MISSOURI HOUSE OF REPRESENTATIVES

REPORT OF THE INTERIM COMMITTEE ON JOB CREATION AND ECONOMIC DEVELOPMENT

ABRIDGED VERSION

Chair Ron Richard (129)
Vice-Chair Tom Dempsey (18)
Representative Randy Angst (146)
Representative Brian Baker (123)
Representative Frank Barnitz (150)
Representative Cynthia Davis (19)
Representative Yaphett El-Amin (57)
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Representative David Pearce (121)
Representative Marilyn Ruestman (131)
Representative Ray Salva (51)
Representative Wes Shoemyer (9)
Representative Michael Spreng (76)
Representative Neal St. Onge (88)
Representative Ed Wildberger (27)
Representative Terry Young (49)

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February, 2004

February 16, 2004

The Honorable Catherine Hanaway
Speaker of the House of Representatives
State Capitol, Room 308
Jefferson City, MO 65101

Dear Madam Speaker,

The Interim Committee on Job Creation and Economic Development, acting pursuant to your request, has met, taken testimony, deliberated, and concluded its study of the issues surrounding job creation and economic development in Missouri. The committee was charged with examining why Missouri has lost over 100,000 jobs in the last two years and currently leads the nation in job loss. The committee was also charged with investigating the causes of this and other issues relating to commerce, competition from other states, industrial growth, expansion and development and the creation and retention of jobs. The committee held hearings in Jefferson City, St. Louis, Kansas City, and Sikeston to review the impact job loss and the lack of economic development has had on their economies and communities. The committee evaluated the impact of competition from bordering states, and the current economic recession on job loss. The committee studied the benefits of emerging technologies and life sciences research, customized training, current economic development incentives offered by the state and potential incentives the state should consider offering.

The undersigned members of the Committee are pleased to submit the attached report.

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INTRODUCTION

House Interim Committee on Job Creation and Economic Development

In recent years, the loss of manufacturing jobs and recent plant closings in Missouri have adversely affected communities throughout the state. As a result, the issues associated with job creation and economic development are receiving special attention from the state.

In response to widespread interest in these topics, the Honorable Catherine Hanaway, Speaker of the Missouri House of Representatives, appointed an interim committee to examine job creation and economic development. The Chair of the committee was Representative Ron Richard (129) and the Vice-Chair was Representative Tom Dempsey (18). Other members of the committee were:

- Representative Randy Angst (146)
- Representative Brian Baker (123)
- Representative Frank Barnitz (150)
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The House Interim Committee on Job Creation and Economic Development was charged with examining why Missouri has lost over 100,000 jobs in the last two years and currently leads the nation in job loss. The committee was also charged with investigating the causes of this and other issues relating to commerce, competition from other states, industrial growth, expansion and development and the creation and retention of jobs. The committee held hearings in Jefferson City, St. Louis, Kansas City, and Sikeston to review the impact job loss and the lack of economic development has had on their economies and communities. The committee evaluated the impact of competition from bordering states, and the current economic recession on job loss. The committee studied the benefits of emerging technologies and life sciences research, customized training, current economic development incentives offered by the state and potential incentives the state should consider offering.

Because the State is currently having such tremendous financial difficulty, Chairman Richard required that the cost of food and lodging be paid for by the cities in which the hearings were held. The State only paid for mileage driven by the members and the staff to and from the hearings. The cities met this challenge enthusiastically and, in fact, went well beyond their duty. Chairman Richard would like to take this opportunity to thank all of the cities for their hospitality and interest.

Approximately 80 individuals testified during the committee's hearings and no one who asked to speak before the committee was denied the opportunity.

This report includes an analysis based on information received from state agencies, city offices, local organizations, members of the business community, and citizens, and also includes the committee's findings and recommendations. Submitted written testimony is included in the appendices.

TESTIMONY AND MAJOR ISSUES

CURRENT ECONOMIC TRENDS IN MISSOURI

Dr. Daryl Hobbs, the director of the Office of Social and Economic Data Analysis at the University of Missouri-Columbia gave a presentation to the committee about the current state of Missouri's economy. This presentation examined population shifts, the dichotomy between where people live and where they work, and education and employment trends.

Dr. Hobbs testified that in the 1980s, Missouri had a 4% increase in population which was entirely attributable to the fact that there were more babies born during that decade than there were deaths. In the 1990s, Missouri saw a population boom in which only 17 counties lost population. Dr. Hobbs testified that this increase in population was not the result of large concentrations of jobs in Kansas City or St. Louis. Rather, people were moving to Missouri for the quality of life they thought they would have here. Also, as a result of Internet technology, many people were able to bring their jobs with them. In fact, in the 1990s, the "open country" population was the fastest growing population in Missouri. The "open country" population refers to the number of people living outside the city limits of any city. Because of the Internet, all markets can be reached from anywhere in Missouri. The concern that one might be too isolated in rural Missouri has been eliminated. According to Dr. Hobbs, investments in communications technology may be the most important investments we can make so that this trend can continue.

Dr. Hobbs also testified that in 1990, 62 counties had a population where 30% of the people had not graduated from high school. In the year 2000, only 17 counties had a population such as this. Dr. Hobbs said that this shows that, throughout the 1990s, more people were being educated. He said that many people who get a two-year degree are older, in their 30s and 40s. Dr. Hobbs said this indicates that Missourians are looking to the future and are hopeful that more training will help them better their job prospects and personal economic outlook.

Dr. Hobbs testified that "transfer payments" accounted for $25 billion (or 17%) of the state's total economy in 2001. A "transfer payment" is an entitlement and does not include farm payments. Forty-two percent of transfer payments are social security and 43% are health care (Medicare or Medicaid). Transfer payments are used by the recipient for day-to-day expenses, like groceries, utilities, and housing, and medical care.

This is significant in Northern Missouri, in particular, where the death rate has been exceeding the birth rate for several years because when a person dies, the transfer payment stops. As a result, less money is spent in the community.

Missouri has 144,000 private sector employers. These are *employers* – people who employee at least one person – it does not include self-employed people. Of these, 123,000 (or 86.2%) employee fewer than 20 people. Eleven percent of Missouri employers employ between 20 and 99 people. Only 2.8% employ more than 100 people, however, this accounts for about 60% of Missouri's workforce. The remaining 40% is employed by small businesses. Dr. Hobbs also noted that working for a small business does not necessarily mean working for a lower wage.

