

Approved: March 25, 2009

Date

MINUTES OF THE HOUSE VISION 2020 COMMITTEE

The meeting was called to order by Chairman Tom Sloan at 1:30 p.m. on March 4, 2009, in Room 711 of the Docking State Office Building.

All members were present except:

Representative Clay Aurand- excused

Committee staff present:

Art Griggs, Office of the Revisor of Statutes

Corey Carnahan, Kansas Legislative Research Department

Chris Courtwright, Kansas Legislative Research Department

Mary Koles, Committee Assistant

Conferees appearing before the Committee:

Art Hall, Center for Applied Economics, KU School of Business

Gary Sherrer, Kansas citizen

Others attending:

See attached list.

Chairman Sloan welcomed Dr. Art Hall and introduced him to the committee.

Art Hall, PhD, Executive Director, Center for Applied Economics, KU School of Business, provided charts and maps to facilitate discussion and depict the economic geography of the United States and Kansas. He commented that Kansas' local government does not appear to be efficient and Vision 2020 might want to explore this issue. He supports a dynamic business model, one that creates conditions for business formation and productivity: expense capital equipment, eliminate the capital gains tax, build infrastructure, promote workforce training and development, and more (Attachment 1).

Questions, answers, and many discussions occurred during and after Dr. Hall's presentation. Questions were asked by Chairman Sloan and Representatives Doug Gatewood, Pat George, Raj Goyle, Tom Hawk, Don Hineman, and Lee Tafanelli.

Chairman Sloan greeted and introduced Gary Sherrer who had just finished testifying before the House Education Committee.

Gary Sherrer, consultant, member of the Kansas Board of Regents, a former Lt. Governor of Kansas, and a former Secretary of the Department of Commerce and Housing, announced that he was appearing before Vision 2020 representing only himself. Mr. Sherrer noted that Kansas' economic development model was designed twenty years ago and needs to be reviewed and updated. He suggested the possibility of forming a commission to study and recommend to the Legislature the best structure to use to create jobs and support the economy. Incentives, he says, are another concern; we rely too much on tax credits. He recommended implementing a "Quality Job" incentive (Attachment 2).

Chairman Sloan invited questions from the Committee members. Questions were asked by Chairman Sloan and Representatives Pat George, Mario Goico and Tom Hawk. The appropriate conferee responded. Discussions ensued.

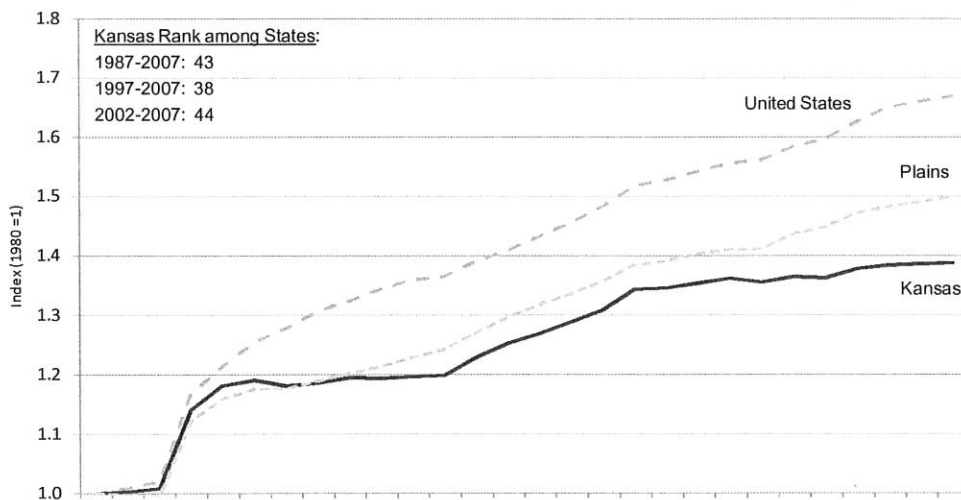
Chairman Sloan thanked the conferees for their presentations.

The next meeting is scheduled for March 9, 2009.

The meeting was adjourned at 3:05 p.m.

