

# **The Kansas Chamber's 14th Annual Competitiveness Index**

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**Prepared for**

**The Kansas Chamber of Commerce**

**By**



Florida, Indiana and Wisconsin

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## EXECUTIVE SUMMARY

This 14th edition of the Kansas Annual Competitiveness has been prepared with three sets of findings in mind: First, the usual update on how the Kansas economy is performing in relation to all 50 states and its surrounding six states in particular; second, a follow-up on the entrepreneurial economy trackers presented for the first time in the 13<sup>th</sup> edition; and third, a check on how Kansas state tax and spending compares with its rate of economic growth.

The bottom line from this report is as follows:

- **Mediocre performance:** Relative to U.S. states overall, as noted in recent annual ACI's, the Kansas economy has performed modestly on income, earnings and population growth the past decade. At times the state appears to be on an upswing only to pull back the subsequent 12 months. In 2018 quite healthy upticks occurred in the labor force, employment and exports but this does not appear to be extending into 2019.
- **Employment Success:** The state's notable success story has been low unemployment and a high employment rate, as is the case again in 2018.
- **Second Half of 2018:** A number of indicators point to a positive upturn in the second half of 2018. Most notable industry upticks in recent years are Trucking and Warehousing, Finance, Real Estate & Insurance and Manufacturing. However, a 10-year decline of share of jobs in the information sector is troubling. In the second half of 2018 monthly exports have been equal to or exceeding the same time the previous two years.
- **The outlook for 2019** shows several signs for steady performance. However, the State Leading Index, a companion index to the Coincident Index, points to an expected small 6-month change in the first half of 2019 between - 0.2% and + 0.2% growth.
- **Business Climate:** Kansas is surrounded by six states with variously competitive business climates. For the first time in many years Kansas ranks best among its neighbors on business costs. In particular, legal climate and skilled workforce/unit labor costs are contributing factors.
- **Entrepreneurial Trackers:** The state's entrepreneurial economy is short of sparks this year. Overall the net job contribution rate (jobs gained less jobs lost) by both new and existing businesses continues to slow (since early 2014), with start-ups more so. However, there are recent signs that existing businesses are holding their own against surrounding states. In fact, existing businesses have been doing quite well the past 2 years, now near the top the 6-state range for those gaining jobs as a % of all businesses. Further, small/mid-size business financing appears to be functioning satisfactorily and showing some uptick in 2017-18.
- **State Tax Revenues and Spending versus Economic Growth:** The Kansas economy has advanced on a slow but steady upward clip the past 5 years. Not

unexpectedly tax revenues have followed suit over the same period but not as smoothly. In fact, after the tax reform of 2011/12 revenues were flat. Since then they have picked up and are now growing at a rate faster than economic growth with every quarter in 2018 exceeding revenues in the same quarter last year – a cautionary signal! State expenditures have also tracked economic growth but somewhat less subdued until 2016. Since then the rate of increase in state expenditures exceeds the economy growth rate – again a cautionary signal!

- **Migration, Labor Force and Productivity Trends:** A rule of thumb of most economists is that GDP growth is a function of labor force growth and productivity growth. Neither bode well for Kansas. Population is growing slowly. The Wichita State Center for Economic Development and Business Research projects a 2019 population of close to 3 million, an approximate 5% increase over the 2010 census. 2019 employment growth is forecast at 1.1%, or approximately 15,000 net new jobs statewide. According to United Van Lines of all households on the move in 2017, 57% left the state while 43% moved in. State productivity was addressed at length in the Blueprint Kansas study of 2006-7. While difficult to measure, the latest Kansas data shows long-term productivity (GDP per job) growing slowly but this report points to a promising uptick in Kansas Gross Operating Surplus – a positive sign of business profitability.

In short, the economic story for Kansas is mixed and puzzling. Implications from these data is that Kansas, as reported in recent ACIs, remains at a critical juncture in its economic transformation to a 'next economy'. Since several conventional growth engines are not particularly strong or superior to competitors – e.g. population/labor force growth, productivity growth, share of jobs in the information sector -- where might state business leaders turn to for fresh insights? Entrepreneurial and innovation-led growth strategies offer promise. States as different as New York, Colorado and Utah are performing much better on the three Entrepreneurial Indexes. State strategies and policies in this arena are worthy of closer examination. In addition, the state must be fiscally disciplined. At this later stage of a long business cycle expansion, controlling state tax and spending so as not to exceed economic growth will pay off if/when a next downturn occurs.

Given the fact that the U.S. is now in its second longest business expansion since World War II, this ACI argues for close tracking of changing economic conditions. Three practical recommendations are offered for consideration as uncertainties nearing the end of a business cycle may arise:

1. Use existing or new **Industry Roundtables** to watch carefully those factors that play into the state's growth trajectory. Three roundtables of particular interest would be: Kansas Transportation, Warehousing and Distribution industries; Small business and Entrepreneurship; and State Taxation and Spending practices.
2. Use existing or new **Task Groups to root out ways to improve Productivity**. Four such Task Groups of particular value would be: a 'regulations streamlining

task group', an 'education administrative efficiencies task group', a 'university-business collaboration task group' and an 'entrepreneurial growth breakaway task group'. Task groups would each consist of 10 to 12 knowledgeable practitioners and researchers from business, government, labor, education and civic philanthropy with clear one-year deadlines. This initiative could begin in 2019 with two task groups, ramping up in number in later years, with all recommended actions underway by the target year of Vision 2025.

3. Prepare and release **Quarterly Tracking Data on Business Performance and Employment Opportunities** for public and policy dialogue. The 13<sup>th</sup> ACI introduced 12 quarterly tracking graphs repeated in this edition. Near-time data of this type could be used via traditional and social media to elevate the issues raised in Vision 2025, eliciting public/private coalitions to find creative solutions to Kansas growth challenges. It could also be used to spur a 'targeted business growth initiative' by the Kansas Department of Commerce in partnership with regional and local economic development organizations.

# 1. INTRODUCTION

In the early 2000's the Kansas Chamber set about to make Kansas 'one of the best states to do business'. As part of that effort, the Chamber committed to obtaining annual intelligence on how the state stacked up competitively against the other 49 states (Guided by the management principle: You can only manage what you can measure!). This has resulted in a data set of over 100 metrics for all 50 states since 2003. These data are unique in that back data are corrected to reflect data revisions as they are released. Consequently, each subsequent ACI draws upon a constantly refreshed/ 'living' data time series. It also seeks to corroborate its general findings with the work of others including 13 state report cards and many academic and special studies from other related sources.

In 2017 the Kansas Chamber broadened its strategic focus not only to address the growth and competitive challenges of business but that of the state as a whole. Its strategic action plan Vision 2025 states:

*The Mission of the Kansas Chamber is to continually strive to improve the economic climate for the benefit of every business and citizen and to safe guard our system of free, competitive enterprise. **The Chamber has an urgent call to action to address the state's sluggish growth.***

*We need to remove the barriers to growth and seize the enormous opportunities before us to grow our economy, strengthen economic prospects and secure the future for all Kansans.*

***The private sector must boldly lead this determined effort to renew our state's vitality with crucial initiatives. We control the future.***

The Kansas Chamber wants to know the ingredients for economic success ... lessons learned from the past 14 years of ACI and the drivers of state growth as national and international economies transform quite rapidly. In particular, the Chamber wants to know how the state can improve its relative position in income and job growth, by fostering business dynamism.

## **Recent ACI Focus: Growth and Entrepreneurial Dynamism**

Several earlier ACI reports have noted that while culturally Kansas embodies the American frontier free spirit of adventure and self-direction the data have pointed to a quite mediocre entrepreneurial dynamism relative to other states over the past decade. The purpose of this 14<sup>th</sup> edition and the 13<sup>th</sup> ACI edition has been is to dig deeper into the small/mid-size business and entrepreneurial economy of Kansas relative to the other 49 states.

The 'entrepreneurial economy' is defined as the sole proprietorship/small/mid-size business segment of the for-profit sector. This segment is known for its dynamism – lots of establishments forming, merging, surviving/failing, expanding/contracting, moving and growing. Research continues to confirm that over 50% of net new jobs are created

by this segment of the economy and by growth companies in particular. And their U.S. long-term outlook is upbeat.

The entrepreneurial sector has played a key role in state economic growth for a number of U.S. states in recent years. Earlier ACIs have reported a sluggishness in this sector for Kansas so this ACI and the previous one have sought to better measure how well the entrepreneurial sector is doing in Kansas and if it deserves more attention in state economic growth strategy and policy going forward.

According to [www.youreconomy.org](http://www.youreconomy.org), a definitive source of statistics on state and local businesses, there were 153.7 thousand businesses in Kansas in 2017, 78.5% were state-based/Kansas-domiciled. All together these businesses were responsible for 1.66 million jobs. Of these businesses 14.4% were self-employed, 66.6% had 2-9 employees, and 17.6 % had 10-99 employees. Up to 100 employees is commonly defined as 'small business' although some definitions include up to 500 employees.

Net job gains in businesses of size 2 to 99 employees are notably very important to Kansas. Between the start of the current business expansion in 2009 and 2017 businesses with 2-99 employees added 90,103 net new jobs, while businesses larger than 100 employees lost 34,211 net jobs.

As readers of this report know both the domestic and international economies continue rapid change due to changing markets, technologies and a multitude of domestic and global trends. As the U.S. economy becomes more complex and diverse each sub-national jurisdiction finds itself compelled to identify and strengthen distinctive competitive and comparative advantages. Status quo is no longer an option. Over centuries one attribute that distinguishes U.S. prosperity has been its entrepreneurial dynamism. What matters to elected, business and civic leaders is how to nurture that culture of entrepreneurialism to state and local advantage

**The critical and urgent challenge for Kansan business and government leaders is to find and implement tactics and strategies that turnaround disappointing economic performance, especially since 2014. One critical area for improvement is enhancing entrepreneurialism and business dynamism in general – a focus of this and last year's ACI.**

For comparative purposes the 'six-state region' is defined as: Arkansas, Colorado, Iowa, Missouri, Nebraska and Oklahoma. When used below the term 'top performer' and 'bottom performer' refers to all 50 states.

**As with previous ACIs this a fact-finding report where the authors 'let the data do the talking' using graphs and charts complemented with short commentaries. It is not intended to be a policy or strategy analysis. Comments or data insights from other sources and survey/focus group input on 'what is happening on the ground' are always welcome.**

## 2. KANSAS ECONOMY UPDATE

As noted in recent annual ACI's the Kansas economy has performed only modestly on income, earnings and population growth the past decade. At times the state appears to be on an upswing only to pull back the subsequent 12 months. The state's notable success story has been low unemployment and a high employment rate as is the case again in 2018. A number of indicators graphed below point to a positive upturn in the second half of 2018. Most notable industry upticks in recent years are Trucking and Warehousing, Finance, Real Estate & Insurance and Manufacturing. In the second half of 2018 monthly exports have been equal to or exceeding the same time the previous two years.

The state's entrepreneurial economy is short of sparks this year. Overall the net job contribution rate (jobs gained less jobs lost) by both new and existing businesses continues to slow (since early 2014), with start-ups more so. However, there are recent signs that existing businesses are holding their own against surrounding states. In fact, existing businesses have been doing quite well the past 2 years, now near the top the 6-state range for those gaining jobs as a % of all businesses. Further, small/mid-size business financing appears to be functioning satisfactorily and showing some uptick in 2017-8. The story is mixed and puzzling.

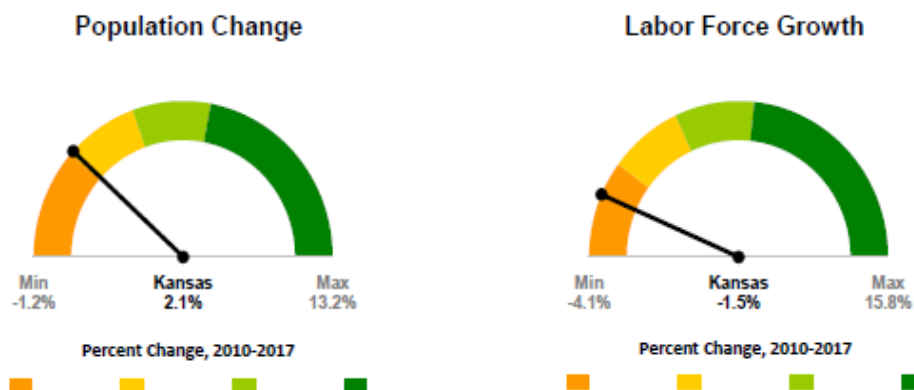
### 2.1 Kansas Economic Snapshot

#### University of Kansas Economic Dashboard 2017

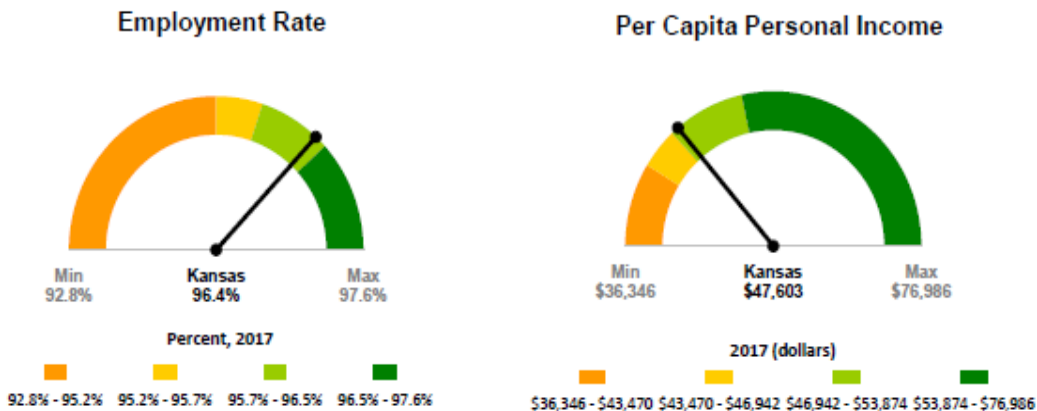
The University of Kansas Institute for Policy and Social Research reports the Kansas Economic Dashboard below with data through 2017 showing both low population and labor force growth and per capita income levels below the mid-point but with a healthy employment rate.

#### Kansas Economic Dashboard

*Kansas Compared to All U.S. States*



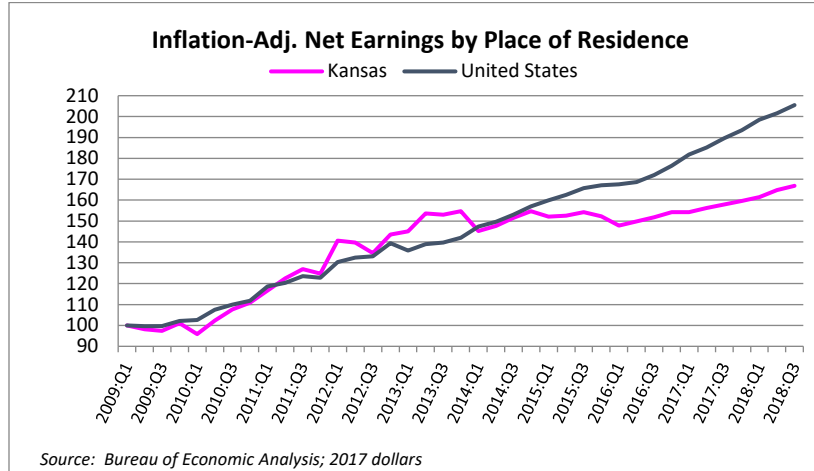




## Recent Net Earnings: Catching Up

### *Why Important?*

This metric is one of the purest forms of measuring income growth since it isolates total earnings gains/losses to **those who live in the state** (place of residence) versus the nation as a whole. It is quarterly data indexed in the graph below to the second quarter 2009.



