

MINUTES

JOINT COMMITTEE ON ECONOMIC DEVELOPMENT

October 9, 2003
Room 123-S—Statehouse

Members Present

Representative Kenny Wilk, Chairman
Senator Nick Jordan, Vice-Chairman
Representative Tom Burroughs, Ranking Minority Member
Senator Jim Barone
Senator Karin Brownlee
Senator Pete Brungardt
Senator U. L. Rip Gooch
Representative Donald Dahl
Representative Lana Gordon
Representative Judith Loganbill
Representative Vern Osborne
Representative Valdenia Winn

Member Absent

Representative John Faber

Staff Present

Kathie Sparks, Kansas Legislative Research Department
Deb Hollon, Kansas Legislative Research Department
Susan Kannarr, Kansas Legislative Research Department
Renaë Jefferies, Office of the Revisor of Statutes
Mitch Rice, Office of the Revisor of Statutes
Fulva Seufert, Committee Secretary

Conferees

Dr. R. Andrew Allison, PhD., Director of Healthcare Finance and Organization, Kansas Health Institute
Carl Schramm, President and CEO, Kauffman Foundation
Sandy Praeger, Insurance Commissioner, Kansas Department of Insurance
Dr. Melissa H. Birch, Kansas University School of Business

William Keeton, Senior Economist, Federal Reserve Bank of Kansas City
Jerry Lonergan, President, Kansas Inc.

Thursday, October 9 Morning Session

The meeting was called to order by Chairman Wilk at 9:15 a.m., in Room 123-S of the Statehouse. Chairman Wilk gave a brief overview of the day's agenda.

The Chairman introduced Dr. R. Andrew Allison, Ph.D., Director of Health Care Finance and Organization, Kansas Health Institute, who shared his expertise on national public health care spending. Dr. Allison, a health care economist, works on children's issues as well as insurance at the Institute. He addressed the costs of the uninsured and stressed that Kansans need to be better educated about making healthy life choices. His testimony also included information regarding access to health care for the uninsured, funding sources for the uninsured, and public expenditures on health care (Attachment 1). Dr. Allison informed the Committee that although nationally tax financed health care has grown approximately 15 percent, the rate in Kansas has held at 11 percent. Nationally, spending on the uninsured accounts for approximately 5 percent of total health care expenditures. In Kansas, the 5 percent for uninsured health care is several hundred million dollars. He said this was somewhat less than one might expect based on the total population. However, the uninsured do receive less health care than those with insurance, and, of course, being uninsured is bad for one's health. The Institute of Medicine estimates the loss economically to be \$65.0 to \$130 billion annually to the nation.

Dr. Allison reported that 30 percent of the total cost is paid by the uninsured individual, with a mix of public subsidies, physicians, and hospitals paying the remaining 70 percent. However, about 80 percent of hospitals' uncompensated health care costs are covered through Medicare and Medicaid or direct tax support from local communities and states.

During questions, Chairman Wilk asked Dr. Allison if the Kansas Health Institute Seminar will address the total expenditures on uninsured health care and the number of recipients; and the percentage of tax dollars involved in Kansas. He also asked if nursing home dollars are included. Dr. Allison said they were included along with acute care. Dr. Allison also stated that the November 3-5 seminar will focus on policy issues facing the state legislature.

Chairman Wilk thanked Dr. Allison for his interesting report and for the Institute weighing in on the issue. He commented that later in the afternoon the Insurance Commissioner would further enlighten the Committee, and at that time additional questions could be asked.

Chairman Wilk reminded the Committee that at the August meeting members requested a report on the studies by the Kansas Chamber of Commerce and Industry. Staff presented a spreadsheet showing the study, the ranking, and the criteria in these selected economic health studies (Attachment 2). In addition, staff provided a White Paper by the National Commission on Entrepreneurship (2000) (Attachment 3).

Chairman Wilk welcomed Mr. Carl J. Schramm, President and CEO, Kauffman Foundation, who spoke about recognizing tomorrow's opportunities today, and specifically entrepreneurship, technology transfer, and the life sciences. Mr. Schramm said that eleven years ago Ewing Marion Kauffman was the first entrepreneur to focus on the process of earning money. He further stated that the Kauffman Foundation is the only one in the country that focuses and dedicates itself to the advancement of entrepreneurship. The point was made that firms of fewer than 20 employees generate the majority of new jobs in the United States. In addition, more than 10.1 million adults in the U.S. attempt at some time in their life to create a business and this is almost as common as getting married or having a baby. He mentioned that one of the keys to entrepreneurship is to facilitate the transfer of new technology. For this reason, the Kauffman Panel of Advisors on the Life Sciences was initiated to find ways of accelerating new advances in life sciences into the marketplace.

