

MINUTES

JOINT COMMITTEE ON ECONOMIC DEVELOPMENT

October 11-12, 2001
Room 519-S—Statehouse

Members Present

Representative Bill Mason, Chairman
Senator Karin Brownlee
Senator U. L. "Rip" Gooch
Senator Lynn Jenkins
Senator Nick Jordan
Representative Jerry Aday
Representative Carol Beggs
Representative Mary Compton
Representative Annie Kuether
Representative Margaret Long
Representative Vern Osborne
Representative Valdenia Winn

Staff Present

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

Conferees

Charles Ranson, President, Kansas, Inc.
Kevin Carr, Kansas Technology Enterprise Corporation
LeAnn Schmitt, Legislative Post Audit
Kent Qandil, Kansas, Inc.
Patty Clark, Task Force Vice Chair on the Governor's Vision 21st Century Task Force
Lt. Governor Gary Sherrer
Barbara Reavis, KWIP

Thursday, October 11

The meeting was called to order by Chairman Mason at 10:09 a.m., on October 11, 2001 at the Statehouse, in Room 519-S. By way of an introduction, the Chairman stated that 1986 was the turning point for economic development in Kansas, with the origination of the Kansas Strategic Plan. He said that the new plan deals with long and short-term issues and the Committee will hear reactions from all agencies responsible for economic development in Kansas.

Mr. Ranson, President, Kansas, Inc., presented an overview of the specific policy recommendations included in the Kansas Strategic Plan. This document was the culmination of a 15-month effort, launched July 1, 2000 (Attachment 1). Mr. Ranson reported that the final version of the plan was being delivered to the printer and would be ready for public release on or about November 1, 2001.

Mr. Ranson told the Committee that the plan would accomplish the following goals:

- Deeply analyze the State of Kansas economy;
- Benchmark Kansas to surrounding states and to the nation;
- Provide best practices review of successful strategies in other states;
- Explore future trends in global competitiveness;
- Assert goals and objectives for the state's economy;
- Provide long-term direction concerning those strategies; and
- Offer 47 steps to be taken to strengthen Kansas.

He reviewed a list of 33 members of the Technical Advisory Committee and added that there were more than 1,100 Kansans that actively participated in developing the analysis upon which the plan was based.

The document will be called *Making the Knowledge Economy Work for All Kansans* and embodies recognition of fundamental change in our economy.

Mr. Ranson provided a sampling of the measures of statistical analysis contained in the strategic planning document.

Mr. Ranson addressed the issue of the economic development institutional infrastructure including the Kansas Department of Commerce and Housing (KDOC&H), the Kansas Technology Enterprise Corporation (KTEC), and Kansas, Inc. The analysis was conducted by the consulting team based on interviews of senior officials and program managers and others who consume services that the agencies provide. The consultants

found that the agencies were run with a degree of professionalism, with KDOC&H and KTEC program managers cooperating effectively to advance the economic development of Kansas. At the same time, they also found there appears to be limited cooperation at the leadership levels of the agencies, exacerbated by unhealthy competition for a piece of the fixed pool of funds available from the Economic Development Initiatives Fund (EDIF). It was also noted there was limited coordination among all Kansas agencies involved in workforce development.

He noted that while Kansas, Inc., is regarded for high-quality and objective research, it has had difficulties clearly defining its role in the economic development structure due to lack of explicit legislative language guiding the scope of its ties with KTEC and KDOC&H. With the decline of private funding and the elimination of appropriations from the State General Fund, Kansas, Inc. will be competing with KTEC and KDOC&H for larger shares of the Economic Development Initiatives Fund (EDIF).

Mr. Ranson outlined a set of challenges to respond to global change, based on the findings in the Strategic Plan. Those challenges included addressing the need for sufficient and sustainable enhancement of economic development efforts; meeting the need for a better-educated, better trained, and more adaptable workforce; implementing a strong information technology and communications plan; and stabilizing and rebuilding rural Kansas and enhancing Kansas.

