

## **MINUTES**

### **JOINT COMMITTEE ON ECONOMIC DEVELOPMENT**

August 16-17, 2001  
Room 519-S—Statehouse

#### **Members Present**

Representative Bill Mason, Chairman  
Senator Karin Brownlee  
Senator Lynn Jenkins  
Senator Nick Jordan  
Representative Jerry Aday  
Representative Carol Beggs  
Representative Mary Compton  
Representative Annie Kuether  
Representative Margaret Long  
Representative Vern Osborne

#### **Members Absent**

Senator U.L. "Rip" Gooch  
Representative Valdenia Winn

#### **Staff Present**

April Holman, Kansas Legislative Research Department  
Deb Hollon, Kansas Legislative Research Department  
Mike Heim, Kansas Legislative Research Department  
Renaë Jefferies, Revisor of Statutes Office  
Rose Marie Glatt, Committee Secretary

## **Conferees**

Rich Bendis, President, Kansas Technology Enterprise Corporation  
Bill Jarrell, Director of Government Relations, Central Region, Boeing Company  
Dr. Gerald Loper, Associate Vice President of Research, Wichita State University  
and Interim Executive Director of National Institute for Aviation Research  
Don Moler, League of Kansas Municipalities  
Rob Hodges, Kansas Telecommunications Association  
Senator David Jackson, Kansas Senate  
Representative Cindy Hermes, Kansas House of Representatives  
Richard Maginot, Business Administrator, Soldier Township  
Don Towle, Private Citizen, Lake Sherwood resident  
Jeff Wagamon, Private Citizen, Lake Sherwood resident  
John D. Wong, J.D., Ph.D., Associate Professor, Wichita State University  
Charles Ranson, President, Kansas, Inc.  
Steve Kelly, Director of Business Development, Kansas Department of Commerce and  
Housing  
Clay C. Blair, III, Chairman, Kansas Board of Regents

## **Written Testimony Only**

Randy Allen, Executive Director, Kansas Association of Counties  
Ed Eilert, Mayor, City of Overland Park

## **Thursday, August 16, 2001**

The meeting was called to order by Chairman Mason at 10:12 a.m., on August 16, 2001 at the Statehouse, Room 519-S, Topeka, KS. The Chairman advised the Committee that the intent of the two-day meeting was to review the following aviation issues: Aviation Research, including Aerospace Component of the Preliminary 2001 Kansas Strategic Plan, Aerospace Workforce Training Center, and the Board of Regents Perspective on Research Resources in the Aviation Industry. They would also be given an update regarding Telecommunications Franchise and Right-of-Way Issues and the Incorporation of Cities Within Five Miles of Another City. The Chairman asked staff to provide an overview of the topics assigned to the Joint Committee on Economic Development by the LCC for Interim study.

The Topics include:

- Hear progress reports relating to 2001 HB 2515, which imposed a moratorium on franchise right-of-way ordinances;

- Workforce development in Kansas;
- Research resources for the Aviation industry in Kansas;
- Use of money to establish an unemployment fund called Training, Assessment, Recruitment of Labor, Gateway to Services, Employment Centers and Transition Support (TARGET); and
- Incorporation of cities when the proposed new city is within five miles of another city.

Other potential issues include the completed Strategic Plan, (November meeting) and a housing issue. The Committee is also charged with receiving annual reports from the Department of Commerce and Housing and Kansas, Inc. The Chairman noted that he believed that from the Strategic Plan the Committee would address reorganization and a new method of financing for Kansas economic development agencies.

The Chairman asked staff to brief the Committee on the issue of Aviation Resources in Kansas. It was noted that the Senate Ways and Means Committee had recommended the topic be assigned to the Joint Committee while considering the budget for KTEC. Staff reviewed the current funding and projected budget for the National Institute for Aviation Research (NIAR), ([Attachment 1](#)).

The Chairman introduced Rich Bendis, President and CEO of KTEC, and stated that Mr. Bendis had been instrumental as a leading member of The Council on Competitiveness, in the formation of the Kansas Strategic Technology Cluster Assessment Report. Mr. Bendis gave a power-point presentation on Kansas Strategic Technology Cluster Assessment and a Plan for the 21<sup>st</sup> Century ([Attachment 2](#)), (a copy of the complete Kansas Strategic Technology Cluster Assessment and a Plan for the 21<sup>st</sup> Century is on file at KTEC).

