Chapter 3: Competitiveness Assessment of Kansas

This chapter provides a summary of the full technical report which assesses the competitiveness of Kansas based on economic performance and structure, foundation area success, and the institutions that support and enhance economic development. In Sections 3.1 and 3.2, comparisons are made to a group of regional competitor states, typically defined as Arkansas, Colorado, Iowa, Missouri, Nebraska, and Oklahoma. The full report also presents comparisons to benchmark states such as Washington and North Carolina.

3.1 Economic Trends in Kansas

This section examines recent economic trends at the national, state, and local levels and discusses some of the challenges facing Kansas. In addition, it presents location quotients that measure employment concentrations by industry. In short, Kansas has prospered during this recent period of economic expansion with rising employment and per capita income and low unemployment rates. Underlying trends and economic conditions, however, cause concern for the future. These concerns include labor shortages, a lack of industrial mix diversity, slow population growth and uneven economic growth, suggesting that there is still work left to prepare Kansas for the 21st century economy.

Economic Growth and Short-Term Uncertainty

U.S. Trend: The U.S. experienced an unprecedented period of economic expansion in the 1990s, highlighted by strong Gross Domestic Product (GDP) growth and low unemployment rates. A slowing of the economy in the past year has created an element of uncertainty in the short-term, but generally, there is confidence in long-term growth.

KS Implication: Kansas has benefited from this growth with even lower unemployment rates (three percent in 1999) and strong employment growth (almost 20 percent in the 1990s).

Challenges: A lack of industrial structure diversity has the potential to hurt Kansas, especially in national recessions. How can Kansas continue to diversify in the 21st century and maintain its employment growth levels? Additional threats to the Kansas economy include volatile oil prices and the gradual depletion of the aquifer in Kansas.

Growing and Aging Population

U.S. Trend: The U.S. population continues to grow (almost 10 percent in the 1990s) and advances to health and nutrition are extending life expectancies.

KS Implication: Kansas is also experiencing a growing and aging population. But the growth has been less than at the national level, largely due to emigration of younger populations. Thus, aging is more pronounced. Population growth in Kansas is concentrated largely in the four metropolitan areas, and internal redistribution of population is accentuating the challenges facing smaller communities. Immigrants to Kansas are largely foreign, capturing the available meat-packing jobs, providing opportunities and challenges around linguistic and cultural issues.

Challenges: What solutions exist to improve the ability of Kansas to retain and attract a youthful workforce, especially in rural areas? The aging of the population is especially acute in rural areas and leads to increased demand for government services and a declining revenue base. How will communities sustain the cost of existing government services, and how will increased funding needs for the Department of Aging balance with the state budget?

Shift Towards Service and High-Tech Jobs

U.S. Trend: The U.S. economy is shifting from a manufacturing-based economy to a service and knowledge-based economy.

KS Implication: Kansas also sees this trend, as service jobs are growing more quickly than manufacturing.

Challenges: Is Kansas poised to fully partake in the Knowledge Economy?[1] Does it have the necessary labor force, capital availability, research facilities, entrepreneurship, etc.? Will rural Kansas be left behind in the Knowledge Economy if it continues to emphasize commodity agriculture, manufacturing, and local government jobs?

Increasing Importance of Trade

U.S. Trend: Imports and exports as a share of U.S. GDP are rising. Technology advances allow for increased mobility of capital and quicker global responses to information. The expansion of international trade agreements is also a positive influence on trade.

KS Implication: Kansas has also experienced increases in international trade activity, notwithstanding its central location far removed from the nation's borders. Kansas has

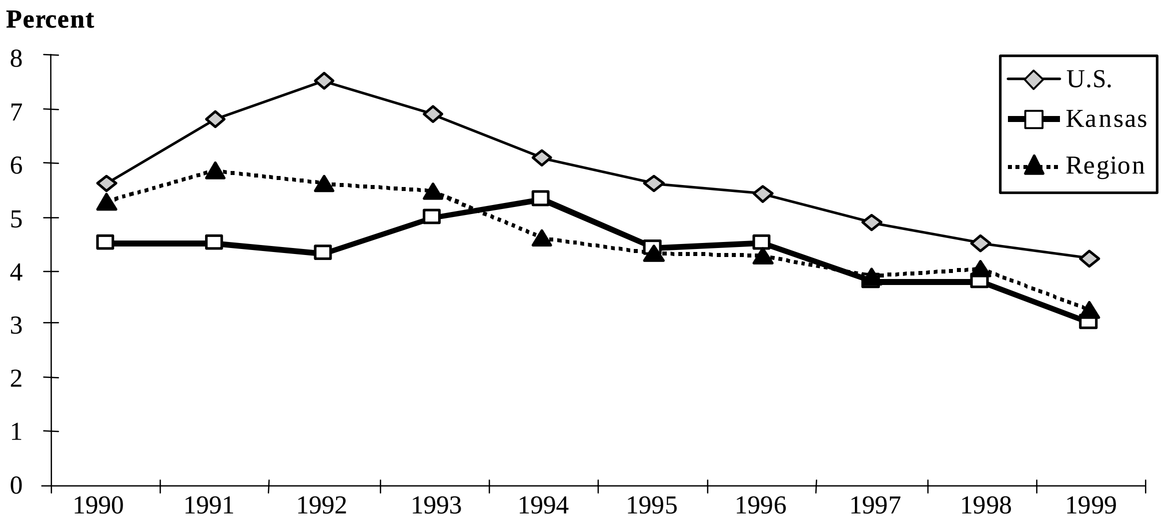
[1] The new economy is a nebulous concept, but meant here to emphasize a knowledge-based economy where labor force skill, technology, product quality, efficiency, and capital resources are the primary determinants of economic success.