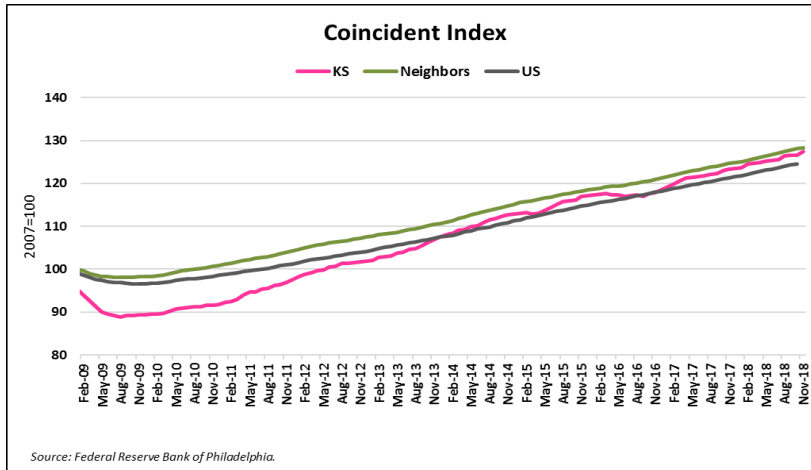
### *What's it Mean?*

Relative to the U.S., Kansas net earnings adjusted for inflation showed good acceleration up to early 2013, then settled to a slower path through 2016, while the U.S. economy continued to improve. Kansas net earnings began to turn up early 2016, improving since, but the pace of growth is not yet that of the U.S.

## **Coincident Index: Kansas Catching up on Neighbors**

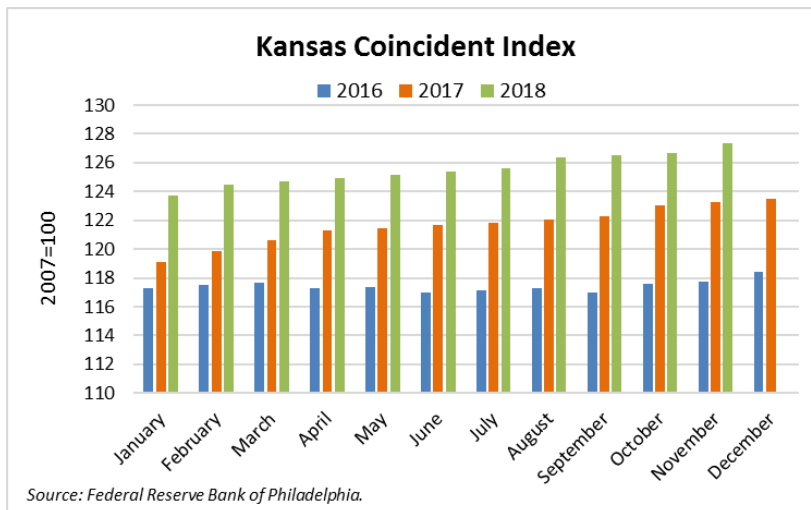
### **Why Important?**

The State Coincident Index is a well-designed and tested monthly index of employment and wage/salary data prepared by the Federal Reserve Bank of Philadelphia. It is one of the best monthly trackers of state economic condition.



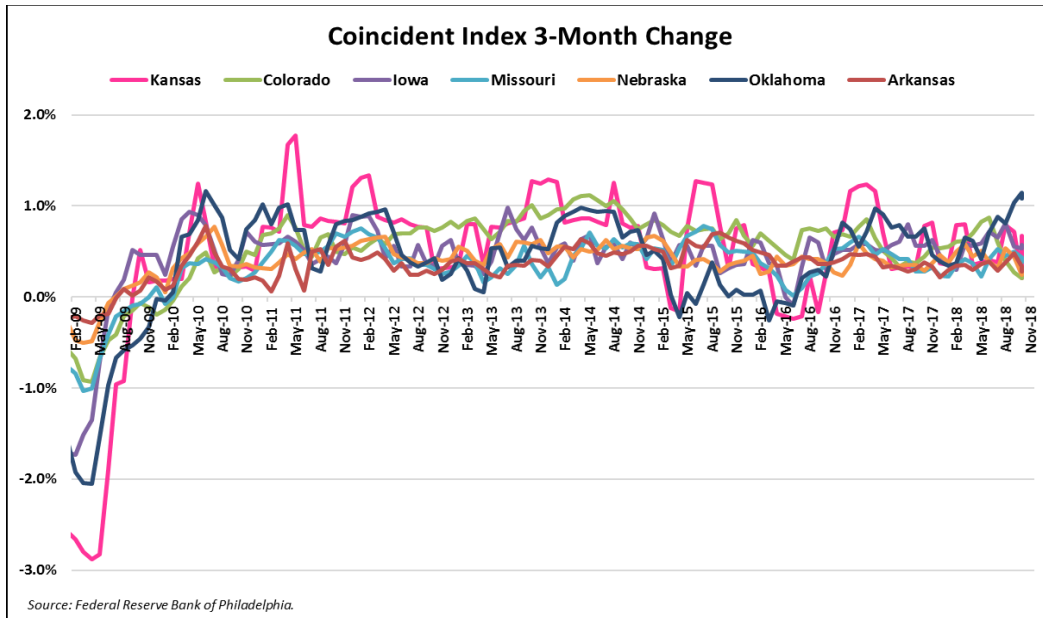
### **What's it Mean?**

Kansas economic growth performance is considerably more variable than the rest of its neighbors, Oklahoma excepted (much higher highs and lower lows than the rest). The line graph above shows Kansas has been gradually catching up to its neighboring states over the national business expansion since 2009 but has not yet caught up.



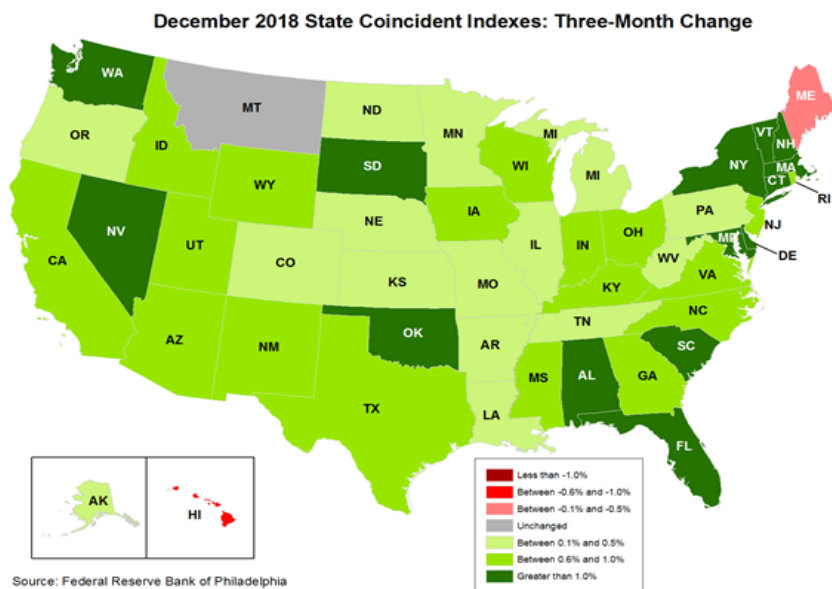
### **What's it Mean?**

Another way of showing Kansas improvement in 2017 and 2018 compared with 2016 is the bar chart above.



**What's it Mean?**

The chart above is not as easy to read as the two prior charts but might be helpful. Measured by the 3-month change in the State Coincident Index, Kansas performed above most of its neighbors for most years after the recession through 2014, shrinking the gap in the long-term coincident index graph discussed above. A gradual slowdown began in 2013/14 with a temporary uptick in mid-2015. 2016 showed promise as a turnaround year, accelerating into 2017. The index has held rather steady since.



***What's it Mean?***

The latest 3-month change for the State Coincident Index indicates Kansas growing at the third highest level (light -green color) at 0.1-0.5 %. It has performed consistently at the next higher rate for much of 2018.

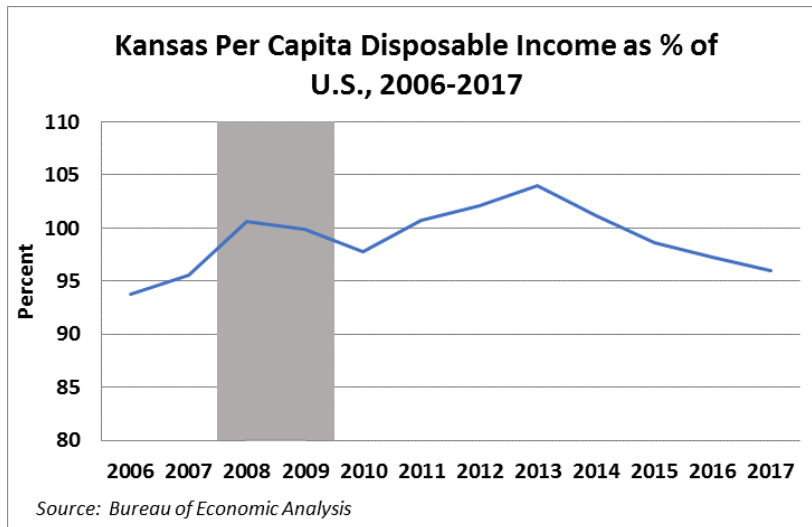
## 2.2 Kansas 2017 Economic Progress in Detail

Focus: Jobs, employment and income are the usual ways to track economic progress. These data are provided below with some added insights from an industry GDP breakdown, export activity and a chart of Leading Indexes.

### Changes in Long-Term Per Capita Income

#### ***Why important?***

Per capita income is the simplest, most widely understood measure of economic progress. It is a good proxy for wealth creation. Income includes earned, investment and pension income as well as transfer payments like social security. Disposable per capita income narrows to those discretionary dollars available to be spent or saved. It is gross income less tax payments. Using the percent of the U.S. shows relative change to the nation as a whole. Inflation rates by state vary quite markedly at times.



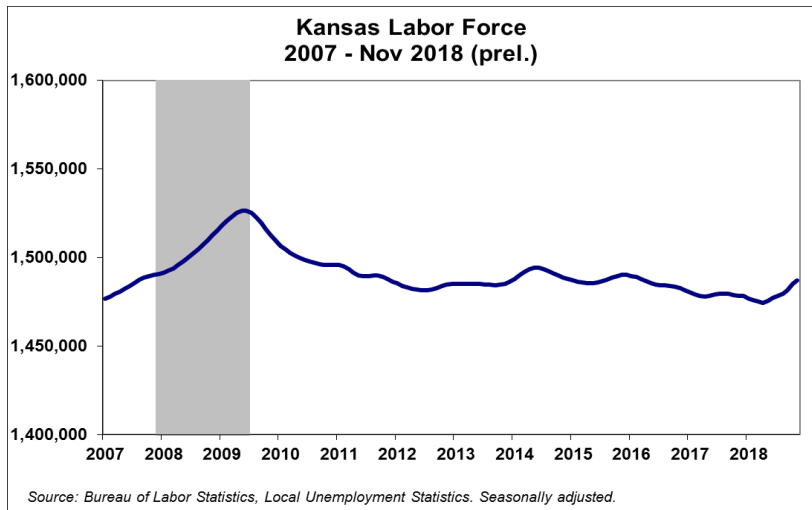
#### ***What's it Mean?***

Kansas remained below the U.S. average through the first part of the past decade, moving just above the 100% mark in during the recession. A gradual upward trend started in 2010 from 98% to 105% in 2013 (not inflation adjusted). Only 2 other states improved their per capita income share by a greater number of percentage points over this time period, Oklahoma and North Dakota. At the same time, Kansas has had one of the largest declines in per capita income share since 2013, approximately back to where it was in 2007.

## Labor Force and Employment

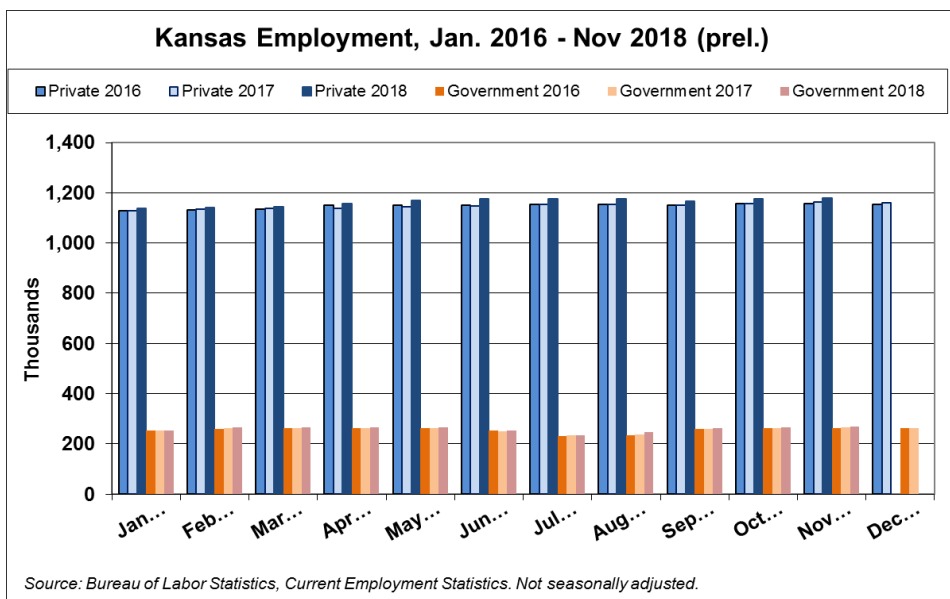
### Why important?

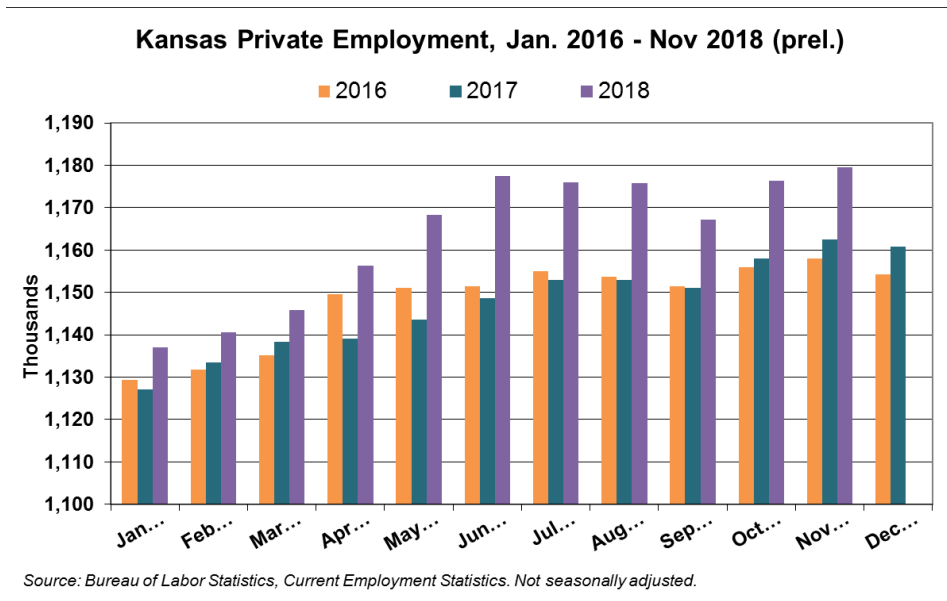
To understand a state's jobs situation, it is incomplete to know how many jobs there are or job growth alone. One must also know how many **private sector jobs** there are and how many working-age adults choose to participate in the labor force. Further, how many of these are unemployed, leading to an estimate of unemployment rate.