Mr. Bendis noted that the aviation industry is the leading export industry in the United States as well as a significant factor in the state's economic growth through the presence of Boeing, Cessna, Learjet, and Raytheon in Wichita. His report included the purpose of the study, study methodology, realities and action, global, national and local opportunities, capacity of businesses, government, and research universities in the country, valuation of variable performance, external and internal environments, strategic assessment framework, linking opportunity with capacity, critical technologies, federal critical technologies, rating opportunity and capacity, results and next action steps, Kansas strategic technology clusters and initiatives, and high-tech development factors. He presented policy recommendations based on a framework of assumptions and listed five objectives followed by nine desired results. A chart reflecting the return on investment of \$348 million and the state's investment of \$26.5 million, a leverage of 13-1, represents a complete commitment by the state of Kansas to NIAR.

Mr. Bendis discussed the problems facing Kansas due to the perception and image of the state. In reality Kansas has a higher percentage of high-tech employment than every other state that borders Kansas except Colorado, as well as a higher percentage of high tech employment than the country does on average as a whole. He noted that "Brain drain" is a major factor due to the lack of high tech employment opportunities in Kansas.

In addition to the opportunities in the aviation industry, he reviewed two other important Kansas industries. The Kansas City Life Sciences Institute, a Kansas City area collaboration, is still in the embryonic stage. He listed the key stakeholders, purpose, five focus areas, outcomes, key success factors, and their advisory committees. He also delineated the opportunities that Nanotechnology, Polymers and Bioinformatics provide and the role they have for future economic development for the Kansas economy.

Copies of a report on *The Clusters of Innovation Initiative for Wichita*, which Professor Michael E. Porter, Harvard University, presented on June 27, 2001 were distributed to the Committee (Attachment 3). Copies of the *Executive Summary* from the *Kansas Strategic Technology Cluster Assessment* were distributed to the Committee after the presentation (Attachment 4).

Mr. Bendis gave background on the Council on Competitiveness, which is the leading non-governmental organization in the United States making recommendations to Congress and the White House on what the United States needs to do to remain competitive, with a focus on work-force training, technology, and research.

Wichita was one of five cities selected for the study after an initial investment of \$175,000 from private/public funds. The study was based on surveys of 138 regional executives and interviews with 74 regional and clusters experts. The study was broken down to six major components:

- Conceptual Framework and Methodology;
- Regional Economic Performance;
- Evolution and Composition of the Regional Economy;
- Assessment of Business and Innovation Environment;
- Competitiveness of Selected Regional Clusters; and
- Implications for Regional Agenda.

Mr. Bendis said that the strength of the study is that it was done by an independent third party, outside the state, that came in to look at a very important industry in Kansas. It

was not done internally by KDOCH, KTEC, or Kansas, Inc., and provides valuable data from which they can build upon.

Discussions during and following the presentation included:

- The definition of quality of life was defined in terms of economic development. Future skilled workers expect to have the ability to create a life-long learning program for their careers through advanced educational programs in the vicinity. The perception and image of the state are problems, presenting the challenge of attracting people to Kansas. It was noted that once employees come to Kansas, they usually stay. Kansas also needs to attract more resources in order to create the environment for those skilled workers. Mr. Bendis told the Committee that within a couple of months, each Legislator would receive a copy of a report, based on the Cluster of Innovation Initiative on Wichita, which will provide more specific details that help define *quality of life*.
- Wichita's response to the information in the report was discussed. Mr. Bendis stated that city officials were very supportive of the report's recommendations and university members were talking with industry representatives for their reactions. KTEC has tried for the last three years to develop an action plan related to the research, innovation entrepreneurial venture capital component of this study. Kansas, Inc. plans to address the preliminary review of the aerospace component of the 2001 Strategic Plan. The Committee plans to meet again in September.
- The lack of low venture capital in Wichita and in Kansas was discussed. There is considerable "angel investing" in Wichita due to wealthy entrepreneurs that invest in things in which they are comfortable. Although technology has traditionally not been a place where investors have been comfortable, they hope to see that trend change.
- The importance of statewide linkage between clusters and changing the mindset of territorial protection for the economic welfare of everyone
- Tax structure is not conducive to attracting new business. The Kansas Chamber of Commerce and Industry (KCCI) believes, as do many, that there is major work to be done in the tax area and the re-engineering of government is an issue that will come up in the Strategic Plan for the state.
- The issue of the state's population being a deterrent for the kind of growth being discussed was determined to be more of a mindset or excuse, rather than reality. Kansas cities compete well with other cities with aerospace clusters.