experienced stronger than average manufacturing growth in the 1990s, which has traditionally been an indicator of exporting capacity.

Challenge: Is Kansas positioned to grow its service and information-based exports, while maintaining its agriculture and manufacturing export base?

Unemployment

Figure 3.1 Unemployment Rates 1990-1999



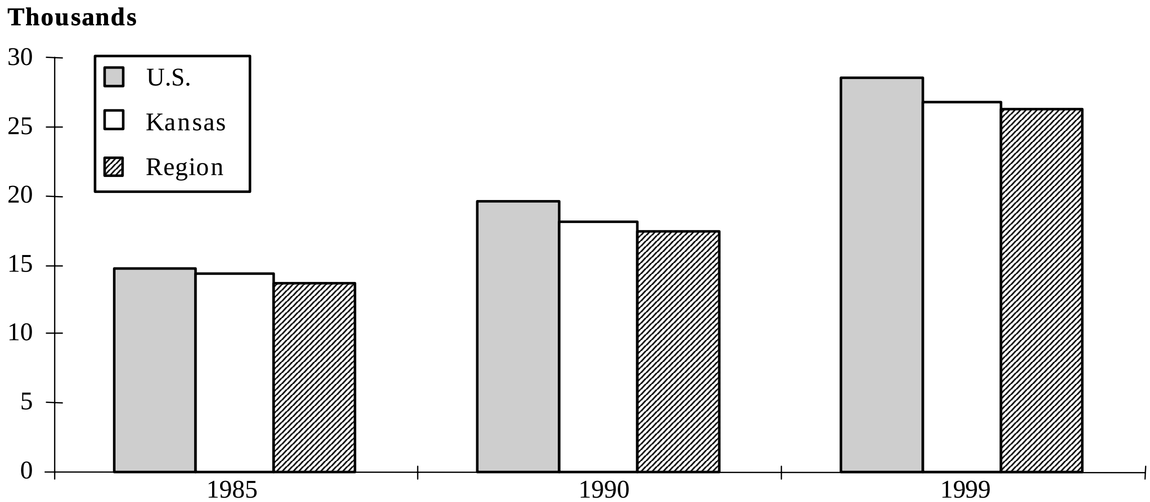
Source: U.S. Bureau of Labor Statistics.

- Kansas' unemployment rate has consistently been under that of the U.S. over the past decade. It was only 3 percent in 1999, though has shown signs of an up-tick in 2000.
- Kansas' unemployment rate has typically been lower than the competitor region weighted average rate. The low unemployment rate is an indicator of potential labor shortages, especially since Kansas has a relatively low rate of involuntary part-time employment, according to the Corporation for Enterprise Development (CFED) 2000 Report Card.[2]
- While the height of the U.S. unemployment rate was in 1992, Kansas' top rate was in 1994. The downward trend since 1994 mirrors that of the U.S.

[2] It should be noted that interviews conducted with business and government leaders in central and western Kansas indicated that involuntary part-time employment and underemployment were real issues in their regions.

