

MINUTES OF THE HOUSE ECONOMIC DEVELOPMENT COMMITTEE

The meeting was called to order by Chairman Kenny Wilk at 3:30 p.m. on January 13, 2004, in Room 526-S of the Capitol.

All members were present except: Rep. Valdenia Winn, Excused

Committee staff present:

Alan Conroy, Director, Office of Revisor of Statutes  
Helen Pedigo, Office of Revisor of Statutes  
Kathie Sparks, Office of Legislative Research  
Susan Kannarr, Office of Legislative Research  
Fulva Seufert, Secretary

Conferees appearing before the committee: Dr. Mark Drabenstott, Vice President and Director, Center for Study of Rural America, Federal Reserve Bank of Kansas City

Others attending:

See Attached List.

Chairman Wilk called the meeting to order at 1:30 p.m. by welcoming all committee members. He introduced Dr. Mark Drabenstott, Vice President and Director, Center for Study of Rural America, Federal Reserve Bank of Kansas City, who addressed the members about new paths to the new rural economy. His expertise concerned the rural economy and how Kansas legislators might drive prosperity in that area. Dr. Drabenstott's testimony included a power point presentation which gave a broad picture of what his organization sees happening specifically in Kansas now and in the future. Many of his concepts were particularly relevant to Wichita and Kansas City, but also included ways to reinvent the state's rural economy.

Dr. Drabenstott said the nation needs a new rural economy because economic growth is lagging in 6 of every 10 rural areas nationally, and possibly 7 out of 10 in Kansas. He stressed that consolidation is the traditional economic engine for rural places, the state's stewards of values and resources. Consolidation causes loss of population and fewer and fewer opportunities. He believes even in Kansas that manufacturing is more important than agriculture because 90% of farm household incomes derive from non farm sources. Thus the need for a new rural economy that will encourage kids and grand kids from leaving the farm for the suburbs. There is a strong need to create more economic opportunities for second and third generations. He spoke about rural factory jobs being hurt by shutdowns and about how unevenly distributed the rural economy is.

Dr. Drabenstott asked the following questions: 1) Where do we find the opportunities; 2) Where are they located; 3) and How can we get there? He said that globalization creates a new imperative to become the low-cost producer. He presented a graph showing the share of world soybean production and stressed that globalization changes everything, especially commodity agriculture and the rural economy landscapes. Agriculture is a prime example of agriculture becoming low cost by becoming bigger. He mentioned that Brazil and Argentina grow more soy beans than the U.S., but this trend is less noticed than the 200 factories that have closed in rural America. Factory shutdowns are highly noticed because they represent the higher paying jobs in a community. He said that a business assumption is that labor and land are cheaper in rural areas and the comparison is now between labor and land. As globalization reaches into the Kansas economy, an uneven rural economy forms. Dr. Drabenstott said the new horizons include technology transforming industries and traditional business models which put a new premium on entrepreneurs. He specifically mentioned the following three new technologies:

- Genomics (Pharmaceutical crops)
- Advanced Manufacturing Technologies (Precision products with consistent quality)
- Telecommunications (Branding new rural products and services)

An example might be forming a team of farmers and tying the group in with Cabelas to bring world class hunting to Kansas. He also said these business opportunities will require a very different model, and in many cases, world class niches require marketing muscle. One farmer alone cannot do this, so it may take 200 to 300 working together to agree to precision products with consistent quality. Dr. Drabenstott suggested the following four strategies:

## CONTINUATION SHEET

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- Think regionally. (World class means critical mass and is defined by economic opportunity.)
- Find your region's niche. (Could be selling your area's scenery)
- Grow the farm system. (referred to the Royals) Entrepreneurs need great coaches and a lot of support. Key is high growth entrepreneurship using local wealth, local roots, and local jobs.
- Reinvent public institutions. (No one solution for Kansas. Land Grant Universities, Regional Universities, Community Colleges, and Extension service.)

One of the slides referred to "The Arrowhead Model." With the re-invention of a region's community colleges, new philanthropic investments, new government partnering, and new business investments, all were spurred. Dr. Drabenstott closed his presentation by saying that the new rural economy has exciting promise on the horizon, but it will only be reached by charting a new course for public policy and practice (Attachment 1).

Dr. Drabenstott fielded questions like what the legislature can do to address some of these issues. He said pharmaceuticals with production protocols are a key. If Kansas wants to be a player and lay the groundwork, then leading scientists and regulatory agencies must be at the forefront. He suggested a summit to determine exactly how all this is going to be developed. He also said there is a need to move toward an agreement involving regulatory agencies, scientists, universities, etc. The big payoff is in having the processing of these crops near the production. He cautioned that this is bigger than K-State or just one university. He suggested that a champion for this industry is missing, and Kansas needs more champions to solve the problems. When asked about some of the problems, he said that some people have questions about genetically modified crops that produce pharmaceuticals so that costs can be lowered. Another question was if there is a life cycle associated with this so that technology can catch up with demand. He responded that entrepreneurship is a process by which a region discovers what it does better than others. When asked if he were king for a day, what could he do with the Extension Service. He answered that the Extension Service thinks about agriculture along county lines and single producers, but needs to think regionally and to think about more than just agriculture. Chairman Wilk asked if there are any other niches in Kansas that are being overlooked. With a word of caution, he said he thinks it is unlikely that people will understand what all the best niches are, but regions must understand. The legislature needs to help them understand, and there is an opportunity for institutions to fill that void in ways that are not occurring. There is not one way, but rather several different solutions requiring a different view of the future.

Chairman Wilk thanked Dr. Drabenstott for his interesting and informative presentation. The Chair announced there would be no committee meeting Thursday, January 15, 2004.

The meeting adjourned at 4:30 p.m.