### What's it Mean?

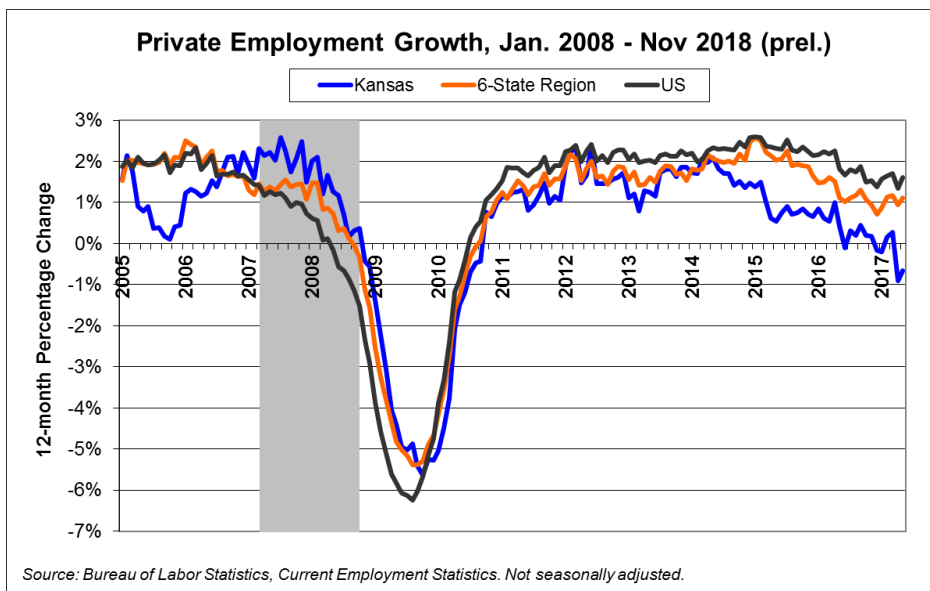
Showing resilience during the 2007-09 Great Recession, the Kansas labor force (those working or looking for work) continued to grow. Immediately after the Recession, that growth started to decline to the middle of 2012, followed by small improvements to mid-2014 but then a downward trend continued except for much of 2018, now showing signs of an uptick. As of Q3 2018 the Kansas labor force participation rate was 66.4% (U.S. 62.9%). In 2018 Kansas had a high Employment to Population rate of 82.1%.





**What's it Mean?**

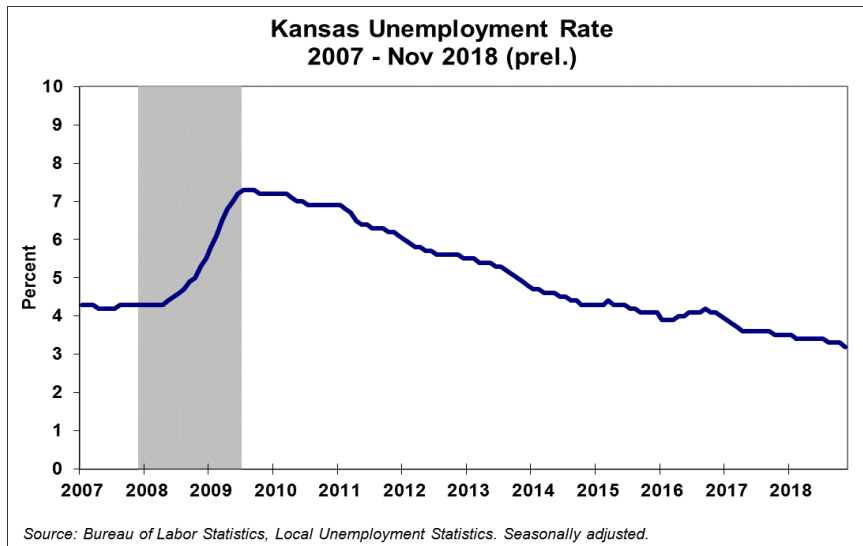
Private employment in 2018 has stayed consistently above 2017 levels. While these levels are impressive Kansas employment growth relative to neighboring states and the U.S. as shown below are less impressive.



**What's it Mean?**

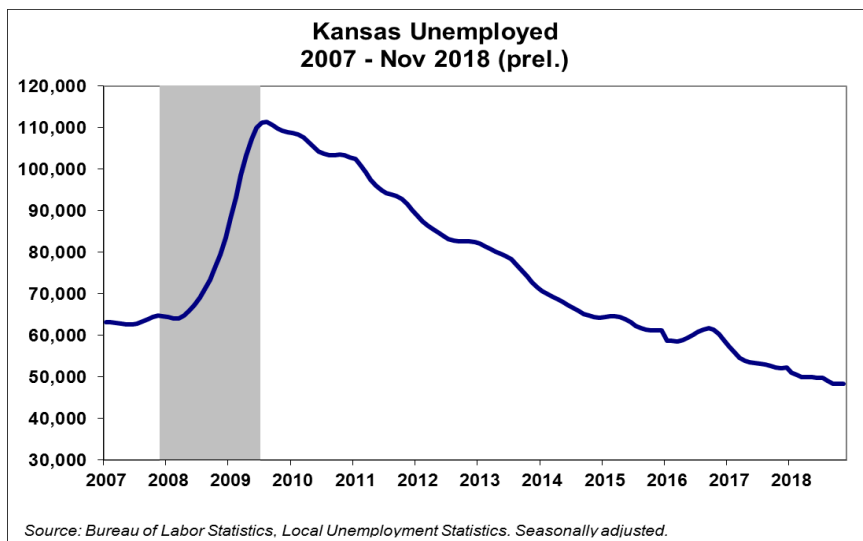
Kansas year-over-year change in private employment outperformed the U.S. and its neighbors during the recession but lagged in the recovery and has fallen further behind the US and 6-state average annual growth since then, except for a short period in early 2012 and 2014. Growth rates in Kansas have been on a downward path since Spring

2014, with a temporary improvement between September 2015 and March 2016. Growth rates turned markedly negative early 2017.



### **What's it Mean?**

The unemployment rate for Kansas spiked in 2009. At a current 3.4% in February 2019, the state is notably below the national November rate of 3.8% and has shown a gradual decline since the last recession to below its pre-recession low.



### **What's it Mean?**

The recession took its toll on joblessness. The number of Kansans unemployed rose dramatically in 2008-09, peaking approximately 30,000 above the last peak in 2003-04. Since the end of the recession, the state experienced a decline until March 2016 when

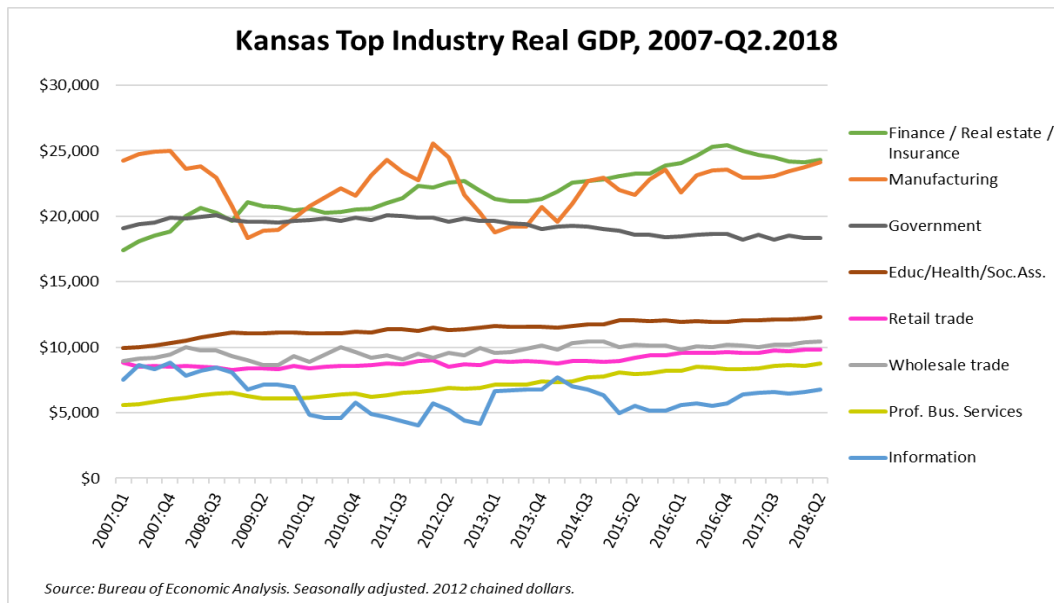


the unemployment rate started to rise again for the rest of the year. However, since then it has returned to a downward trend.

## **Industry Breakdown**

### ***Why important?***

Kansas GDP grew just 0.2 percent at an annual rate in 2017 (2.2 % for the U.S.). But brighter news has been appearing in 2018. The Bureau of Economic Analysis reports in November 2018 that Kansas had the 7<sup>th</sup> fastest state growth Q1-Q2, 2018. Further insights can be uncovered if GDP per capita is broken out by industry below.



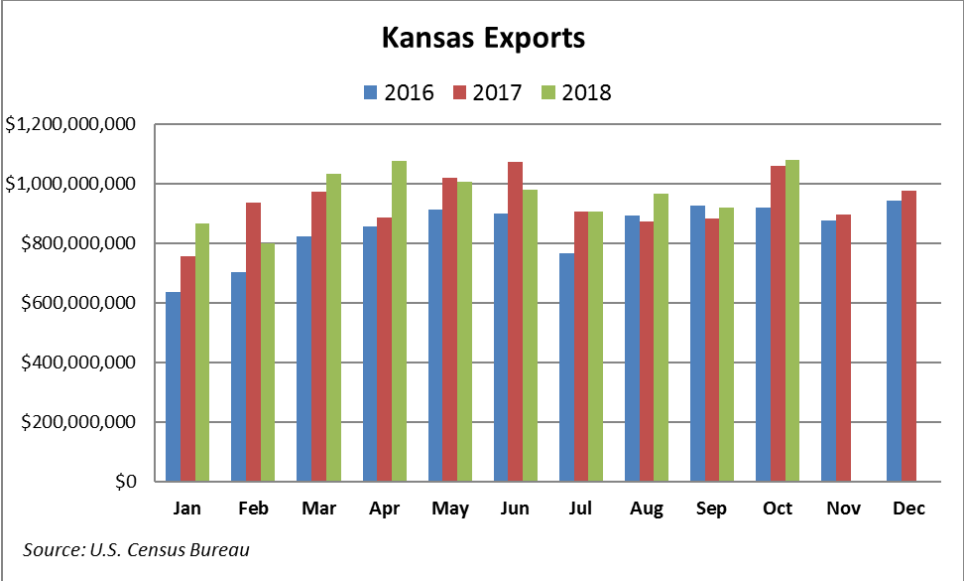
### ***What's it Mean?***

All sectors of the Kansas economy are contributing to an increasing GDP except Government where growth since the recession has levelled off and the Information sector where a decade-long decline continues (In December 2018 the Federal Reserve Bank of Kansas City reported year-over-year decline in Information payroll employment at -9.4%). Most notable upticks in recent years are Trucking and Warehousing, Finance, Real Estate & Insurance and Manufacturing.

## **Merchandise Exports**

### ***Why important?***

Exports are a leading indicator for broader economic activity. Healthy trade is a hallmark of the global economy. States with a manufacturing base that can produce for global demand are well positioned for sustained growth.



**What's it Mean?**

Exports in 2017 performed much better than 2016 and in 2018 somewhat better than 2017. In the second half of 2018 monthly exports have been equal to or exceeding the previous two years.

## 2.3 Entrepreneurial Economy Update: Tracking Business Dynamism

In a free enterprise economy, businesses are the primary source of jobs and wealth creation. They also directly or indirectly determine the revenue generation capacity of governments to provide safety/security, rule of law, public goods and watch over environmental quality and quality of life. States with more 'dynamic' business environments also offer more stimulating and enriching work lives for state residents, making for a more skilled, stable and high-energy workforce. Metrics that measure business dynamism not only include absolute growth in the number of businesses but the value of output, exports, start-up and survival rates, pace of growth and even philanthropy.

According to [www.youreconomy.org](http://www.youreconomy.org), a definitive source of statistics on state and local businesses, there were 153.7 thousand businesses in Kansas in 2017, 78.5% were state-based/Kansas domiciled. All together these businesses were responsible for 1.66 million jobs. Of these businesses 14.4% were self-employed, 67.6% had 2-9 employees, and 17.6 % had 10-99 employees. Up to 100 employees is commonly defined as 'small business' although some definitions include up to 500 employees.

The term 'entrepreneurial economy' in this report refers to the sole proprietorship/small/mid-size business segment of the for-profit sector. This segment is known for its dynamism – lots of establishments forming, merging, surviving/failing, expanding/contracting, moving and growing. Research continues to confirm that over 50% of net new jobs are created by this segment of the economy.

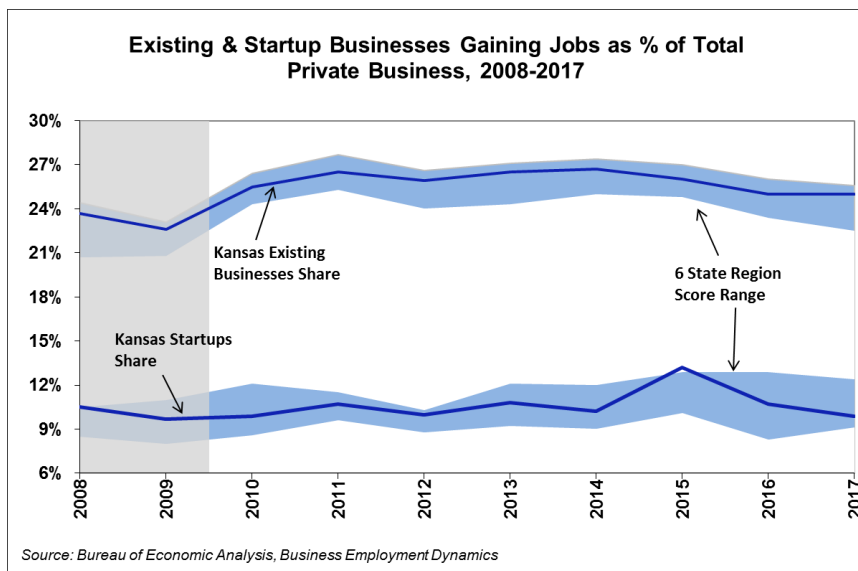
The state of the Kansas entrepreneurial economy is measured in two ways: with **trackers** and with three 50-state **score card indices**. The trackers are a small number of metrics for which data releases are available usually quarterly and at most with only a three-quarter lag time. Consequently, the tracker graphs provide the most recent trends available from readily accessible public data sources. The score card indices are derived for all 50 states from annual data, consequently the latest index results are mainly from 2017 data. Their value is for comparative purposes, providing a standardized index score over 10 or more years. Below is a summary of the findings for Kansas using both data methods.

