

MINUTES OF THE SENATE COMMERCE COMMITTEE

The meeting was called to order by Chairperson Julia Lynn at 12:00 pm on Wednesday, January 13, 2016, 346-S (Old Supreme Courtroom) of the Capitol.

All members were present except:

Senator Oletha Faust-Goudeau – Excused
Senator Jeff Longbine – Excused
Senator Robert Olson – Excused
Representative Gene Suellentrop - Excused

Committee staff present:

Debbie Bartuccio, Kansas Legislative Committee Assistant
Reed Holwegner, Legislative Research Department
Edward Penner, Legislative Research Department
Chuck Reimer, Office of Revisor of Statutes
Jason Thompson, Office of Revisor of Statutes

Conferees appearing before the Committee:

Jason P. Brown, Ph.D., Senior Economist, Federal Reserve Bank of Kansas City

Others in attendance:

[See Attached List](#)

Informational Joint Meeting held with House Committee on Commerce, Labor and Economic Development:

Chairperson Lynn called the meeting to order and made opening remarks. Chairperson Hutton expressed his appreciation for coordinating the scheduling of the joint meeting.

Chairperson Lynn recognized Jason P. Brown, Ph.D. Senior Economist, Federal Reserve Bank of Kansas City, who delivered a presentation concerning the Kansas and Regional Economies.
[\(Attachment 1\)](#)

Key points included:

- U.S. economy is expected to grow at a moderate pace over the next year, but global slowdown is a headwind.
- Personal income and wages and salaries growth are boosting consumption and consumer debt in both Kansas and the nation.
- Kansas and the broader region have experienced slower employment growth compared to the nation, but is somewhat expected.

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- Higher shares of agriculture and energy production and the stage of recovery are main factors of the slower growth.
- Farm income and spending are expected to be lower over medium term.
- Oil prices are expected to continue to stay low for a longer period of time.
- Most companies do not expect drilling to be profitable until 2017.

The presentation contained charts covering:

- Real Gross Domestic Product (GDP)
- Federal Reserve Districts and Office Locations
- Kansas Payroll Employment
- Metro Kansas Payroll Employment
- Kansas vs U.S. Employment Growth
- November 2015 Total Nonfarm Employment
- November 2015 Employment Growth by Industry
- Contributions to Personal Income Growth in Kansas
- Wage and Salary Growth by State
- Personal Consumption Expenditures and Consumer Debt
- Agriculture and Energy Share of GDP 2013
- Kansas Farm Income and Spending
- Livestock Prices and Breakeven Costs
- WTI Oil Prices
- Tenth Fed District Energy Survey
- Energy Firms Employment Change

Chairperson Lynn yielded the gavel to Chairperson Hutton who presided for the remainder of the meeting.

Representative KleeB, noting the Federal Reserve has raised interest rates and may continue to do so, questioned how the interest rate increases would effect taxpayers. Dr. Brown responded the Federal Reserve expects the pace of the interest rate increases to be gradual. The current policy of keeping interest rates low has adversely impacted savers. However, the cost of lending will increase as the rates increase.

Representative KleeB questioned how the interest rate changes would impact manufacturing and United States imports and exports. Dr. Brown responded the effect on exports will be challenging. However, when the dollar appreciates, there is a reduction in the cost of imports which results in lower prices for

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consumers.

Representative Kleeb questioned if banks would not also be a beneficiary of the interest rate increases. Dr. Brown responded the increased rates would positively affect bank margins.

Senator Melcher referred to the slide concerning the growth in Kansas wages and overall debt. He noted it would appear Kansans are paying down debt. Dr. Brown agreed, however, he noted automobile debt has been increasing. Consumers delayed auto purchases during the recession and are now ready to make these purchases. Senator Melcher stated it appears Kansans are paying debt down rather than consuming, which corresponds with lower sales numbers and revenues.

