

# Chapter 4: Issues for Economic Development in Kansas

The people of Kansas feel very strongly about issues related to economic development. Without their sense of concern and frustration, there would be no point in conducting this strategy study—only when there is a strong sense of urgency do efforts lead to action.

There are a wide variety of issues that individuals in Kansas feel strongly about—issues such as the disappearance of small towns, looming water shortages, shortage of trained workers, brain drain, decline of the farming lifestyle, and lack of funding for research. The list is long, varied and fascinating. This chapter attempts to structure these concerns into a coherent whole to provide a snapshot of the wellsprings from which the drive to make changes will emanate.

## The Process of Issues Identification

The team used a variety of methods to surface issues that stakeholders from around the state considered important for economic development. The main forms were:

- Four major conferences (Kansas Industrial Developer's Association, KU Economic Outlook, Rural Policy Symposium, KCCI Caucus 2001)
- Focus groups and industry cluster group meetings in Goodland, Dodge City, Liberal, Hays, Great Bend, Wichita, Overland Park, Kansas City, Topeka, Pittsburg and Emporia
- Legislative briefings before the House New Economy Committee and Senate Commerce Committee
- Interviews
- Web site survey

## Summary of Results

Overall, the issues raised by Kansas community leaders reaffirm those identified by Kansas, Inc. in the 1997 *Kansas Vision for the 21<sup>st</sup> Century*. There are three areas in particular where there is more emphasis than there was four years ago:

- a) Concern about whether Kansas is positioning itself properly for the challenges and opportunities in the Knowledge Economy.
- b) Focus on resource shortages, specifically water and energy.

- c) Need for better coordination of policies regarding development of individual industries, and related leadership and organizational issues.

The fact that many of the key issues have not changed over this period is quite logical. The 1997 *Kansas Vision for the 21<sup>st</sup> Century* identified issues and put forth a vision and strategic goals, but it was designed as a framework, not a blueprint. This strategic plan update was intended to provide an implementation plan.

## **Results from Issues Identification Processes**

This section provides a compilation of the top issues as they arose during our sessions.

### ***Human Resource Issues***

- Brain Drain: talented, young potential workforce to drive the Kansas economy leaving the state for more attractive and lucrative opportunities elsewhere.
- Shortage of trained workforce: particularly in the manufacturing base industries, workers with skills in operating advanced technical equipment are in short supply in-state.
- High school graduates' poor work-readiness skills.
- Attitude that students with talent must attend college to realize their potential.
- Lack of qualified technical workforce.
- The need for a closer connection between industry demand for labor and technical/community college course offerings to improve labor supply.

### ***Technology Issues***

- High price and poor access to broadband services, especially in rural areas.
- Lack of a statewide Internet technology (IT)/Telecommunications plan.
- Dearth of world-class research facilities.
- Low use of new technologies.
- Technology transfer process from university to industry is cumbersome.

### ***Business Climate Issues***

- Lack of venture capital funding for start-ups.
- Price instability for agriculture and oil and gas products.
- Lack of entrepreneurial environment.
- High taxes—especially business taxes on property/equipment.
- High cost of supporting over 300 public school districts and numerous other government service providers.
- Slow-growing tax base, leading to budget deficits.

### ***Physical Infrastructure Issues***

- Expand air routes/transportation options.
- High cost of maintaining state and county roads.
- Lack of efficient rail options for freight movements.

### ***Industry Issues***

- Lack of coordination of policies.
- Aerospace in Wichita is at risk of losing competitiveness.
- Low support in Kansas for Life Sciences Institute initiative.
- Lack of awareness regarding the contribution of business services.

### ***Environmental Issues***

- No state energy policy.
- Lack of focus on renewable energy resources.
- Depletion of groundwater and water resources.

