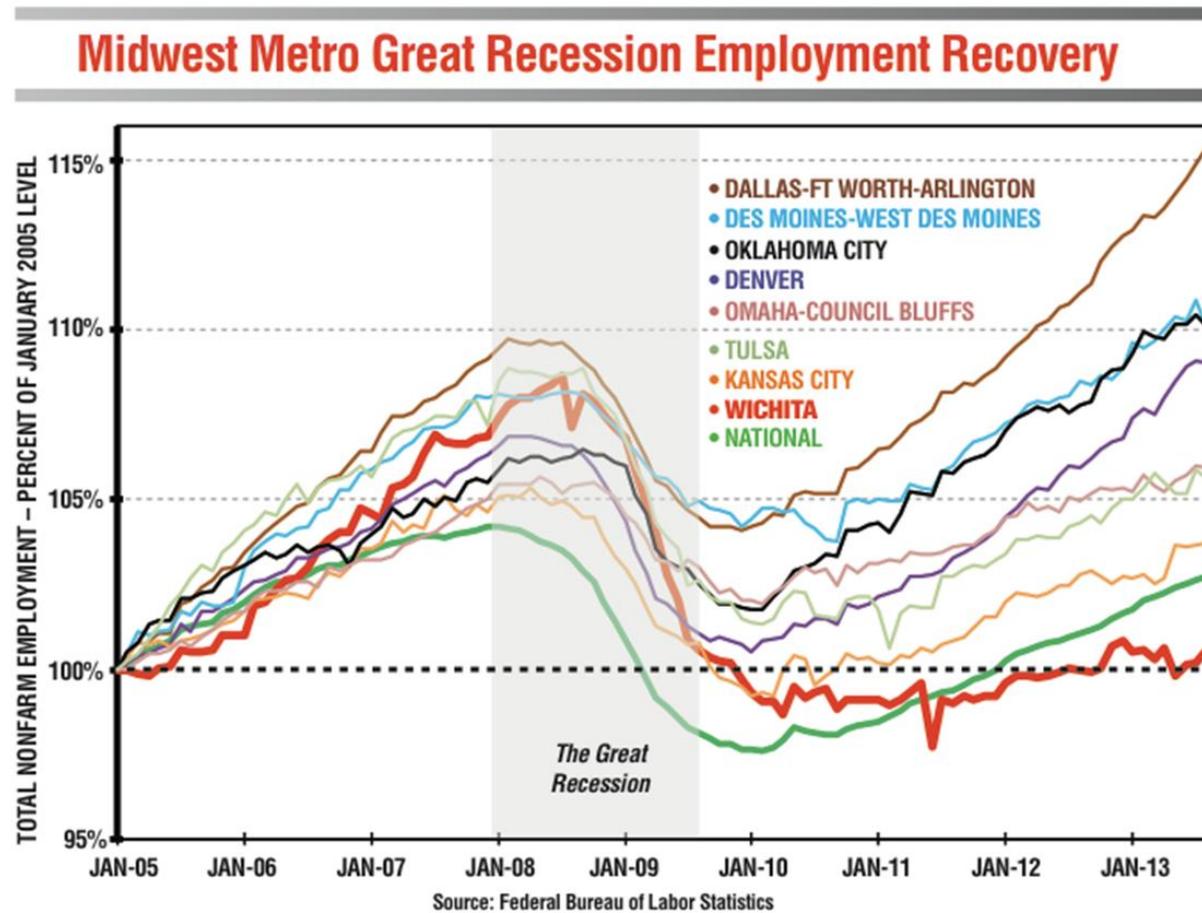


Will Wichita Accelerate Competition for Primary Jobs? Time for a community discussion

Where do we stand compared to the competition?

Wichita lost more than 31,000 jobs (or 10 percent) from our peak to the trough.

In six years, we've lost more than one-third of our aerospace manufacturing jobs. This number doesn't include the full impact of Boeing leaving or the Beechcraft and Cessna merger.



Where Wichita's employment recovery line moves in the future is up to the community. How competitive do we want to be?

Jobs a top priority for the community

Community Discussions

Growing jobs is complicated and depends on hundreds of factors. The community has said it's a top priority. More than 2,000 Wichita residents provided input through 102 *ACT ICT* listening sessions conducted by the Hugo Wall School at Wichita State University from September of last year through January 2014.

The community said the top two priorities are:

- 1) Create reliable source of water
- 2) Encourage economic development, business investment and job creation

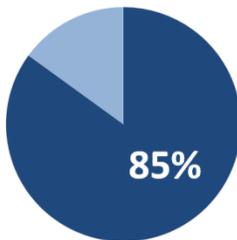
The community provided 1,379 statements on their vision for the community and the top theme was economic development, including community growth, job creation and diversification.