From these challenges, he presented the following policy recommendations:

- Better integrate statewide economic development efforts;
- Satisfy the demands for workforce development;
- Enhance development and diffusion of technology and its commercialization;
- Improve rural, environment, and natural resource utilization; and
- Make Kansas industries and communities more competitive.

He proposed a number of specific policy recommendations in order to achieve the broad range of economic development challenges facing Kansas. These recommendations were in the areas of funding, planning and execution, workforce development, technology and telecommunications, rebuilding rural Kansas, globalization, tourism, and tax incentives and tax policy.

The Chairman commended Mr. Ranson for the extensive work and asked for questions from the Committee.

Discussion followed regarding the population loss that is occurring in 57 counties in Kansas and whether this is comparable to surrounding states. Mr. Ranson noted that the

plains states are all basically experiencing a migration of population to urban centers. Kansas has fewer towns than there were 50 years ago and a reasonable projection reflects considerably fewer towns in 2030, which is why it is important to remove all barriers and legal obstacles to communities finding ways to cooperate for the delivery of government services. Regional Centers will thrive; however, smaller towns that survive will need strong and innovative leadership and access to broad band Internet technology.

A question was posed as to how Kansas will generate the revenue for the necessary increase in funding for economic development programs. Mr. Ranson replied that Kansas is perceived to be a high tax state and therefore increasing taxes is probably not the answer. He opined that Kansas should implement performance-based management and budgeting to ensure that tax revenues are being effectively spent. He went on to say that continuing to fund questionable programs is ineffective and there should be an analytical process for each government service to determine its value. Based on that information, programs could be eliminated or revised leaving additional revenue to be reallocated to existing or new programs. Economic development has a price tag and will not happen unless Kansas makes it a priority through its investment.

The issue of which manufacturing products and services would be good candidates for global marketing was discussed. A recent study, conducted by Kansas, Inc., reflected that only 6 percent of Kansas businesses providing services compared to 40 percent of manufactured products are involved directly or indirectly in international trade. If services have become the single largest component of Kansas' economy then the sale of services should be accentuated internationally by placing a trade account specialist in the field to encourage their participation in the global market.

The timeline for the Kansas, Inc., study on tax impacts and the relative cost of doing business in Kansas was questioned. The study is done every other year and Kansas, Inc., is currently finalizing the 2002 study. Under the current work plan and budget expenditure, the next study is scheduled for 2004.

The Chairman asked Committee members to address any other questions by providing the staff with written questions to be addressed at a later time. The meeting adjourned at 12:08 p.m. for a lunch break. The meeting reconvened at 1:30 p.m.

Kevin Carr, KTEC, addressed the recommendations of the Governor's Vision 21st Century Task Force and the 2001 strategic plan reports and their impact on KTEC (Attachment 2). He said that KTEC is in agreement with the strategic plan developed by Kansas, Inc. The strategy represents a fully balanced economic development system, covering all areas that need attention with specific implementation recommendations, and prescribes an ongoing process for strengthening Kansas' economy now and in the long term.

In response to an inquiry about the status of KTEC's budget request to the Governor's Budget office and their response, Mr. Carr agreed to provide a copy of that request to the Committee.

A question was raised regarding the number of qualified high technology projects that are not being developed due to the lack of funding. He responded that there are many such projects in Kansas, due to the lack of receiving the funding for the next stage of development. There needs to be something to stimulate private investment in this high-risk arena.

LeAnn Schmitt, Legislative Post Audit, briefed the Committee on the *Performance Audit Report*, dated January 2001 (copy on file in the office of the Legislative Division of Post Audit). The audit addressed the following questions:

- Are Kansas' Economic Development Agencies Fulfilling the Roles for Which They Were Created, and Are They Coordinating Their Economic Development Efforts?
- What Benefit Has the State Received as a Result of Loans, Grants, and Investments Made Under Economic Development Programs, and Is There Sufficient Accountability Over These Moneys?
- How Do Funding for Economic Development Activities and Salaries for Economic Development Officials in Kansas Compare to Other States?