### ***Rural Issues***

- Depopulation of small towns.
- Lack of funding for regional economic development.
- Lack of affordable housing, as the cost of construction exceeds market price.
- Insufficient attention to value-added agriculture and tourism.
- Assimilation of immigrants in small communities.
- High cost of government services.
- Lack of availability of key services.

### ***Economic Development Policies***

- Lack of coordination of policies.
- Need for cross-industry coordination.
- Lack of collaboration between institutions/government/private sector.
- Economic development leadership team insufficiently developed.
- Need to improve and market Kansas' image.
- Need to reconstruct tax incentives for the New Economy.
- Negative impact of incentives for new businesses on older businesses that perceive themselves to be "stranded."
- Competition for funding among key state agencies.
- Lack of coordination among the three agencies in planning and funding economic development.
- Declining budget for economic development.

## **Impact on Economic Development**

Many of these issues cannot be resolved completely through economic development initiatives. Many other states with very vibrant economies are facing equally challenging issues. But to create a more positive business climate, there needs to be a widespread consensus that we are now doing the best we can with those issues.

However, there is much that is positive in the Kansas economy today. The rich natural resources, strong work ethic in the private sector and professionalism in the public sector, the strong education system and the very good position of key industries are all assets to be proud of. The progress in the economic development field since the *Redwood-Krider Executive Report: Basic Findings, Implications and Strategy* was issued in 1986, in particular the excellent performance of both the KDOC&H and KTEC, has shown what Kansas can do when there is a consensus to move ahead. This strategy exercise focuses on leveraging those assets, and improving performance in those areas that are most critical to improve Kansas' economy in the first decades of the 21<sup>st</sup> Century.

### **The Plight of Rural Kansas**

To the outside observer, one of the most striking aspects of the economic development debate in Kansas is the degree of concern paid to the plight of rural areas. Residents of small towns have very effectively communicated the pain associated with failing farms, bank foreclosures, and loss of high schools, grocery stores and basic services—essentially the disappearance of a way of life. Urban Kansans often hail from such towns, or have close ties with towns that are struggling to survive under this harsh demographic and economic onslaught. They voice their concerns as well.

The issues appear clear-cut. Rising agricultural productivity has meant that more commodities can be produced with less labor. Farms that do not upgrade with labor-saving technologies cannot compete in today's markets; farms that do upgrade contribute to the downward spiral of rural population. Lacking economic opportunities at home, young adults with a good education find the lure of jobs elsewhere irresistible. The high cost of producing oil and gas relative to foreign sources over the past 15 years has eroded another pillar of the rural economy.

Irrigation provided a new lease on life for some towns—most notably Dodge City, Garden City, and Liberal, which have moved up the value chain into the meat packing industry. Nevertheless, the looming depletion of the Ogallala Aquifer has raised serious questions regarding sustainability of the current agricultural model for Western Kansas. Similar issues threaten agriculture in other parts of Kansas.

Economic development professionals in Kansas recognize that they cannot reverse the larger trends of globalization, trade reform, and technological change. In fact, the strain of keeping the small towns alive is being felt by all citizens of Kansas, since the high costs of delivering services to these areas is not borne exclusively by the rural recipients of those services.<sup>1</sup>

Ultimately, greater efficiencies need to be achieved. While the reform of some of these service delivery systems has been blocked via the political process, the market system has moved ahead, selecting certain towns as viable market centers, while others have been bypassed. The strategies proposed in Chapter 5 constitute an attempt to build a new “independent regionalism,” providing incentives for rural counties to combine their economic development efforts around these market towns and work in a more collaborative style. In this environment, there are many opportunities that rural areas can take advantage of, including increased connectivity via the Internet, identity-preserved crops, and new bio-based products. Strategies launched by government will not reverse the fundamental economic trends affecting Kansas’ rural areas, but the objective here will be to ensure that all that can be done is being done.

## **Chain of Logic**

What is the logical relationship between these issues and the implementation strategies proposed in Chapter 7? Let’s start with the most immediate issue facing legislators in Kansas today: the \$200 million shortfall in this year’s budget.