- Kansas is one of 19 states involved in Experimental Program to Stimulate Competitive Research (EPSCoR), which means that Kansas is one of the 20 lowest states in research and development, thus allowing us to receive federal research and development dollars. In order to leverage federal research dollars, it generally requires matching state dollars. Although the state is a key player in matching dollars they must become more dependent on industry to compete for those dollars with other states and universities.

The meeting adjourned at 11:55 a.m. for the lunch break. The meeting reconvened at 1:40 p.m.

Dr. Gerald Loper, Associate Vice President of Research, Wichita State University, and Interim Executive Director of NIAR, gave a power-point presentation ([Attachment 5](#)). The report included: NIAR's mission statement with an emphasis on aviation safety, importance of aviation to the country, state and city, NIAR's resources and budget which reflected WSU aerospace research and development expenditures over the past five years, advisory board, markets/clients, technical thrusts, Walter H. Beech Memorial wind tunnel, crashworthiness research, structures laboratories, CAD/CAM/CATIA, virtual reality center, ADMRC, and the commercialization activities. He explained NIAR's economic development, new thrusts, 2002 milestones, and FY 2000 five-year budget and infrastructure needs.

In summary, he stressed four points:

- The aviation industry is critical to the economic health of Kansas;
- The industry can be supported by making NIAR a world-class research institute;
- A state appropriation of \$25 million over the next five years is needed to upgrade NIAR facilities and staff; and
- The state will receive a Return on Investment of up to 10 to 1 in new revenues.

Discussions following the presentation included:

- Efforts are underway to attract and recruit promising high school students to the technology field.
- The questionable accuracy and reproducibility of the wind tunnel at NIAR were discussed. The results are that many aviation clients have moved the process of testing to Europe. NIAR plans to update the tunnel in the

upcoming year with federal appropriations from this year's budget; however, without a sound research infrastructure it will become more difficult to attract federal funding due to the competitiveness of the industry.

The Chairman introduced Bill Jarrell, Director of Government Relations, Central Region, Boeing Company (no written testimony). He reviewed the success of the aviation industry in Wichita and introduced Bob Waner who gave the presentation. He added that there were many aviation industry representatives in the room that would also answer questions. They introduced themselves: Bud Burke—Cessna, Bruce E. Peterman—Cessna, Randy Nelson—Cessna, Mike Germann—Boeing, and Bill Brady—Raytheon.

Bob Waner, Director of Engineering, Boeing Commercial Airline Group made the presentation on behalf of the Kansas Aviation Industry ([Attachment 6](#)). He described the current aviation industry in Kansas as relatively healthy and as such they are major contributors to economic development in Kansas. However, there is a sense of urgency in the future as they compete in a global economic environment. He described current and future products. They requested support of an annual appropriation of \$5 million for aviation-related research, development, and related facilities and equipment to the Wichita State University's National Institute for Aviation Research. He reviewed funding resources for NIAR FY 2000 and the industry. In summary, he stated that with adequate funding they could significantly enhance the economic growth of the State of Kansas, become an aviation cluster of innovation, and compete in a global economic environment.

The following questions and comments were discussed:

- The role of mergers and downsizing in the aviation industry.
- The discrepancy in numbers from the various presentations and allocations requests was questioned. The Chairman stated that the Committee would need more detailed information on the allocation requests, prioritized, before the Committee could make any recommendations. Mr. Waner agreed that all parties would meet and present a consolidated, detailed allocation request.

Mike Taylor, Government Relations Director responded to the Clusters of Innovation Study ([Attachment 7](#)). Mr. Taylor reported that the City of Wichita supports the recommendations outlined in the report. He also reviewed the research and development and dollars and patents data from Professor Porter's assessment.