Graphing trackers over time provides a quick visualization of entrepreneurial trends in Kansas. **The bottom line from these graphs is that Kansas business dynamism has been mediocre compared with other states in the region and places roughly midway between the best and worst performing state. Overall the net job contribution rate (jobs gained less jobs lost) by both new and existing businesses has been slowing in Kansas since early 2014, with start-ups more so. However, there are recent signs that existing businesses are holding their own. Overall, small/mid-size business financing appears to be functioning satisfactorily and showing some uptick in 2017-18.**

## 2.31 Contributions of Existing vs. Startup Businesses

### *Why Important?*

While Kansas business dynamism overall has been mediocre, how have categories of businesses been doing, in particular existing business versus start-ups? While new business formations are always a healthy sign of a dynamic economy, it is very important to watch job creation by established businesses, especially middle-market businesses that form the backbone of the state's economy. As a rule of thumb two thirds to three quarters of net new jobs are created by existing businesses, with the remainder coming from new/opening businesses.



Shaded area is the Great Recession

### **What's it Mean?**

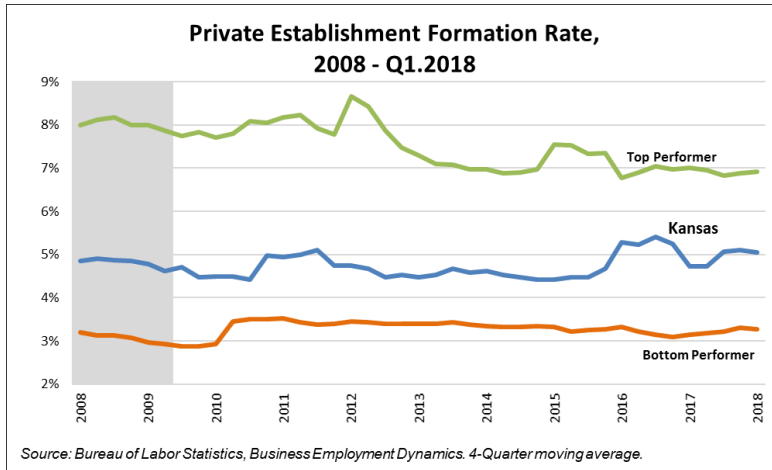
Opening/new establishments had been contributing net new jobs at a fairly steady pace through 2014. After strong performance in 2015, start-ups have fallen to near bottom of the 6-state range. On the contrary, existing businesses have been doing quite well the past 2 years, now near the top of the 6-state range.

## 2.32 Start-ups/New Business Trackers

### **Business Formation Rate**

#### *Why Important?*

High-growth economies frequently display high business formation rates. These are economies with above average freedoms, flexibilities and motivations to try new ventures. The establishment formation rate is not colored by industry type, firm size, or socioeconomic factors. It is a collective measure of the degree to which existing or new firms take on risks and embrace the challenge of success and failure.



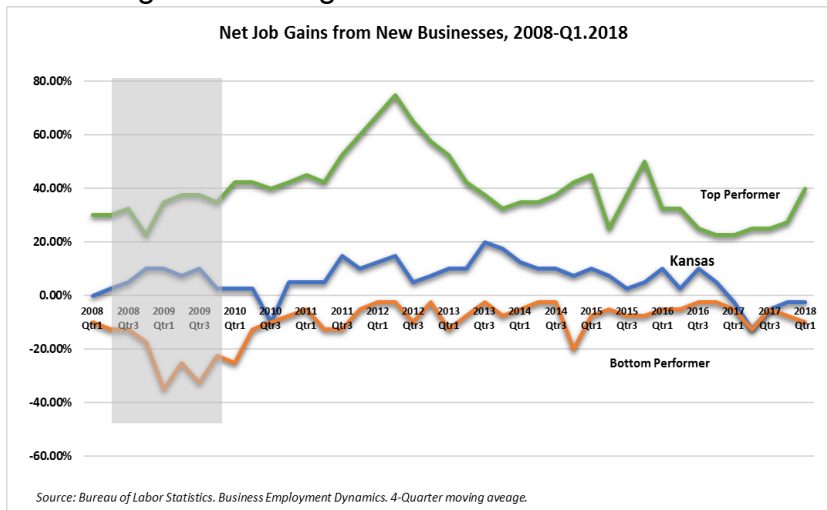
### What's it Mean?

Since the end of the Great Recession the Kansas Business formation has remained at a steady rate with an upward bias. A promising uptick in mid-2015 faded but compared to top and bottom performer states Kansas is now clearly a 'middle state'. The 2017 Kauffman Index of Startup Activity reports a three-rank improvement among the 25 smallest states. As reported last year this metric shows promise.

### Job Gains from New Businesses

#### Why Important?

This metric shows the jobs created from new businesses minus jobs lost by failing businesses relative to the total number of jobs. It is a good aggregate indicator of the degree to which 'start-ups' are replacing terminations and are taking on risks and embracing the challenge of success and failure.



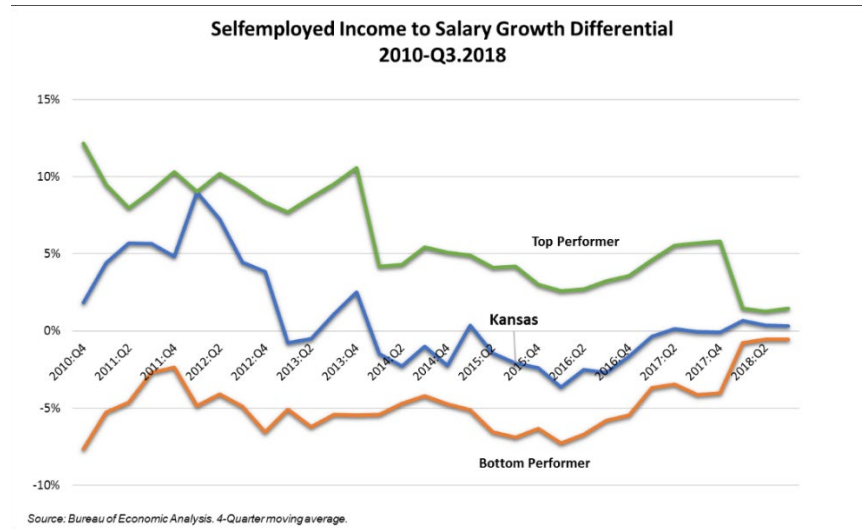
**What's it Mean?** The percent of Kansas net job gains from new businesses improved markedly beginning late 2009 as did other states. This is a common pattern after the end of any recession. Not unexpectedly, as the business recovery progressed, the

Kansas percent of annual net job gains has declined since late 2012 to become a low performer state in 2017. However, since then Kansas has been doing better.

## **Growth in Self-employment Income versus Total Salary Growth**

### ***Why Important?***

The self-employed are the basis for new employer firms. When self-employment grows faster than total jobs, it is a sign of entrepreneurial dynamism, whether it is due to ‘push forces’ (loss of tenured jobs forces people to venture out on their own) -- or due to ‘pull forces’ (good economic times make venturing out more lucrative). As income measures can be obtained with less of a lag than employment measures, the graph below compares the growth in income from self-employment relative to income from salaried employment.



### **What's it Mean?**

Self-employment income in Kansas has grown at a healthy clip since early 2016. Again, Kansas is a 'middle state'. All states have been moving closer together since the end of 2015.

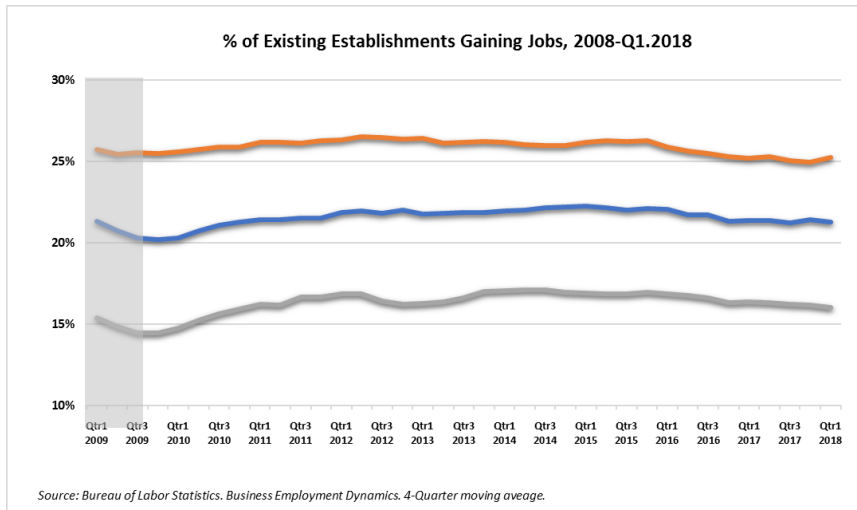
## **2.33 Existing Business Trackers**

### **Breadth of Job Creation**

### ***Why Important?***

The percent of businesses (large and small) creating jobs in any quarter is a good measure of the job-creating dynamism of a state's economy. In good times, 25% of existing businesses are creating jobs in any quarter. As stated above, existing large businesses are the major creators of new jobs. The graph below compares Kansas in terms of gross job gains over time with the best performing state and the worst

performing state in each year. These data have a three-quarter lag so the graph below is up to Q1 2018.



Note: Business= any establishment – a standalone business, HQ, branch or satellite facility, franchise etc.

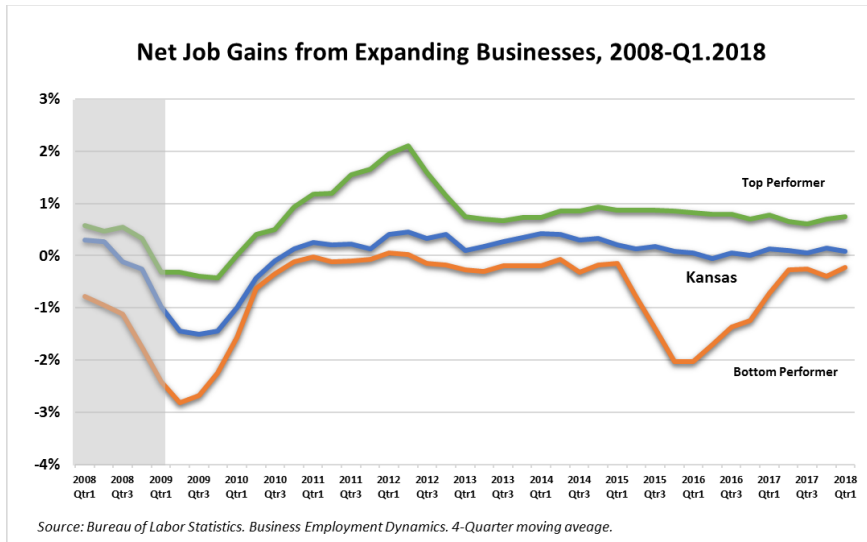
**What's it Mean?**

The Kansas job-creating engine showed some improvement through the 2010's but never reached a desirable 25% plus reading, after a significant drop off in the 2007-09 Recession. After a steady improvement starting in 2010, the state's job-creation by existing businesses plateaued in 2014-15, now showing a slight down-tick, similar to both top and bottom performers.

**Job Gains from Net Expansion Businesses**

**Why Important?**

Existing businesses are the major contributors to job growth. This metric shows the net jobs created from expansions minus contractions relative to the total number of jobs. It is a good aggregate indicator of the degree to which 'businesses in place' are taking on risks and embracing the challenge of success and failure.



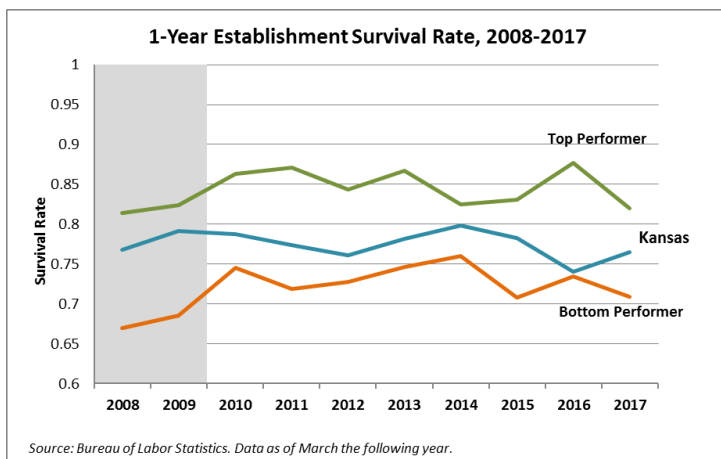
**What's it Mean?**

In line with the declining trend in the share of existing Kansas business creating jobs shown earlier, the net job contribution rate of existing businesses has been slowing since early 2014.

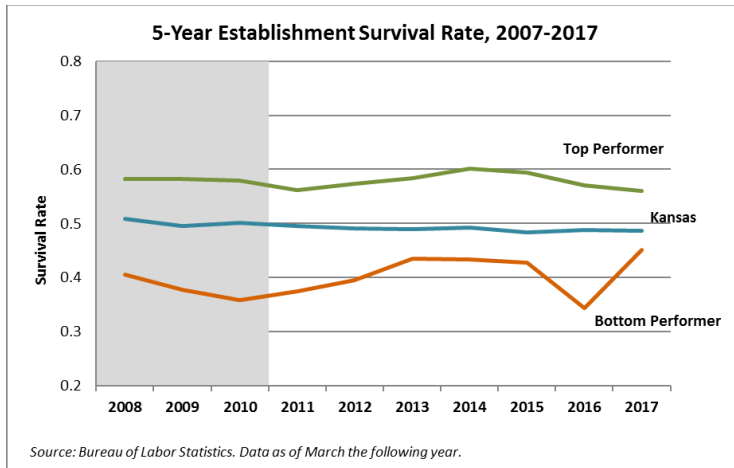
**Trends in Business Survival Rates**

**Why important?**

As a rule of thumb, 50% of start-ups fail in the first 5 years and if a start-up business survives these five years, they have a very good chance of continuation. Tracking the five-year survival rate offers a good indicator of the entrepreneurial dynamism of a state's economy.







### What's it Mean?

As expected, the business survival rate drops during a recession. However, through the 07-09 Great Recession, the toll on Kansas young businesses was only marginal relative to the top and bottom performing states in these years. At the same time, as both the top and bottom performers have gained ground between 2011 and 2014, improvement in the Kansas business medium-term survival rate has been lacking. Since 2010 Kansas displays smooth performance with a slight downward trend.