Community Survey

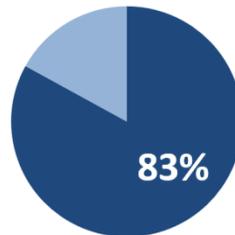
In April 2013, more than 4,000 residents responded to a mail survey from the Hugo Wall School of Urban and Public Affairs at Wichita State University about priorities and willingness to invest in certain community issues.

Responses included that local government should use public resources to encourage local business expansion; business relocations to our community; and making industrial sites ready for development (water, sewer, streets, etc.). The following charts represent the percentage of residents willing to invest in each of these uses:

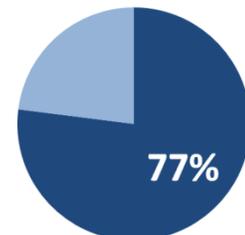
Local business expansion



Business relocation to our community



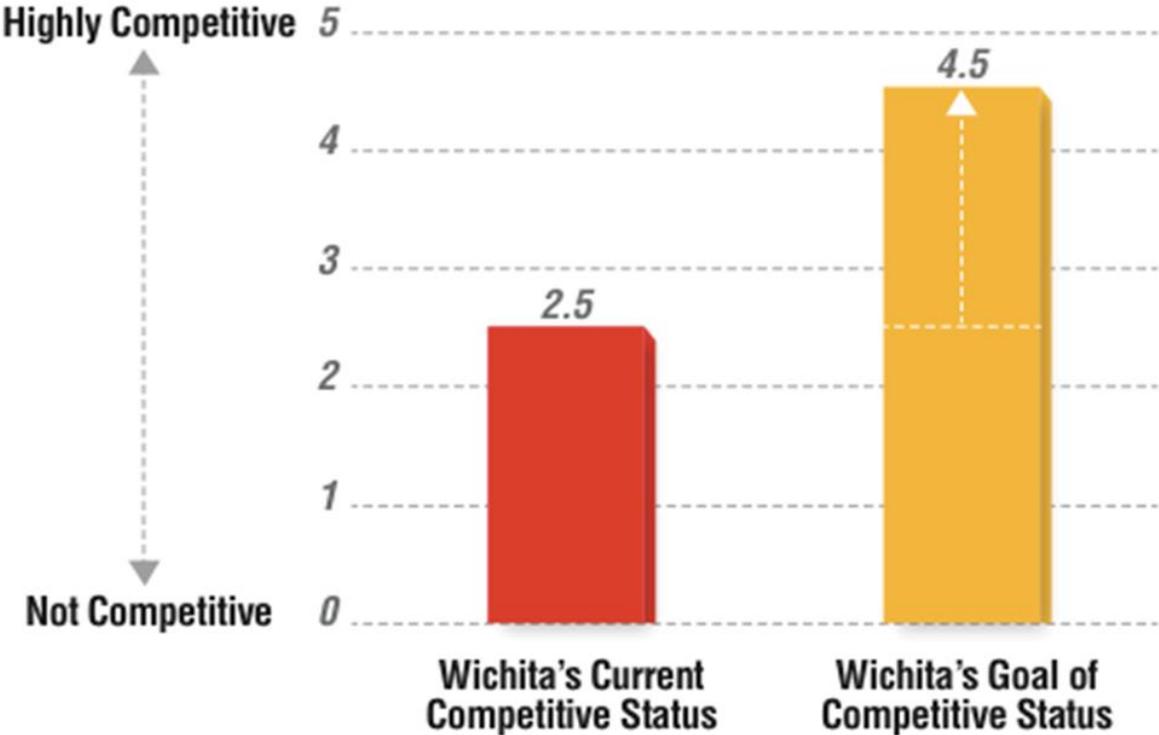
Industrial sites ready for development



Source: Community Investment Survey, Hugo Wall School, Wichita State University

The 100 community and business leaders in the Wichita Metro Chamber of Commerce’s Leadership Council rated “Grow Primary Jobs” as its top priority. Primary jobs are those that sell goods and services outside of the community and bring new dollars into the community. Leadership Council members evaluated the question of just how competitive we want to be in our job recruitment efforts.

How Competitive Do We Want to Be?



Leadership Council Survey 2013

The community and business leadership believe that it’s time to get serious about jobs. Private and public sector leaders have assessed our strengths and weaknesses and developed a plan to improve our competitiveness.

All jobs are important. Primary jobs create other jobs.

Communities, states and countries compete for primary jobs because they bring new money into a community by selling goods and services primarily outside it. They build fuselages or design software that are then sold or consumed outside the Wichita region, which brings new dollars and wealth into the community.

