek to develop and maintain a positive cultural milieu within the state. Programs may increase the availability and diversity of cultural, artistic, recreational, environmental, and historical activities in order to improve the quality of life and economic potential of the state.



Technology/Innovation

State programs which stimulate technology development, coordination, application and transfer. The goals of these programs include improving the competitiveness and efficiency of manufacturing and service industries within the state, as well as diversifying and building on the current economic base. Industry education linkages may be fostered with the focus on improving research and development of new technologies and commercialized products. Technology centers, offices, and information may be available to small businesses and entrepreneurs who wish to develop, produce or utilize new or higher levels of technology.

Budgeted State Economic Development Funding, Spending Per Capita, and Percentage Change in Spending, FY 2007

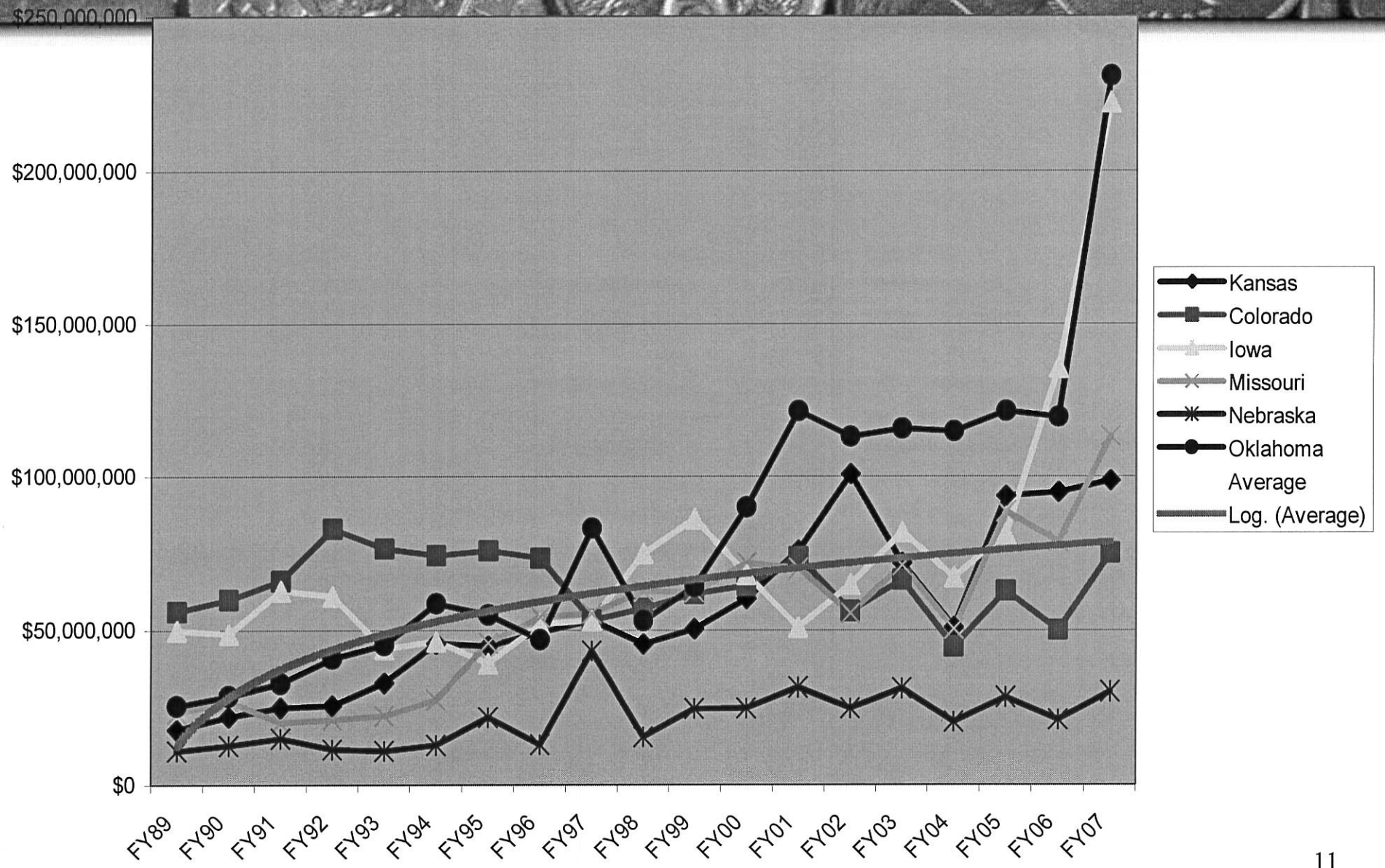
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| | Business Environment | Financial Capital | Human Capital | Infrastructure Development | Quality of Life | Technology/ Innovation | Total State Expenditures | Population |
|----------------|-------------------------|----------------------|---------------------|-------------------------------|--------------------|---------------------------|-----------------------------|------------------|
| Kansas | \$72,715,911 | \$0 | \$4,465,270 | \$5,112,373 | \$2,245,717 | \$14,111,637 | \$98,650,908 | 2,764,075 |
| Colorado | \$34,997,237 | \$0 | \$33,896,846 | \$0 | \$725,000 | \$5,386,469 | \$75,005,552 | 4,753,377 |
| Iowa | \$138,237,091 | \$40,785,399 | \$18,130,000 | \$13,109,118 | \$1,450,000 | \$10,500,000 | \$222,211,608 | 2,982,085 |
| Missouri | \$31,666,485 | \$1,862,104 | \$36,905,605 | \$32,924,829 | \$1,698,300 | \$8,105,036 | \$113,162,359 | 5,842,713 |
| Nebraska | \$14,983,183 | \$1,099,530 | \$586,000 | \$9,802,831 | \$2,860,741 | \$673,264 | \$30,005,549 | 1,768,331 |
| Oklahoma | \$86,029,000 | \$19,718,000 | \$34,072,000 | \$56,058,000 | \$14,346,000 | \$20,581,000 | \$230,804,000 | 3,579,212 |
| Average | \$63,104,818 | \$10,577,506 | \$21,342,620 | \$19,501,192 | \$3,887,626 | \$9,892,901 | \$128,306,663 | 3,614,966 |