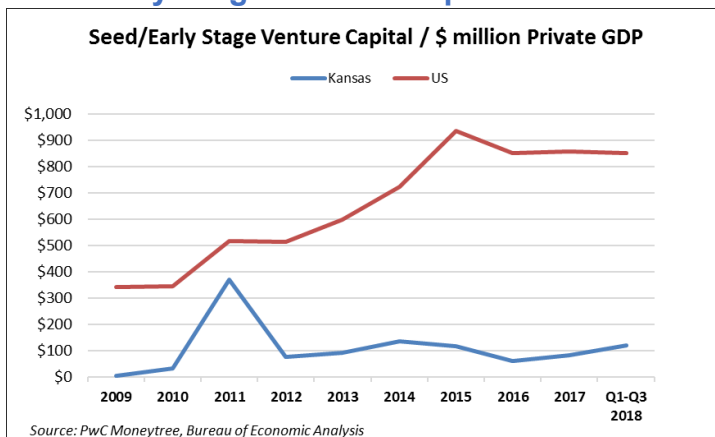
## 2.34 Financing Trackers

### Risk Capital

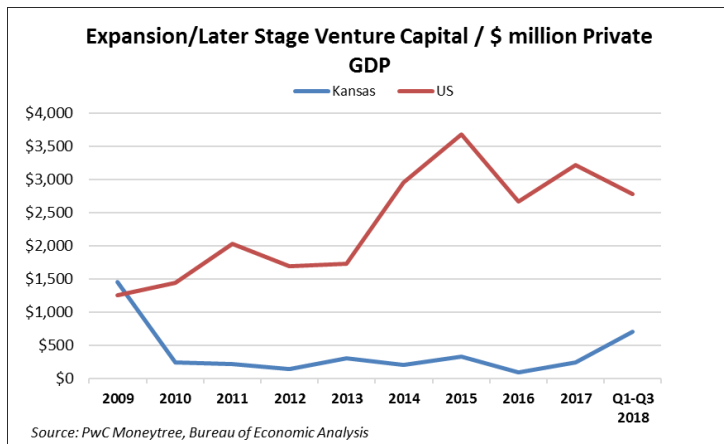
#### Why Important?

Only about 3,000 U.S. small businesses per year receive venture capital, and funding focuses largely on two sectors: information technology and health care. Consequently, tracking seed and startup finance to judge a state's business dynamism can be dubious. However financial access to expansion/late stage financing can move growth companies into full product launch phase and turn them into solid job creators.

### Seed/Early Stage Venture Capital



## Expansion /Later Stage Venture Capital



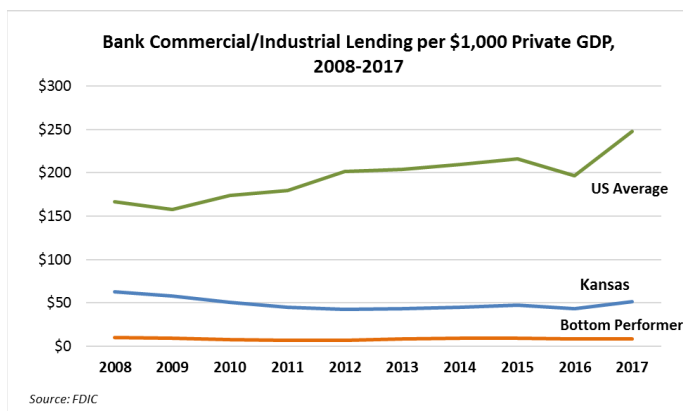
### What's it Mean?

Kansas may not be in the league for seed /early stage VC, but lately it has been showing a promising trend in expansion stage financing.

## Bank Commercial & Industrial Lending

### Why important?

Commercial and industrial lending by banks forms the backbone of debt financing to businesses of various sizes and needs. Although the data is reported by bank headquarters, thereby states with fewer bank head offices will not perform as well, it is a factor worth taking into account.



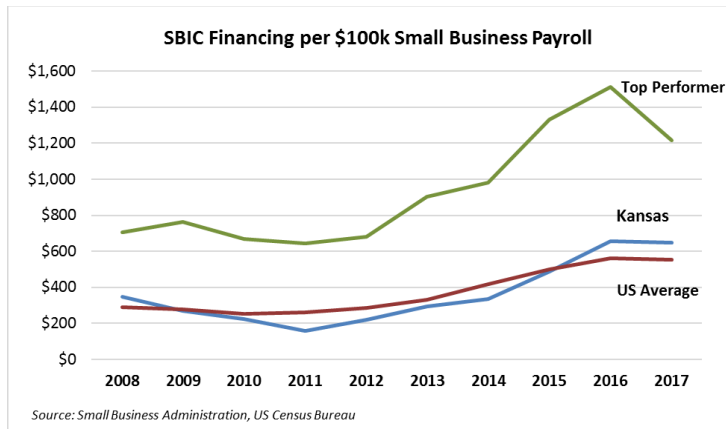
### What's it Mean?

Low commercial and industrial lending by Kansas headquartered banks displays some upward trend since 2013.

## **SBIC Lending**

### ***Why important?***

Small Business Investment Companies (SBIC) are private investment companies supported and regulated by the U.S. Small Business Administration. Their aim is to create investment pools of risk capital in local markets. One sign of entrepreneurial capital dynamics is the SBIC's level of financing.



### ***What's it Mean?***

Kansas has a well-established SBIC network. Kansas SBIC lending has closely followed the average US performance but has started to pull away in 2016.

## **2.4 Entrepreneurial Economy Update: Entrepreneurial ScoreCard, 2007-2017**

This Entrepreneurial Score Card summary for Kansas below draws heavily on the work GrowthEconomics has undertaken with the Michigan Small Business Association.

Over the past 15 years of extensive data gathering and continuous methodology improvement, the Michigan Entrepreneurship Score Card team has used, tested and refined three distinct indexes that together do a remarkably comprehensive and effective job capturing the relative 'health' of Michigan's entrepreneurial economy relative to other states. These indexes are Entrepreneurial Climate, Change and Vitality and are defined as:

**CLIMATE:** *The factors that support the entrepreneurial economy*

**CHANGE:** *The direction and momentum of growth in the entrepreneurial economy*

**VITALITY:** *The level of entrepreneurial activity relative to that in other states*

A relational understanding of how these indices relate to one another is shown in this pyramid:

An intentional separation of level, or status, measures in the Vitality Index from change measures in the Change Index is a distinguishing feature of this Score Card. Each index is made up of five or more metrics and much more information about the specific designs and sources of indices and their metrics are available from GrowthEconomics.

This report incorporates the latest full year of data for all states, 2017. It reports a disappointing KS results. Long term Kansas has scored near the midpoint of all states for many years on all three indexes – no dramatic breakaway in either direction. Further, Kansas has been struggling to keep up with its surrounding states.



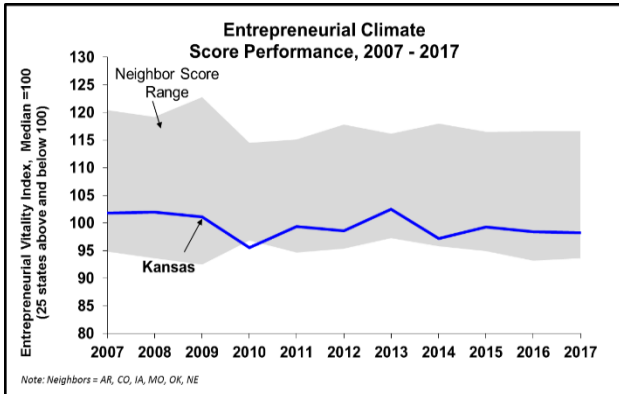
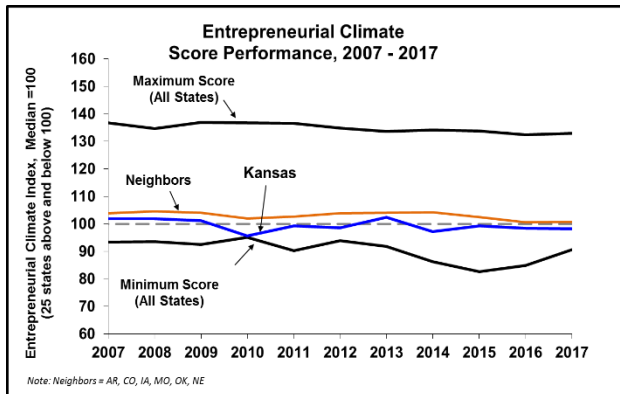
While Score Card research cannot say yet with empirical certainty that a healthy and improving entrepreneurial economy causes state economic growth, the evidence is becoming more compelling of a very close synergy between the entrepreneurial economy and the larger state economy. The fact that its entrepreneurial economy has been ‘average’ since before the Great Recession could well be a contributing factor as to why Kansas overall economic performance has been mediocre in recent years.

*Note: The charts below capture two things: where the Kansas score ranks among other states and how strong/weak that score is. Each Index is scaled so that the mid-point state/median score is 100. Typically, 25 states fall above, and 25 states fall below 100 (if there are no missing data or identical values). The spread between the upper and lower lines shows the range of scores from top to bottom performing states. The median 100 does not necessarily lie “in the middle” of the score range as top performers might have exceptionally high values, or in the reverse case, poor performers might have exceptionally low values*

## **KANSAS ENTREPRENEURIAL CLIMATE (2007-2017) – Rank 40**

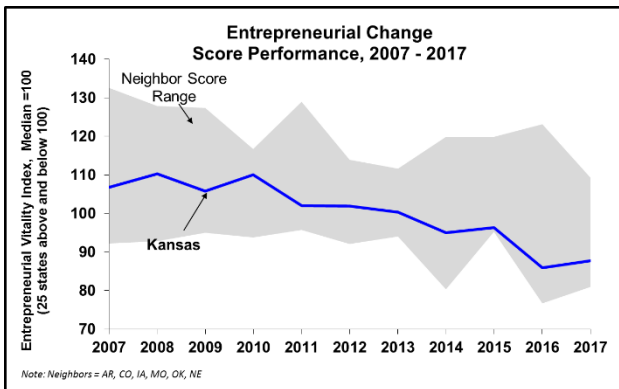
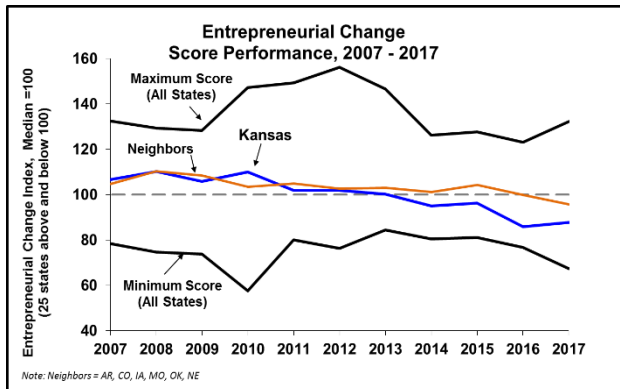
This Index measures the underlying supporting conditions for the entrepreneurial economy. It includes sub-indexes related to innovation, capital access, and general business conditions. Kansas’ performance in Entrepreneurial Climate has somewhat followed the business cycle with a slow recovery since the Great Recession. After some gains to 2008, scoring 2<sup>nd</sup> among its peers, it slipped after the recession towards the minimum score in 2010. It started on a path of recovery in 2010, climbing to a peak in

2013, then falling back to rank 40 in 2017. Its neighboring states average has outperformed Kansas every year since 2007.



### KANSAS ENTREPRENEURIAL CHANGE (2007-2017) – Rank 41

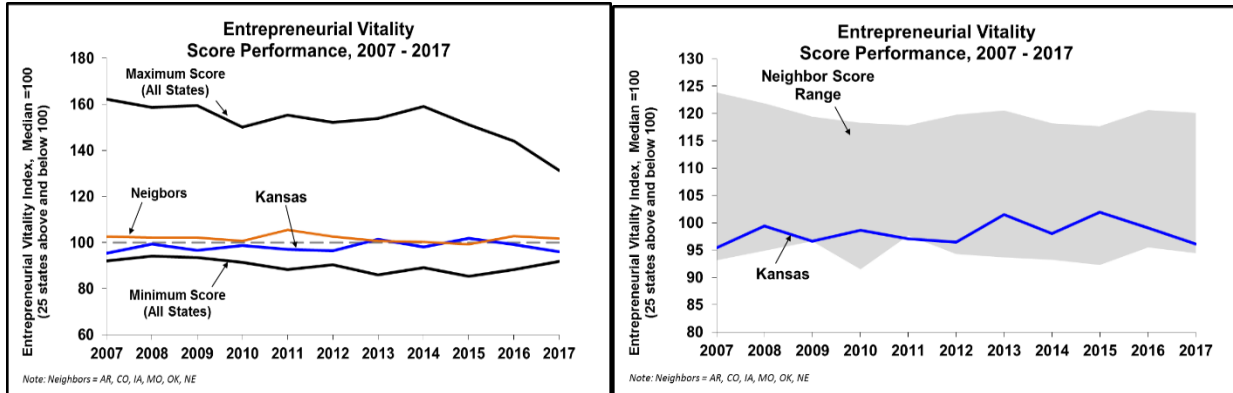
Entrepreneurial Change is a ‘movement index’ that shows *the direction in which a state’s entrepreneurial economy is going relative to other states*. Entrepreneurial Change is comprised of running three-year averages of variables that broadly indicate the *direction of entrepreneurial economy growth or decline*. Entrepreneurial Change speaks to the level of success entrepreneurs are actually experiencing relative to other states.



Among other things, a state’s Entrepreneurial Change is influenced by its Entrepreneurial Climate above, sometimes with a one- or two-year lag. The latest downtrend in Entrepreneurial Climate is not a good sign. The Entrepreneurial Change Score has been on a downward slope since 2010 but with a modest upswing since 2016. Sluggishness in in small business starts is a contributing factor.

### KANSAS ENTREPRENEURIAL VITALITY (2007-2017) – Rank 42

The direction of Entrepreneurial Change in turn influences a state’s *relative level of entrepreneurial activity – its Entrepreneurial Vitality*. Entrepreneurial Vitality variables together present a broad measure of the level of entrepreneurial activity going on in a state relative to other states.



The Entrepreneurial Vitality Index is a slow-to-change structurally-driven outcome index that **captures the size of the entrepreneurial economy, relative to that in other states.**

Over the past decade, Kansas has experienced an unsteady but continuous improvement in Entrepreneurial Vitality from a low rank of 47 in 2005. In 2015 the state ranked 25, for the first time noticeably above the median US performer at the dashed line of 100. But since 2015 the state has lost earlier gains and ranks 42 in 2017. A gradual long-term uptrend in Entrepreneurial Vitality is sign of a healthy transformation toward a more entrepreneurial state.

### 3. BUSINESS CLIMATE UPDATE

'Business climate' is a widely used all-encompassing term referring **the ease of doing business in a jurisdiction**. More narrowly defined it refers to the level and nature of costs that businesses incur related to their operations in a jurisdiction – tax costs, labor costs, energy costs etc. More broadly it includes the ready availability of skilled/qualified workers, the burdensomeness of government regulations, tort liabilities, safe and reliable infrastructure and even the quality of life that makes a place attractive for keeping good loyal workers around.

#### 3.1 Best States for Business/Economic Growth 2017/18 – A Kansas Snapshot

The purpose of this report is to ascertain where Kansas stacks up on the most widely used US state report cards focused on either 'best for business' or economic performance. These report cards deploy a variety of methods. No comparison is made of methods. Rather the report attempts to discover the degree to which the findings about Kansas are consistent/inconsistent across these reports. And to observe how these scores have moved over the past 5 years. In nearly all cases a published report uses annual data from the previous year. A 2018 report, for example, is referring to 2017 performance. The 5-year tables compare the 2018 report (2017 data) with the 2012 data year.

2018 Overall National Ranks (Rank 1 is Best)	
Chief Executive	19
CNBC	35
Forbes	25
ITIF – Technology Economy	31
US News - Economy	42
Wallet Hub - Start a Business	35
24/7 Wall St (2017)	23

#### What's it Mean?

The ACI avoids using overall best for business rankings like the above because differences in scope, definitions and methodologies cause great variation in results as seen above. Nevertheless, combined they tell a story: Kansas mostly ranks close to or below the national midpoint.