From a Kauffman study, it was learned that universities' ability to transfer expertise and commercialization of products has not kept pace with the increases in research funding. Mr. Schramm believes the organization and operation of technology transfers are not very productive due to under-funding, insufficient staff, and not being an integral part of research departments. He stressed that this was particularly disturbing because 60 percent of government funding for academic research and development now goes to the life sciences.

Mr. Schramm's testimony stated that Kansas City ranks 42nd out of 51 metropolitan statistical areas. However, Kansas City ranks 18th best in terms of economic structure and 3rd in terms of resource endowment ([Attachment 4](#)). He believes that Kansas City is ripe for success, but needs improvement in innovation in research and development spending and in the ability to transfer research from the lab to the marketplace. Mr. Schramm stated that the Stowers Institute has the possibility of becoming one of the most innovative biomedical research facilities in the world. He stressed that, "Life Sciences is the next frontier of entrepreneurship," and that he hopes the Kansas Legislature will strive to help advance entrepreneurship.

Chairman Wilk thanked Mr. Schramm and welcomed Sandy Praeger, Insurance Commissioner, Kansas Department of Insurance, who addressed the cost of insurance to small businesses. Commissioner Praeger said the whole debate is centered around cost and availability.

The Commissioner pointed out that insurance is changing due to fewer choices, medical malpractice insurance, growth in utilization of services, prescription drugs, cost shifting of the uninsured, Medicaid, and Medicare. She also mentioned that there are fewer choices with 10 insurance companies withdrawing from the Kansas market since July 1, 2001, and five additional companies that have closed blocks of business in Kansas in the last two years. Three of the major medical malpractice carriers have quit writing coverage in the last two years due to financial difficulties. Kansas has also seen a rise in rates due to increase in severity of losses, and carriers in Kansas appear to have been under-priced for a few years. There also has been a downturn in the investment market. Commissioner Praeger reported that the total national health care spending is projected to continue growing 7 to 20 percent a year through 2006. The remainder of her testimony referred to prescription drugs, cost shifting, national and state markets and their changes, uninsured Kansans, increased costs to everyone, long-term care, Kansas nursing home projections, state versus federal regulations, and Kansas Insurance Department (KID) consumer education campaign ([Attachment 5](#)).

Chairman Wilk thanked Commissioner Praeger and announced that the Committee would break for lunch. The meeting was scheduled to resume at 1:30 p.m.

Afternoon Session

Chairman Wilk welcomed Dr. Melissa H. Birch, Associate Professor, Director, Center for International Business Education and Research (CIBER), Kansas University School of Business, who introduced the following guests she brought with her: Jimmy Morrison, Assistant Director of Outreach, CIBER; Carol Rose, Executive Director, CIBER; Monte Johnson, Business consultant from the private sector in Kansas; David Keller, student; and Nick Clark, student. Dr. Birch reminded the Committee that in 2002, Kansas exports increased 7 percent to a record 5.8 billion. However, she said that Kansas firms could do better. In the 1998 ASKME survey of Kansas businesses, it indicated that only about one-third of Kansas firms export when 85 percent thought their products or services had export potential. Dr. Birch said CIBER has the capability to help firms access international customers for their products and services. Her testimony included background information of the University of Kansas' Center of International Business (CIB). Dr. Birch also talked about CIBER's portfolio of activities that focus on outreach to the business community. These include Internet resources, seminars and workshops, research on foreign markets, and cooperation with other organizations to maximize their mutual effectiveness. She addressed their coordination with other organizations and training the next generation of Kansas business leaders ([Attachment 6](#)). Dr. Birch's handouts included a magazine entitled *Taking Business Into The 21st Century* and a flyer entitled *Global Advantage*. Included also were several additional handouts telling about the program.