Senator Melcher compared slide #12, which contained data concerning the share of GDP for agriculture and food manufacturing to 7.7% and to information distributed by the Governor's Office which showed 43% of the state's GDP related to agriculture. Dr. Brown said the data was from the Bureau of Economic Analysis. He was not aware of any state in which the GDP for agriculture would be 40%. Senator Melcher asked Dr. Brown what percent of GDP would be attributed to agriculture in Kansas if the category of food manufacturing was not included. Dr. Brown estimated it would be in the 3% to 4% range.

Concerning the information on wages, Representative Frownfelter commented actual wages are down in many cases and people are making less while unemployment is down and more people are working. Representative Frownfelter questioned if Dr. Brown could provide any information concerning differences between blue and white collar wages. Dr. Brown responded it was difficult to do with the level of data he has; however, with the increasing activity in the housing industry, he would expect an increase in the level of construction wages in the state.

Representative Kleeb questioned Dr. Brown as to any comments he might have looking 10 to 20 years ahead concerning the employment rate in rural areas as the population ages. Dr. Brown responded the challenge across the United States is the outward migration of the population from rural to urban areas; however, he noted this has been a transition that has been going on over the past 100 years.

Representative Kleeb inquired if Dr. Brown had any suggestions concerning what the state should be doing concerning economic development to attract and retain college graduates and other persons to the state. Dr. Brown replied people are looking for amenities in the places they desire to live. It is quite difficult to determine what policies can be implemented to attract people; however, it has been found that quality of life in an area is extremely important. He indicated evidence has not shown that differences in tax policy are a factor.

Senator Holland referred to slide #4 and questioned what occurred in May 2014, where it appears the payroll employment data for Kansas, the region and the United States started to diverge. Dr. Brown responded he did not know the reason or what might have been unique about that time frame.

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Senator Holland referred to slide #7 concerning nonfarm employment data in the region and the approach taken by Kansas since 2012 to reduce income tax with a goal of increasing jobs and immigration to the state. He asked if Dr. Brown had any data which would suggest reducing income taxes has resulted in the intended job growth. Dr. Brown replied he did not have any data to support this and again explained it is not that people want lower taxes, but that they want services and quality of life. He stated, while lower tax rates might bring businesses to the state, there is a correlation with government expenditures that are used in a manner which is of value to the region.

Senator Holland next referred to slide #11 concerning personal consumption expenditures and consumer debt. He stated his concern when noting in 1999, it appears Kansas household consumer debt was approximately \$8,000 and it has almost doubled since that time, while wage rates have not been increasing. He questioned Dr. Brown if the economy was in a precarious position. Dr. Brown responded uncertainty exists in the consumers' minds about the economy; however, people are paying down debt and the savings rate has been increasing. Consumers feel more positive than during the recession.

Senator Holland asked if the topic of climate change has been incorporated into the data models. Dr. Brown responded climate change data has not been included in the models. However, the topics of water usage and availability and their effect on agriculture are being considered.

Chairperson Hutton inquired as to what a reasonable rate of return should be expected on incentive policies that are implemented for economic development. He also inquired as to Dr. Brown's thoughts on methods for measuring rates of return on these investments. Dr. Brown responded it is very difficult, if not impossible, to determine rates of return due to different definitions and policies and methods of measurement. He suggested a better approach is to define the policy objective that is trying to be achieved from the specific incentive. For example, is the goal a financial return or some other metric such as job growth.

Representative Hutton questioned the validity of the economic multipliers often presented by consultants promoting economic development projects. Dr. Brown responded that without reviewing specific examples, he could not say; however, in general, he has found the actual results were often smaller multipliers than those proposed by the consulting firms.

Representative Kleeb stated, with the current tax policy in Kansas, some people are concerned that, at some point in the future, funds may not be available to pay state and federal obligations. Dr. Brown responded since he is a regional economist he has not been involved with national debt data. However, he said debt as a percentage of GDP has increased dramatically. As a nation, the challenge is to pay down the national debt.

The meeting adjourned at 1:13 p.m. The next Senate Commerce Committee meeting is scheduled for

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January 20, 2016.

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