Those new dollars are then spent on housing, food, clothes, cars, legal services – supporting other businesses and people in retail or local services.

Losing Boeing jobs in 2013-14 clearly demonstrates how the loss of primary jobs affects other jobs in the community:



***Source: Federal Bureau of Economic Analysis**

One of the reasons so many states and communities began competing so fiercely for new primary jobs was that they lost their primary industries, such as textiles or furniture in some southern states.

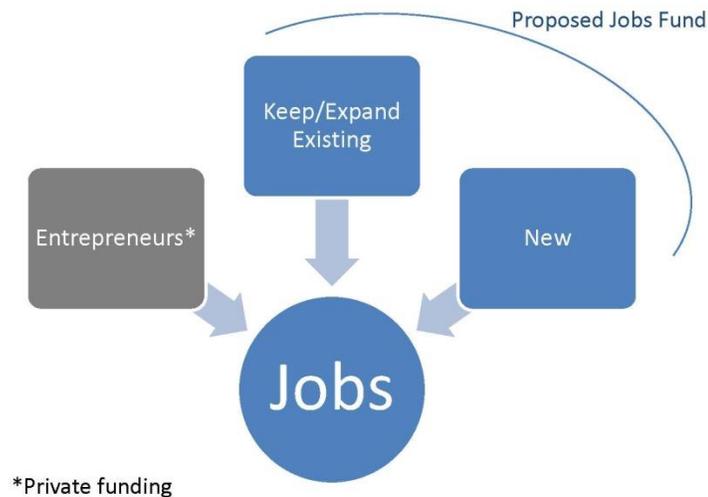
All jobs are important

Every community values businesses that sell products and services locally: banks, accounting and law firms, retail, restaurants and more. Larger cities like Wichita do not usually recruit or provide incentives to these types of businesses because the majority of their customers are local. For example, recruiting a new grocery store or bank redistributes customers and money rather than bringing in new dollars. A focus on growing more primary jobs results in more overall jobs in the community.

A three-pronged plan to grow jobs

Business and community leaders in Wichita have said it's time to get serious about growing more jobs. As other communities better recover from the recession, we must focus our efforts and ensure we have a variety of well-paying jobs for young people and experienced workers that support additional jobs and the community overall.

It's a three-pronged approach.



First: Entrepreneurs/Start-ups

We need more entrepreneurs starting more businesses here. There is a new ongoing effort in this area, and the private sector is focused on supporting a new and growing base of entrepreneurs. The high attendance at the first Unconference showed the potential of this effort.

These entrepreneurs are our growing companies of the next decade. Right now they are fine-tuning products and business plans and raising venture capital. Private sector investors fund entrepreneurs because of the possibility of making money. They also know it's a high-risk investment because of the high failure rate. For this reason the public sector rarely funds start-up entrepreneurs.

As those entrepreneurs then succeed and begin to expand, Wichita often has to compete to keep them and their growing companies here as other communities try to lure them away.

Second: Keep and expand our own

Wichita companies have choices of where to locate jobs and work.

Consider that you're the CEO of an international high-tech company determining whether to spend millions of dollars to expand high-paying jobs in Wichita. Do you also consider the benefits of relocating to Dallas? Or Austin? Or the Research Triangle area?

Wichita must keep existing companies and their expansions here when possible and when it benefits the community. Existing companies weigh multiple factors when making decisions about where to expand, locate work and invest money – cost of doing business, quality and availability of workforce and dozens more, including incentives.

Third: Recruit new

While recruiting new companies often receives the most attention, these businesses are the exception. Most of our energy and time is spent on local retention and expansion. Recruiting is another piece of the puzzle.

In 1927, Wichita community leaders worked to recruit Lloyd Stearman and his company from California to Wichita, and over the years, we benefitted economically. As a direct result we now have 10,700 people working at Spirit AeroSystems. Ten years ago, Wichita successfully recruited INVISTA's headquarters and then helped it expand again the next year.

Recruiting new companies requires the same set of tools as expanding local companies – the right mix of workforce, location, dozens of other factors plus an open-for-business attitude.

The Greater Wichita Economic Development Coalition (GWEDC) is charged with the mission of keeping, expanding and recruiting business to Wichita and Sedgwick County and marketing the region to existing and prospective companies. GWEDC focuses on the second and third prongs. Numerous organizations and private investors are focused on growing our entrepreneurs.

Winning games and winning jobs

One way to think of the three-pronged approach is to compare it to a baseball team. Keeping and growing companies already here are the consistent base hits needed to win games. Home runs may be less frequent but also win games and create attention and excitement. Entrepreneurs are our future hitters and it's essential to coach, train, and give them experience and get them ready to be called up to bat.

