

## MINUTES OF THE SENATE COMMERCE COMMITTEE

The meeting was called to order by Chairperson Karin Brownlee at 8:30 A.M. on January 12, 2006 in Room 123-S of the Capitol.

All members were present.

### Committee staff present:

Kathie Sparks, Kansas Legislative Research Department  
Helen Pedigo, Revisor of Statutes  
Jackie Lunn, Committee Secretary

### Conferees appearing before the committee:

Lew Ebert-KCCI  
Dr. Art Hall-University of Kansas, Center for Applied Economics

### Others attending:

See attached list.

Chairperson Brownlee introduced Lew Ebert with the KCCI to give his presentation on the "Trends in the Kansas Economy". Mr. Ebert presented written copy. (Attachment 1) Mr. Ebert stated the poll he is presenting was conducted at the end of October and 96% of the businesses that responded had less than 100 employees. Mr. Ebert stated the first question they always ask is to find out if the economy is on the right track. Fundamentally it has not changed since they asked this question last year. He stated the poll indicates it is on the right track. Business people by nature are optimistic so part of what they are trying to do is capture the sense of optimism. When asked what are the most important issues facing Kansas, taxes show up continually as the dominant concern. When asked if the Kansas business climate was better or worse by regions of the state, particularly in Kansas City and the northeast, those are the only two areas where better tops out over worse. Wichita, southeast, and west show up as worse compared to other states. When asked if they would leave Kansas if they could, 23% replied in the affirmative with the main reason being taxes. When companies were asked what they thought they would be doing in the coming year, 4% thought they would decrease their headcount, 21% thought they would have an increase. When asked a year later what actually happened, 18% actually decreased their headcount and only 16% had an increase. Even business people trying to be optimistic did not necessarily experience what they predicted the following year. Particularly large decreases in the work force occurred in the Southeast, Kansas City, and Wichita. When asking the employers about the quality of the Kansas workforce they produced numbers in the 70th percentile. Senator Wysong asked if this was due to the quality of intelligence, education or work force ethics? Mr. Ebert state the question was phrased to ask "what is your overall sense of the quality of the workforce in Kansas", so probably all those factors came into play. Mr. Ebert stated a good indication of the confidence Kansas businesses have is exhibited by the size of their capital investment. There was a slight increase in major investments from 2004 to 2005 and also a slight increase in minor investments. It is important to not tax the very thing that can grow the economy. Taxing investments and innovation is probably a practice that needs to end quickly. Businesses were asked to outline the best economic strategy to grow the economy over time; what would be the most effective way? 54% believe in reducing the cost to do business and this is an area that the legislature can make a big impact in their economic future. Increase spending on education was also listed. Health care costs, taxes, and the legal system are some of the issues which do show up consistently over time as problems and concerns for businesses. Two out of three businesses, 62%, feel they pay too much tax versus 35% who feel it is just about the right amount and in some cases with vast differences noted in Wichita and the Southeast feeling high taxes are a deterrent to growth. Property tax shows up as the dominant concern followed by personal income tax, corporate income tax, estate tax, and franchise tax. Businesses were asked if they thought Kansas was the best state in America to do business. In every region, by a large margin, very few business leaders agreed that it was. Mr. Ebert said this was a trend they were trying to change and they are looking for ways to jump start the economy. Kansas is not keeping pace with the national economy and that is not acceptable.

Upon the conclusion of Mr. Ebert's presentation, Senator Jordan asked what were the exciting proposals to reduce business costs mentioned in the State of the State Address. He also stated there is conversation that by eliminating the business equipment tax you may be raising the local mil levy. Mr. Ebert said they

## CONTINUATION SHEET

MINUTES OF THE Senate Commerce Committee at 8:30 A.M. on January 12, 2006 in Room 123-S of the Capitol.

are still working on that and part of what they are looking for is a way to quit taxing investment. They have contracted with Wichita State to help work on this issue. This is what is referred to as a growth deficit issue. Senator Jordan agreed with Mr. Ebert and also felt they needed to find a way to address this issue. Senator Emler entered the discussion stating that most of the County Commissioners tell him that if the business and equipment tax is eliminated it would be detrimental. Senator Emler asked which state was better. Mr. Ebert stated North Carolina was named the best state to do business in for the past three years and that Kansas and North Carolina are some what alike. He also stated that Kansas has made some choices which have worked against the economy over time and it will take a little time to unravel. Senator Kelly entered the discussion asking if a comparison of the same questions asked in the survey of other states was available. Mr. Ebert stated he did not have that information and it could possibly be difficult to get from other states. Senator Wagle entered the discussion regarding taxes in Kansas and what could be done. Senator Barone entered the discussion asking Mr. Ebert which taxes he would recommend. Senator Barone suggested that Mr. Ebert present that information to the Committee at a later date. Senator Reitz entered the discussion with concerns and stated that no alternatives have been given to the Committee to solve the problem of taxes in Kansas.

Chairperson Brownlee introduced Dr. Art Hall from the Center for Applied Science at the University of Kansas to give his presentation on the Trends of the Economy of Kansas. Dr. Hall presented written copy. ([Attachment 2](#)) Dr. Hall stated he has spent the last year digging into the Kansas Productivity Puzzle and comes before the Committee today to give updated information on this issue. Dr. Hall stated that he would start with the trends in economic growth in Kansas, (GSP, the final value of goods, services produced within the borders of Kansas). He referred to the chart on page 1 of his written copy and stated Kansas lags in comparison to the United States and the Plains States; the Plains States being, Kansas, Missouri, Nebraska, Iowa, the Dakotas and Minnesota. He stated economic growth can be divided into two parts, employment and productivity; the volume of people producing goods and services and the efficiency with which they are producing. You want more and more people working and increasing their efficiency. Kansas lags in labor productivity in comparison to the Plains States and the United States. He stated Kansas productivity drives wages and in the state of Kansas wages are growing faster than productivity. Kansas has lost its cost advantage. Productivity is growing much faster in other places. Dr. Hall stated that the way to solve the productivity puzzle in Kansas is to look at private capital investment. Kansas lags in the Plains States and the United States in this area. Kansas has the 4<sup>th</sup> highest number of local government employees per person in the nation and is also the 4<sup>th</sup> fastest growing over the same number of years. According to research completed in 1991, the higher the government spending the slower the economy grows. Over the past 25 years state and local spending in Kansas has grown systemically faster than the economy. He stated according to his charts, local government growth trends for full time employment has caused the source of the growth trends. Kansas has one of the highest labor participation rates in the country. Every time Kansas hires 9 new private sector employees they are hiring 1 local government employee. His question is what does that one employee do? Are they adding valued services? If they are not, they are a lag on the economy. Dr. Hall stated that all his information comes from the Bureau of the Census. Dr. Hall stated that in the school system we have flat enrollment but have doubled in the amount of people working in the system. If these people are not adding value and are not worth what they are being paid, they are also a lag on the economy. According to the charts, Kansas has doubled input but not the output. In closing, Dr. Hall stated that if all the state workers are not worth what they are being paid then they cause a lag in the economy creating excessive overhead.

Chairperson Brownlee thanked Dr. Hall and stated the information he presented was very valuable but because of the time, they would have to adjourn. She also stated the Committee would like to have him back to finish his presentation and answer questions.

Meeting adjourned at 9:30 a.m. with the next meeting scheduled for January 17, 2006 at 8:30 a.m. in room 123S.