Dr. Marty Romitti, director of the Missouri Economic Research and Information Center (MERIC), testified that Missouri's economy has a diversified structure, and therefore, national trends will ripple through the Missouri economy because it is very much like the national economy. He said that having a diversified economy is only bad during a general recession, when all industries are affected. Dr. Romitti testified that between July 2002 and July 2003, Missouri lost 12,700 jobs. He noted that most of Missouri's job loss is happening in businesses that employ more than 20 people. It is not happening in the 86.2% of employers who employ fewer than 20 people.

COMPETITIVE ENVIRONMENT

MO is bordered by 8 other states – more than any other state in the union. This creates a unique competitive environment. The committee heard many anecdotal stories from business owners about the competition they face from Missouri's border states.

In particular, Datacore Marketing, Inc., left downtown Kansas City, Missouri for Kansas because the economic development incentives Kansas promised were too good to pass up. Datacore is a rapidly growing data-based marketing services company that currently employees 80 people and has $13 million in annual revenues. As reported in The Kansas City Star on October 28, 2003, Mr. Jeff Yowell, Datacore's president said, "It was the only financially responsible decision for me to make." Mr. Yowell also said that when he started the company, his intention was to remain in downtown Kansas City because he wanted the downtown area to prosper. But once Kansas made its offer, "it was a no-brainer decision" for him.

This same newspaper article goes on to discuss other instances in the last few years in which Kansas has lured Missouri companies away. This article is included in Appendix GGG.

Another border state, Iowa, has made great efforts to nurture the insurance industry. Mr. James Cunningham of the Columbia Insurance Group testified that every year Iowa attempts to lure his business there. According to Mr. Cunningham, Iowa's legislature has made a concerted effort to make the state the best place for an insurance company to be located. The legislature has worked to make every element of the insurance business better with targeted incentives. These elements include human resources, financial aspects of doing business, physical infrastructure, government regulations and legal requirements. For instance, Drury University offers a degree in insurance and risk management and high schools teach insurance education. Iowa decreased its premium holdings tax from 2% to 1%, which Mr. Cunningham said made Iowa extremely competitive. Iowa no longer requires annual examinations and the receivership process was revised so that all receiverships are closed out within six months. Iowa also used highway development funds to provide access to insurance companies' buildings. Tax waivers and property tax rebates were used to lure individuals to move to Iowa, thereby creating a workforce for the industry. Iowa also created a preferred status for businesses with large volumes of phone traffic and provided incentives for communications equipment.

Mr. Cunningham testified that since 1985, when these initiatives began, Iowa's insurance industry has grown 3-5% annually.

TRAINING

At each hearing, the committee heard about the importance of customized training and vocational-technical education. All employees need training and the demand for vocational-technical training and customized training, in particular, is rising.

Mr. Lloyd Baker, director of the Rolla Technical Institute (RTI) , testified that vocational-technical education was not funded at all in the President's budget. He said the "No Child Left Behind" Act ignores vocational-technical education and that the lack of a fully-funded foundation formula has directly affected RTI because the school board has withheld funding for them because they didn't receive all they expected from the state. As a result, adult students have seen a 40% increase in costs.

The Missouri AFL-CIO testified that 67% of all teenagers who enter college receive a bachelors degree and that 23% of those must return to a technical school to get training for a job.

Mr. Gary Sage, of the Kansas City Economic Development Corporation, testified that the New Jobs Training Program is the best incentive program he's seen in 20 years of economic development experience because it allows developers to take the new money being made by companies and reinvest it into their workforce. Mr. Sage said this was beneficial because, even if the company dissolves, the well-trained workforce will remain. He said this program should be expanded.

Mr. Jack Bitzenburg, the President of the Kansas City Business and Technology College, agreed that the New Job Training Program is one of the best the state has to offer. He said this is the best job recruitment tool Missouri has to attract new business and investment to the state and he suggested the legislature create a similar program for job retention.

When Harley-Davidson came to Kansas City ten years ago, they agreed to employ 1,000 people. Mr. Bitzenburg said that a very large capital investment was made and that using the New Job Training Program allowed them to issue $3 million in training certificates which helped recruit, assess, and train those employees. Today, Harley-Davidson has an annual payroll of $38 million.

Mr. Chris Byrd, who is a board member of Platte County's Economic Development Commission, testified that the primary reason Harley-Davidson came to Missouri was the funding for training.

Mr. Bitzenburg testified that more than 80 projects in Missouri have used the New Job Training Program at 58 company sites. From this, $85 million in training certificates have been issued and over 26,000 new jobs created. He testified that according to the state's Division of Workforce Development, the New Job Training Program provided a 9 to 1 return on investment for the state last year.

Mr. Bitzenburg also testified about the Missouri Customized Training Program. He said it's the only program that can help a business "ramp up" for new technology. That program has a cumulative cap and he suggested that the cap be removed because there isn't much funding left in the program as it stands now.

The Department of Economic Development said Missouri should do a better job investing in our workforce by providing more funding for new teachers so that our children will be educated for the workforce. The Department said that new connections and relationships need to be created between institutions of higher education and economic development, and that money available for customized training programs needs to be increased.

Mr. John Blaskiewicz, the Operations Manager for John Ramming Machine Company, testified that customized training program was very helpful when the company became certified to ISO-9000 and QS 9000 international quality standards. His company has also used customized training funding for other forms of certification as well. Mr. Blaskiewicz testified that while his company received $25,000 in direct funding, it also invested over $55,000, too. He testified that, while the customized training program is vitally important, it is not a handout and he asked the committee to increase the available funding, if possible.

Ms. Missy Marshall, with the Sikeston Area Chamber of Commerce, testified about the Bootheel Regional Training Group (BRTG), a consortium of ten businesses that represent more than 3,000 workers from 8 counties in southeast Missouri. The BRTG has pooled its resources in an effort to maximize customized training dollars and improve the quality of the area's workforce. She testified that the bootheel region cannot afford to lose customized training funding because it is important for business retention purposes. This year, the BRTG received over $50,000 which trained more than 300 employees. Ms. Marshall testified that Missouri "needs to do everything in its power to create a positive environment for training and learning."

Ms. Clare Urhahn, with Rubbermaid , testified that one reason the company decided to move its wood laminate manufacturing operations from Memphis, TN to Jackson, MO was because of the customized training grants the company received. This allowed Rubbermaid to retrain its workforce, which increased productivity and efficiency. With these grants, Rubbermaid was able to have "soft skills training," which helped supervisors and associates learn better management skills and how to effectively prioritize. As a result of this training, their turnover rate went from 74% to less than 10%.

The committee learned that since 2000, funding for customized training has decreased by almost 50%.