An Expansion Story: Two years ago NetApp was deciding where to locate new work and an additional 400 jobs. They looked at numerous locations, including their Wichita facility. They weighed all the factors, especially workforce options. One factor in our favor was the partnership with Wichita State University, and now NetApp is moving into Wichita State University's Innovation Campus.

The \$4.5 million PEAK program incentive from the Kansas Department of Commerce was an important factor in keeping NetApp in Wichita. Locally we were able to provide \$836,000 in incentives.

Net App has also expanded in another location – the Research Triangle area in North Carolina. Over the past 10 years they've received \$35 million in state and local incentives.

What does it take to compete?

There are lots of factors and a community needs to have them all. There is no one single deciding factor.

Corporate Site Selectors 2013 Combined Ratings Survey*

Site Selection Factors Ranking	2013	2012
1. Availability of skilled labor	98.3	96.5 (2)**
2. Highway accessibility	97.4	98.3 (1)
3. State and local incentives	93.8	91.1 (6)
4. Available land	93.0	86.6 (12)
5. Labor costs	92.9	93.0 (3)
5T. Proximity to major markets	92.9	92.9 (4)
7. Tax exemptions	91.9	90.3 (7)
8. Energy availability and costs	88.6	89.3 (9)
8T. Accessibility to major airport	88.6	83.6 (13)
10. Expedited or "fast-track" permitting	87.7	92.8 (5)

*All figures are percentages and are the total of "very important" and "important" ratings of the Area Development Consultants Survey and are rounded to the nearest tenth of a percent.

** (2012 ranking)

Source: Area Development Site Selector Survey

The community must also offer a good quality of life, including low crime rate, good public schools, higher education options, quality healthcare, affordable and available housing, cultural and recreational options and a desirable climate.

These are just a few of the dozens of business location factors. Companies rate the factors differently because each project is different. Of course the Wichita area isn't suited for all potential projects, but if we meet basic factors and criteria, the community is usually competing against a short list of 3 to 5 other communities.

What are our biggest strengths?

Based on Leadership Council discussions, national rankings, and corporate and site selector feedback, Wichita has a lot to offer among the factors, including:

- 1) **Skilled workforce** – One of Wichita's strengths is its skilled workforce for certain projects. In the past, availability has been an issue.
- 2) **Central location** – Wichita's central location can be a plus unless the prospective expansion or relocation requires a port or access to a specific market.
- 3) **Improving tax structure** – Tax cuts for small businesses and individuals help Wichita compete with other lower tax states, though corporate tax rates remain the same.

What are our biggest opportunities for competitive improvement?

The Leadership Council asked GWEDC private sector volunteer and staff leadership to outline what factors we most need to address to move Wichita's competitiveness from 2.5 to 4.5.

GWEDC said the four biggest factors were:

- 1) Real Estate** – options in buildings and sites
- 2) Telling our Story** – consistent branding
- 3) Diversification** – through multiple approaches
- 4) Competitive Incentives** – being able to compete with other cities in Kansas and the nation

Through volunteer private sector leadership and staff, GWEDC is working on the first three factors and there are multiple initiatives underway, including the Brookings Institution-supported export plan and on-shoring analysis.

Competitive incentives are a difficult discussion

Nobody likes or wants to pay incentives. Not business leaders. Not elected officials or public sector staff. But other communities and states are offering financial incentives. Because it's a reality of growing primary jobs, the Leadership Council took up the issue and spent time discussing this option.