US News, Best States 2018 Economy Breakdown on Growth – Kansas Ranking			
Growth	47	Low Unemployment Rate	17
GDP Growth	41	Business Environment	33
Growth of Young Population	50	Entrepreneurship	19
Net Migration	46	Low Tax Burden	31
Employment	16	Patent Creation	24
Job Growth	42	Top Company Headquarters	26
Labor Force Participation	15	Venture Capital	47

### What's it Mean?

Kansas is underperforming on overall growth and business environment markers. Employment overall is above midpoint. **The most promising aspects of the Kansas economy are low unemployment, strong labor force participation and entrepreneurship.**

## 3.2 Rankings by Select Categories

### Overall Economic Performance, 2012- 2017

Overall Economic Performance – <b>mid-range performer</b>	Rank/grade (rank 1 is best)
<ul style="list-style-type: none"> <li>ALEC-Laffer State Economic Competitiveness Index (2018) -- Economic Performance (10-year change) (2016 data)</li> </ul>	32 (32 in 2012)
<ul style="list-style-type: none"> <li>CNBC America's Top States for Business 2018 -- Economy</li> </ul>	48 (31 in 2012)
<ul style="list-style-type: none"> <li>Kauffman Foundation / ITIF, The 2017 New Economy Index</li> </ul>	30 (31 in 2012)
<ul style="list-style-type: none"> <li>Forbes, The Best States for Business (2017)</li> </ul>	25 (17 in 2011)
<ul style="list-style-type: none"> <li>Chief Executive's Best and Worst States for Business (2018 -- 2017 survey results)</li> </ul>	19 (23 in 2012)
<ul style="list-style-type: none"> <li>US News, Best States 2018</li> </ul>	29 (no back years)
<ul style="list-style-type: none"> <li>WalletHub Best States to Start a Business 2018</li> </ul>	35 (no back years)

### What's it Mean?

Over the past five years the Kansas economy has either performed about the same or with some slippage except for the Chief Executive magazine which shows a 4-rank improvement.



## **Kansas Tax and Fiscal Climate, 2012- 2017**

<b>Tax and Fiscal Climate – mid-performer</b>	
<ul style="list-style-type: none"> <li>• GrowthEconomics, Kansas ACI (2015) -- Fiscal Constraint on Growth</li> </ul>	31 (32 in 2012)
<ul style="list-style-type: none"> <li>• ALEC-Laffer State Economic Competitiveness Index (2015) Economic Outlook -- Tax &amp; Spending Policies</li> </ul>	26 (15 in 2012)
<ul style="list-style-type: none"> <li>• Small Business &amp; Entrepreneurship Council, Business Tax Index 2017</li> </ul>	28 (26 in 2012)
<ul style="list-style-type: none"> <li>• Tax Foundation, State Business Tax Climate Index 2019</li> </ul>	28 (26 in 2012)

### ***What's it Mean?***

The Kansas Tax and Fiscal Climate remains midpoint. The latest Tax Foundation and Small Business & Entrepreneurship Foundation reports, focused on business taxation, score the state at midpoint and show some slippage over the past 5 years. ALEC ranks Kansas favorably as a right-to-work state, no inheritance/estate tax and minimum wage laws. GrowthEconomics rankings are pulled down by the state's proportionately high number of public employees and government debt interest payments. The single most critical drag on Kansas fiscal condition is pension and unfunded liabilities.

The Small Business and Entrepreneurship Council's "2018 Small Business Policy Index" gives Kansas a #24 rank, a drop from #13 in 2014. Specifically, it reports the following negative change for Kansas: *"the state's personal income and individual capital gains tax was increased from 4.6% to 5.2%"*

The 2019 Tax Foundation's "State Business Tax Climate Index" ranks Kansas overall at 28 and its Corporate Tax Rank at 34. It notes: *"Last year's rate increase, which also added an additional tax bracket, resulted in a decline in the state's overall ranking. However, this year's further rate increase, from 5.2 to 5.7 percent, had no effect on the state's overall rank."*

## **The Kansas Technology/Innovation Economy, 2012- 2017**

<b>Technology &amp; Innovation Indices – mid/low performer</b>	
<ul style="list-style-type: none"> <li>• GrowthEconomics, Competitiveness ScoreCard (2018) -- Technology &amp; Innovation</li> </ul>	36 (37 in 2012)
<ul style="list-style-type: none"> <li>• Kauffman Foundation / ITIF, The 2017 New Economy Index -- Innovation Capacity</li> </ul>	22 (34 in 2012)
<ul style="list-style-type: none"> <li>• CNBC, America's Top States for Businesses 2018 -- Technology &amp; Innovation</li> </ul>	29 (27 in 2012)
<ul style="list-style-type: none"> <li>• Wallethub 2018's Most &amp; Least Innovative States</li> </ul>	39 (no back years)

### ***What's it Mean?***

**Technology & Innovation indices** place Kansas mostly in the lower half of the states. GrowthEconomics scores the state close to the bottom 10 due to its underperformance

in federal funded R&D and its scoring methodology which takes into account distances between a state’s performance and the median (As a result states with federally funded Research Centers pull away from other states in the aggregate score.) The ITIF Innovation Capacity driver recorded a significant improvement for Kansas since 2012 with a higher share of scientists and engineers in the workforce and a notable move towards a clean energy economy (measured by change in energy consumption per capita, renewable energy as a share of total energy consumed, and change in renewable energy’s share of total energy consumed). Based largely on patents and federal research grants, CNBC ranking did not change significantly the last 5 years.

### **Kansas Workforce and Education, 2012- 2017**

<b>General &amp; Knowledge/Skilled Workforce – variable performer</b>	
<ul style="list-style-type: none"> <li>GrowthEconomics, Competitiveness ScoreCard (2018)               <ul style="list-style-type: none"> <li>-- Education</li> <li>-- Workforce Preparedness</li> </ul> </li> </ul>	35 (22 in 2012) 16 (20 in 2012)
<ul style="list-style-type: none"> <li>CNBC, America's Top States for Businesses 2017               <ul style="list-style-type: none"> <li>-- Education</li> <li>-- Workforce</li> </ul> </li> </ul>	18 (14 in 2012) 38 (13 in 2012)
<ul style="list-style-type: none"> <li>Kauffman Foundation / ITIF, The 2017 New Economy Index               <ul style="list-style-type: none"> <li>-- Knowledge Jobs</li> </ul> </li> <li>Forbes The Best States for Business (2017)               <ul style="list-style-type: none"> <li>-- Labor supply</li> </ul> </li> </ul>	29 (27 in 2012) 24 (no back years)
<b>K-12 – variable performer</b>	
<ul style="list-style-type: none"> <li>GrowthEconomics, Competitiveness ScoreCard (2018)               <ul style="list-style-type: none"> <li>-- K-12 Education</li> </ul> </li> </ul>	21 (19 in 2012)
<ul style="list-style-type: none"> <li>ALEC, Report Card on American Education (2015)               <ul style="list-style-type: none"> <li>-- Education <u>POLICY</u></li> </ul> </li> </ul>	34 (36 in 2012)
<ul style="list-style-type: none"> <li>Education Week, Quality Counts 2018               <ul style="list-style-type: none"> <li>-- K-12 Achievement Index</li> </ul> </li> </ul>	D+ (D+ in 2012)
<ul style="list-style-type: none"> <li>US News Best States for Education 2018               <ul style="list-style-type: none"> <li>--K-12</li> </ul> </li> </ul>	27 (no back years)
<b>Postsecondary – variable performer</b>	
<ul style="list-style-type: none"> <li>US News Best States for Education 2018               <ul style="list-style-type: none"> <li>-- Higher Education</li> </ul> </li> </ul>	15 (no back years)
<ul style="list-style-type: none"> <li>GrowthEconomics, Competitiveness ScoreCard (2018)               <ul style="list-style-type: none"> <li>-- Postsecondary Education</li> </ul> </li> </ul>	43 (26 in 2012)

### ***What’s it Mean?***

Kansas has reputation for K-12 quality with rankings by GrowthEconomics under 21 all past 5 years. Many reports place Kansas K-12 above midpoint. Education Week’s low score is dragged down by shortfalls in support for college and workforce readiness. The ALEC score, which focuses on education policy, gives Kansas K-12 a D+ grade.

Postsecondary education has usually ranked around mid-point. What makes Kansas postsecondary education robust is its state-wide network of junior and community

colleges which prepare a large swath of the workforce with foundational postsecondary skills resulting in a higher workforce educational attainment level than midpoint. We cannot find explanation for the significant drop in CNBC Workforce.

### **Legal & Regulatory Climate, 2012- 2017**

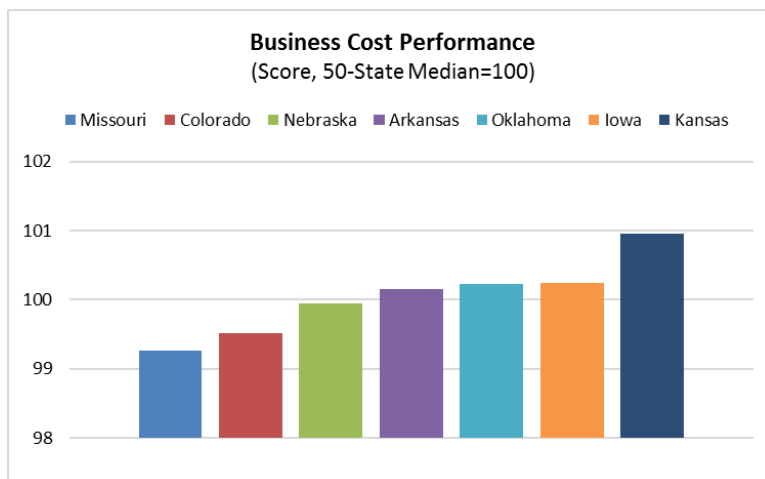
<b>Legal &amp; Regulatory Climate – mid-high performer</b>	
<ul style="list-style-type: none"> <li>GrowthEconomics, Competitiveness ScoreCard (2018) -- Business Liability Score</li> </ul>	21 (24 in 2012)
<ul style="list-style-type: none"> <li>GrowthEconomics, Competitiveness ScoreCard (2018) -- Malpractice Cost Score</li> </ul>	11 (8 in 2012)
<ul style="list-style-type: none"> <li>Forbes, The Best States for Business and Careers (2017) -- Regulatory Environment</li> </ul>	24 (no back years)

#### ***What’s it Mean?***

Kansas has an ‘above the norm’ reputation for legal climate and regulatory flexibility. Data is limited for this category.

### **3.3 Cost of Doing Business**

- Business Cost Summary**

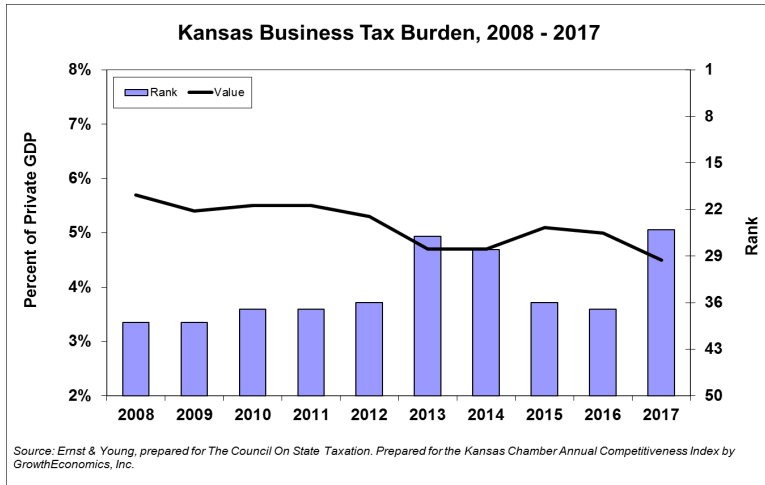


Source: The Kansas Chamber’s 14<sup>th</sup> Annual Competitiveness Index (ACI)

#### ***What’s it Mean?***

The chart shows total business costs indexed to 100 for the median of the 50 states. A high score is good; It equals lower costs. As per last year Missouri and Colorado remain saddled with business costs below the median, while this year Kansas has moved to the low-cost leader among its neighboring states. Relative improvements in unit labor costs (a measure of productivity) and health care costs helped Kansas gain competitive position. As shown below Kansas changes in energy, tax, workers’ compensation and unemployment costs had small effects on the overall results for 2018.

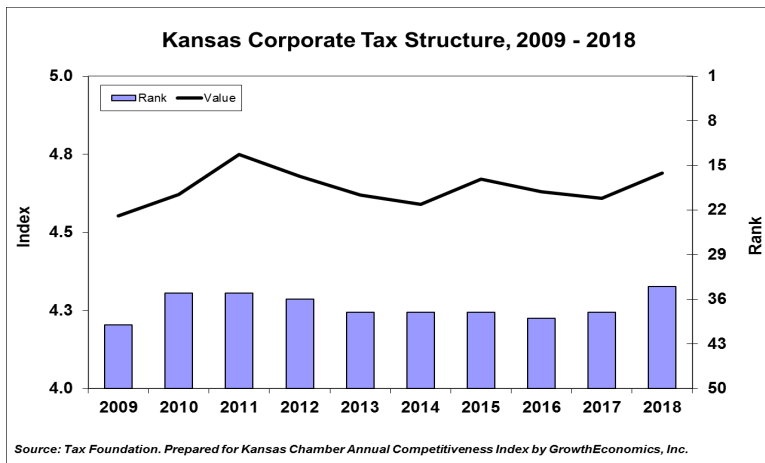
- **Business tax burden**



***What's it Mean?***

Kansas business tax burden is a total of all state and local taxes paid by businesses as a percent of GDP. The lowest percent state score is rank 1. The score shows a general decline trend since 2008. Rank improved noticeably after the tax changes in 2012, dropping in 2015 and 2016, then returning to rank 25 in 2017.

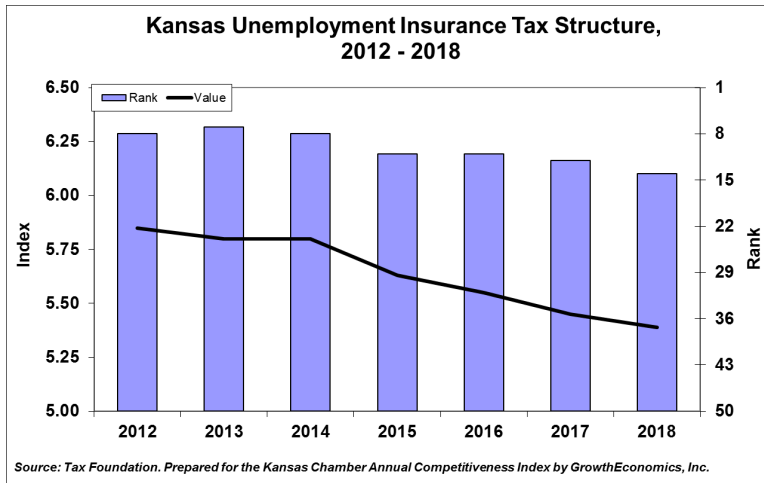
- **Corporate tax structure**



***What's it Mean?***

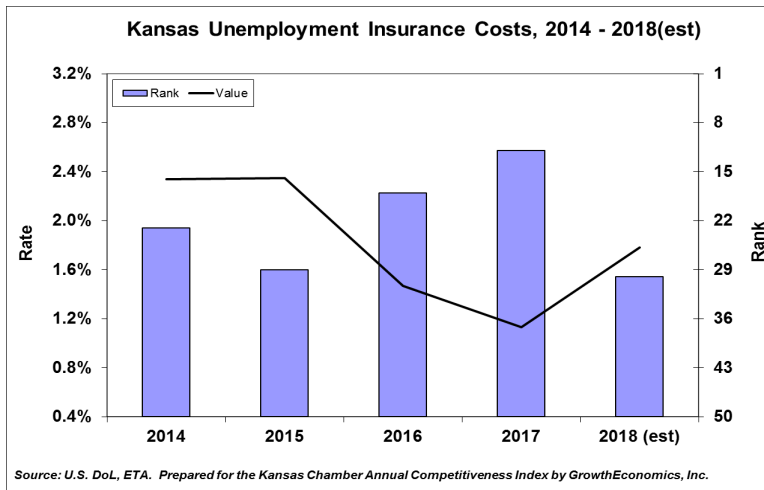
This measure is the Corporate Tax Index taken from the Tax Foundation. It strives to measure fairness and balance across all businesses, but especially C Corporations. It favors tax systems that are simple and have low tax rates across a broad base. The Kansas score showed improvement in 2010 and 2011. Phased-in legislative changes in Kansas Corporate Tax in 2012 and 2013 led to some temporary improvement in 2015. 2018 rank at 34 has now returned close to where it was in 2011.