EMERGING TECHNOLOGIES AND LIFE SCIENCES RESEARCH

Dr. William Danforth, Chancellor Emeritus of Washington University, testified that he's hopeful that in twenty years, Missouri will have a reputation as a great place for life sciences research. This, of course, will require first-rate science, which Missouri has as a result of the research institutions located in the state, including the state's university system, Washington University, St. Louis University, the St. Louis Botanical Gardens, Stowers Institute in Kansas City, and the Danforth Life Sciences Center in St. Louis.

Aside from good science, good technology is also necessary in order to cultivate the appropriate environment need for life sciences research to flourish. This requires investment which, Dr. Danforth testified, Missouri has not done much of, historically. However, he did note that this trend is changing.

The St. Louis Center for Emerging Technology is an incubator for start-up companies. Dr. Danforth testified that this works beautifully, until the company outgrows the Center and is ready for the next step, which is "wet lab" space. Missouri, to say nothing of the St. Louis region, does not have enough wet lab space to support continued life sciences research. As a result, new companies are likely to leave the Center for places like San Diego, CA. Dr. Danforth testified that we must build more wet lab space for companies that have outgrown the incubator, or resign ourselves to losing them to other states.

Ms. Marcia Mellitz, with the St. Louis Center for Emerging Technology, testified about the Center, which develops life science companies. It is an "incubator" for start-up businesses that are in the earliest stages of development. The Center provides business development, technology product development, and funding to nurture high-growth, research and development companies that work in the life sciences (e.g., medical devices, diagnostic and medical instruments). In the last five years, there have been 24 companies at the Center (currently, there are 12), with 260 jobs, and an annual payroll of $13 million. Eighty-four patents have been issued (187 are pending) and there are five pre-clinical product trials and three clinical product trials.

Ms. Mellitz also testified about "Technopolis" which is a plan to redevelop all of mid-town St. Louis into an area that will nurture the life science industry by creating an environment that will foster technology growth and innovation. Because of this environment, and its close proximity to the research hospitals at Washington University and St. Louis University, it is Ms. Mellitz's contention that life science companies will want to locate in Technopolis because of the cutting-edge research and highly-skilled workforce that will be found there.

Chlorogen is such a company. It began as a "virtual" company in St. Louis and now uses patented technology to produce therapeutic proteins and antibodies in tobacco. Ms. Sharon Berberich testified that Chlorogen's success depends in part on establishing on-going research programs with local universities in the areas of field and agronomic systems, engineering for biomass harvest/in-field processing and environmental and biological studies.

In addition to research collaboration, Chlorogen needs a network of producers who are willing to work with this crop. It is not like traditional farming because it is for pharmaceutical production. Because the tobacco isn't being grown for consumption, rather, for purification, Ms. Berberich assured the committee that the producers would not be subject to federal allotment regulations. Because the crop is a pharmaceutical, it is regulated fully by the Federal Drug Administration. In order to keep the company in Missouri, they will need support, including incentives to build their facilities, which must include a purification plant and "wet lab" space for additional research. South Carolina has made serious offers to lure the company there, which includes a plant and wet lab space, but Chlorogen is, for the moment, hoping to stay in Missouri.

The Department of Economic Development testified that Missouri should focus on technology-based economic development by implementing policies to make Missouri a technology magnate. The Department suggested that the legislature consider making changes in the law that would encourage the development of "technology clusters." The Department suggested changing incentive programs so that they can help companies that are involved in global enterprise. The Department pointed out that the global picture has changed since many of Missouri's incentives were first implemented. The Department said the state should fund and retain world-class scientists and researchers, in addition to doing a better job funding new start-up companies.

FINDINGS & RECOMMENDATIONS

The committee recognizes the complexities of the job creation and economic development issues discussed at each of the hearings. The committee was inundated with information from witnesses at each hearing and the written testimony received by the committee is included in appendices to this report.

The Committee wishes to express its gratitude to Missouri's Department of Economic Development, as well as the St. Louis Center for Emerging Technology, the Stowers Institute, the Sikeston Jaycees, the city offices, local organizations, members of the business community, and individual citizens who took time to provide vital testimony and assistance.

The Committee recommends the following:

FINDING #1:
Tort reform, workers' compensation reform, and unemployment compensation reform must be addressed by the legislature.

RECOMMENDATION #1:
At the chairman's suggestion, the committee chose not to discuss tort reform, workers' compensation reform or unemployment compensation reform because those discussions are on-going. However, these issues were discussed by witnesses at all four hearings and the committee realizes that they are significant elements of the cost of doing business in Missouri. The committee also recognizes the importance of other economic drivers such as good transportation routes (e.g., highways, railroads, airports, rivers). The committee did not focus on these issues when determining findings and recommendations because those discussions are on-going as well.

However, the committee recommends that the legislature work closely with all concerned parties during the upcoming 2004 session in an effort to reach compromises so that these costs can be reduced. The committee feels that Missouri will not be competitive unless tort reform, workers' compensation, and unemployment compensation are addressed in the near future.

FINDING #2:
Emerging technology and life sciences research must be emphasized throughout the state as an immediate priority by increasing funding for such activities, expanding related curricula in elementary and secondary education, encouraging institutions of higher education to actively recruit the best researchers, educators and students in these fields, and by publicizing and marketing Missouri as the best place to be for this kind of research.

RECOMMENDATION #2:
The committee heard testimony at each hearing about the importance of emerging technology and life science research. These industries have the potential to be a great economic boon for the state, since they tend to be fast-growing, high-tech, and high-paying. Therefore, the committee recommends that the state provide more funding to life sciences research and development.

Furthermore, the committee recommends that Missouri's public schools reinforce the importance of agricultural, biological, chemical, and environmental sciences and mathematics to all students. The committee feels that this is an industry Missouri can and must nurture and that our public schools are a resource of critical importance in this endeavor.

According to Dr. Dennis Roedemeier, of Southeast Missouri State University, the Battell Institute's recent report says that Missouri must spend $35 million per year in order to participate in "the new economy." According to Dr. Roedemeier, Missouri spent $2 million this year. He testified that the average level of research funding per year per professor at the University of Missouri-Columbia is currently $100,000. The national average is $300,000/year/professor and at a premier university such as the Massachusetts Institute of Technology, it's $600,000/year/professor. Dr. Rodemeier said that Missouri must increase funding for universities.

Missouri is not investing in its universities, which translates into a lack of investment in life sciences research and development. The committee feels this is a dangerous trend which must be reversed if Missouri expects to play a significant role in "the new economy." Additionally, the committee strongly encourages the state's colleges and universities to aggressively recruit the most talented and promising life sciences researchers, educators and students. The promise of life sciences research and development lies with them and they are, therefore, a key partner for Missouri's success in this industry.