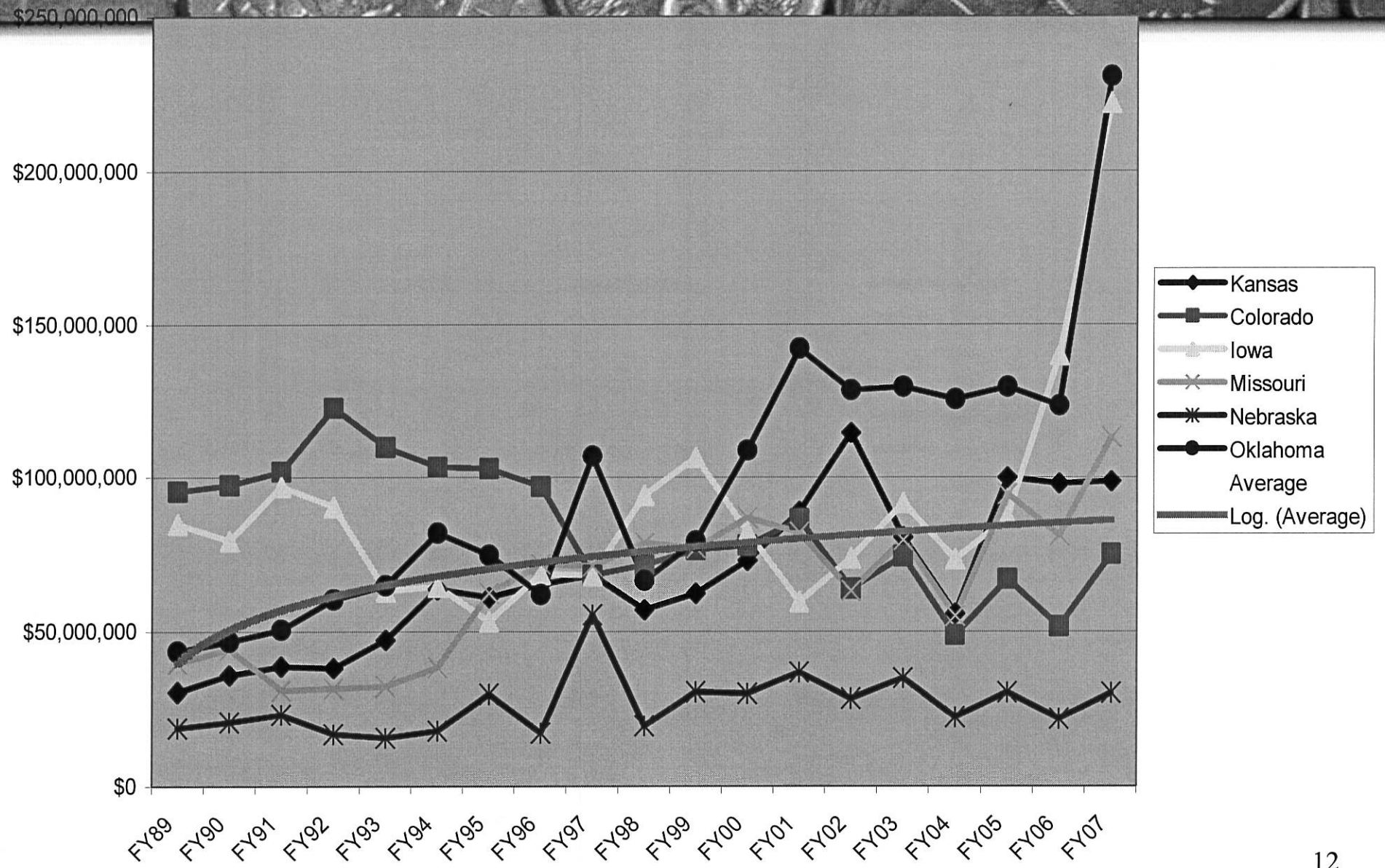
| | Percentage Change | | | | | | | |
|----------------|-------------------|---------------|--------------|---------------|--------------|--------------|--------------|------------------|
| Kansas | 0.5% | N/A | 6.9% | 367.4% | 6.9% | -6.4% | 4.1% | 2,764,075 |
| Colorado | 115.5% | N/A | 5.5% | N/A | 1.3% | 488.2% | 50.0% | 4,753,377 |
| Iowa | 75.4% | 161.3% | -19.0% | 49.5% | -67.1% | 83.6% | 63.7% | 2,982,085 |
| Missouri | -32.9% | N/A | 97.2% | 518.7% | 0.0% | 41.5% | 43.9% | 5,842,713 |
| Nebraska | 18.5% | 232.5% | 16.5% | 83.5% | 55.3% | 56.2% | 42.3% | 1,768,331 |
| Oklahoma | 31.9% | 290.4% | 478.0% | 192.0% | 38.8% | 49.1% | 93.2% | 3,579,212 |
| Average | 29.5% | 202.4% | 52.8% | 194.5% | 10.6% | 42.4% | 54.1% | 3,614,966 |

| | Per Capita | | | | | | | |
|----------------|----------------|---------------|---------------|---------------|---------------|---------------|----------------|------------------|
| Kansas | \$26.31 | \$0.00 | \$1.62 | \$1.85 | \$0.81 | \$5.11 | \$35.69 | 2,764,075 |
| Colorado | \$7.36 | \$0.00 | \$7.13 | \$0.00 | \$0.15 | \$1.13 | \$15.78 | 4,753,377 |
| Iowa | \$46.36 | \$13.68 | \$6.08 | \$4.40 | \$0.49 | \$3.52 | \$74.52 | 2,982,085 |
| Missouri | \$5.42 | \$0.32 | \$6.32 | \$5.64 | \$0.29 | \$1.39 | \$19.37 | 5,842,713 |
| Nebraska | \$8.47 | \$0.62 | \$0.33 | \$5.54 | \$1.62 | \$0.38 | \$16.97 | 1,768,331 |
| Oklahoma | \$24.04 | \$5.51 | \$9.52 | \$15.66 | \$4.01 | \$5.75 | \$64.48 | 3,579,212 |
| Average | \$19.66 | \$3.35 | \$5.17 | \$5.51 | \$1.23 | \$2.88 | \$37.80 | 3,614,966 |

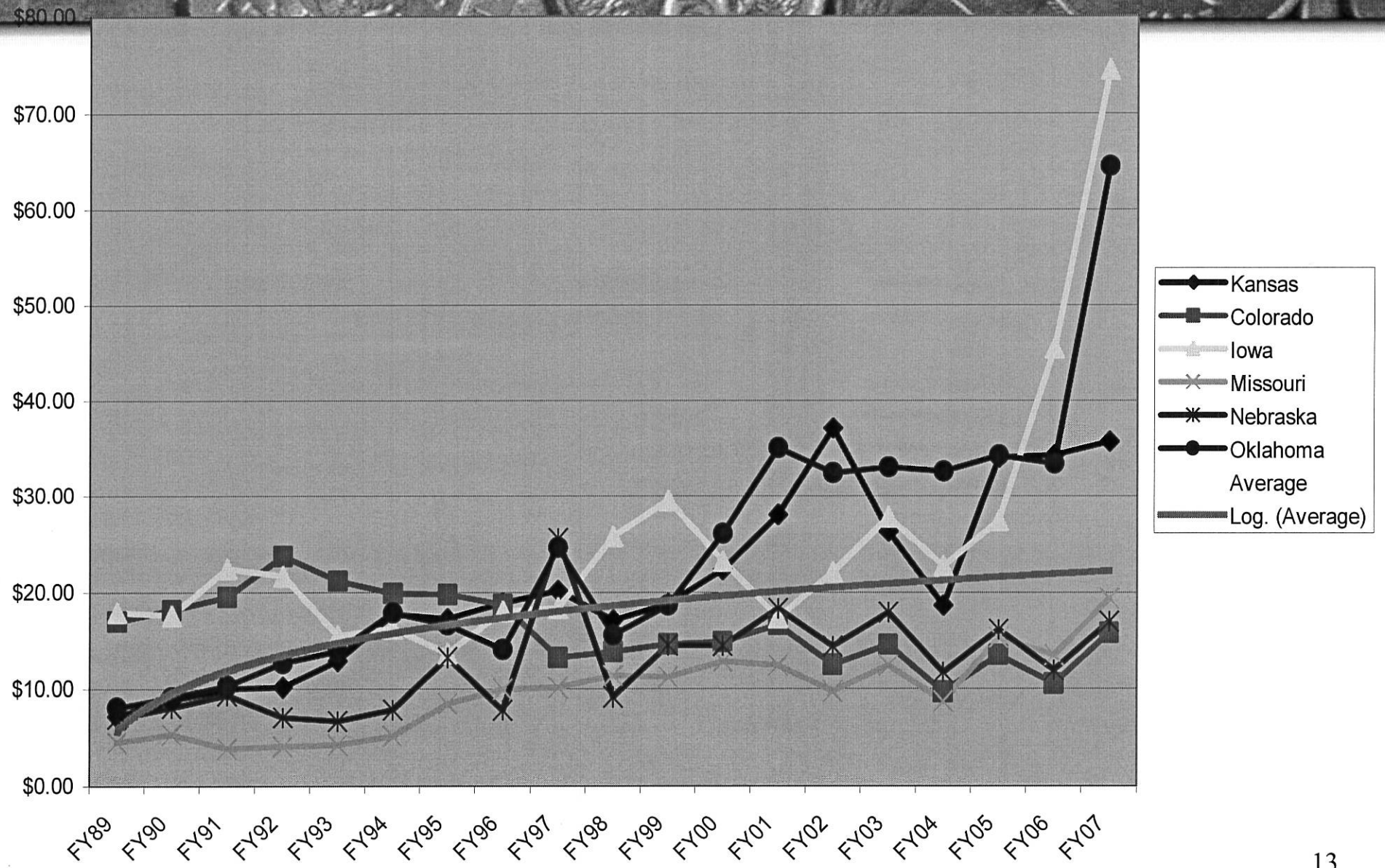
State Economic Development Funding FY 1989 - FY 2007