Per Capita Personal Income

Figure 3.2 Per Capita Personal Income

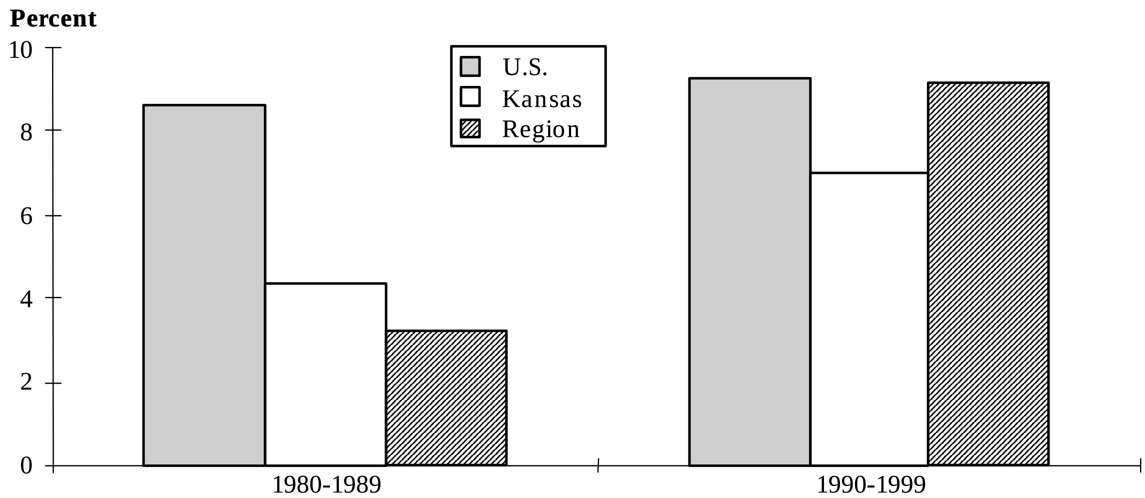


Source: U.S. Bureau of Economic Analysis.

- Per capita personal income has consistently been slightly lower in Kansas than at the U.S. level, dating back to at least 1985.
- Meanwhile, Kansas' per capita income has remained slightly higher than that of the competitor states.
- Kansas' per capita income growth was above that of the U.S. from 1989 to 1994, at 25 percent, though just slightly lower than that of the competitor states.
- From 1994 to 1999, all three areas enjoyed per capita income growth of over 25 percent, though the U.S. and competitor states grew slightly faster than Kansas.

Population

Figure 3.3 Population Growth



Source: U.S. Bureau of Economic Analysis.

- Population growth has lagged in Kansas compared to the U.S. over the last two decades. The deficit was even larger in the 1980s compared to the 1990s.

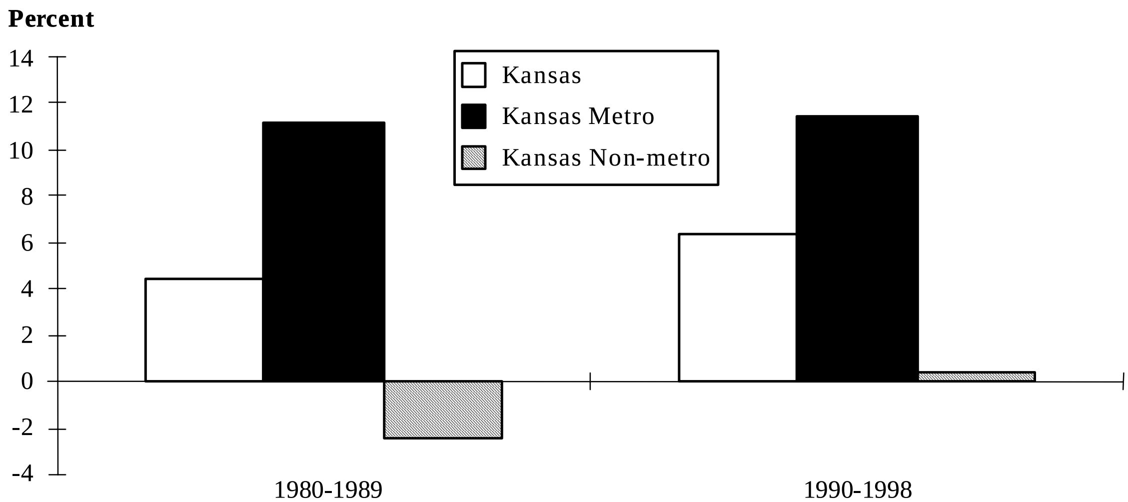
- Kansas' population growth was faster than the competitor states in the 1980s, but roughly two percent lower in the 1990s. The relatively slower growth in the 1990s is attributable to Colorado, which experienced a population increase of over 22 percent. Kansas' population growth outpaced Nebraska, Iowa, Missouri, and Oklahoma in the 1990s.

Metro and Non-Metro Area Disparities

A commonly-cited issue in Kansas is the disparity between metropolitan and non-metropolitan areas within Kansas.[3] This subsection highlights some of the key differences between metro and non-metro areas and provides analysis of population trends at the county level.

[3] Nine counties make up metropolitan areas in Kansas as defined by the U.S. Census: Butler, Harvey, Sedgwick, Douglas, Johnson, Miami, Leavenworth, Shawnee, and Wyandotte.

Figure 3.4 Population Growth in Kansas



Source: U.S. Bureau of Economic Analysis.

- Population growth in Kansas has been disproportionately located in metropolitan areas over the past 20 years.

- Declining to stagnant population growth in non-metro areas underscores the challenges facing rural Kansas.

- The counties with the largest rates of population growth over the 1990s were those located close to population and economic centers, such as Kansas City, Wichita, and Manhattan.[4] Population growth also occurred in the Garden City, Dodge City, and Liberal area, largely due to employment gains in the meat-packing industry. However, every county in the northwestern section of the state except for Ellis (with Hays) had a decline in population.