One underlying factor behind this year’s budget shortfall has been the slow growth of the tax base. Much of Kansas’ employment is concentrated in industries that are growing more slowly than the national average. Thus, initiatives directed toward diversifying the tax base, through revitalization of existing industries while accelerating the growth of new industries, will be important. Another reason the tax base is insufficient is that some of Kansas’ newest and strongest firms are not contributing significantly to the tax base, because they utilized financial incentives such as tax abatements offered by various government agencies to induce them to come to Kansas. These issues are addressed in **Strategy #5 – Making Kansas Industries Competitive**.

Another reason that many of Kansas’ firms—especially those based in rural areas—are not growing at the same rate as the U.S. average is that they don’t have access to advanced information technology infrastructure. In addition, Kansas has few world-class research institutions, and those that do have leading researchers do not have strong incentives for commercializing their technologies. Local industry often does not, therefore, benefit from the research capabilities that do exist. Many promising technologies for utilizing agricultural resources to produce new materials, energy sources, and food products are underexploited because of a lack of awareness of their existence, and inadequate

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<sup>1</sup> The costs of maintaining 303 unified school districts, for example, have resulted in less efficient use of scarce educational dollars. Many analysts have pointed out that this, however, is not an exclusively rural issue—the resistance to school district consolidations is as high and as harmful in urban areas of the state.

commercialization infrastructure (incubators, venture capital, etc). **Strategy #4 – Enhanced Technology and Commercialization** addresses these issues.

Kansans are increasingly aware of and concerned about looming shortages of basic resources—mainly water and energy. Depletion of the Ogallala Aquifer is another major issue that can only be dealt with when every farmer, rancher and resident of western Kansas is attuned to the issue and understands the state’s strategy for confronting the issue. There are excellent opportunities available in both the oil and gas sector, and from renewable energy sources (wind, solar, biomass, energy cells), but it also requires a cohesive state energy policy. Thus, **Strategy #3, Environmental and Resource Policies**, is vital to the state’s economic future.

Nearly every firm in Kansas has expressed its concern with the shortage of trained workers. Good policies in individual industry sectors, better technology and better utilized resources will not have much impact on the economy unless the state’s labor force is qualified, motivated, and otherwise prepared by a more flexible, multi-functional educational system. This system must be staffed with the best and brightest teachers, boast a seamless integration of educational opportunities at all levels, connect private sector needs to technical preparation, and emphasize a strong commitment to lifelong learning principles. Knowledgeable workers are the basic competitive advantage in a Knowledge Economy. Thus **Strategy #2 requires a focus on Workforce Development**.

Finally, very few of these changes are likely to be implemented unless some of the organizational issues relating to economic development activities—mentioned in nearly all forums in the state—are addressed. Many of the other concerns in the areas of workforce, technology, and others identified in the strategy development process, cannot be addressed effectively without better organization within the economic development field. In addition, interest groups whose perceived “best strategy” is to stall wider economic development initiatives, because of their concern that they are not getting their fair share of attention under the current system, need to feel that their need for more economic development opportunities is being met in the best way feasible.

Many states throughout the U.S.<sup>2</sup> have found that organizing effectively means:

- Creating a shared vision for the future.
- Effective communications of the strategy.
- Long-term vision combined with short-term results.
- Establishing effective private/public partnerships.
- Identifying and nurturing the emergence of leaders.
- Encouraging new uses of existing resources, such as regional universities, to support economic development objectives.

These goals, which were foreshadowed in the *Redwood-Krider Executive Report: Basic Findings, Implications and Strategy*, and strongly urged in *A Kansas Vision for the 21<sup>st</sup> Century*, are addressed in **Strategy #1: The Integrated Framework for Statewide Economic Development**.

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<sup>2</sup> See Appendix B: U.S. Best Practices for Statewide Economic Development.