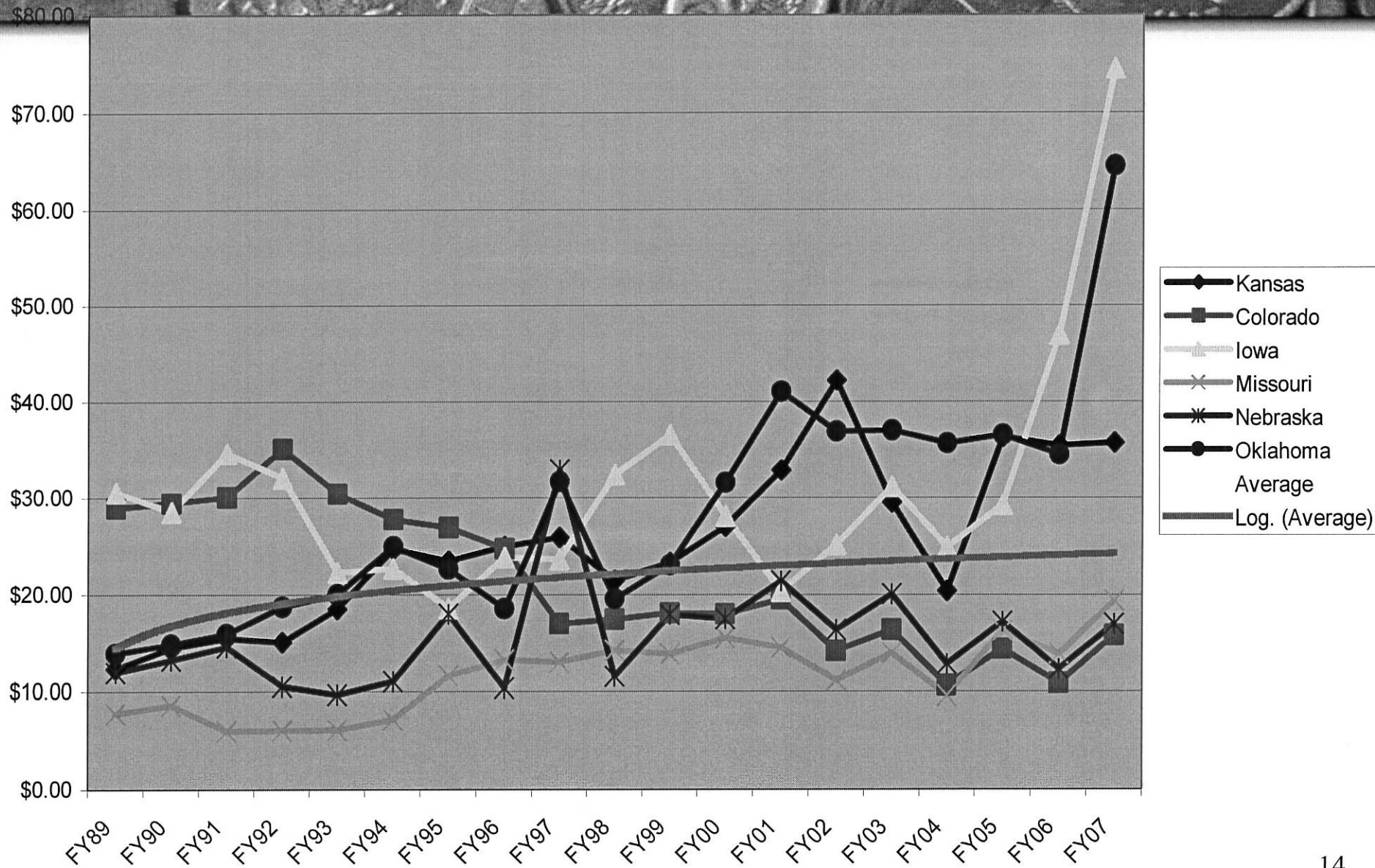
Real State Economic Development Funding FY 1989 - FY 2007 (FY 2007 = 100)



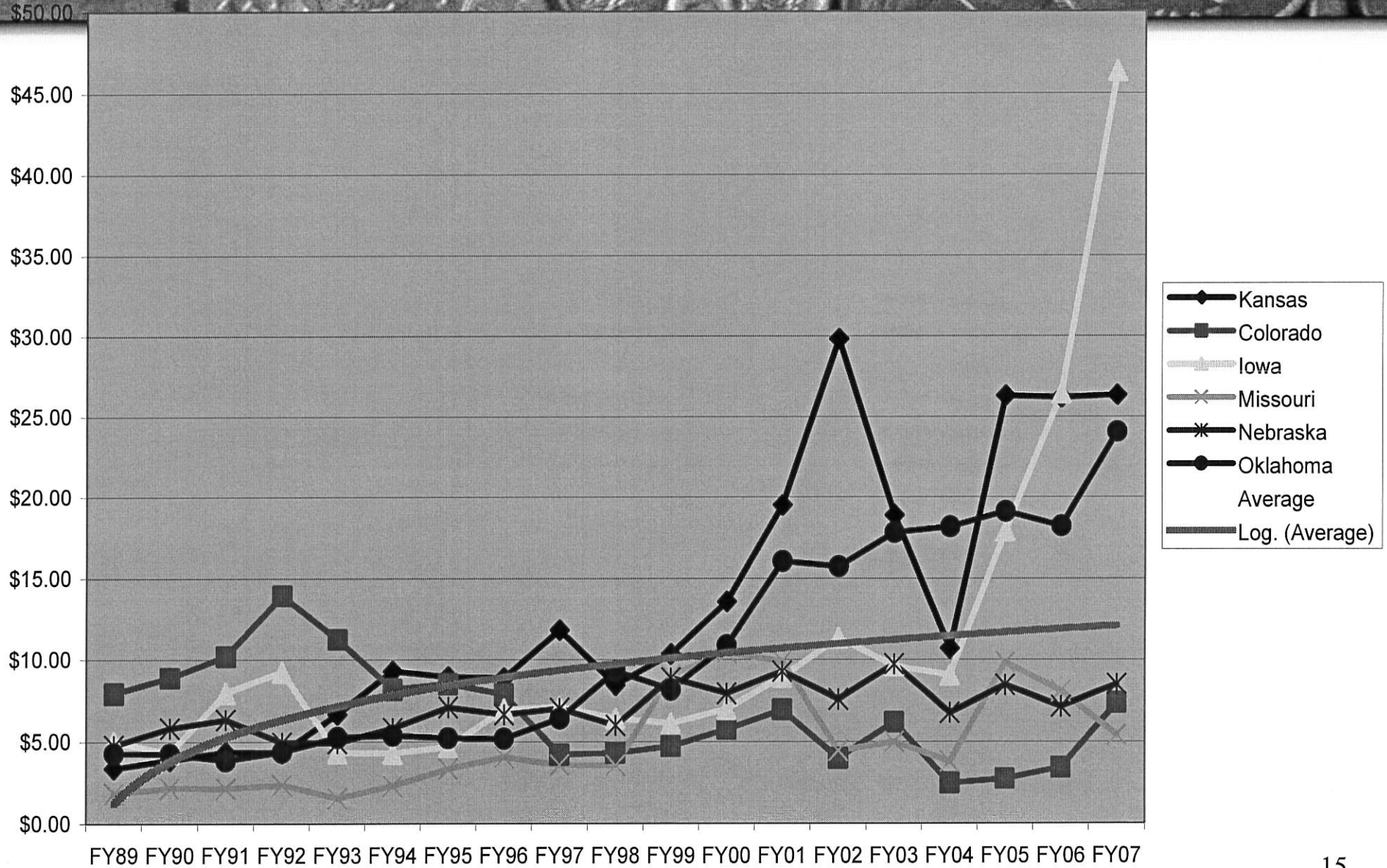
State Economic Development Funding Per Capita FY 1989 - FY 2007