- Kansas metro area per capita private earnings have consistently been higher than non-metro areas. In 1985, non-metro area per capita private earnings were 60 percent of metro area earnings. This measure fell to 53 percent in 1998, indicating that the gap between metro and non-metro areas is increasing.

- In 1998, non-metro per capita personal income (which includes public sector earnings and retirement income) was 76 percent of metro areas compared to only 53 percent for per capita private earnings. This is an indication of the importance of local government earnings and retirement income in non-metro areas.

[4] Population growth in Pottawatomie County is largely due to a large Kansas Power and Light power station.

Location Quotients

Table 3.1 Kansas Location Quotients, 1999

	KS to U.S.	KS to Region
Farm employment	2.37	1.17
Agricultural services, forestry, fishing	0.94	1.02
Mining	2.19	1.43
Construction	0.93	0.89
Manufacturing	1.04	1.07
Lumber and wood products	0.56	0.56
Fabricated metal products	0.67	0.65
Other transportation equipment	5.40	6.24
Food and kindred products	1.70	0.94
Transportation and public utilities	1.05	0.95
Wholesale trade	1.05	1.10
Retail trade	1.02	1.00
Finance, insurance, and real estate	0.82	0.85
Services	0.86	0.93
Government and government enterprises	1.14	1.14
Military	1.30	1.24
Local	1.21	1.26

Source: U.S. Bureau of Economic Analysis and Cambridge Systematics.

- Location quotients, measuring the concentration of employment by industry in Kansas, were calculated based on 1999 BEA employment data, comparing Kansas to the U.S. and its competitor states. A location quotient above 1.0 means that the industry has a larger share of employment than the U.S. or regional average and is frequently interpreted to suggest an industry that is more likely to export goods or services to other regions. Conversely, values less than 1.0 indicate a relatively lower share of total employment and suggest that the industry is less likely to satisfy indigenous demand and consequently the region will turn to imports for unmet local demands.

- Farming employment is highly concentrated in Kansas compared to the U.S., and slightly more concentrated than the rest of the region. The agricultural services, forest, and fishing industry quotient is not above the U.S. average, as Kansas has few forests and little commercial fishing.

- The mining industry is a relatively important employer in Kansas, with three times as many mining employees in Kansas compared to the U.S. average. This is primarily because of the oil and gas industry. Still, mining represented just over one percent of total employment in 1999, down from two percent in 1990 and almost four percent in 1985.

- Manufacturing is slightly more concentrated in Kansas than the U.S. and the rest of the region. Other transportation equipment is very highly concentrated in Kansas, largely due to the strong aviation industry in Wichita. Food and kindred products is a strong industry in Kansas compared to the U.S., but actually under-represented when compared to the rest of the region.

- The finance, insurance and real estate (FIRE), and services sectors are relatively under-represented in Kansas compared to the U.S. and region.

- Kansas has a larger concentration of government jobs than the U.S. and the region. This is especially the case for military employment (Fort Leavenworth and Fort Riley) and local government (high prevalence of county government compared to population).

- Kansas employment concentrations tend to be in typically lower-wage industries, such as farming, food and kindred products, and retail trade. Meanwhile, the state is under-represented in higher-paying industries such as FIRE, and legal/business services.

3.2 Competitive Position of Foundation Areas

Foundation areas are the building blocks from which economic development success is based. The six key areas are: human resources, technology and entrepreneurship, capital availability, infrastructure, tax and regulatory environment, and quality of life. As discussed more fully in the competitive assessment report, the degree of success in the foundation areas varies significantly:

1. Strong educational system, but not enough academic and workforce connections.

2. Mixed indicators for technology and entrepreneurship with fears that non-metro areas will be left behind.

3. Capital resource deficiency—both venture and traditional.

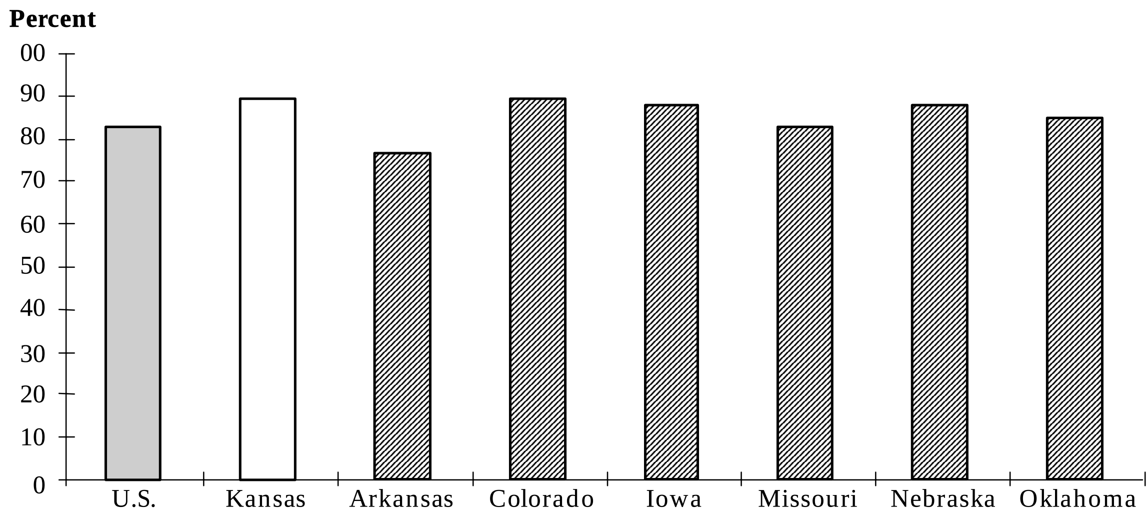
4. A well-networked highway system infused with substantial state revenues, partially to improve road conditions, and a growing telecommunications network with rural broadband access issues.