In addition to increased state funding, the committee recommends that incentives for private investment in life sciences research be created and implemented. Specifically, incentives for venture capital and "wet lab" space are critical.

FINDING #3:
Customized Training should be emphasized so that more individuals can receive assistance.

RECOMMENDATION #3:
At each hearing, the committee was inundated with testimony relating to the importance of the customized training program. This year, the state provided approximately $8.7 million for customized training. Without customized training, many businesses would not be able to train their current workforce to use new technology and equipment that becomes available. As a result, these workers are at risk for losing their jobs and businesses will be left without the fully-trained workforce they need in order to compete.

Customized training was touted as one of the best programs Missouri has to offer by witnesses at each hearing. However, many witnesses were concerned that the program may not continue because of reduced funding in recent years. In fact, Mr. Tony Myers with the Centene Corporation, testified that customized training should be viewed as a necessity by the legislature and not as a program for which the funding is optional.

The committee recommends that customized training be emphasized and perhaps expand so that more individuals and businesses can be served throughout the state.

FINDING #4:
Incentive programs for business must be expanded and new, innovative programs must be created.

RECOMMENDATION #4:
Mr. Dick Fleming, with the St. Louis Regional Chamber and Growth Association, said that the BUILD program was responsible for bringing the international headquarters of MasterCard's global operations to the St. Louis area. He said a $12 million BUILD incentive retained 1,000 existing jobs and guaranteed at least 600 new ones (although more than 1,000 new jobs have resulted, according to Mr. Fleming). He noted that these jobs have an average salary of $80,000/year. Mr. Gary Sage of the Economic Development Corporation of Kansas City said that the BUILD program is critical for business recruitment and retention. Mr. George Mitsch's business, UniGroup, Inc. owns United Van Lines and Transit and recently bought Mayflower. Most of their financial resources were stretched in order to buy Mayflower, but they wanted to move the headquarters from Indiana to Missouri. He said they were only able to do this after the BUILD program agreed to help them with $5 million in bonds and $2 million in other financing. His company provided $9 million. The result was that they brought 500 new jobs to Missouri. He said only 30 people chose to move from Indiana – which means 470 of their employees were Missourians. Mr. Byrd also discussed the BUILD program, which he described as "good," although he said it only benefits very large companies because it requires at least 500 new jobs.

The BUILD program recently went from having a cumulative cap of $75 million to having an annual cap of $11 million – but all of those funds have been allocated for this year. Therefore, the committee recommends that the annual cap on the BUILD program be increased and that the new job requirement be reduced from 500 to 250 so that more businesses can participate. The committee understands that simply increasing the annual cap does not mean the BUILD program will be fully funded, however, the committee would like to see the annual cap raised so that when additional revenue is available, more projects can be funded without difficulty or delay.

At each hearing, the committee heard from witnesses about incentive programs Missouri currently has and about those found in other states that Missouri should have. Mr. Byrd said that Missouri should stop relying so heavily on tax credits because they're not always attractive to potential investors. He said that Kansas has a loan program which is preferable because businesses can use the money immediately and pay it back.

The committee recommends that the Department of Economic Development investigate the feasibility of instituting a similar loan program in Missouri, in addition to researching "best practices" from other states in an effort to create innovative incentive programs that are not tax credits.

Because of the success Harley-Davidson had using the New Job Training Bonds Program, the committee recommends that it be re-authorized so that businesses can take advantage of it once again.

FINDING #5:
Job retention incentive programs must be created.

RECOMMENDATION #5:
Missouri communities, such as Kansas City, which are on the border of neighboring states face tremendous competitive pressure. For instance, Kansas City, MO has recently lost Datacore Marketing, Inc, Nebraska Furniture, Cabela's, and a NASCAR racetrack to Kansas City, KS. This equates to losses in many sectors of the economy, including retail, tourism, and business. Missouri cannot afford to lose any more businesses to neighboring states, where the jobs lost to Missouri become new jobs in the new state.

One reason for this is that Missouri's incentives are simply not competitive. In particular, Missouri does not have incentives for job retention. Missouri's incentive programs are for new jobs – there is little assistance available to keep the jobs we've got. However, if a business decides to move to a border state, those jobs are considered "new" and the business can take advantage of whatever "new job" incentive programs that state has. Ultimately, though, Missouri loses.

The committee thinks that Missouri must take care of Missourians. Missouri currently leads the nation in job loss and personal bankruptcy. The committee recommends that the Department of Economic Development create incentive programs that will assist businesses that are in danger of laying off or firing workers, or those that are considering moving to another state or simply closing altogether. First and foremost, the committee feels that the state must do a better job protecting the jobs that exist today.

FINDING #6:
All existing enterprise zones must be re-authorized.

RECOMMENDATION #6:
The committee heard testimony through the hearings about Missouri's lack of competitive environment. One reason Missouri has trouble competing with Kansas, in particular, is that the entire state of Kansas is considered an enterprise zone, which put Missouri at a great disadvantage. Furthermore, most of Missouri's economic development incentives are tax credits which, according to Mr. Byrd, are based on 1978 dollars and haven't been updated. The tax credits correspond to job creation – not job retention. Mr. Byrd testified that, for a company to be competitive in Missouri, it must be located in an enterprise zone. Harley-Davidson chose to locate in Platte County, rather than Jackson County, for this very reason since Platte County has an enterprise zone and Jackson County does not.

The committee is not necessarily recommending that the entire state be designated an enterprise zone, however, the committee does recognize the unmistakable importance such a designation has for a community's economic vitality. Therefore, the committee recommends that all existing enterprise zones be re-authorized.

FINDING #7:
The statutory definition of "distressed community" must be modified so that all Missouri cities benefit equally.

RECOMMENDATION #7:
The current definition of "distressed community" that is found in statute (135.530, RSMo) has led to the entire city of St. Louis being designated a "distressed community." However, many distressed areas in Kansas City, Springfield, and other areas of the state do not meet the criteria. As a result, these areas are not able to take advantage of the tax credit programs designed to help distressed areas.

The committee recommends that the definition of "distressed community" be modified so that all Missouri cities can benefit equally and so that truly distressed areas which currently do not qualify can receive much needed assistance.

FINDING #8:
Missouri needs more coal-fired energy plants.

RECOMMENDATION #8:
The committee heard testimony at several hearings from industries that rely on electric power. Because of Missouri's continued demand for more energy, the committee recommends that more coal-fired plants be built in the state.

Mr. Steve McPheeters, with Noranda Aluminum, testified that energy is critical to his business. He said they are the single largest consumer of power in the state and that energy represents about 30% of their costs. He said that "affordable power" is anything under $30 per megawatt hour. Currently, Noranda is paying $28/MWhr. He said they cannot predict what the cost will be in two years and that it is possible that they will close if rates continue to rise.