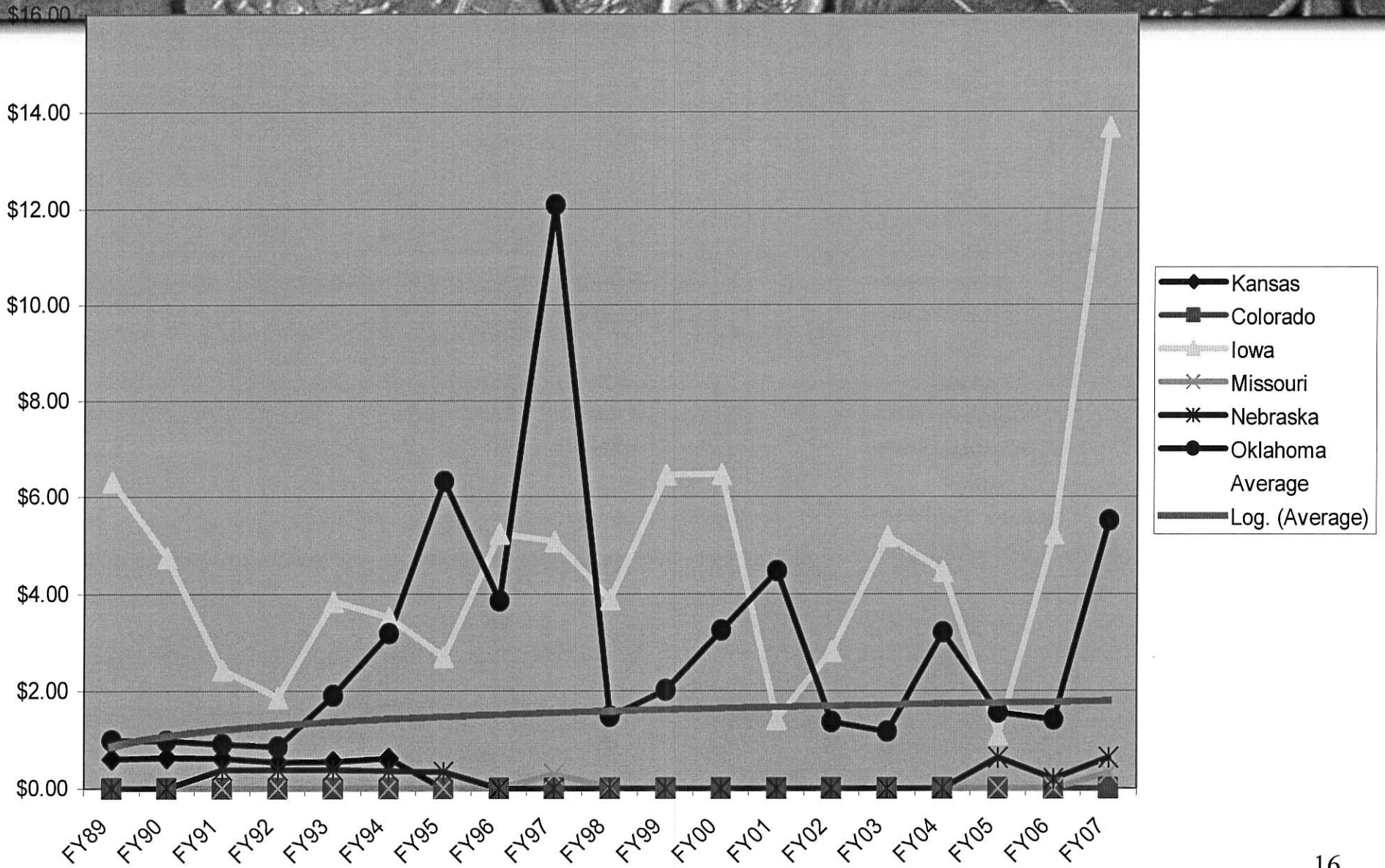
Real State Economic Development Funding Per Capita FY 1989 - FY 2007 (FY 2007 = 100)



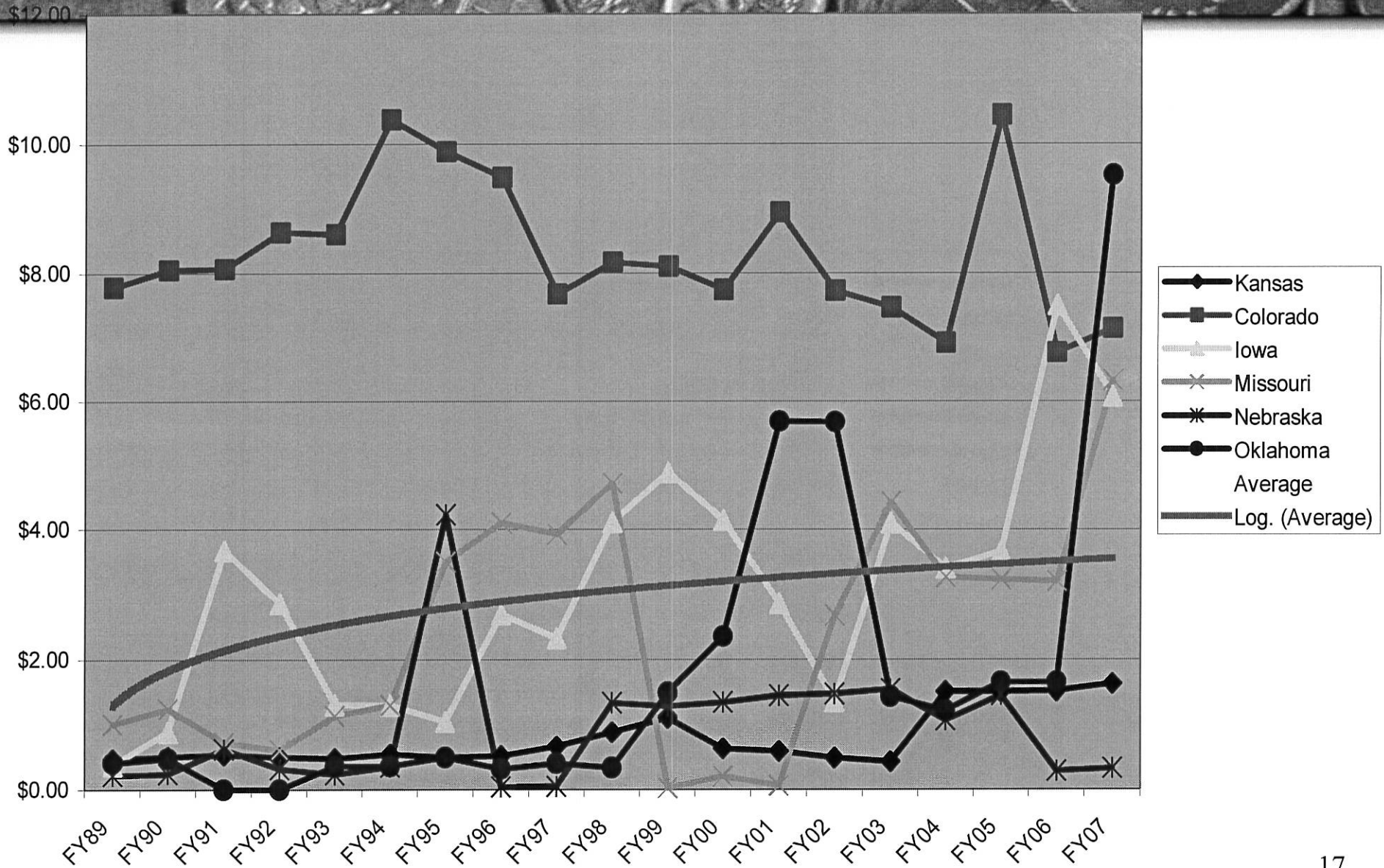
State Business Environment Funding Per Capita FY 1989 - FY 2007