5. Fairly typical overall tax burdens but inconsistent tax treatment by industry and between existing, mature Kansas businesses and prospective businesses.

6. Solid quality of life but lingering issues of youth retention.

A few key indicators for Kansas are presented in this section. Much more detail and many more indicators are available in the competitive assessment report.

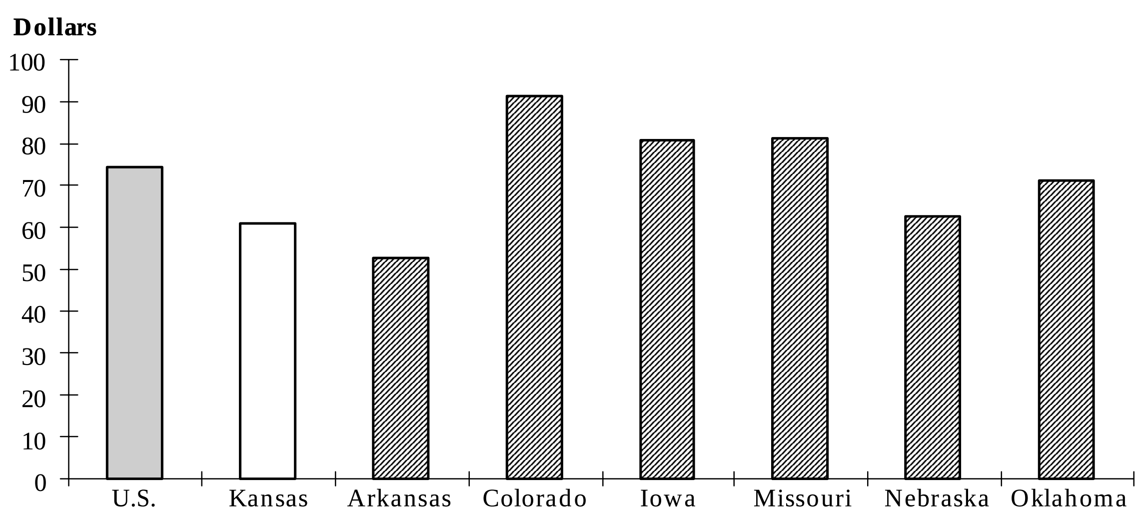
Figure 3.5 Educational Attainment
Percent of High School Graduate or More, 1998



Source: U.S. Bureau of the Census, "Current Population Reports," P20-513.

- In support of the K-12 educational system in Kansas, the state has a higher rate of high school graduates (almost 90 percent) than the U.S. (83 percent), and ranks sixth in the country. In the competitor state region, only Colorado has a slightly higher rate of high school graduates.
- Kansas also possesses a relatively high share of people with at least a bachelor's degree (almost 29 percent) compared to the U.S. (24 percent). This confirms information gleaned from local interviews that indicate the strong statewide importance placed on college education.

Figure 3.6 Manufacturing Productivity
Value Added per Production Worker Hour, 1997