Mr. McPheeters testified that aluminum reduction plants in other states have long-term contracts with their energy providers. For instance, he said plants in Kentucky locked into a rate of $25/MWhr through 2010.

Mr. McPheeters testified that Missouri needs more energy sources, and that coal-fired plants make the most sense because they generate electricity cheaply. He said it is possible to operate a modern coal-fired plant cleanly, but they take a great amount of lead time to build. Generally, it takes six to eight years and a $1 billion investment before a coal-fired plant is up and running.

Mr. Craig Brown, of Missouri Energy Development Agency (MEDA) testified that Missouri's investor-owned electric utilities are facing an estimated 3,800 megawatts of additional power generation by 2012. He said Missouri will need 6 new coal-fired plants in order to meet this demand. In addition, Mr. Brown testified that older plants in Missouri need to be retired and replaced. Because coal-fired plants take a long time to build, a benefit is that the construction alone has the potential to employ 500-1,000 people for 5 years.

FINDING #9:
Lambert Field in St. Louis must be a hub for a major airline.

RECOMMENDATION #9:
The committee heard from Mr. Ed Manhart, a representative of the Transport Workers' Union, Local 529, about the enormous difficulties they've had since American Airlines announced it was going to "de-hub" St. Louis, which was, according to Mr. Manhart, a "complete surprise to the employees." Mr. Manhart cited a study done by Dr. Jan K. Brueckner, an economist at the University of Illionis at Urbana Champaign, who found that the 62% decrease in flights operated by American Airlines would affect about 2,000 airline employees but "that, in the long-run, the de-hubbing of Lambert Field will cost the St. Louis Metro Area nearly 50,000 jobs." Dr. Brueckner's report appears in Appendix R. Mr. Manhart further stated that his organization has not seen the drop in air traffic to justify the reduction in employment.

The committee recognizes that it is vital to Missouri's economy that a major US airline be hubbed in St. Louis. This is because it is of critical importance to business people in Missouri that they be able to reach either coast in three hours and so that others can reach us. Also, access to major airports (and airlines) is a critical selling point when luring new businesses to the state. Dr. Brueckner stated that, "Cities fortunate enough to have … a hub are then able to compete vigorously for business investments in industries whose employees are intensive users of the air transport system…. Because the de-hubbing of Lambert Field will generate an abrupt reduction in the quality of airline service, the attractiveness of St. Louis as a business location will diminish."

In the case of American Airlines, in particular, the de-hubbing will affect the St. Louis region as well as the Kansas City region, where the airline's maintenance hub is located. As a result, the de-hubbing will no doubt be felt throughout the entire state. Therefore, the committee recommends that the Department of Economic Development explore the state's options in terms of retaining the American Airlines hub or recruiting another airline to replace it.

The committee also recommends that Kansas City expand its maintenance hub and acquire contracts to service new-generation jets, instead of the older aircraft that are currently being serviced there. The committee also recommends that the legislature assist Kansas City in this endeavor, as this maintenance hub is vitally important to both the regional and state-wide economy.

FINDING #10:
Missouri's economic development incentives must be evaluated by an unbiased third party.

RECOMMENDATION #10:
Throughout the hearings, the committee heard testimony that centered on Missouri's current economic development incentives. Generally, the testimony revealed that the current incentives are good and should be expanded. However, many witnesses said that Missouri needs new incentives (e.g., for job retention) or different kinds of incentives (e.g., something other than tax

credits, perhaps loans). During the time in which this committee held hearings, allegations of tax credit fraud also surfaced.

As a result, the committee recommends that the state fund an unbiased third party to examine the effectiveness of Missouri's current economic development incentives and to compare what Missouri has to offer to our bordering states as well as to states who are recognized for having "best practices" in economic development. The legislature must know how Missouri stacks up against the competition, and it is the opinion of the committee that an investigation and report done by an unbiased third party is the best way to get this information.

FINDING #11:
Cities and counties must be sensitive to the unintended consequences of their local tax policies.

RECOMMENDATION #11:
Throughout the hearings, the committee heard testimony about local tax policies that may hinder the ability of individual businesses to reach their full potential. For example, St. Louis City's manufacturer's license tax was discussed at length by Mr. John Blaskiewicz who is the operations manager for the John Ramming Machine Company. Mr. Blaskiewicz said that this tax is based on an arbitrary schedule of the equipment's depreciation. If a machine is 1 year old, it is valued at 90%, if it is 2 years old, it is valued at 80%. Once a machine is 7 years old, it is valued at 30%, however, the valuation never decreases (regardless of age or condition). This means that very old equipment will always be taxed at 30% of its value in St. Louis. This is illegal based on Missouri's Constitution, which requires that assessments made for property taxes be based on the property's "true value in money" (Constitution, Article 10, Section 4b) . In other words, its fair market value. As a result, Mr. Blaskiewicz and other manufacturers must appeal this tax to the Missouri State Tax Commission – an effort which is cumbersome, time consuming and expensive. In fact, many small operations cannot afford the appraisals necessary for an appeal or legal counsel. Mr. Blaskiewicz referenced an article in the St. Louis Post Dispatch which said that in a 30 month time span, 45 cases were appealed and all 45 decisions were rendered in favor of the taxpayers. These cases were from throughout the state and included a number from the St. Louis area. He believes this indicates that St. Louis City's tax policy is in error, as well as that of other cities.

The committee recommends that cities and counties be more sensitive to the needs of their local businesses and asks that they review their tax policies to make sure that they do not conflict with state law. Furthermore, the committee hopes that all counties and cities will work to create an appeals process that is less burdensome so that businesses are not mired down in unnecessary bureaucracy.

EXPLANATION OF APPENDICES

The appendices include a summary of oral testimony and the written testimony received by the committee. Because of the large quantity of written testimony, the appendices are available on-line. However, the report references Appendix R and Appendix GGG, specifically. They have been included in this abridged report for ease of reference.

If you would like to read the written testimony or the summary of oral testimony, please go to this web site:

http://www.house.state.mo.us/bills03/intcom/icjobs.htm

APPENDIX R

Written testimony of Mr. Ed Manhart,
Transport Workers Union, Local 529

House Interim Committee on Job Creation and Economic Development

October 14, 2003

Mr. Chairman, Committee Members and Distinguished Guests

Thank you for allowing us this time today.

We are here in to address this committee with our concerns of the economic well being of our community and to contend with imminent job loss.