Ms. Schmitt stood for questions following her presentation. Included were discussions on the importance of all three agencies, recommendation of redefining the role of Kansas, Inc., and clarifying the criteria used to select states used for comparable tables listed in the audit on page 40. Ms. Schmitt agreed to supply a complete list reflecting the dollars spent by all states for their economic development programs and the definition of that term in different states. She noted that the audit team believed that most of the competition between agencies arose from the funding structure. The agency recommends that the statutes be revised, reviewed, and made consistent, so that agencies do not have overlapping responsibilities. The audit did not support the recommendation from the Governor's Vision 21st Century Task Force that gives all economic development authority to one agency. She noted that lack of freedom and independence could arise from placing all agencies under one head.

The Chairman noted that one of the Committee's responsibilities is to hear the annual reports of the economic development agencies and KDOC&H had been scheduled for that hearing. However, they have declined to do that and have mailed their report to the Committee members, which meets the responsibility set out in statute.

Kent Qandil, Kansas, Inc., presented the *Kansas, Inc. Annual Report for 2001 (Attachment 3)* (copy is on file at Kansas, Inc). The report provides a ten-year retrospective review of population, employment, and wage trends.

Mr. Qandil updated the Committee on the recent activities from the 2001 Session regarding the Kansas, Inc., online survey for strategic planning, venture capital, sales tax exemptions and income tax credits, and the Tax Impacts and Relative Cost of Doing Business In Kansas' report.

Discussions followed regarding reasons behind the significant increase in manufacturing jobs and the average annual wages in Kansas. He was asked the status of legislation regarding the utilization and effectiveness of tax incentives for economic development. He responded that Kansas, Inc., and the Department of Revenue were working on two potential solutions, which will be presented to the Special Committee on Assessment and Taxation on October 18.

Patty Clark, Vice Chair, Governor's Vision 21st Century Economic Development Task Force, appeared before the Committee to answer questions regarding the recommendations forwarded to the Governor on December 1, 2000 (Attachment 4). She reviewed the members of the task force for the Committee.

She told the Committee that the recommendations were reflective of thorough study, broad-based citizen input, and focused Committee debate. They address the need for structural changes and offer an alternative structure that would foster cooperation resulting in increased economic viability and diversity of Kansas. The task force recommendations were in the following areas:

- Financing Economic Development for the Next Decade;
- Restructuring Economic Development for the Next Decade;
- Strategic Planning in Economic Development for the Next Decade;
- Technology Enhancement in Economic Development for the Next Decade;
and
- The Impact of Tourism on Economic Development for the Next Decade.

In response to a question regarding duplication of services in the system, Ms. Clark stated that if all services were housed in a singular entity, a smoother business process as well as the elimination of duplication of services, would be assured.

In response to an inquiry as to the status of the recommendations, Ms. Clark told the Committee that there has been no action taken on the recommendations. The task force's work is completed and they have received no feedback on any future activities.

In response to a question regarding whether the task force had considered privatizing some of the services currently being delivered by the state, Ms. Clark told the Committee that this option had not been discussed by the task force.

The meeting adjourned at 4:35 p.m.

Friday, October 12

The meeting was called to order by Chairman Mason at 9:06 a.m. in Room 519-S of the Statehouse.

Lt. Governor Gary Sherrer spoke to the Committee regarding KDOC&H's response to the Kansas, Inc. Strategic Plan. He announced that copies of KDOC&H's annual report had been sent to the Committee by mail.

He read a statement regarding the possible restructuring of Kansas economic development agencies (Attachment 5). He stated that the issue was raised by both the Governor's Vision 21st Century Task Force and Legislative Post Audit and merits study and discussion. He suggested that the issue needs careful deliberation, creative thinking, and concentration on the future and that limited resources and a rapidly changing world require action and not reaction.