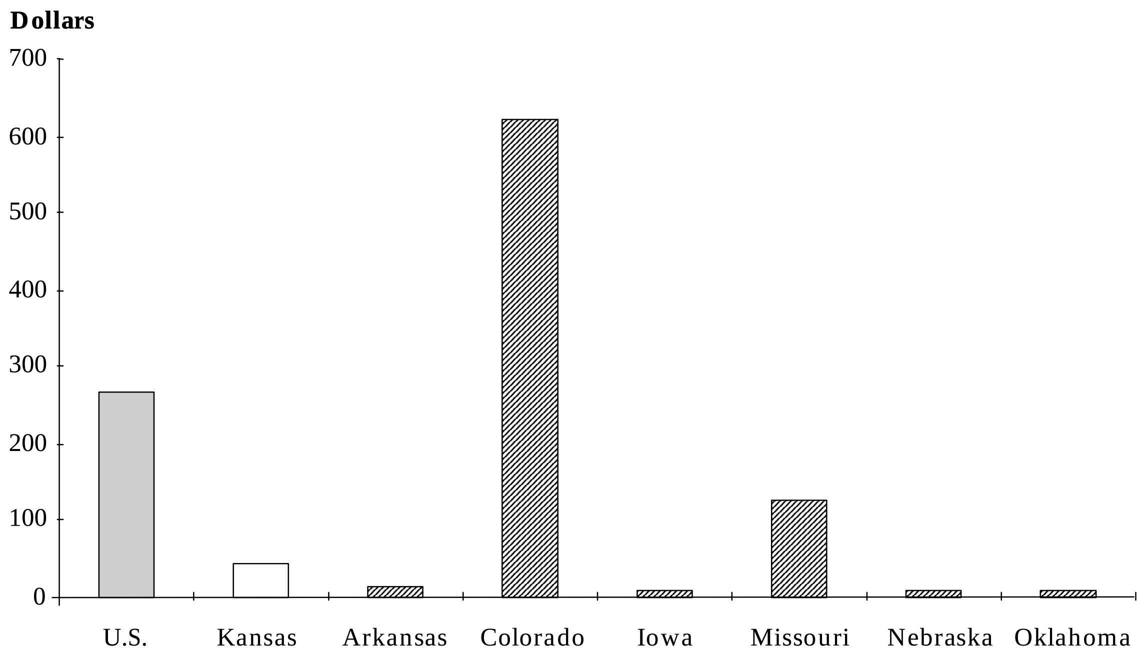
Source: 1997 Economic Census.

- Kansas does not measure up well against the U.S. or competitor states in terms of manufacturing productivity (measured as value-added per worker) even though educational attainment is high. Kansas only exceeds Arkansas on this measure.

- Overall manufacturing productivity is an indicator of the industry mix of manufacturing firms in the state. This measure suggests that despite the strong aviation presence in Wichita, the state's manufacturing activity is concentrated in lower-wage, lower-skill industries, such as food products and rubber products.

- Manufacturing productivity can also be an indicator of the skill level of workers and the available technology. For example, when comparing other transportation equipment wages, Kansas ($47,667 in 1999) has lower average wages than the U.S. ($49,228) and even lower average wages than in Washington ($56,223), another state with a large aviation industry.[5]

Figure 3.7 Venture Capital Investments Per Capita
1999 to Q2 2000



Source: PriceWaterhouseCoopers, Financial Times.

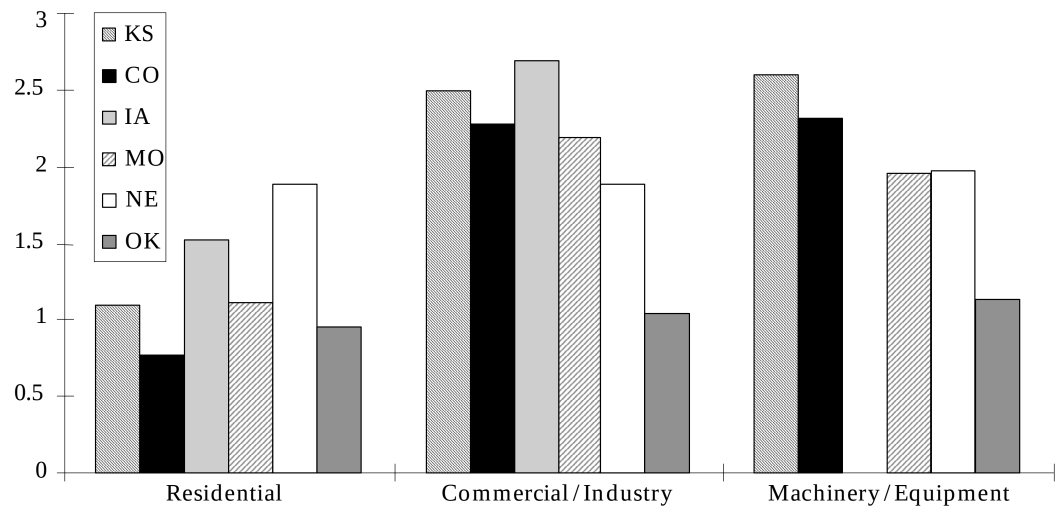
- This measure attempts to capture venture capital activity. The indicator suggests that Kansas has relatively low activity in venture capital compared to the U.S., with only $44 per capita of funding versus $265 at the U.S. level, measured from the beginning of 1999 to the end of the second quarter of 2000.

[5] Other transportation equipment excludes motor vehicles, but includes aviation manufacturing. Wages are typically considered to be a good proxy for productivity.

- This is not a relatively small value compared to most of Kansas' competitor states. Only Missouri and Colorado (with $624 per capita) have higher levels of venture capital investments.

- This has recently been a major issue in Kansas, as KTEC, Kansas, Inc. and KCCI have pursued legislation in support of state-level seed capital development with hopes of spurring more high-technology firm development and growth. But the issue is unresolved as of now.