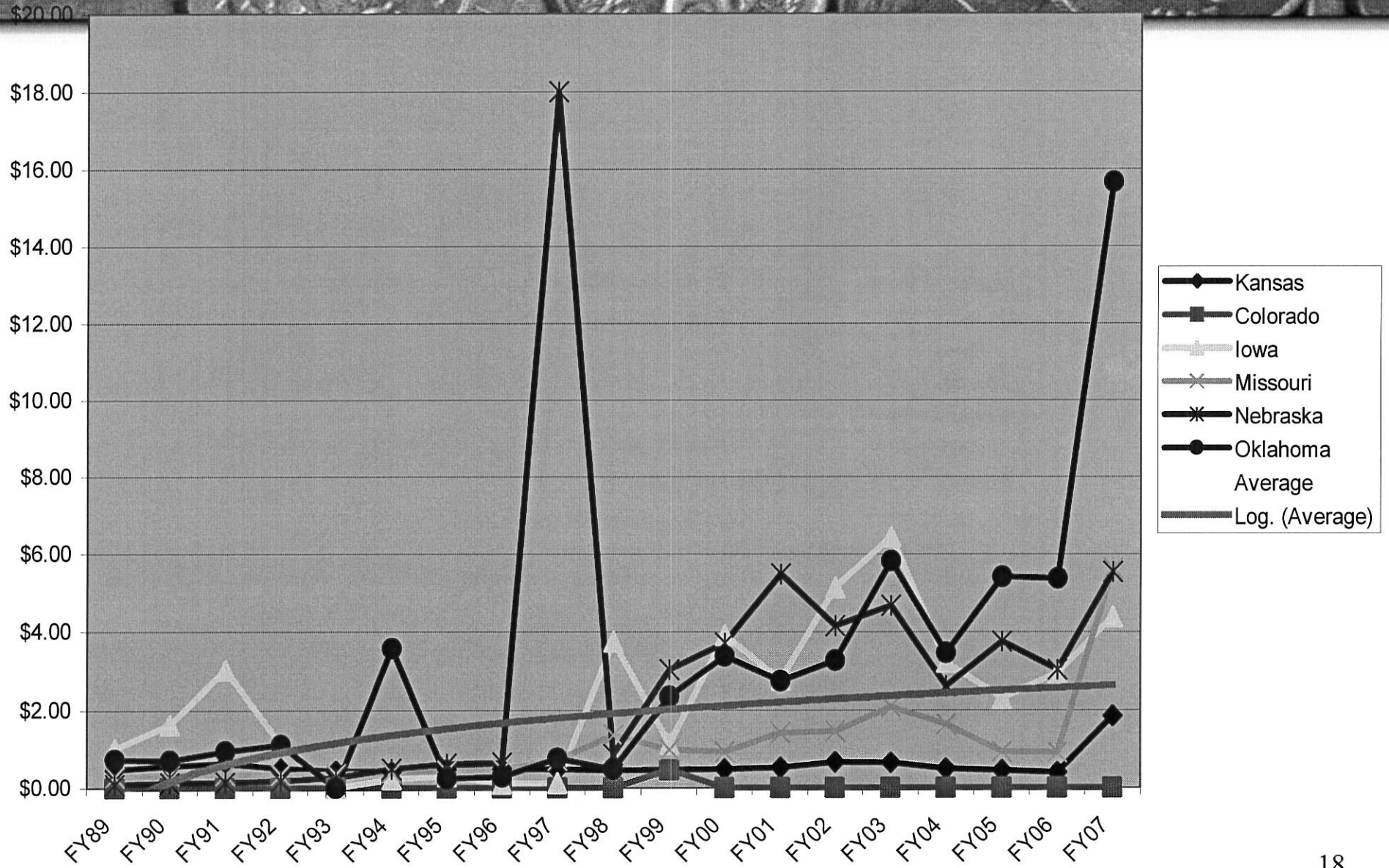
State Financial Capital Funding Per Capita FY 1989 - FY 2007



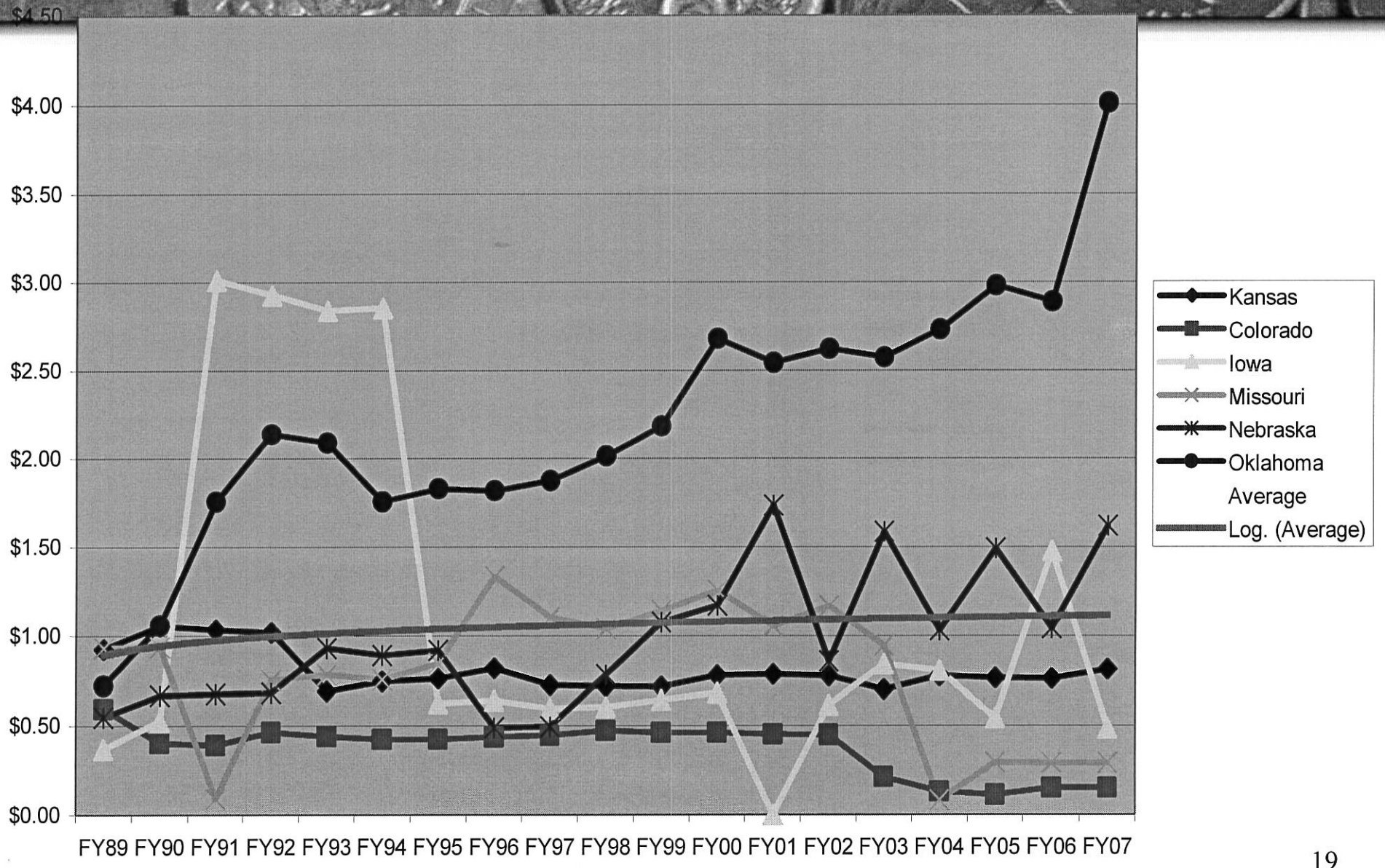
State Human Capital Funding Per Capita FY 1989 - FY 2007