In response to the question of follow-up actions taken by the City of Wichita, Mr. Taylor said that the city, City Council, and the Development Director would provide public leadership, while working closely with the Chamber of Commerce, WSU, and the industry

partners. He told the Committee that there has not been time to develop an actual plan; however, this is a subject that is being discussed.

Discussion followed regarding the revenue source for the State of Kansas (taxation) and concern over the allocation mechanism and the needs of the taxpayers. It was suggested that the allocation of research and development funds should be viewed as an investment for the future economic development of the state and not a budget expense item.

The meeting was adjourned at 3:30 p.m.

### **Friday, August 17, 2001**

The meeting was called to order by Chairman Mason, at 9:10 a.m., Room 519 at the Statehouse. *Senator Jordan moved that the minutes from the Joint Committee on Economic Development meeting on April 24, 2001 be approved. Representative Compton seconded and the motion carried.*

The Chairman continued the hearing on Sub. for SB 306 relating to the right-of-way discussions between cities and telecommunications companies. He stated that the Committee was charged with hearing three reports during the interim session regarding their continuing negotiations.

Don Moler, Executive Director, League of Kansas Municipalities stated that representatives of Kansas municipalities have met with representatives of the telecommunications industry at three meetings (Attachment 8). They have identified and discussed three issues:

- Compensation pursuant to franchise agreements for telecommunications companies;
- Maintenance and control of right-of-way; and
- Franchise agreements.

He believes the meetings have been very productive and a fourth joint meeting has been scheduled for August 29 in Lawrence.

Rob Hodges, President of the Kansas Telecommunications Industry Association (KTIA) stated that both sides remain cautiously optimistic about reaching a successful conclusion to the negotiations (Attachment 9). Communications at the meetings have been open and honest and, although they are still talking in conceptual terms, they are committed to working with the cities' representatives to bring language for a draft bill in time to be pre-filed for the 2002 Session.



Discussion followed regarding right-of-ways in the long term, the specific language directive in HB 2515, per line fees, and the need for more specific progress information in future reports.

The Chairman opened the public hearing on the Incorporation of Cities within Five Miles of another City.

Staff explained that the topic was suggested for interim study by the Chair of the House Local Government Committee and by Senator Jackson ([Attachment 10](#)). The Committee was briefed on the following topics:

- Background of the study;
- Overview of the law;
- City incorporation law; and
- Other State Laws of Relevance.

Copies of 2001 SB 367 and HB 2124 were distributed. The house bill passed without the provision dealing with incorporation of cities within five miles of another city. Copies of written testimony from Randy Allen, Executive Director of Kansas Association of Counties ([Attachment 11](#)) and Ed Eilert, Mayor of the City of Overland Park ([Attachment 12](#)) were also distributed.

Senator David Jackson, Kansas Legislature, spoke in support of changes to the current statutes regarding the incorporation of cities that are within five miles of other cities ([Attachment 13](#)). He stated that currently, for an incorporated city, a simple majority of county commissioners is necessary for annexation. However, a unanimous vote of county commissioners is necessary for an unincorporated area to become incorporated if it lies within five miles of another incorporated city. He voiced concern over the perceived unfairness and inequity to many citizens of Kansas, citing hindrance to economic development and increased tax rates for services not provided as two problems facing several communities.

Discussions followed regarding specific issues since the annexation of North Topeka: tax increases, discrepancy of promised and actual services provided, and the change in mill levies. In response to questions regarding the current annexation process, Mike Heim agreed to provide additional information on the subject.

Representative Cindy Hermes, Kansas Legislature, spoke of the disparities under the current laws relating to the incorporation of cities within five miles of another city ([Attachment 14](#)). She noted that the residents are at the mercy of the board of county commissioners,

who by a simple majority vote can take the area into the city anyway. This law overrides the intent of the homeowners who do not want to live in the city, as demonstrated by their purchase of residences outside the annexing city's limits. She supports a change to the current statutes.

Richard Maginot, Business Administrator and Fire Chief of Soldier Township, spoke to the Committee in support of the proposed changes to the state statutes regarding the incorporation of new cities within five miles of an existing city (Attachment 15). He believes these changes would ease the current restrictive requirements and allow the citizens of a community a greater chance for self-determination when deciding the size and type of community they want. He stated that the future of Soldier Township is extremely hard to plan for not knowing when annexation will occur.