Charts and Maps to Facilitate Discussion
Art Hall, Executive Director
Center for Applied Economics, KU School of Business

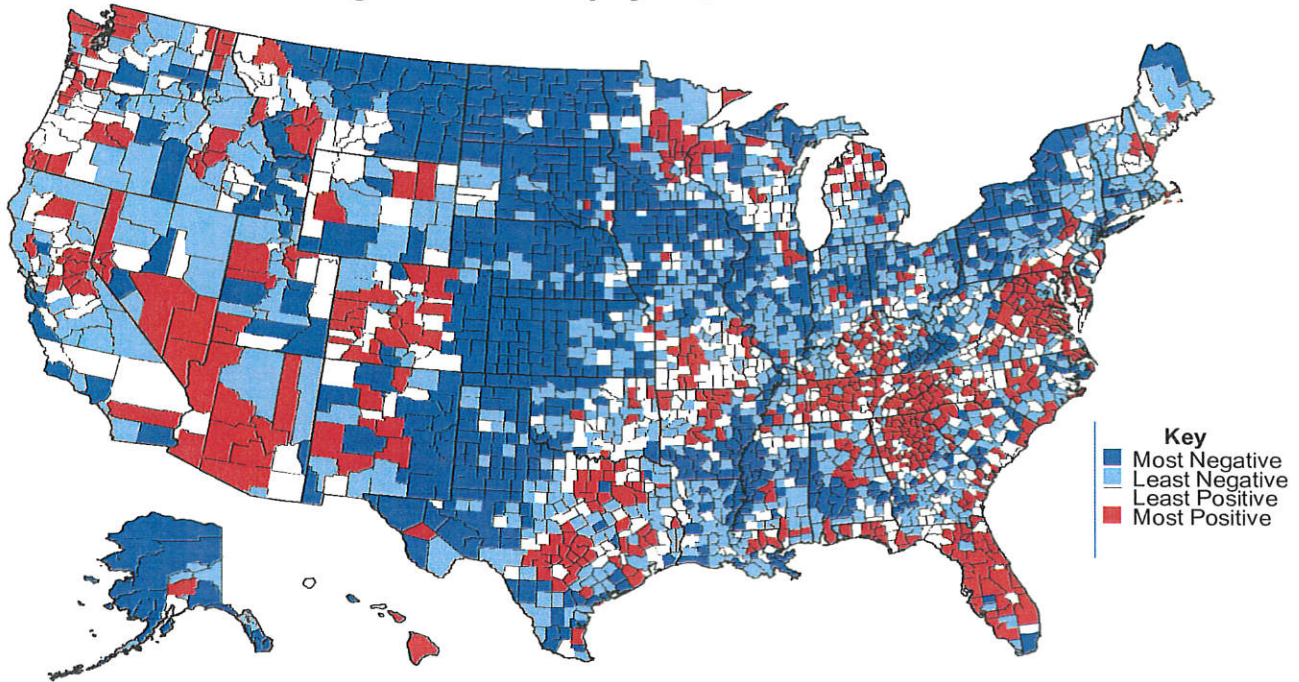
Rate of Net-New Business Formation



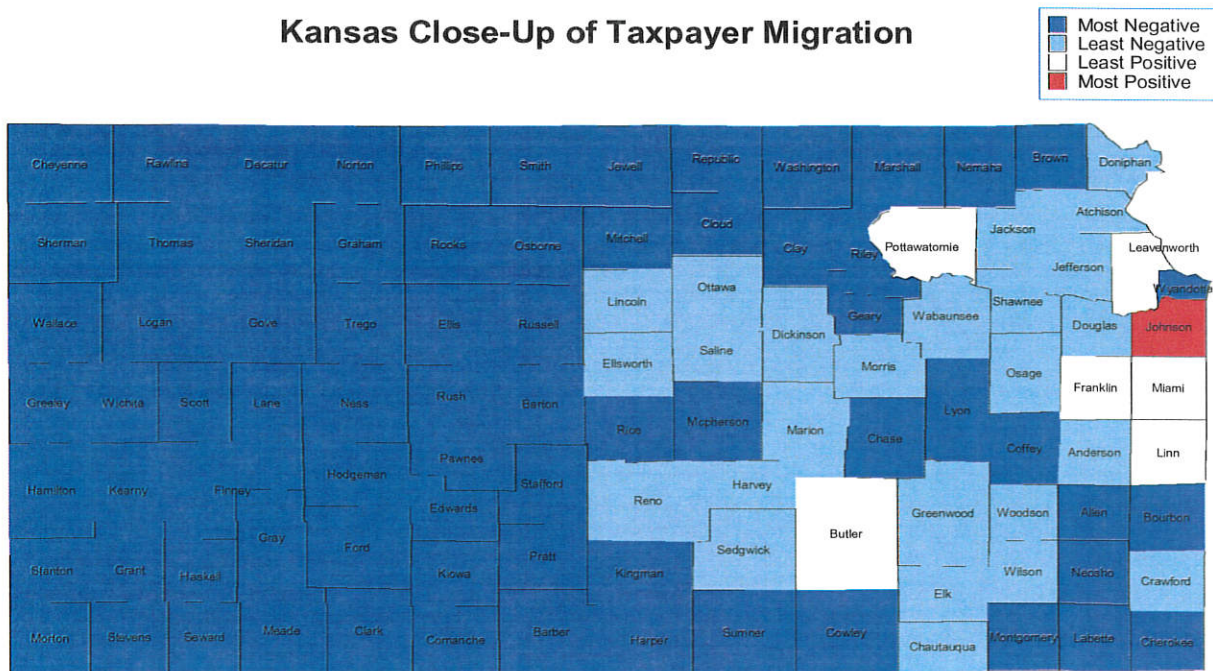
Source: U.S. Census Bureau

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Attachment 1-1*

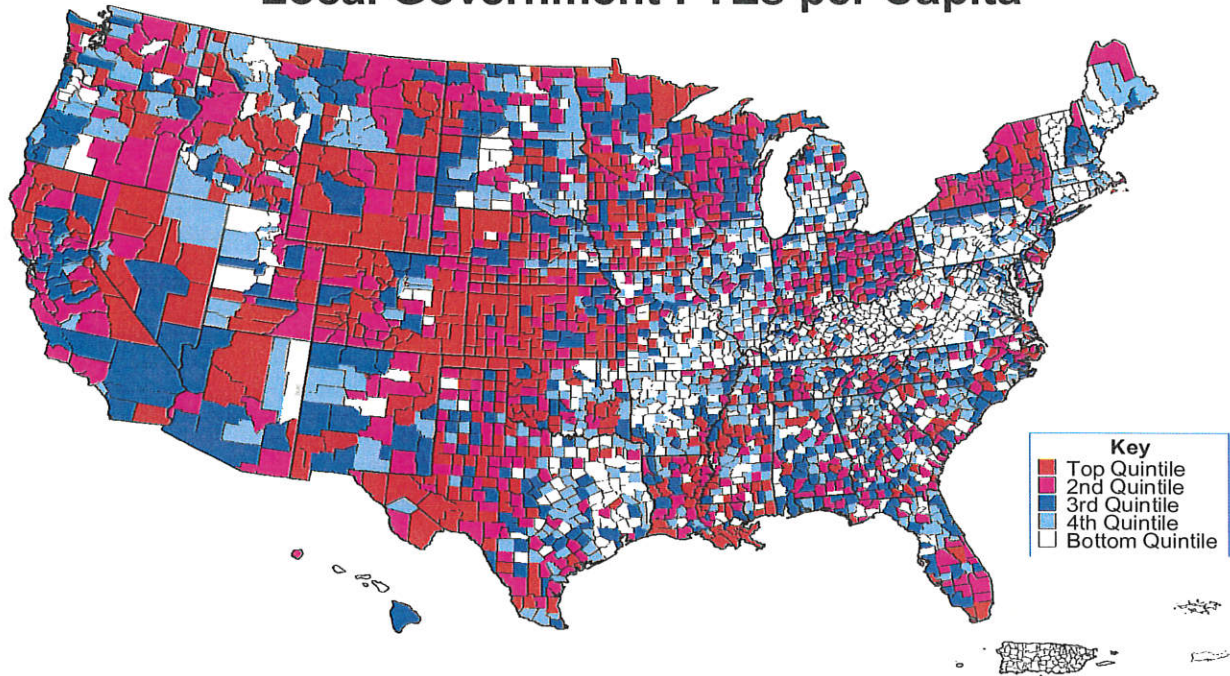
Migration of Taxpayers, 1995-2006



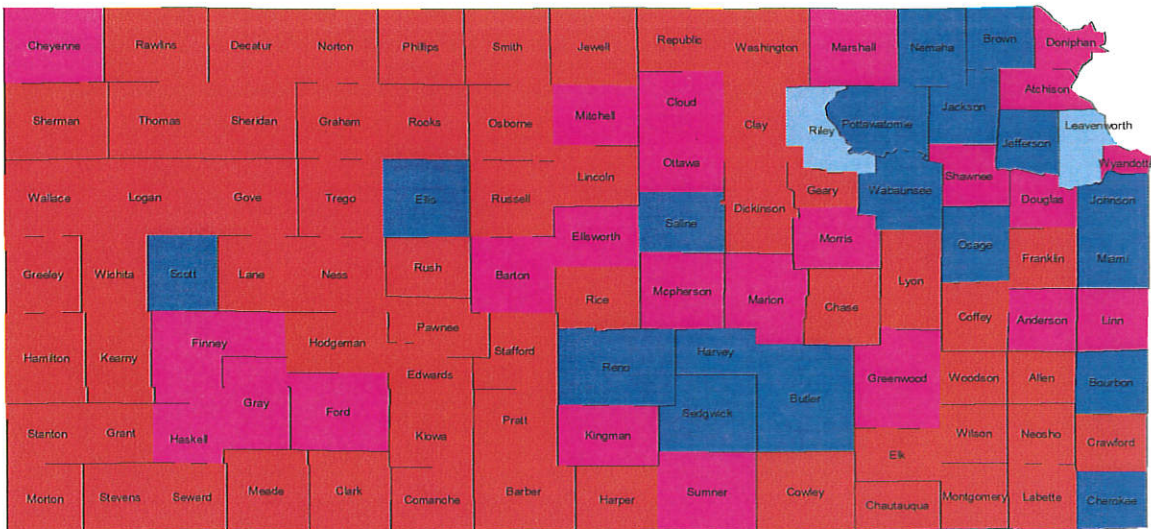
Kansas Close-Up of Taxpayer Migration



Local Government FTEs per Capita

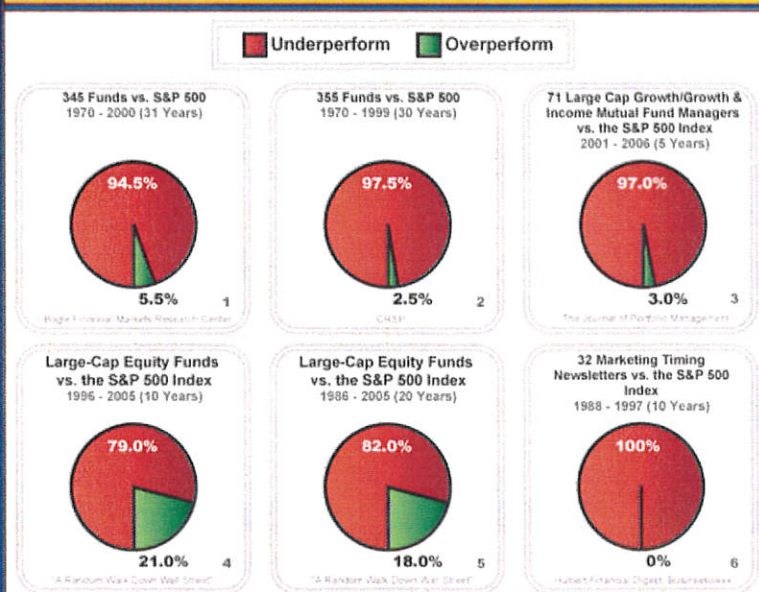


Kansas Close Up

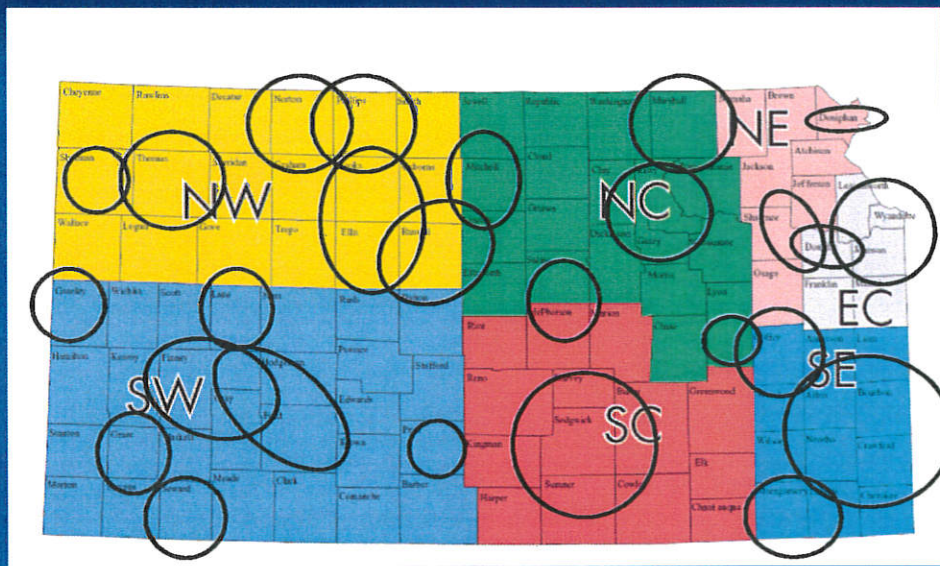


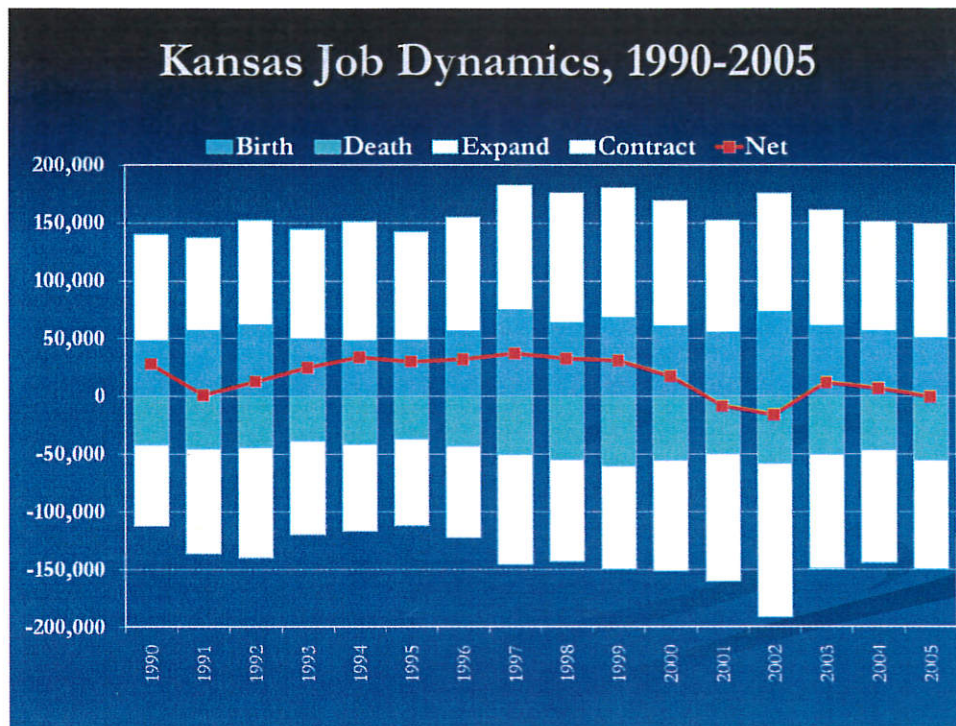
Economic Development as Investment

Passive Beats Active: No Matter How You Slice It