We have assembled this brief summary as an overview of our situation. With this handout and our explanation we identify a problem and propose a solution. We want you to see and hear the same information we have provided to our government officials; MO -Governor Holden, MO -Senators Bond and Talent, IL-Senators Durbin and Fitzgerald, MO Congressmen Clay, Hulshof, Gephardt, Akin and Congresswoman Emerson, IL Congressmen Costello, Shimkus, and Evans; all of which were receptive to our concerns. We would also like to share information with you showing the affects on our economy from the major reduction of air service, subsequent job losses and the impact it will have on our local economy and the bi-state region.

In the packets you received are two economic impact statements.

One document is from Jan K. Bruekner, Professor of Economics- University of IL, and the other from David J. Peters, Planner -Department of Economic Development, MO. Both focus directly on today's topic of job loss, immediate and long term affects on our local, regional and state economy from the de-hubbing of Lambert International St. Louis. Also included are; performance charts, current and Nov.1st, 2003 flight schedules, aircraft equipment reductions and statements and testimony form the Feb. 2001 Senate hearing to approve TWA's acquisition by American.

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additional losses will arise from the reduction in airline service quality, which will hurt the business climate for local firms that rely heavily on air transportation. The present report argues that, in the long-run, the de-hubbing of Lambert Field will cost the St. Louis metro area nearly 50,000 jobs.

The Nature of the Cutbacks and How They Affect Jobs

The de-hubbing of Lambert is reflected both in flight reductions and in a shift away from mainline jet operations toward commuter flights (regional jets and turboprops). American's mainline jet flights will be cut from 213 flights per day to 53. Commuter flights will be cut less dramatically, from 199 flights per day to 154. Overall, these reductions translate into a 62 percent reduction in American's daily seat capacity at Lambert, according to information from the *Official Airline Guide*.

American will continue to serve 68 nonstop routes out of the 93 it served previously from Lambert, but regional jets will fully or partially replace mainline jets on 19 of the 68 routes. Even though service will continue, the reduction in total flights means that frequencies on these remaining routes will decline. Monthly flight departures to the 68 remaining destinations will fall, on average, by one-third. But with frequencies reduced, Lambert will lose much of its attractiveness as a connecting point. Passengers who previously could change planes conveniently at Lambert on their way to a third city will now face a longer layover, making travel through Chicago or Dallas preferable. Thus, with connecting passengers now flowing through other airports, large capacity reductions are possible on the routes in and out of Lambert. In achieving these reductions, lower frequencies will be reinforced by a shift to smaller aircraft.

American's cutbacks will be bad for St. Louis on several dimensions. First, the cutbacks will reduce the quality (and perhaps increase the cost) of airline service for travelers who live in St. Louis or visit from other cities. With fewer nonstop routes served from Lambert, a greater destinations, provides unsurpassed service quality and thus offers a powerful enhancement to the business climate. Cities fortunate enough to have such a hub are then able to compete vigorously for business investment in industries whose employees are intensive users of the air transport system. Such industries represent all the knowledge-intensive sectors of the economy, where exchange of information (often on a face-to-face basis) is a crucial part of the productive enterprise.

Because the de-hubbing of Lambert Field will generate an abrupt reduction in the quality of airline service, the attractiveness of St. Louis as a business location will diminish. Large information-intensive firms may channel their future growth toward their operations in other, more-connected cities, and purely local firms may find some of their vitality sapped by the greater difficulty of maintaining outside face-to-face contacts. Newly-locating firms that could have chosen St. Louis might now look elsewhere in siting a start-up operation. As noted above, firms that rely on air freight to ship their products may also relocate or contract.

Unlike the immediate job cutbacks for airline workers, employment losses from these effects on the business climate will occur gradually as the local economy adjusts to poorer airline service. Because other economic trends will also affect employment during the adjustment process, the long-run losses from de-hubbing of Lambert may not be readily apparent. For example, improvement in the U.S. economy is likely to raise national employment over the next five years, and this positive trend may hide the negative local effects from the lower quality of airline service, with employment in the St. Louis metro area rising (not falling) over the period. However, the key observation is that, even though employment in St. Louis might grow, *employment will be lower than it would have been had Lambert Field remained a hub airport.*

A crucial question for the St. Louis economy concerns the potential magnitude of these long-term job losses. The rest of this report generates such a prediction. The methodology is into account. In particular, while high airline traffic (representing good service quality) should boost employment, another effect may run in the opposite direction. In other words, a metro area with a high employment level is likely to generate substantial airline traffic, as its large employee base travels on business. If this reverse causation is not taken into account, the effect of service quality on employment will be overestimated.

After controlling for reverse causation, the statistical procedure yields some striking results. An increase in airline traffic has a substantial effect on the level of total employment in a metro area. But this effect is confined to "service-related" employment, which encompasses virtually all jobs not included in the manufacturing, construction and mining sectors. This sectoral impact makes sense, however, because the quality of airline service should matter only for firms in the knowledge-intensive parts of the economy, where face-to-face contact with businesses in distant locations is needed. Most factory employees, by contrast, do not use the air transport system in the course of their jobs, making the quality of airline service largely irrelevant for the level of factory employment in a metro area.

The magnitude of the effect on service-related employment is crucial for the calculations that follow, and this magnitude is easily stated. In particular, the statistical results show that a 10 percent decrease in passenger enplanements in a metro area leads to a 1 percent reduction in service-related employment. Using this 10-to-1 relationship, the employment impact of the de-hubbing of Lambert Field is easily computed.

Job-loss calculations

To carry out the job-loss calculations, the 10-to-1 effect from above is combined with an estimate of the decrease in passenger enplanements caused by the flight cutbacks at Lambert Field. To compute the enplanement cut, the first step is to note that yet-to-published FAA data show that total enplanements of revenue passengers at Lambert equaled 12,467,757 passengers

A natural question is whether replacement of the flights lost through American's cuts might reverse this negative impact. While modest flight increases by American's competitors have been announced, the prospect for a major replacement of the lost American flights is slight as long as Lambert does not regain its hub status. The reason is that, in the absence of connecting traffic, the flight volume at Lambert is limited by the demand for trips to and from St. Louis. This demand, which depends on the metro area's economic fundamentals, is presumably served adequately by the new, lower Lambert flight volume.

Even though traffic at Lambert Field is constrained by the extent of demand, some stimulus could be provided if the costs that airlines incur in serving the airport were reduced. One way to achieve such a cost reduction would be to cut the landing fees that the airport charges for use of its runways and facilities. While such fees represent a relatively small portion of airline operating costs, lower fees would nevertheless allow the carriers to cut their fares, which in turn would stimulate traffic and enplanements. Even though the lost airport revenue from lower landing fees would have to be replaced by public funds from other sources, such an expenditure would be worthwhile given the importance of airline service to the health of the local economy.