Figure 3.8 Effective Local Property Tax Rates



Source: Kansas, Inc., IPPBR, University of Kansas.

- Property tax rates vary considerably by state and type of tax. Compared to the rest of the region, Kansas has fairly reasonable residential property tax rates.

- Commercial and industrial property tax rates are higher than every comparison state except for Iowa.

- Kansas has higher property tax rates for machinery and equipment than any other state in the region. Notice that Iowa has a zero tax rate for this type of property. In addition, a recent survey for the Kansas, Inc. publication *A Kansas Vision for the 21st Century* found that 80 percent of manufacturers felt that the property tax on machinery and equipment had a negative effect on their investment and expansion decisions.[6]

[6] It should be noted that property tax credits are available (especially for new businesses to Kansas) that can reduce or eliminate the machinery and equipment property tax. Conversely, this can punish mature or stranded industries that do not qualify for the credit.

3.3 Kansas Economic Development Institutions—Findings

This section provides summary findings from the institutional analysis performed for the competitiveness report. The full report provides much more detail regarding missions, programs, budgets, staff, strengths, and weaknesses of institutions involved in economic development in Kansas. This section also presents information regarding state level economic development funding, with a comparison to other states.

The economic development framework in Kansas is wide-ranging, encompassing the efforts of three state agencies: KDOC&H, KTEC, and Kansas, Inc. In addition, other state agencies such as the Kansas Department of Human Resources, the Kansas Board of Regents, the Kansas Department of Education, and the Kansas Department of Transportation engage in activities that directly affect the state's economic development efforts, such as preparing and training the state's workforce and building or maintaining an infrastructure that abets rather than hinders business activities. Finally, economic development initiatives in Kansas are not limited to state agencies, as community and regional organizations lead local efforts to improve the business climate and attract investment. Based on interviews conducted with officials involved in economic development in Kansas, several concepts surfaced concerning its coordination and the mechanisms used for its funding, including the following:

1. There appears to be limited coordination between Kansas agencies involved in all aspects of workforce development. There may be a poor fit between regional business demand for employees and workforce development in Kansas. A formal workforce training system needs to reflect the demands of Kansas businesses and better understand the supply and demand dynamics of the labor force by occupation. Better coordination of efforts to bring together K-12 education, higher education, and business may better provide Kansas with the workforce needs of the future.

2. There is consistent evidence that KTEC and KDOC&H staff cooperate with each other to ensure their clients receive the most appropriate economic development services. Cooperation at the leadership level, however, appears limited.

KDOC&H and KTEC provide complementary economic development services that are needed by Kansas individuals, businesses, and communities. The EDIF funding mechanism (shown in Figure 3.9), however, perpetuates an unhealthy competition between the two agencies, further fueled by their differing approaches to economic development.[7] KTEC emphasizes the development of leading edge technologies while KDOC&H uses traditional but appealing themes of "take the time to experience the uncomplicated life that Kansas offers" to market the state to prospective visitors and businesses. There is a perception that one agency is focused on satisfying the needs of the common folk, while the other is geared to bringing the dreams of rocket science Ph.D.'s to fruition. These perceptions do not necessarily reflect the reality of the

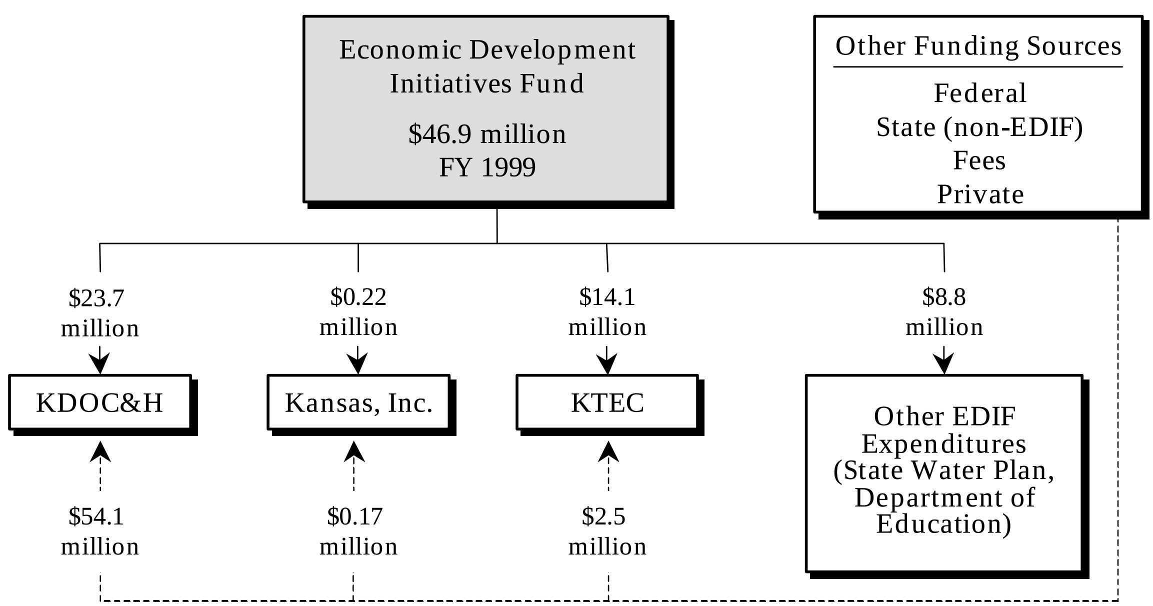
[7] Note that the EDIF contributions to KDOC&H, Kansas, Inc., and KTEC are actual expenditures, while the total EDIF budget shown is legislatively-approved funding. This is necessary because of complex budget accounting across agencies, but the point is to show approximate spending amounts and distributions.