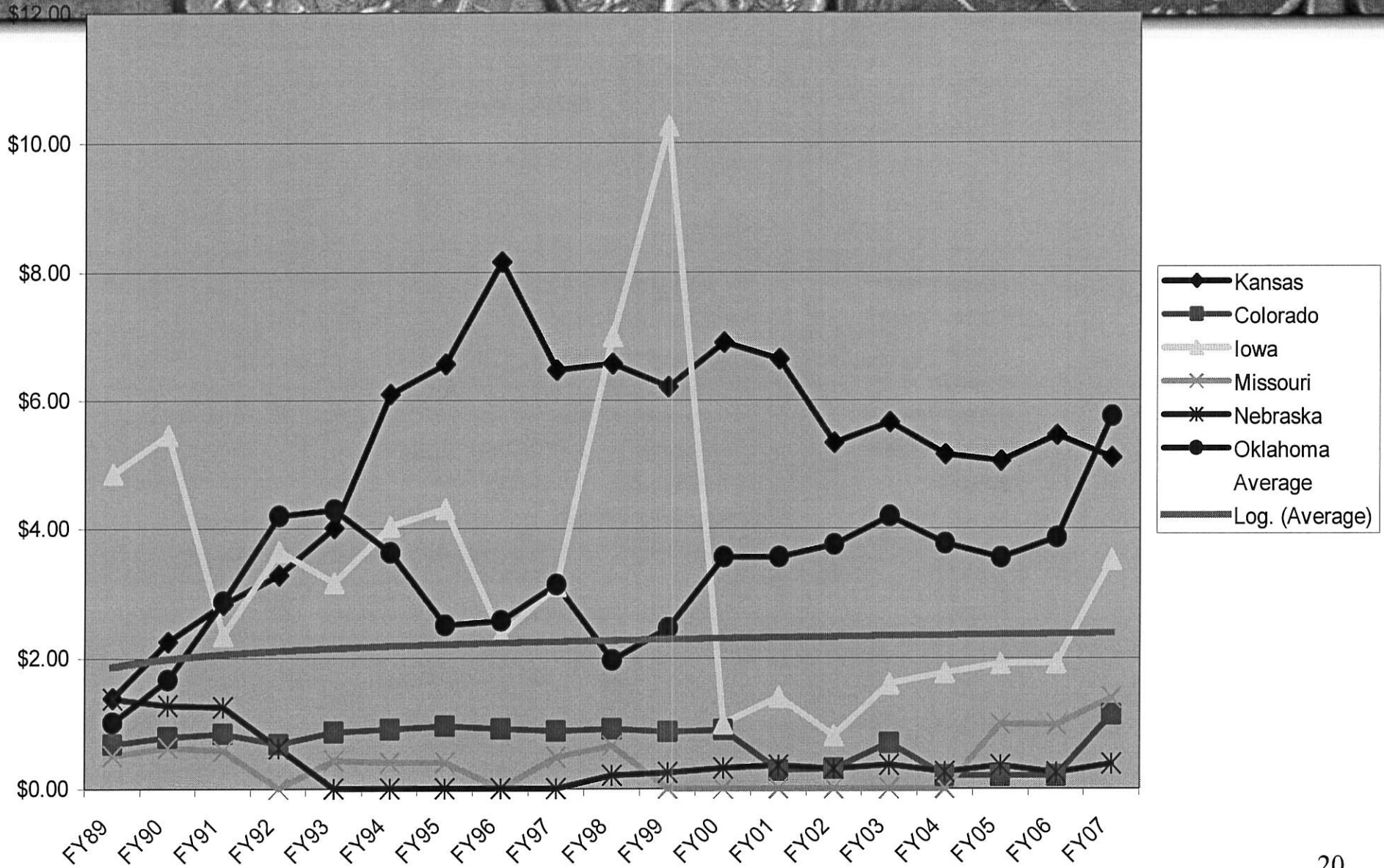
State Infrastructure Development Funding Per Capita FY 1989 - FY 2007



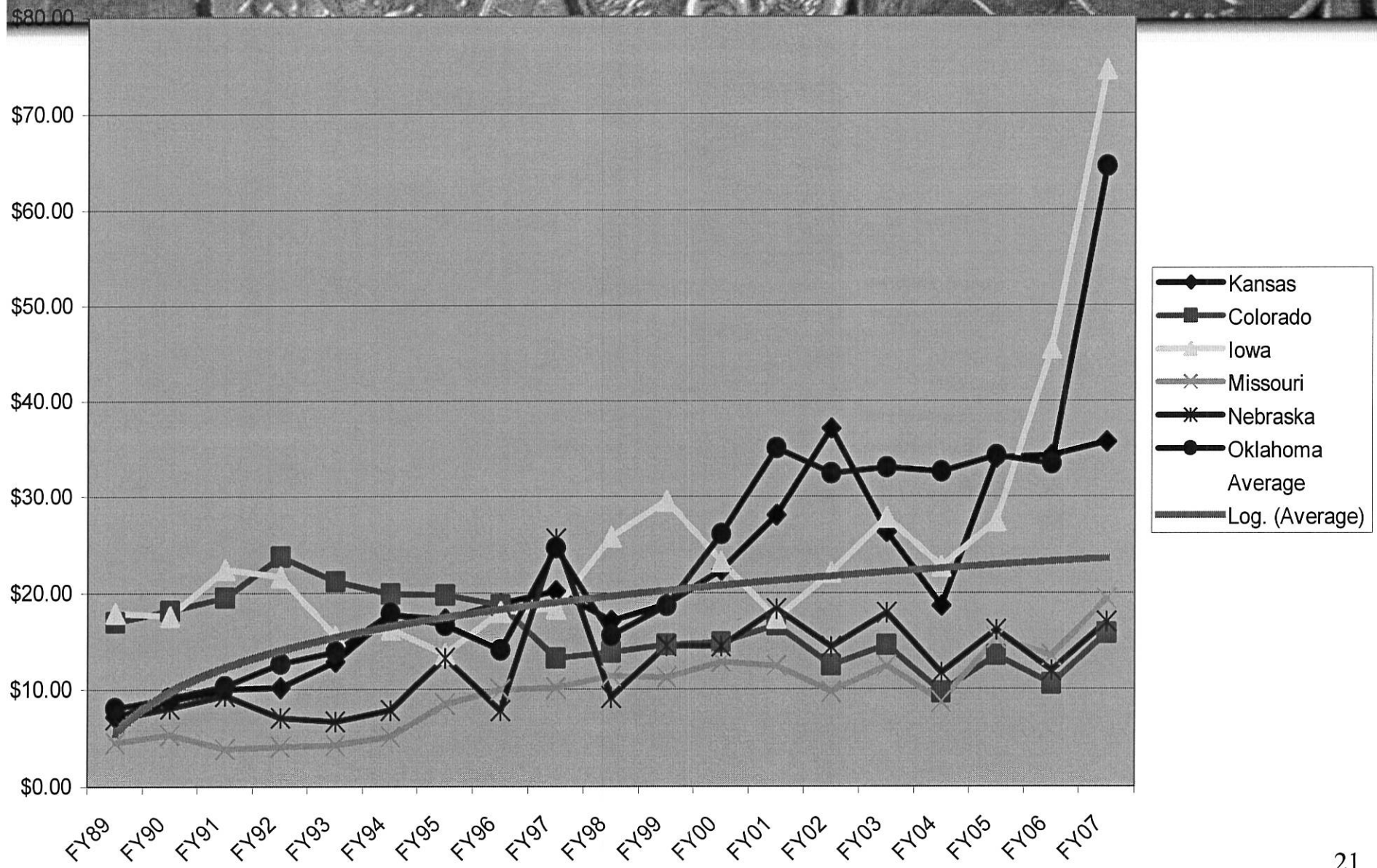
State Quality of Life Funding Per Capita FY 1989 - FY 2007