- **Unemployment insurance tax structure and costs**



***What's it Mean?***

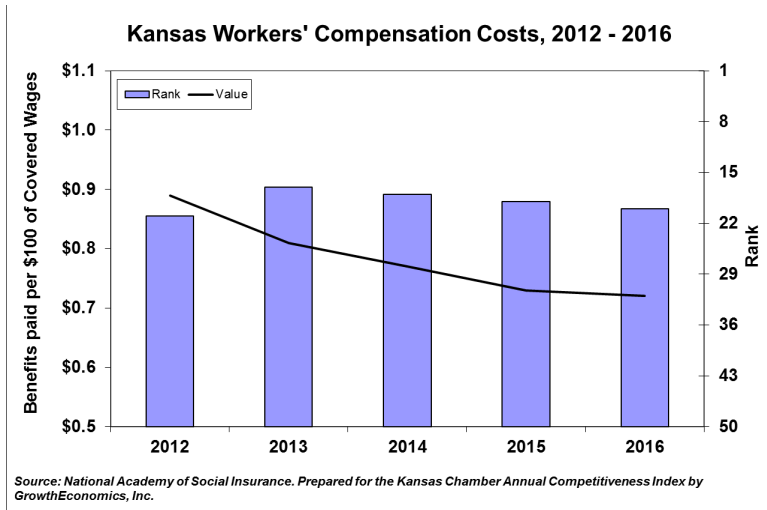
The Tax Foundation in its annual State Unemployment Insurance Tax Index scores states higher that have fewer distortions, a simpler tax structure, a broader base and lower rates, with a maximum score of 10 for top performance. While a top 10 performer five years ago, Kansas has experienced some slippage since 2014, while remaining above rank 15 in 2018.



***What's it Mean?***

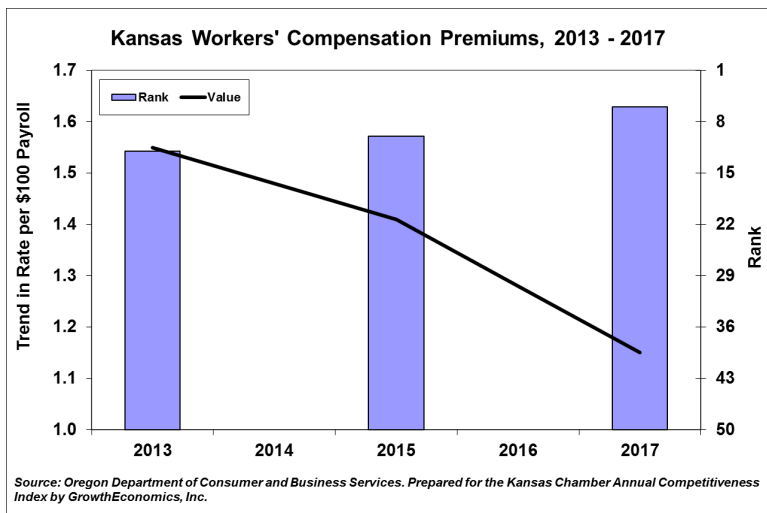
Kansas unemployment insurance costs (average rate paid on all taxable wages) shows a decline from 2015 to 2017, with a noticeable increase in the preliminary estimated 2018 costs. Kansas rank improved considerably in 2017, to its highest in over a decade but dropped in 2018 to rank 30.

- **Worker Compensation Costs and Structure**



**What's it Mean?**

Kansas workers' compensation benefits per \$100 of covered wages have declined for five consecutive years since 2012. However, with other states following suit the state has not made significant improvement in ranking since 2013, though it remains in the Top 20.

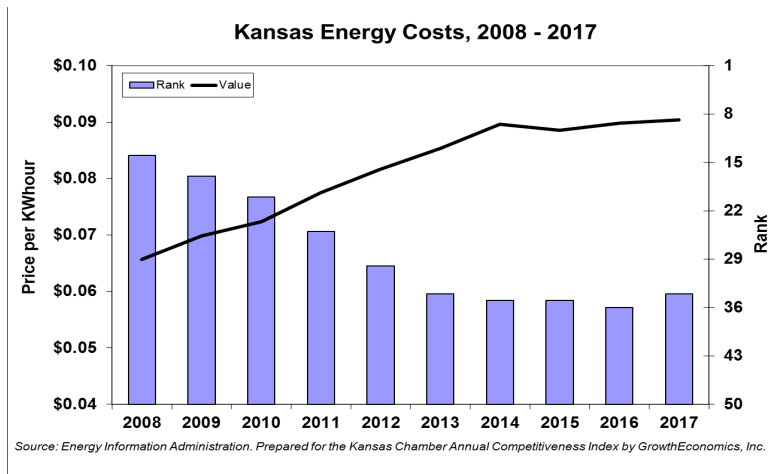


**What's it Mean?**

Reflecting a generally healthy economy Workers' compensation rates paid per \$100 of payroll in Kansas have fallen the last four years, boosted by Kansas 10.4% and 11% premium reductions in 2015 and 2016.

Kansas consistently ranks in or near the top 10 states. These comparative data from the Oregon Department of Consumer and Business Services are available only every 2 years.

- **Energy costs**



### What's it Mean?

Although of less importance than labor, health insurance, and taxes, energy costs are nonetheless a core concern of employers especially for manufacturing industries and are highly variable across states. Kansas experienced a steady increase in industrial and commercial electricity prices between 2008 and 2014 resulting in a drop in its ranking from 14<sup>th</sup> to 35<sup>th</sup>. However, Kansas prices and its rank have stabilized over the past four years. In 2017, its only slight increase in energy costs relative to other states has actually improved its ranking to a current 34<sup>th</sup> place up from rank 36 the year before.

### 3.4 Compared to States of Similar Size

Mostly ACI's comparative analyses refer to a U.S. state averages or Kansas' six neighboring states for a reference base. But what do we know about Kansas' performance with respect to states of similar size?

Kansas is counted among the 25 smaller states. The following eleven are those at the top of the smaller states list with business establishment counts between 100,000 and 240,000: in descending order, Nebraska, Utah, Nevada, Mississippi, Arkansas, Kansas, Iowa, Oklahoma, Kentucky, Connecticut, and Oregon. The table below shows how these states compare on the ACI Business Costs Index and on Entrepreneurial Dynamism, a combination of the Entrepreneurial Climate and Entrepreneurial Change drivers combined.

### Comparison of Business Cost Index and Entrepreneurial Dynamism, Eleven Small States

ACI Business Costs, Rank out of 11, 2017		Entrepreneurial Change & Climate Rank out of 11, 2017	
Score	Rank	Score	Rank

Nebraska	99.9	8	97.4	5
Utah	99.9	9	121.8	1
Nevada	101.3	1	111.3	3
Mississippi	101.1	2	93.2	8
Arkansas	100.2	7	96.1	6
<b>Kansas</b>	<b>101.0</b>	<b>3</b>	<b>93.0</b>	<b>9</b>
Iowa	100.2	5	99.6	4
Oklahoma	100.2	6	87.3	11
Kentucky	99.9	10	95.1	7
Connecticut	100.6	4	92.3	10
Oregon	99.4	11	113.5	2
<i>For Business Costs, the higher the score the lower the costs'</i>				

Among these eleven small states of comparable size, Kansas ranks well on Business Costs, third best. On the other hand, it ranks third last on entrepreneurial dynamism. In short Kansas lacks the economic dynamism one would expect from a state with an attractive business cost environment that shines among its neighbors and is very competitive among states of similar size.



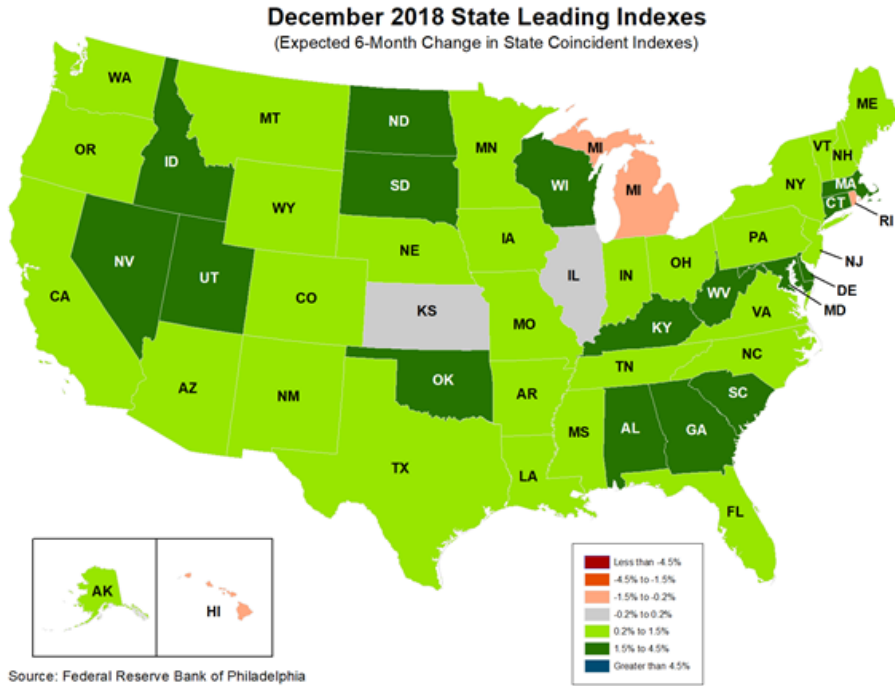
## **4. 2019 ECONOMIC OUTLOOK, STATE REVENUE AND SPENDING**

### **4.1 National Outlook: Quite Unclear**

The fact that the U.S. is now in its second longest business expansion since World War II adds complexity to state economic growth strategy. Recent stock market turbulence speaks to uncertainty, complicated by tariff fears slowing global business expansion, signs of global and national slower growth in early 2019, and the path of inflation and consequent Federal Reserve monetary policy. Despite these headwinds the U.S. economy is chugging along quite well and with it the fortunes of most states. Federal Reserve Chairman Jerome Powell summed up the U.S. economy before the Senate on 2/26/19 as 'healthy' but with cautions about 'crosscurrents and conflicting signals', justifying a 'patient approach' to interest rate changes. The same general descriptors could be used for the Kansas economy.

A logical approach to state economic growth strategy at this juncture is to watch carefully those factors that play into a state's growth trajectory especially in tough times. International trade, for example, affects the Kansas Transportation, Warehousing and Distribution industries. Routine monitoring through analytics and industry dialogue would be a worthwhile endeavor in 2019-20 – possibly including semiannual roundtables of industry leaders. Small business and entrepreneurship is another worthy focus. Invariably this sector is disrupted in a downturn. But such is also a time of increased start-ups where state early-stage business policies can make a difference for quick take-off after a recession. A third area worth close watch is state taxation and spending practices covered briefly below. Near the end of business cycles state governments can become overconfident about revenue-raising through taxation only to be hit hard if/when a slowdown eventuates. A good rule of thumb is to constrain revenue-raising such not to exceed economic growth and spending.

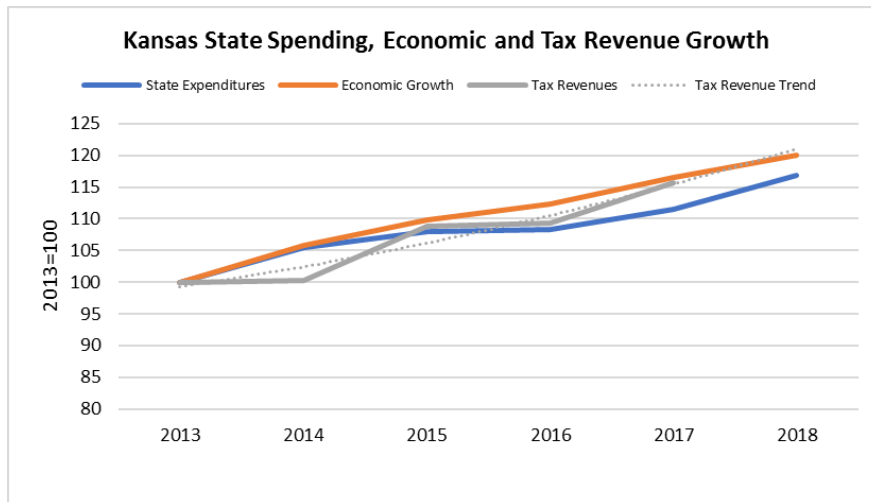
## 4.2 State Outlook/ Leading Indexes: Kansas Moderate Performer

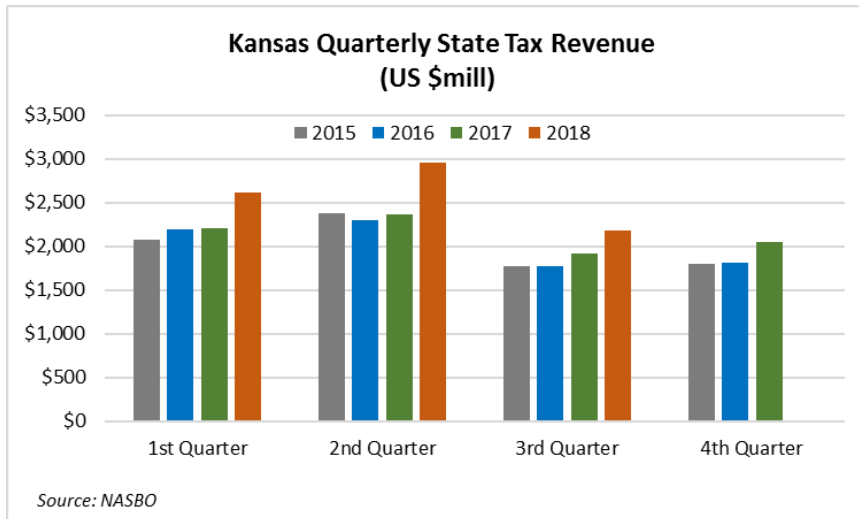


### ***What's it Mean?***

The State Leading Index, a companion index to the Coincident Index, points to an expected 6- month change into the first half of 2019 from - 0.2% to + 0.2% growth. Each month the Federal Reserve Bank of Philadelphia reports on the economic growth outlook, measured as 3-month change in the State Leading Index. Kansas is shown with gray shading (indicating an underperformer relative to a majority of states). In contrast, a quite healthy uptick has occurred in the labor force, employment and exports.