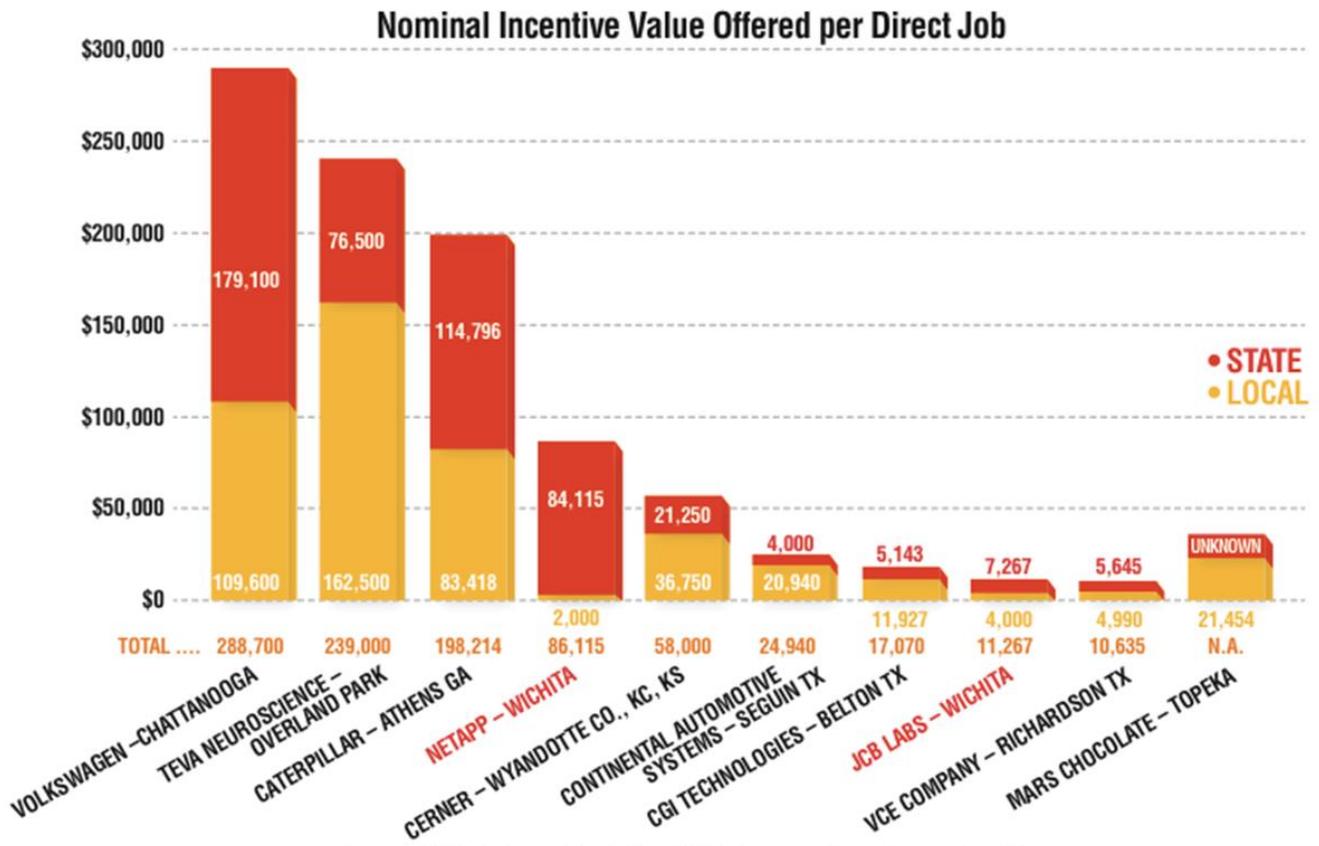
What's our competition in incentives like?

First they looked at our competition and how the marketplace has responded.

Companies have a choice of 50 states and 14,000 communities in the United States. Many of these states and communities will pay a premium for primary jobs. Many countries are even more aggressive.