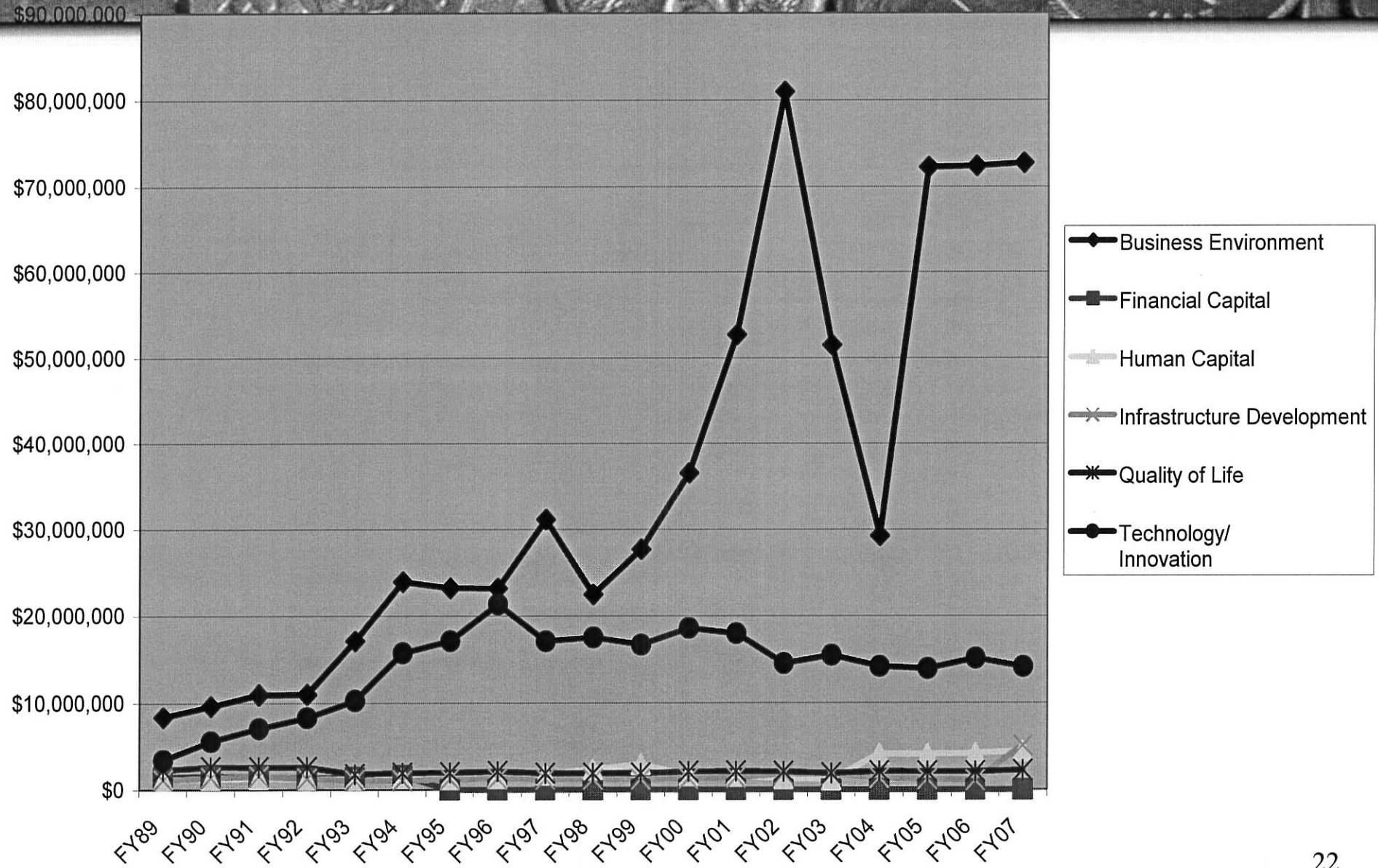
State Technology/Innovation Funding Per Capita FY 1989 - FY 2007



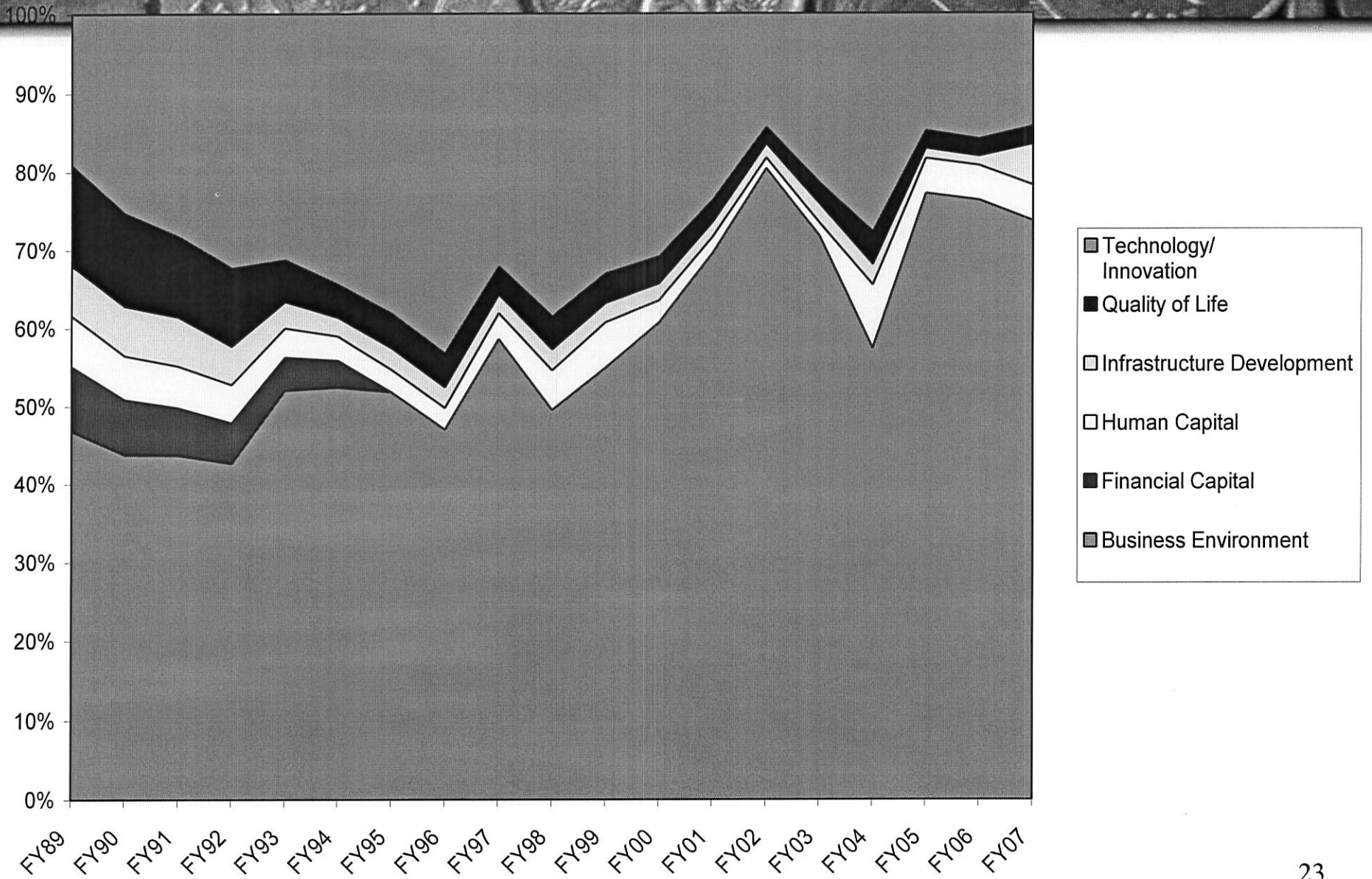
Total State Economic Development Funding Per Capita FY 1989 - FY 2007