Don Towle, private citizen, appeared in support of proposed changes to the current statutes regarding incorporation statutes of cities within five miles of another city (no written testimony).

The Chairman asked staff to clarify the provision of annexation regarding a protest of a community to be annexed. Staff responded that a city can take a proposal to annex territory to the board of county commissioners and once it is before the commissioners there is a hearing where citizens that oppose the annexation can be heard. There is no unanimous vote requirement to approve an annexation request by the city, it is a simple majority. He agreed to provide additional information on the subject.

Jeff Wagamon, private citizen, spoke in support of amending KSA 15-123 to lower the number of votes required by the county commissioners to approve the incorporation of a territory (no written testimony). He stated that Lake Sherwood residents believe that a smaller government is better than a larger bureaucracy and they support the change in the statute.

Mr. Moler expressed concern over the proposed modification to KSA 15-123 (Attachment 16). Included with his testimony was the *League Research Information Bulletin #652* concerning the incorporation of cities in Kansas. He stated that the language has been part of statutory law in Kansas since 1963, and exists to make it more difficult for cities to spring up in close proximity to existing cities. The heightened vote requirement provides a safeguard against the ill-advised incorporation of subdivisions that are within five miles of an existing city. He stated that a change in the statute could lead to serious difficulties with municipal planning and growth down the road.

Discussion followed regarding which state laws require unanimous votes by county commissioners, consequences of the Legislature deciding the issue, and protest petition requirements.

Dr. John D. Wong, Wichita State University, provided data that reflects how Kansas ranks nationally regarding the number of local governments. It was noted that there is not

a shortage of local governments in the state, even with our small population base (Attachment 17). He gave a philosophical basis, listing the tradeoffs for governing by large government versus local governments. He described the Tiebout Hypothesis, prerequisites for incorporation and factors that should be considered to determine the advisability of incorporating a territory.

He suggested that the task at hand is to weigh and balance the interests of the citizens that may choose to incorporate with the interests of the citizens that may be in the area. He summarized by saying that before any decision is made everything needs to be looked at as a package, and the consequences should be weighed in terms of annexation, planning, and zoning.

Discussion followed regarding the importance of governing by the will of the people, competition issues of various communities, prohibitive cost of more cities, and issues surrounding the Eastborough community in Wichita.

Mayor Ralph Fitch, Linn Valley appeared before the Committee at the request of staff, representing the last city in Kansas to be incorporated (no written testimony provided). Mayor Fitch explained the process of incorporation of Linn Valley, a property owners association to a third class city, located within 5-6 miles of LaCygne, Kansas. He described positive results since incorporation in 1999. Their population is 562 with a budget of \$122,000. The primary reason for incorporation was police enforcement and building permits .

Discussion followed regarding the tax base in the community, costs incurred through the incorporation process, decline of the mill levy in Linn Valley. Members of the Linn Valley City Council in attendance were introduced: Russ Ruth, Jeanne Dwyer, Joyce Virgis, Ann Keffer, and Gordon R Haggard.

The Chairman closed the public hearing on the incorporation of cities within five miles of another city.

The Chairman asked Charles Ranson, Kansas, Inc., to brief the Committee on the aerospace aspects of the 2001 Strategic Plan Update (Attachment 18). They are currently developing a set of "first step" tactical recommendations that will be linked to the broader strategic recommendations developed on the basis of research and input gained in numerous meetings across the state.

Mr. Ranson stated that the preliminary findings of the study of the Aerospace Industry in Kansas confirm the following points:

- The workforce is inadequate in numbers and in skills to meet the demands of the marketplace.
- The infrastructure that supports aerospace research and testing is antiquated and under funded.

- The market is extremely competitive, thus, it is essential that Kansas reaffirm its commitment to this industry if they expect the aerospace companies to continue their commitment to Kansas.
- There is a need to provide incremental relief through increasing the rebate of property taxes paid on machinery and equipment.

Discussion followed regarding competition from subsidization of aerospace industry by foreign governments, the US Government's role in research and development funding, current existing policies and treaty obligations such as the 1992 agreement allowing for subsidization of the development of aerospace equipment which places us at a competitive disadvantage.