Economic Impact of the TWA and American Airlines Merger in Missouri

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strong, stable, high-paying airline. Additionally, facing an industry wide shortage of mechanics, American decided that TWA's large maintenance facilities and experienced mechanics offer an opportunity to expand.

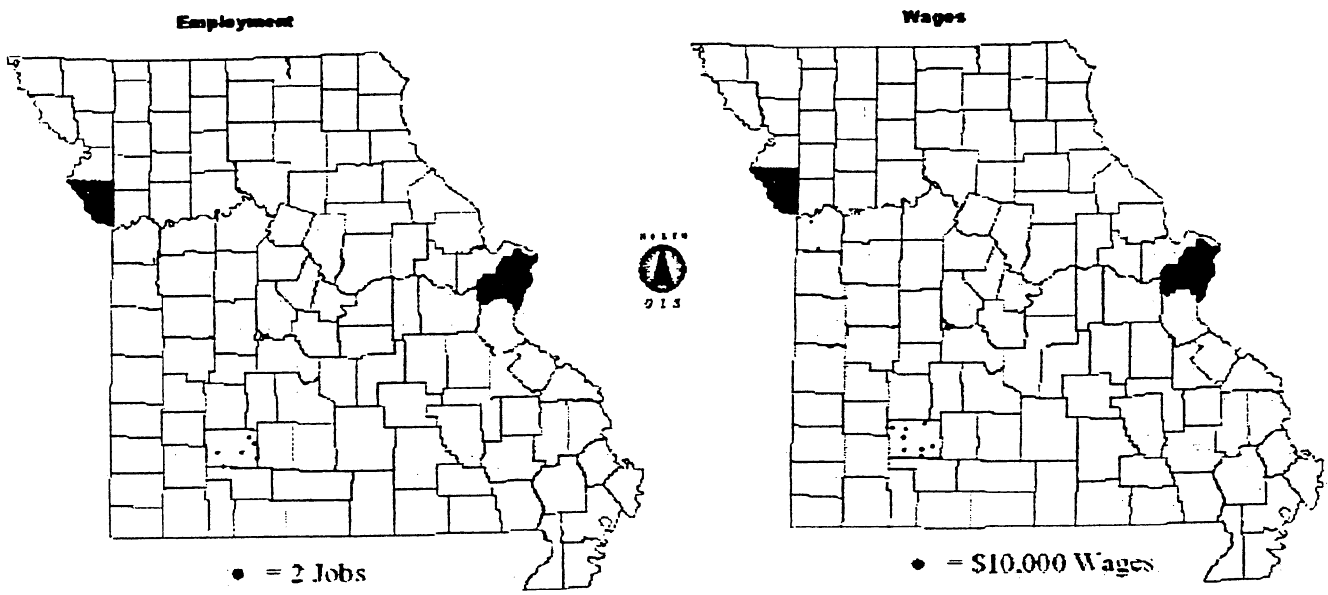
Table 1
Comparison of American Airlines and TWA

	American Airlines	TWA
Headquarters	Fort Worth, TX	St Louis, MO
Ranking	2	8
Employees	92,700	20,500
Fleet Aircraft	720	189
Revenue (nine months)	$14.8 billion	$2.7 billion
Profit (nine months)	$766 million	$-115 million
Passengers in 2000	86.2 million	NA
Major Hubs	Dallas Chicago Miami San Juan	St. Louis

TWA employs 12,430 people in Missouri. Almost all of TWA's facilities are located in Kansas City, St. Louis and Springfield. The air transportation division employs the majority of TWA workers - with 10,459 employed in St. Louis County, Kansas City and Springfield. The administrative and corporate division employs 1,947 people in Kansas City and St. Louis City. Lastly, TWA employs 24 people in the ticketing division, with offices in Kansas City, St. Louis County and St. Louis City. Refer to Map 1.

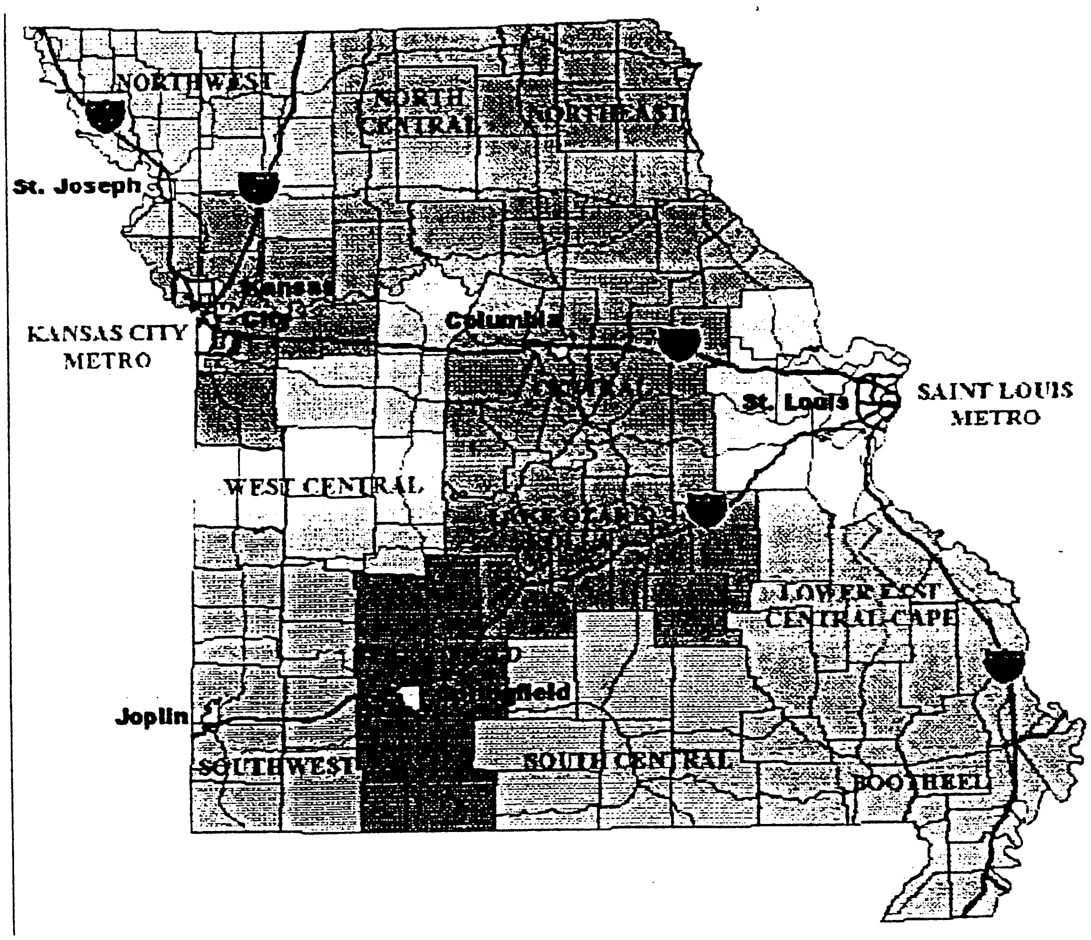
According to the Missouri Department of Economic Development, TWA employs 12,430 people in Missouri. Employment is concentrated in St. Louis County (7,794), Platte County (3,646), St. Louis City (974), Greene County (14) and Jackson County (2). Taken together, TWA employment accounted for $604.4 million in wages across Missouri in 2000. Refer to Map 2.