Chairman Wilk thanked Dr. Birch for her informative presentation. Next, he welcomed Mr. William R. Keeton, Senior Economist, Economic Research Department, Federal Reserve Bank of Kansas City, who presented an update on the Kansas economy. The report included the recent performance of Kansas economy which included employment and income, manufacturing, construction and real estate, services and government, and agriculture. The majority of Mr. Keeton's testimony involved graphs showing the following:

- Kansas Employment Growth Year-Over-Year;
- Growth in Personal Income Year-Over-Year;
- Comparison of Growth of Wichita, Lawrence, Kansas City, and Topeka;
- Durable Goods Employment Growth Year-Over-Year in all U.S. States and Kansas;
- Nondurable Goods Employment Growth Year-Over-Year in all U.S. States and Kansas;
- Tenth District Production Indexes;
- Tenth District New Orders Indexes;
- Existing Home Sales;
- Single-Family Permits;
- Private-Sector Services Employment Growth;
- Growth in State and Local Government Employment;
- Kansas Wheat Production;
- Kansas Cattle Prices;
- Growth in Business Fixed Investment in the U.S.;
- Capital Spending Indexes for Tenth District Manufacturers;
- U.S. Non-Farm Employment;

- Employment Indexes for Tenth District Manufacturers;
- Blue Chip Forecast for Real GDP Growth;
- Urban Population Growth;
- Rural Population Growth;
- Sources of Population Growth in the 1990's; and
- Sources of Population Growth in 2000-2002.

Mr. Keeton explained that housing has kept the economy going, and is solid in Kansas. Private sector service jobs are holding steady, but state and local jobs are down more than 2 percent over a year ago, however, retail trade is currently adding jobs and consumer spending has been edging up. In addition, Kansas is not as dependent on farming as it had been in the past; however, the farm sector has been helped by a good wheat harvest and high livestock prices. Services and manufacturing make up much more of the economy, and travel and tourism accounts for more than manufacturing. Mr. Keeton said that firms are moving jobs overseas increasingly in the service area. However, he is seeing some signs that business is starting to improve because of an increase in future hiring plans. In closing, Mr. Keeton summed up with the following:

- Kansas is slowly recovering from the recession like the rest of the nation;
- Businesses must start investing and hiring for recovery to continue;
- Most economists think this will happen which will allow the recovery to continue; and
- Demographic trends pose challenges for both rural and urban Kansas (Attachment 7).

During questions, Chairman Wilk mentioned that he hopes the Federal Reserve would report back to the economic committees on a quarterly basis. Mr. Keeton responded that he would be happy to do this. For updated information, check the web site at www.kc.frb.org.

Chairman Wilk thanked Mr. Keeton and told him he wants to have him back to review the economic conditions, regularly.

Chairman Wilk asked for approval of the Minutes for the August 12 and 13, 2003, meeting. *Ranking Minority Member Tom Burroughs made a motion to approve the August 12 and 13, 2003, minutes, and Senator Nick Jordan seconded. Motion passed.*

Chairman Wilk welcomed Mr. Jerry Lonergan, President, Kansas Inc., who presented Kansas Inc.'s Fiscal Year 2003 Annual Report. Mr. Lonergan said that he is the fourth President of Kansas Inc. He reported that a 2-year decline in private sector jobs has occurred, but noted that Kansas' 1.2 percent loss is a smaller percentage in total private jobs than either the nation or the six surrounding states. He mentioned that the Kansas per capita income level of \$28,838 in 2002 has stabilized the past two years relative to the national average. It is 93.5 percent of the nation's per capita income. However, Kansas' income performance is less positive than employment since it now has only the 4th highest income level in the seven state region after ranking second for a number of years. Kansas' population growth lags the nation, and with the exception of Nebraska and Iowa, trails the states in the region. Mr. Lonergan is reasonably optimistic because of the underlying employment resiliency in the face of a down economy. A growing and younger population

base with an increasing minority population would suggest that Kansas has the base to be a leading participant in future economic turnarounds. He outlined the following goals for Kansas, Inc.:

- Be the economic development policy and research arm for the state and be a role model for other states;
- Leverage resources to attract public and private dollars to create a healthy research agenda; and
- Make board service and board meetings interesting and challenging, so people will desire to be board members (Attachment 8).

Chairman Wilk thanked Mr. Lonergan, and asked the Committee to discuss possible dates for the November meeting. It was decided to meet November 12 and 13. The meeting will start at 10:00 a.m. on November 12, 2003. The meeting adjourned at 4:30 p.m.

Prepared by Fulva Seufert
Edited by Kathie Sparks

Approved by Committee on:

November 13, 2003
(date)