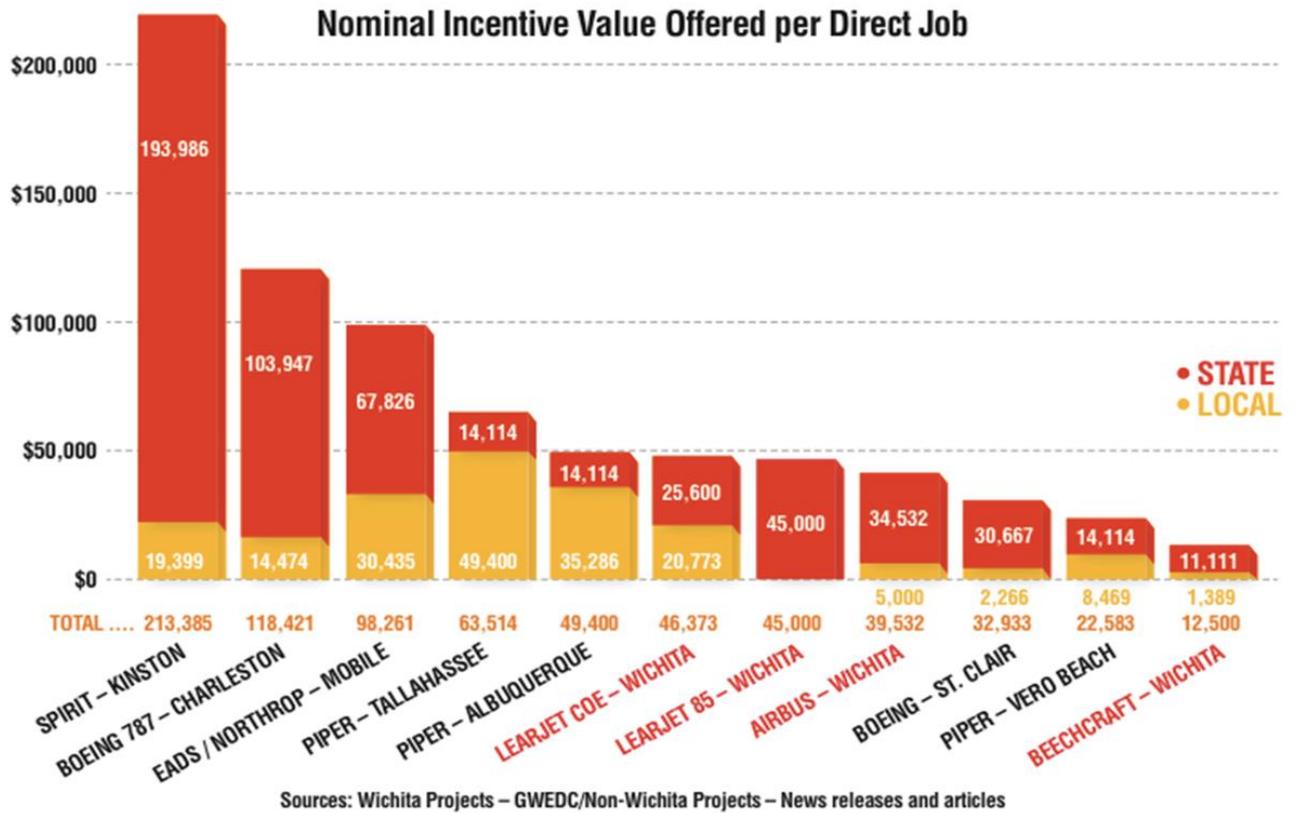
The companies know they have something of value – thousands of primary jobs at good salaries – plus each job generates more jobs. Many of these companies also prefer that government stay out of the process, but know that the marketplace is paying top dollar for these jobs. They know that other companies, including their competitors, receive incentives.

Examples of incentives per job for non-aviation jobs, 2008-2012:



Sources: Wichita Projects – GWEDC/Non-Wichita Projects – News releases and articles

For aerospace companies, the competition is strong because of high wages. These examples are from 2007-2011:



Again, there is no one deciding factor that influences companies. Incentives can't make up for a poor workforce or the company not being able to get its goods shipped. The *combination* of factors is most important of which incentives is just one factor.

As long as other communities and states are willing to pay for land, buildings, training, tax credits and forgivable loans, Kansas and Wichita have the choice to compete, or not, for primary jobs.

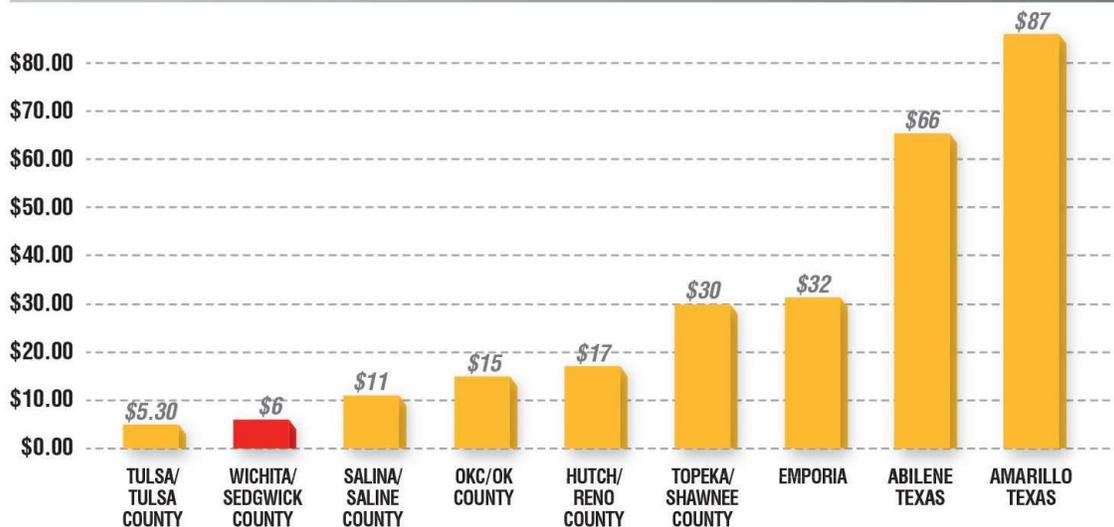
How competitive are our incentives now?

Wichita and Sedgwick County compete conservatively with incentives. The City of Wichita and Sedgwick County have a total of \$1.65 million in new uncommitted funds for cash incentives this year with any unused money going back to the general fund.