## 4.3 State Tax Revenues and Spending: Accelerating





### What's it Mean?

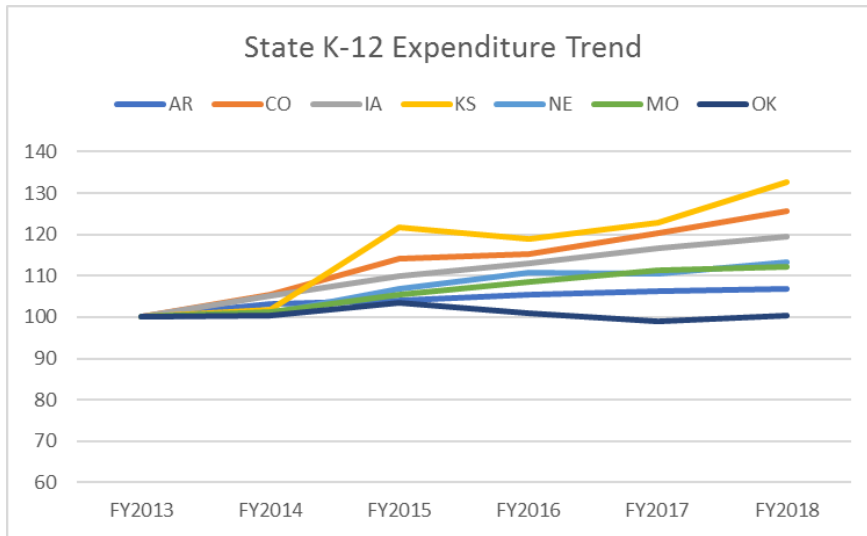
The economic growth trend is the monthly average of the coincident Index; the tax revenues are the annual sum of quarters; and the spending data is fiscal annual data. The KS economy (orange line) has advanced on a steady upward clip the past 5 years. Not unexpectedly tax revenues (gray line) have followed suit over the same period but not as smoothly. In fact, after the tax reform of 2011/12 revenues were flat. Since then they have picked up and are now growing at a rate faster than economic growth with every quarter in 2018 exceeding revenues in the same quarter last year – a cautionary signal! State expenditures have also tracked economic growth but somewhat less subdued until 2016. Since then the rate of increase in state expenditures exceeds the economy growth rate – again a cautionary signal!

## 4.4 State Education Spending: Strong Growth

### State K-12 Education Expenditures as % of Total Expenditures, FY 2018

<b>KS</b>	<b>30.4%</b>
CO	25.7%
MO	22.5%
IA	16.9%
OK	15.4%
AR	14.1%
NE	13.9%

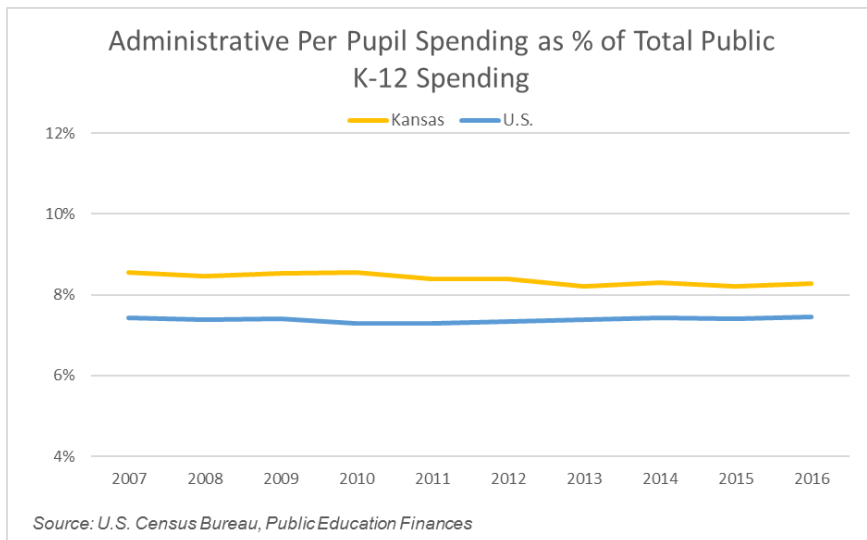
Source: NASBO State Expenditure Report



**What's it Mean?**

Education has long been a priority of Kansas state government. Overall, K-12 operating and capital spending accounts for 30% of state total expenditures in 2018, a higher percentage than neighboring states. Further, over the past five years, K-12 spending tracks strong growth, exceeding that of neighboring states.

**4.5 Education Spending Efficiency/Administrative Costs**



**What's it Mean?**

Opportunities for improvement in K-12 efficiency remain -- administrative spending as a percent of total K-12 spending persistently exceeds the U.S. average, currently 11% higher. Between 2010 and 2013, there were signs of notable improvement, followed by several years of little change. On the positive side, today's gap in the chart above is below that of 10 years earlier.

## 4.6 Productivity Puzzle remains

### Focus

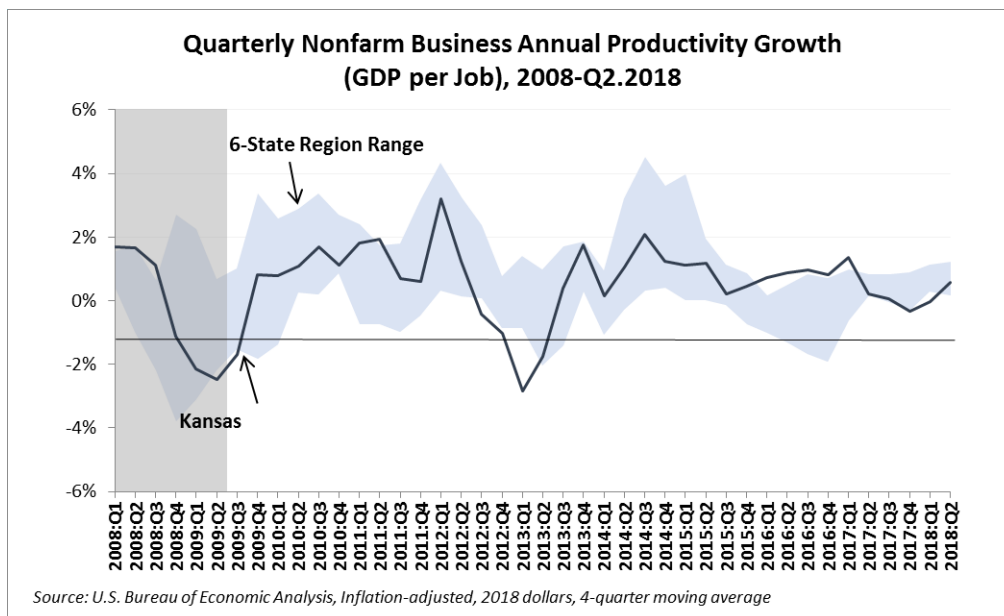
Dr Art Hall of the University of Kansas pointed out in the Chamber's Kansas Blueprint study 2006-7 that slow productivity growth was a major contributor to underperformance of the Kansas economy at that time. Productivity growth is the primary means of economic growth in a state of slow or declining population.

The connections between productivity, workforce educational attainment, entrepreneurialism, and state economic outcomes remain under-researched at the state level. Part of the reason is that state productivity is difficult to measure. The broad metrics used in prior Chamber reports repeated here are: Gross Domestic Product per Job and Gross Operating Surplus, an approximation for business profits.

### Gross Domestic Product per Job

#### *Why Important?*

The output of a state can increase in two ways: increase the workforce; increase in the productivity of the workforce. Since Kansas population growth is slow, numerical workforce gains are not as promising as productivity gains. Gross Domestic Product per Job is a broad measure of productivity gain.



#### *What's it Mean?*

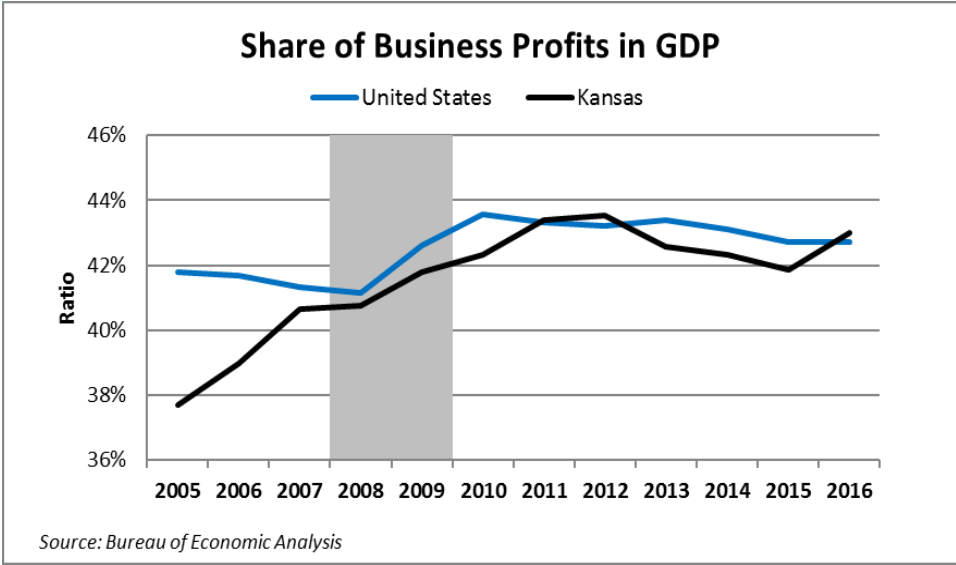
Leading into the last recession, Kansas annual productivity growth in the nonfarm private sector exceeded that of most of its neighbors. By the end of the recession it was underperforming its neighbors in inflation adjusted terms but then boasted a stronger 2009-12 sustained recovery than most. While its neighbors have mostly continued to experience positive productivity growth, Kansas slipped significantly in 2012-13.

Productivity growth turned and remained positive for most of 2014 and 2015, slipped again late 2015 followed by marked improvements through 2017. The overall trend since 2014 has been down.

**Gross Operating Surplus as share of GDP (Broad Measure of Profitability)**

***Why Important?***

Gross Operating Surplus relates to productivity in that it equals total business output less total intermediate inputs, compensation of employees, and taxes on production and imports less subsidies. This is a broad measure of the aggregated gross margin of Kansas businesses – the amount left to pay for future investments, productivity / management improvement, R&D, additional rewards to labor, and return to capital.



***What's it Mean?***

Kansas Gross Operating Surplus share of GDP has increased significantly since 2008, reaching the US average for the first time in the past decade in 2011. Since 2012 its share saw a decline for three years in a row, but now turning up aggressively. Likely this is reason for the improvement in the business cost summary under item 3.3 above.

## 5. STRATEGY and POLICY OBSERVATIONS

The ACI is a fact-finding report. It is descriptive not prescriptive. Strategy and policy analysis/formulation are left to the Chamber Board and its Committees. But the ACI usually ends with some observations about ‘implications’ particularly as they pertain to the Kansas economic growth.

The data work of this and earlier ACIs affirms the importance of the four strategic drivers chosen for Vision 2025:



### **GROW** Talent Supply

*The ability for our businesses and educational institutions to upskill and reskill talent as well as to create job-ready talent and to develop a sustainable pipeline of talent are all crucial to the future of our state’s economy. Kansas has a strong education base, but going forward, STEM jobs will grow more than twice as fast as non-STEM jobs. Not all STEM jobs require four-year college degrees. Our state must identify ways to better target workforce preparation (be that a college degree or certified program) to ensure the private sector has the talent supply it needs for the next 20 years*



### **ADVANCE** Competitiveness

*Our state needs to clearly define and identify how it can advance the state’s competitiveness, so the private sector finds Kansas competitive regionally, nationally and internationally. These areas include our state’s litigation climate, tax environment and government regulations.*

*Kansas must focus its state and local governments on core, essential functions – such as roads, schools, and public safety and have the private sector do what it does well – job creation, culture and innovation.*



## **EXPAND** Innovation & Entrepreneurship

*The more a business operating environment promotes the dynamics of trial and error, the more likely business entrepreneurs will discover ideas that succeed in a particular community—thereby growing the incomes and quality of life for both the community and the state. Kansas must identify ways, among others, to encourage more patents, grow our R&D sectors and support more venture capital and investment opportunities to start, grow and expand businesses.*



## **IMPROVE** Business Infrastructure

*Our state has invested significantly in its roads and highways. The private sector has benefited. But technology changes driving our country's economy go beyond the traditional infrastructure thinking. For the changing – and new economies that are exploding across the country and around the world, Kansas must take bold action and ensure its digital infrastructure is cutting edge while maintaining its low-cost utilities and protecting its natural resources. We must implement solutions to improve logistics for domestic and international trade capacity and seize upon new and growing industry opportunities such as artificial intelligence, biosecurity and animal sciences.*

An underlying cross-cutting theme of all four priorities above is **Productivity**. As a rule of thumb most economists subscribe to GDP growth as a function of labor force growth and productivity growth. Neither bode well for Kansas. First, population is growing slowly. The Wichita State Center for Economic Development and Business Research projects a 2019 Kansas population of close to 3 million, an approximate 5% increase over the 2010 census. 2019 employment growth is forecast at 1.1%, or approximately 15,000 net new jobs statewide. According to United Van Lines, of all households on the move in 2017, 57% left the state while 43% moved in. Net domestic migration was 0 per 1000 residents in 2009. In 2017 it was minus 4 per 1000.



Second, Kansas productivity was addressed at length in the Blueprint Kansas study of 2006-7. While difficult to measure, the latest Kansas data shows long-term productivity (GDP per job) growing slowly but this report points to a promising uptick in Kansas Gross Operating Surplus – a positive sign of business profitability. The 2006-7 Blueprint Kansas report was unable to determine the root causes of Kansas' productivity problems. Additional research is warranted. But some practical steps could be taken immediately. In addition to the industry roundtables recommended under 4.1 to keep close watch on changing economic conditions in 2019-20, the Chamber could initiate task groups charged with rooting out market bottle necks and ways to enhance productivity improvement in business, and to improve efficiencies in government -- for example a 'regulations streamlining task group', an 'education administrative efficiencies task group', a 'university-business collaboration task group' and an 'entrepreneurial growth breakaway task group'. Task groups would each consist of 10 to 12 knowledgeable practitioners and researchers from business, government, labor, education and civic philanthropy with clear one-year deadlines. This initiative could begin in 2019 with two task groups, ramping up in number in later years, with all recommended actions underway by the target year of Vision 2025.

**One final recommendation:** Beginning with the 13th edition of the ACI, a set of 'tracker metrics' were introduced. The purpose of these data has been to better gauge 'what has been happening recently?' to business dynamism and the entrepreneurial economy in general. Few state competitiveness reports pay as much attention to these quarterly data as the ACI. The reason is that i) with state and national economies experiencing rapid complex change and ii) with the current business cycle now 10 years long, critical near-time intelligence is becoming all the more necessary for today's policy development and for long-term strategy formulation. As a next step in this work, routine dissemination of quarterly updates of these and related trackers via traditional and social media could elevate the ongoing policy dialogue and coalition-building of Vision 2025. Further, driven by these data the Kansas Department of Commerce and local/regional economic development organizations could embark on a more aggressive business growth initiative focused on both the expansion of existing Kansas growth businesses and targeted business relocation/inward investment.