Kansas Has Many Economies





There is too much of an emphasis on jobs in economic development policy. Jobs matter. But the jobs focus works against dynamism, which is essential.

Every business is different. Focus on creating conditions for business formation and productivity. The jobs will come.

Over past two decades, Kansas ranks in bottom ten with regard to net new business formation. Kansas also tends to lag in productivity growth.

From just a migration perspective, good economic research shows that balanced growth across all industry sectors induces far more in-migration (and less out-migration) than having a “hot industry” that is growing fast nationally.

The chart figures exclude firms without employees, which equals an average of about 170,000 per year since 2000.

Average business births = about 11,000 per year. Average business expand = about 18,000 per year

Many of these births and expansions will be in some type of investment mode. There is no way to handle that type of volume through actively managed economic development programs.

The economic development challenge: employment growth is highly correlated with the birth of new establishments—far more highly correlated than employment growth from the expansion of existing establishments. Yet, the birth and death of establishments are also highly correlated. Success derives from achieving birth rates that exceed death rates from the natural, market-driven process of trial-and-error. A business environment that embraces this dynamic should make it as easy and cost-effective as possible for businesses to start operation and refrain from interfering with the inevitability of failure.

VISION 2020

TESTIMONY OF GARY SHERRER

March 4, 2009

Chairman Sloan, Ranking Minority Member Hawk and Members of the Committee, thank you for the opportunity to share my thoughts on Economic Development as they relate to Vision 2020. My observations are based on my experiences in the private sector, my eight years of service as Secretary of the Department of Commerce and Housing, and consulting I have done for economic development organizations. I want to make it clear that I am representing no group or organization today, only myself.