That funding has allowed for some high-profile projects such as the Bombardier Learjet and NetApp expansions. It has not allowed the community to compete effectively for some big projects that have been in the pipeline, including some big diversification projects.

Other communities spend much more on growing jobs, including financial incentives.

Estimated Annual Per Capita Economic Development Funding



Source: GWEDC analysis

A few additional examples:

- Oklahoma City has a \$75 million closing fund available through bonding. The community lured AAA offices from Tulsa with \$2.9 million from the fund.
- Many Texas communities have a sales tax dedicated to retention, expansion and recruitment of primary jobs. Austin provided SunPower Corporation with \$1.1 million in local incentives.
- Charleston and South Carolina provided state and local incentives for the Boeing Company of \$800 million for 6,000 direct jobs. The community expects an economic impact of \$4.8 billion a year.
- Wyandotte County provided Cerner Corp. and its owners with \$147 million in cash from Star Bonds for its new 4,000 job software facility in addition to Kansas Department of Commerce incentives.
- Topeka provided local incentives of \$9.1 million for the Mars project and its 425 jobs, including 150 acres of free land, cash and infrastructure, including rail access, water and sewer and roads, in addition to Kansas Department of Commerce incentives.

Wichita and Sedgwick County public officials and private sector volunteers have been effective for many retention and expansion deals with the resources available. As Wichita's aviation sector continues to lag, the lack of resources becomes more concerning.

The state's role in growing primary jobs

States usually provide the lead on big expansion or recruitment projects and most of the financial resources. Governor Sam Brownback has said Kansas will compete and made business retention, expansion and recruitment a primary goal of his administration. This has led to some high profile company relocations to Kansas, including Cerner and others in the Kansas City area, Mars in Topeka, and expansions in Wichita such as Bombardier Learjet and NetApp.

The state of Texas is known for its pro-business and low-tax environment. It has the largest jobs fund in the nation at more than \$487 million and is aggressive when it comes to expanding and recruiting companies.

Governor Brownback said the state will be a competitor in the regional battle for economic development, including state incentives, to lure companies to Kansas.

“I think we have to fund the incentives to keep competitive in the game. In an ideal world, you wouldn't have any incentives. You'd just all compete on a business and economic basis. That's not where we are.”

About the “deal closing fund” in the Kansas Department of Commerce, Governor Brownback said at a Wichita Metro Chamber of Commerce forum in October 2011 (as reported by the Wichita Eagle),

“And we want to fill that up with more money in that fund to close deals. We'll be aggressively in the game.”

A new plan for new results

Is it time to get serious with a new plan and model for the community to discuss and consider?

Like Governor Brownback, most Kansans (including business and political leaders) would rather not provide incentives, but until the rules change for everyone, we have two choices:

- 1) Compete and keep jobs here
- 2) Not compete and experience the consequences

How much is needed to effectively compete?

Growing local companies and recruiting new ones is an opportunistic business. We create opportunities by meeting with local companies and talking to new ones about expansion plans. If a project comes along, having the ability to quickly respond is important. A Jobs Fund with \$90 million could make us competitive for several years depending on our opportunities.

What would the money be used for?

Public dollars would be used for a range of incentives similar to what other communities offer. They would be used when competing to decrease the costs for business to relocate or expand. Incentives could include funds for jobs, relocation costs and building and equipment plus assets that would stay in a community like runway or road improvements and training for our workforce.

What are eligibility requirements?

- **Competition** – the company would locate the jobs or work outside of Wichita, or not expand jobs, “but for” the financial incentives.
- **Primary Jobs** – the company must create primary jobs that produce goods or services primarily consumed outside the community.
- **Capital Investment** – the company must make a capital investment here.
- **Size** – companies of any size that meet the other criteria.
- **Wage and Salary** – company pays at or above local pay standards for their type of business for jobs at all levels from entry-level to experienced.
- **Return on Investment** – the project contributes to a positive return on public investment to the community.

What are some considerations in approval and process?

- Have a **flexible** enough policy to be business friendly, responsive and effectively compete for jobs
- Be **responsible and transparent stewards** of public money
- Having **cross-jurisdictional cooperation** with other communities in Sedgwick County is important
- **Build in accountability** with either a “clawback clause” with guarantees that money is paid back if incentives are provided upfront and the company does not meet their agreements; or a “pay-for-performance” clause that provides incentives as jobs are created and agreements met
- Have a **professional review of economic impact** to the community

What industries will be targeted?

First – any company that meets the criteria from small to large, existing or new.