Regarding the Strategic Plan, the Lt. Governor reviewed the process that followed the consultant's draft of the Strategic Plan. After lengthy discussion, he joined the Kansas, Inc., Board in casting a unanimous vote to request that Kansas, Inc., produce a set of specific and measurable initiatives because the report was not sufficiently specific in terms of changes needed for the Kansas economy. The Kansas, Inc., staff, together with members from KDOC&H, KTEC, KCCI, and Kansas Industrial Development Association, drafted the initiatives that are set forth in the Strategic Plan. The Lt. Governor expressed his support for the majority of initiatives in the plan, and stated that if funding can be secured it is a workable, measurable document that would provide significant support items for the state.

He stated that measures must be taken immediately to strengthen the Kansas economy, and to that end he has invited a group of respected economic development leaders from around the state to meet in order to draft an economic stimulus package to boost the economy. The plan will be presented to the Governor and the Legislature at the beginning of the 2002 Session. While the strategic plan addresses long-term growth during the next five years, the stimulus package would provide the economy with a jump-start as early as January 2002. He cited several examples of how this would help the economy. The importance of the Strategic Plan time-line was emphasized.

In addition to initiatives presented in the Governor's Vision 21st Century Task Force Report, Kansas, Inc. Strategic Plan, and the economic stimulus package, Lt. Governor Sherrer stated that he and his staff had also compiled a list of KDOC&H's strategic initiatives to be presented to the Legislature during the 2002 Session on how to strengthen the Kansas economy (Attachment 6).

The plan consists of the following six focal points.

- Rebuilding rural Kansas;
- Enhancing our global position;

- Targeted workforce development initiatives;
- Creating new incentives and policies;
- Enhancing tourism promotion; and
- Securing appropriate funding for producing results.

When questioned about his opinion of eliminating EDIF funding for economic development agencies and funding economic development agencies entirely through the State General Fund, he responded that philosophically it sounds like a good idea, since dedicated funds seem to get raided or diluted. However, most Legislators have never viewed economic development as a high priority and funding from the SGF could be unreliable.

The Lt. Governor was asked his opinion on the recommendation made by the Governor's Vision 21st Century Task Force regarding funding of economic development by dedicating a percent of the State General Fund to that purpose. He responded that the concept is good; however, if the formula were tied to the State General Fund it would mean that in the good years there would be more funds and in the lean years there would be less.

The Lt. Governor was asked to provide an organizational chart for KDOC&H which could be overlaid with similar charts from KTEC and Kansas, Inc.

The Chairman advised the Committee that Senator Brownlee is coordinating a tour of the training facility at Johnson County Community College the first week of the session for both the Senate Commerce Committee and the House New Economy Committee.

Staff was asked to provide a review of questions raised during the September 20-21 meetings. A packet of information based on requests from the Committee to a variety of people was distributed (Attachment 7).

Additional information was offered by Barbara Reavis regarding federal funding for workforce development in Kansas (Attachment 8).

It was noted that due to a scheduling problem the League of Kansas Municipalities and representatives of the telecommunications industry were unavailable to provide an update to the Committee regarding the status of the ongoing negotiations regarding telecommunication issues at the October meeting. The two parties requested that they be allowed to provide a report at the next meeting. Due to the scheduling of the remaining meetings, their last report may need to be submitted in letter form. There was discussion regarding the process of meeting statutory requirements.

The Chairman suggested that Committee members review all the materials they had received, anticipating at the next meeting they would pursue the reorganization issue and

funding issues and develop specific recommendations on aviation research and discuss the issue of a training facility.

The next meeting is November 8-9, in Topeka. The meeting was adjourned at 11:48 a.m.

Prepared by Rose Marie Glatt
Edited by April Holman

Approved by Committee on:

November 9, 2001