I congratulate you on taking on the responsibility and charge of this Committee. It is so easy to get stuck in legislation and issues of the moment and fail to study and determine the strategies needed to achieve success in the future. I know what you are doing works as I had the honor to Chair the Task Force that resulted in S.B. 345 as well as Vision 2000 that resulted in significant positive changes in public policy. Your time is valuable and our time today is short so I would like to make a few comments and then leave time for your questions. There are a number of issues that could be addressed but I will focus on just two; structure and incentives.

STRUCTURE

The structure we use for economic development in Kansas is essentially the one we put in place two decades ago. I think in general it served us well, particularly in the early years as a new focus was placed on economic development. (Although I must admit I never did understand why EPSCOR was taken from the Board of regents and given to KTEC.) However the times have changed and I do not think we have changed with them. I believe our economic strategy is too fragmented, too independent without a shared vision, and not efficient. The Governor this year proposed major changes in KTEC and Kansas Inc. I suspect they will have the same success they did when I proposed similar major changes a decade ago. Please understand this is not about personalities. I consider the heads of those organizations to be friends

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of mine. I just do not believe what we thought was good in the 80's is good enough for the 21st Century. All the lobbying that is going on to keep these programs just the way they are seems to me to be proof that we have created independent entities who have their own constituencies and agendas. Who is responsible for economic development in Kansas? Is it the Secretary of Commerce who traditionally has been paid far less than the heads of these two agencies, who may serve on their Boards but beyond that has no control, no power to ensure they are all aligned in efforts to build the economy of Kansas?

I know the Department of Commerce, KTEC and Kansas Inc. can all show accomplishments in various degrees and measurements. That is not the point. It is not about what they have done, the issue is can we restructure to do better. Are there other models serving other states that are getting impressive results? Can we be more efficient and produce more for each tax dollar spent? The problem is we never get to that discussion because it all ends up being about turf, which reinforces the fragmentation. Perhaps what we need is a dozen or so Kansans who understand economic development to be asked to serve on a commission that has as its mission recommending to the Legislature the best structure for ensuring maximum effort, coordination and use of resources to create jobs for Kansans and support for the economy of Kansas.

INCENTIVES

It is also critical we review the incentives used in economic development. There are a number of incentives that are effective and there are many that are not. In the last few years they have been added to, not as part of an overall strategy, but piecemeal. Laws passed to aid a specific business, laws passed that tweaked existing incentives, and laws that created a major new independent agency with significant resources. Am I suggesting any of these were bad? No, but I am asking how do they fit a strategy of where we need to be to be competitive.

I can tell you, and I can bring in countless national site and relocation professionals who will tell you, compared to other states, including some surrounding us, we are not on their competitive level. I know for a fact that we have lost jobs, good, high wage jobs in just the last six months because we were not competitive. Some of our problems include:

Too much reliance on tax credits. Consultants and companies for the most part do not like tax credits. (From a public policy point of view they are uncashed checks, which I don't think is always good public policy). Cash is king and while we may not like it, that how it works in the incentive business. That is why a "Quality Jobs" incentive is critical---Missouri and Oklahoma have them---Kansas does not.

Not enough focus on the "but for" test. Incentives should make things happen, not reward what would have happened anyway. Some of our programs seem to be entitlements, not incentives. I know I am walking on sacred ground but the Enterprise Zone uses millions of state dollars and I would challenge anyone to prove to me that a significant portion of what was rewarded would not have occurred anyway. In fact we have created an industry in which professionals are finding companies who are expanding and for a fee obtain for them Enterprise Zone incentives. There is no perfect "but for" test, but I do believe we can do much better than we have done.

CONCLUSION

Members of the Committee, I again want to make it clear that we have some outstanding professionals doing great work on behalf of the State of Kansas when it comes to Economic Development. The people at the Department of Commerce are some of the finest people I have ever been associated with, and I miss working with them. There are significant achievements that the Legislature and the various economic development agencies should take pride in. But let us only take pride in the past, not dwell in it. Holding on to the past because of those achievements is the worst mistake we can make. The future guarantees us nothing but that it will be more competitive and challenging. Failure to engage in an open and honest discussion about structure and incentives ensures failure in our future. Unwillingness to put aside turf, personalities and emotions dooms any discussions. Most importantly, our inability or unwillingness to develop a comprehensive strategy that results in a new, vibrant and effective structure; a unified vision; and competitive incentives will result in lost job opportunities for our people and lost economic opportunity for our state.