Second – diversification is important, both within aviation and outside aviation, especially high-profile emerging global industries that fit our community and workforce such as additive and advanced manufacturing, health care devices and products, unmanned aerial systems, food and value-added agriculture, professional services, information technology, cyber security, and energy and energy services.

Diversification outside of a core industry takes many factors including competitive incentives. For example, southern states have spent billions to get aviation jobs, including increased spending on education and training as well as providing large incentive packages.

Who will be in charge of making sure public dollars are used effectively and efficiently?

Part of the new model is making more streamlined, yet fully vetted, decisions. As the Wichita City Council discusses a potential sales tax effort, a proposed model would have the goals of streamlining decision making while being transparent about how public funds are used.

Model for discussion:

- 1) GWEDC continues to market the community and work with prospective companies.
- 2) Proposed projects would go to a commission created to oversee a Jobs Fund. It would have a combination of public and private sector representation that could include the Mayor or City Council members and business leaders with experience and knowledge of economic development. The City Council could appoint the commission from a slate presented by a nominating committee to assure qualifications are met.
- 3) A third-party group would provide compliance and audit oversight to the commission to assure transparency and provide information on results to the City Council and the community. For instance, the commission could contract with a CPA firm for analysis and oversight.
- 4) The City Council would establish policies for tax abatements and potential revenue sharing with other jurisdictions plus work with the commission on any exceptions to policies.

A bit more on “but for”

For every community and state, the incentives are only to be provided in a “but-for” situation. The company would have to demonstrate that they would not locate the jobs or the work in our community “but for” the incentives. Some say that companies use threats of leaving to get incentives from local governments. Each community has to make that judgment call, and many are simply not willing to risk losing hundreds or thousands of jobs for what could be a threat or could be a realistic and difficult business decision.

And sometimes incentives can’t level the playing field. Every community loses companies over time. Wichita has lost its share with Pizza Hut and Rent-A-Center, with Boeing soon to come. Most communities realize that’s why keeping and getting new primary jobs is a never-ending top priority – to replace those you’ve lost while also gaining new ones.

Our community at a crossroads

The Leadership Council has spent time talking about the benefits, costs and risks of competing for jobs – or choosing not to compete.

Again, most people, including business and political leaders, would rather not provide incentives, but until the rules change for everyone, we have two choices:

Compete and grow jobs here
or
Not compete and experience the consequences

If we choose to compete, some benefits are obvious – more primary jobs create more overall jobs in the community and support more quality of life improvements leading to a vibrant community.

Another benefit is an expanded tax base. When companies locate in a community they pay taxes. The people they employ pay taxes. If the community loses its corporate tax base, then other companies and residents are left to pay a larger portion for existing infrastructure like roads, sewer lines, police and fire protection. If we gain more primary jobs, our taxes are spread out to more people.

Top 10 Sedgwick County Taxpayers

COMPANY	2011 TAXES
Spirit AeroSystems, Inc. *	\$11.40 million
Kansas Gas and Electric – A Westar Company	\$7.99 million
Boeing Defense, Space and Security	\$5.91 million
Beechcraft	\$4.22 million
Cessna Aircraft Company	\$4.21 million
AT&T	\$3.48 million
Kansas Gas Service – Division of ONEOK, Inc.	\$3.26 million
Wesley Medical Center	\$3.16 million
Simon Property Center	\$2.86 million
Wal-Mart Real Estate Business Trust	\$1.67 million

**Combined Spirit AeroSystems, Inc. and Mid-Western Aircraft Systems, Inc.*

Source: Sedgwick County

If we choose not to compete, or compete at our current lower level, the community will keep some jobs and grow others. Not every company decides to go through an incentive evaluation process. But others will leave to work with our more aggressive competitors. We may stay steady at about the same pace or even slowly decline.

Most companies don't announce they are leaving a community. Instead they just start slowly moving work and jobs elsewhere. Boeing Wichita is an example where the announcement was made and the phased closure is happening over time. Again, while we're losing 2,160 direct Boeing jobs, we're also losing another nearly 5,000 jobs, which is detrimental to a community that is still struggling to recover from the recession.

Companies – even iconic ones like Boeing – will come to a community, invest and spend millions and hire thousands. Then for business reasons, the company may decide to leave. The question is – how do we respond? Do we wring our hands? Do we compete for a new company expansion?

Smaller Kansas communities are trying everything they can to get business investment, often while watching a slow decline. Wyandotte County is reversing decades of declining trends with new investment and high-paying jobs. Does Wichita need to have an economic crash like Oklahoma City before we get serious about the jobs issue?

There is no one deciding factor – successful communities have all the pieces of the puzzle. Competitive incentives isn't the sole answer, it's only one part of the puzzle.

It's time to have the public discussion about Wichita's future.