Strategic Foundation Funding Kansas, FY 1989 - FY 2007



Strategic Foundation Shares Kansas, FY 1989 - FY 2007





Findings

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- **State funding for economic development programs in the six-state region averaged \$88.3 million in FY 2006. State budgeting expenditures for economic development programs averaged \$128.3 million in FY 2007.**
- **In FY 2007, Oklahoma invested the most in economic development in the six-state region, while Nebraska invested the least.**
- **In 2006, Kansas was above average in state funding of economic development programs, with funding at \$94.8 million compared to a six-state average of \$88.3 million.**
- **In 2007, Kansas was below average with budgeted expenditures of \$98.7 million compared to a regional average of \$128.3 million**
- **Kansas was the only state to increase total budgeted economic development expenditures by less than a double-digit percentage in FY 2007.**
- **Kansas ranked third in the six-state region in economic development expenditures in FY 2006. Kansas ranked dropped to fourth in total state dollars budgeted for economic development in FY 2007.**
- **Kansas ranked second in the six-state region in per capita economic development expenditures in FY 2006. Kansas dropped to third out of six states in per capita funding in FY 2007.**
- **In FY 2007 state funding of economic development rankings within the six-state region were: (1) Oklahoma, (2) Iowa, (3) Missouri, (4) Kansas, (5) Colorado, and (6) Nebraska.**
- **Rankings in per capita funding among Kansas' contiguous states in FY 2007 were: (1) Iowa, (2) Oklahoma, (3) Kansas, (4) Missouri, (5) Nebraska, and (6) Colorado.**
- **In 2006, Kansas was above average in per capita state funding of economic development programs with funding of \$34.30 per capita compared to a six-state average of \$23.04 per capita.**
- **In 2007, Kansas was slightly above average with budgeted expenditures of \$35.69 per capital compared to a regional average of \$35.49 per capita.**
- **Strategic foundations receiving highest funding in a majority of states in FY 2007 were business environment, infrastructure development, and human capital.**
- **Strategic foundation receiving lowest funding in FY 2007 was quality of life (three states).**
- **Kansas' funding emphases in FY 2007 were business environment, technology innovation, and infrastructure development.**



Conclusions

- **Two patterns of strategic foundation funding occurred across states: two- and three-tier patterns.**
 - **Kansas has a three-tier funding pattern.**
 - **Business environment has been the primary focus for many years.**
 - **Technology/innovation has also emerged as a secondary focus.**
 - **Nebraska has also exhibited a three-tiered funding pattern over recent years.**
 - **Historically, Oklahoma (ranked first in size of economic development budget) and Iowa (ranked second) followed two-tiered funding patterns until FY 2007, when a third tier began emerging.**
 - **Colorado and Missouri have generally followed a two-tiered spending pattern.**
 - **With the exception of Nebraska, states with smaller economic development budgets tended to have two-tier funding patterns.**
 - **This tended to create a more highly focused economic development funding pattern, as a larger share of the state's investment was concentrated in one or two strategic areas.**
- **Business environment, technology/innovation, and human capital emerged as the highest funded strategic foundations for the largest number of states.**
 - **All states' funding emphasis was business environment, with the exception of Missouri which ranked it third, after human capital and infrastructure development.**
 - **Kansas' funding emphases were business environment and technology/innovation.**
 - **Kansas' lowest funded strategic foundations were financial capital and quality of life strategic foundations.**

Total Economic Development Funding

- **The estimated cost of economic development in Kansas during fiscal years 2003 through 2007 is at least \$1.5 billion, which includes both governmental spending and forgone tax revenues.**
- **During that period, Kansas' State and local governments spent about \$630 million.**
- **The Kansas Department of Commerce spent the vast majority of that amount.**
- **Further, about 70% of total spending came from federal moneys, 25% was State, and 5% was other.**
- **During this period, Kansas governments also waived about \$860 million in tax revenues which were intended to assist economic development projects.**
- **The largest portion (\$350 million) was attributable to economic development projects funded using industrial revenue bond exemptions.**
- **In addition to any established economic development spending in the future, Kansas governments could incur about \$404 million in additional costs because of the repeal of the Business and Machinery Property Tax.**

Figure 1-4
Sources of Funding Used To Provide Economic Development Services
Fiscal Years 2003 through 2007, Cumulatively
(in millions)

| Name of Agency | Reported Expenditures Covered by | | | 5 Year Total | % of Total |
|--|----------------------------------|----------------|---------------|----------------|---------------|
| | Federal Funds | State Funds | Other | | |
| Department of Commerce (a) | \$418.2 | \$99.6 | \$25.3 | \$543.1 | 86.3% |
| KTEC | \$7.7 | \$58.6 | \$3.7 | \$70.0 | 11.1% |
| Kansas Small Business Development Center | \$4.0 | \$1.3 | \$3.4 | \$8.7 | 1.4% |
| Kansas Bioscience Authority | \$0.0 | \$5.8 | \$0.0 | \$5.8 | 0.9% |
| Kansas, Inc. | \$0.0 | \$1.7 | \$0.1 | \$1.8 | 0.3% |
| Total Expenditures | \$429.9 | \$167.0 | \$32.5 | \$629.4 | |
| % of Total | 68.3% | 26.5% | 5.2% | | 100.0% |

(a) Expenditure amounts for the Department of Commerce and the Department of Labor have been combined into a single amount.

Source: LPA Analysis of expenditure information provided by agencies.

Figure 1-7
Amount and Type of Tax Revenues Forgone
Fiscal Years 2003 through 2007, Cumulatively
(in millions)

| Program Through Which Revenues Were Forgone | State | | | | Local | | | Unallocated | Grand Total | % of Total |
|--|---------------|---------------|----------------|----------------|---------------|----------------|----------------|----------------|----------------|---------------|
| | Sales Tax | Property Tax | Income Tax | Sub-total | Sales Tax | Property Tax | Sub-total | | | |
| Industrial Revenue Bond Exemptions | --- | \$89.7 | --- | \$89.7 | --- | \$280.0 | \$280.0 | --- | \$349.7 | 40.7% |
| STAR Bonds | \$92.1 | --- | --- | \$92.1 | \$39.0 | --- | \$39.0 | --- | \$131.2 | 15.3% |
| Property Tax Abatements | --- | \$20.0 | --- | \$20.0 | --- | \$93.7 | \$93.7 | --- | \$113.7 | 13.2% |
| State Income Tax Credits | --- | --- | \$137.6 | \$137.6 | --- | --- | \$0.0 | --- | \$137.6 | 16.0% |
| Neighborhood Revitalization Act | --- | --- | --- | \$0.0 | --- | --- | \$0.0 | \$38.7 | \$38.7 | 4.5% |
| Pay As You Go Projects | --- | --- | --- | \$0.0 | --- | --- | \$0.0 | \$43.2 | \$43.2 | 5.0% |
| State Bond and Rebate Projects | --- | --- | \$20.1 | \$20.1 | --- | --- | \$0.0 | --- | \$20.1 | 2.3% |
| General Obligation and Special Revenue Bond Projects | --- | --- | --- | \$0.0 | --- | --- | \$0.0 | \$21.6 | \$21.6 | 2.5% |
| Transportation Development District | --- | --- | --- | \$0.0 | --- | --- | \$0.0 | \$4.5 | \$4.5 | 0.5% |
| Total Forgone | \$92.1 | \$89.7 | \$157.7 | \$339.5 | \$39.0 | \$373.7 | \$412.8 | \$108.0 | \$860.2 | |
| Percent of Total | 10.7% | 10.4% | 18.3% | 39.5% | 4.5% | 43.4% | 48.0% | 12.6% | 100.0% | 100.0% |

Source: LPA analysis of forgone tax revenue information provided by State agencies and units of local government.



Local Government Policy

- ***Interregional/intermetropolitan decisions***—Usually has little influence
- ***Intraregional/intrametropolitan decisions***—May have significant influence



Scale of Expenditures

- **FY 2007 Kansas state economic development funding: \$98.7 million**
- **2006 Kansas Personal Income: \$96,000.0 million**
- **2006 Kansas Gross Product: \$111,000.7 million**



Caveats

- **Expenditures are a necessary, but not sufficient condition of economic development.**
- **Funding does not provide a direct measure of the success or failure of an economic development program.**
- **Tracking expenditures may provide an indication of the relative priorities of the various strategic foundations.**
- **The lack of consistent reporting and budgeting makes it very difficult to assess the actual performance of economic development programs.**
- **Large fluctuations in funding may be an indication that economic development expenditures are not necessarily deemed by the legislature as being essential.**



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The most fundamental problem is that many public officials appear to believe that they can influence the course of their state or local economies through incentives and subsidies to a degree far beyond anything supported by even the most optimistic evidence. We need to begin by lowering their expectations about their ability to micromanage economic growth and making the case for a more sensible view of the role of government—providing the foundations for growth through sound fiscal practices, quality public infrastructure, and good education systems—and then letting the economy take care of itself. (Peters and Fisher, 2004: 35)