agencies, as KDOC&H administers programs that provide advanced technical training and KTEC has services to assist five-person machine shops by optimizing their floor layouts. Regardless, they both offer distinct services that benefit the Kansas economy, but the competition for funding is a counterproductive distraction.

3. While KDOC&H and KTEC are the two leading state government providers of economic development services, Kansas, Inc., the third state agency with economic development as its primary function, plays a coordinating role, establishing a cohesive long-term economic development strategy for the state. Past controversies, however, have provoked some skepticism about the credibility of Kansas, Inc., challenging the agency's integrity, especially in the private sector, as an unbiased advisor for guiding the state's economic development efforts. The more pressing issue, however, may be in clearly defining the role of Kansas, Inc. At times, the organization has conducted basic research, evaluated economic development programs, outsourced basic research, communicated policy issues, advocated for policy legislation, acted as an advisor to other agencies and the governor's office, and facilitated an economic development round table for private and public interests. To play a significant role in economic development, Kansas, Inc. needs to have a clearly defined role(s) that is easily understood and accepted by other government agencies and the private sector.

4. In FY 2001, all economic development funding is being sourced from the EDIF. This fund is capped at 85 percent of lottery revenues and is not growing. As a result, Kansas, Inc., KTEC, and KDOC&H are likely to either see their future funding levels decline (in real terms) or remain at existing levels. Intensified competition for these increasingly less dependable funds is probable.

Figure 3.9 EDIF and non-EDIF Funding Contributions, FY 1999



Sources: Kansas Legislative Research Department and KDOC&H.

State Funding for Economic Development Varies

Most states share a common objective in economic development, which is to maximize the economic potential of their citizens. Beyond this general goal, however, the approaches promulgated for attaining this end vary greatly by state. Some states, such as Minnesota, have strong state-led economic development programs, while others, such as Texas, have a reduced state role with a greater emphasis on local initiatives and locally-sourced funding. As a result, state funding per capita for economic development in Minnesota is substantially higher than the figure for Texas. In addition, key economic development functions such as workforce development, industrial recruitment, tourism, industry assistance, and technology development are often housed in different agencies, with few, if any, states sharing the same institutional structure in their approach to economic development.

Due to the range of institutional and structural approaches to economic development, comparing funding for economic development in a consistent manner between states is complicated. Table 3.2 shows per capita state-level economic development funding for Kansas to be $17.45 in 1999, one of the higher values among the states listed. While efforts were made to present comparable information, it is possible that the funding figures for some of the other states may or may not include all the economic development programs funded by the state. The figures for Kansas economic development funding (the sum of state funding for KTEC, KDOC&H, and Kansas, Inc.) may appear relatively high but this may be partially attributable to the fact that the data for Kansas may be more complete. For example, if any of the comparison states omitted their state match for programs such as the Manufacturing Extension Partnership (MAMTC is the MEP affiliate in Kansas and is definitely included in the Kansas funding figures shown in the table), overall economic development funding levels—as well as per capita funding—would be reduced. Taking these factors into account, state-level economic development funding in Kansas is moderate compared to other states, with several states reporting greater expenditures and many others showing substantially lower levels of funding.

Table 3.2 Per Capita State Funding for Economic Development, 1999

	Per Capita Funding ($)	State Funding (in $ millions)	Population (in millions)
Pennsylvania	32.52	390.0	11.99
Minnesota	30.06	143.7	4.78
Iowa	19.62	56.3	2.87
Missouri	19.15	104.7	5.47
Kansas	**17.45**	**46.3**	**2.65**
Nebraska	11.28	18.8	1.67
Michigan	11.08	109.2	9.86
North Carolina	9.65	73.8	7.65
Texas	6.44	129.1	20.04
Washington	6.30	36.3	5.76
Virginia	5.31	36.5	6.87
Oklahoma	5.30	17.8	3.36
Colorado	3.72	15.1	4.06
Florida	1.24	18.8	15.11

Source: Individual economic development agencies; National Association of State Development Agencies.