Mr. Ranson described the challenge of attracting young people to the state as well as developing and providing technical education programs to meet the needs in the marketplace. He gave several examples of states and countries that have developed successful programs. In response to a question, Mr. Ranson reiterated the fact that Kansas is losing important business at this time due to antiquated and inaccurate equipment in Wichita, emphasizing the importance of a Legislative commitment for additional funding.

Included in his testimony are copies of articles from the *Financial Times*, Tuesday, May 22, 2001—"Airbus tackles Boeing's lead in Asia" and *The Wall Street Journal*, Tuesday, April 3, 2001—"Airbus Revamp Brings Sense to Consortium, Fuels Boeing Rivalry."

The meeting recessed for lunch at 11:50 p.m. The meeting reconvened at 1:39 p.m.

Steve Kelly, Business Development Division, Kansas Department of Commerce and Housing (KDOC&H) gave a brief overview of efforts underway in Wichita to achieve the objective of the development of a world class aviation training facility, identified as The Wichita Area Learning and Career Institute (Attachment 19). He explained the purpose and objectives of the Institute and gave background on Georgia's Quick Start Program. He outlined the financial commitment of the parties and the administrator of the program.

Discussion followed regarding how the proposed Kansas funding compares to that in other states, timelines of phases of the program, and the need for additional analysis to insure the quality of the development of a world class aviation training facility.

Mr. Kelly was asked to supply a list of contacts, businesses, and consortiums involved in the training endeavor for communication efforts by legislators. He agreed to supply the information to staff for distribution to Committee members. He explained that with the transfer of Steve Jack to the Human Resource Department, David Moore, who was Steve Jack's assistant, is now in charge of the training programs for KDOC&H. He listed his credentials for this position.

Clay C. Blair, Chairman, Kansas Board of Regents spoke to the Committee regarding a research initiative being developed by the Board of Regents (Attachment 20). He spoke about funding initiatives for research and development training from industry. He stated that if Kansas would put resources behind the initiatives it would signify their professional and collaborative efforts to obtain grants and funds at the federal level.

The following guidelines have been established toward the goal of significantly increasing federal research funding at the Kansas state universities:

### **State of Kansas**

- The state agrees to offer and guarantee construction bonds;
- The state agrees to make principal and interest payments on those bonds for the first five years; and
- The state agrees to waive the review, fees, and involvement requirement of the state architect, thus reducing project costs. In exchange, the Board and its staff would assume the responsibility for these items.

### **Board of Regents**

The Board of Regents assumes responsibility for ensuring compliance by the universities to the following criteria and others as deemed appropriate by the Board:

- Demonstrate ability and tangible evidence to privately fund 1/3 of the bonded building amount;
- Demonstrate the financial resources and plan to meet the bond payments after five years;
- Demonstrate cost efficiencies in planning, architect fees, site costs and landscaping;
- Demonstrate ability to self-finance the initial year's planning costs; and
- Demonstrate ability to effectively compete for, and secure, additional federal research dollars.

He identified four projects as candidates for the programs:

- Construction of a life sciences research center at the KU Medical Center;

- Construction of a food safety research facility at KSU;
- Expansion of the existing engineering complex at WSU; and
- Equipping a newly purchased research building in Lawrence.

The state would ensure \$10 million a year for five years for the total of \$50 million. In summary, he stated that they believe that their plan is visionary and is necessary if Kansas truly wants to compete with neighboring states in the knowledge economy.

The Committee questioned the lack of collaboration over specific fund requests presented by different entities over the past two days. There was a recommendation that all entities meet and submit a comprehensive plan to the Committee during the September meeting.

Discussions following his presentation included: congressional and state leadership support, regent's budgets and their initiative for invested tax credits presented during the 2001 Session, current state architects fees, and legislative awareness strategies for the future of Kansas economic development.

Staff distributed a memo regarding information on the September 19-20 meeting that will be held in Wichita at the National Institute for Aviation Research on the Wichita State University campus. A block of rooms is being held at the Hilton Garden Inn and each legislator is responsible for making their own reservations at 1-316-219-4444. The Chairman stated that Committee members should plan on two full days of meetings during the interim due to the importance and number of agenda topics charged to the Joint Committee on Economic Development this year.

The meeting was adjourned at 3:00 p.m.

Prepared by Rose Marie Glatt  
Edited by April Holman

Approved by Committee on:

September 20, 2001