Map 2
TWA Employment and Wages in Missouri, 3rd Quarter 2000



Source: ES-202, Missouri Department of Economic Development

Map 3
REMI Missouri Multi-Regional Model
Economic Regions



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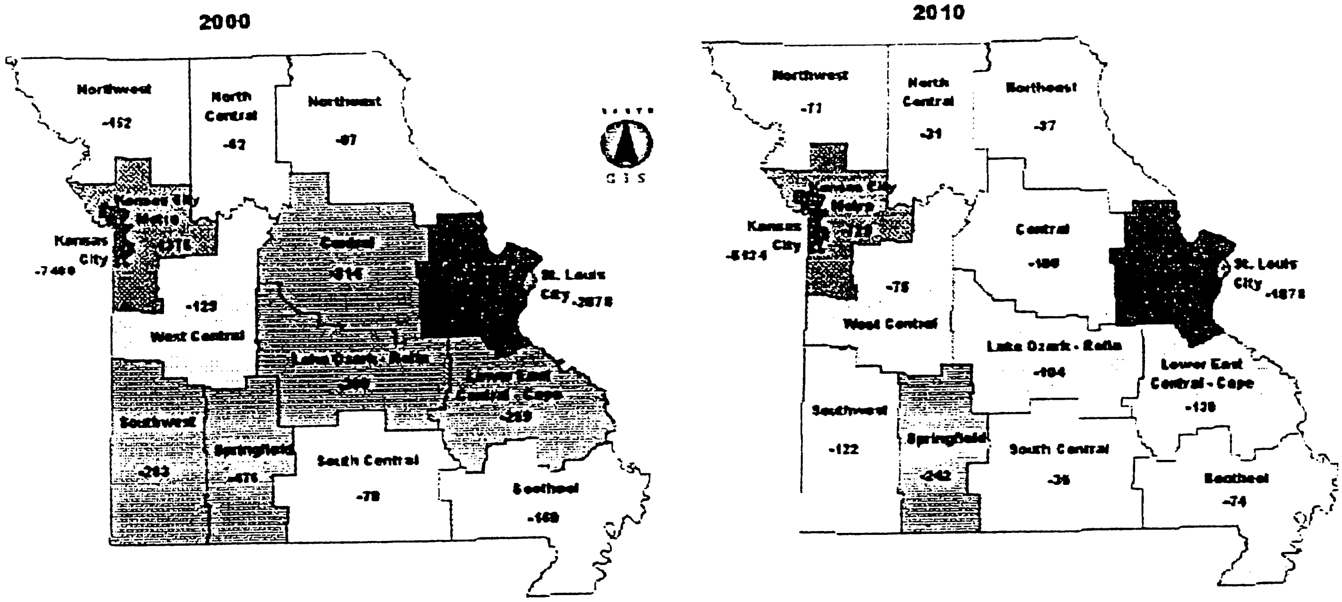
Map 4
Total Loss Scenario - Employment by Region, 2000-2010



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Missouri Economic Development

Table 4
Total Loss Scenario - Employment Change by Sector, 2000-2010
Difference from baseline projection.

SECTOR	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Agric, Forestry, Fishing	-163	-152	-136	-121	-108	-98	-90	-85	-83	-81	-81
Construction	-2,577	-2,302	-1,999	-1,695	-1,424	-1,199	-1,019	-897	-805	-737	-688
FIRE	-1,607	-1,510	-1,370	-1,244	-1,133	-1,042	-970	-914	-874	-844	-823
Government	-325	-700	-908	-1,067	-1,185	-1,266	-1,322	-1,361	-1,390	-1,411	-1,427
Manufacturing	-1,072	-743	-431	-164	46	199	301	352	376	381	371
Mining	-50	-45	-39	-34	-30	-26	-24	-22	-21	-19	-19
Retail Trade	-4,783	-4,471	-4,097	-3,732	-3,404	-3,131	-2,909	-2,788	-2,722	-2,684	-2,667
Wholesale Trade	-1,277	-1,162	-1,037	-914	-801	-703	-620	-574	-542	-521	-507
Services	-6,242	-5,673	-5,043	-4,492	-4,031	-3,674	-3,419	-3,276	-3,181	-3,139	-3,139
Transport, Comm, PU	-14,710	-14,590	-14,460	-14,340	-14,240	-14,150	-14,080	-14,040	-14,010	-13,990	-13,980
TOTAL	**-32,810**	**-31,340**	**-29,520**	**-27,800**	**-26,310**	**-25,090**	**-24,150**	**-23,600**	**-23,250**	**-23,050**	**-22,960**

Source: ES-202. Missouri Department of Economic Development and REMI.

Table 5
Total Loss Scenario - Wage Change by Sector, 2000-2010
In millions of nominal dollars.
Difference from baseline projection.

SECTOR	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Agric, Forestry, Fishing	-1.15	-1.13	-1.07	-1.00	-0.93	-0.86	-0.81	-0.77	-0.73	-0.71	-0.69
Construction	-44.00	-39.19	-34.61	-29.47	-24.63	-20.41	-16.79	-13.86	-11.43	-9.39	-7.71
FIRE	-25.46	-25.61	-24.80	-23.53	-22.14	-20.83	-19.66	-18.69	-17.96	-17.38	-16.93
Durable Manufacture	-14.96	-13.19	-10.27	-7.01	-3.94	-1.39	0.69	2.24	3.42	4.29	4.90
Non-Durable Manufacture	-10.59	-11.09	-10.34	-9.07	-7.66	-6.34	-5.17	-4.30	-3.60	-3.08	-2.68
Mining	-0.68	-0.61	-0.51	-0.42	-0.34	-0.27	-0.22	-0.18	-0.14	-0.12	-0.10
Retail Trade	-41.83	-41.99	-40.84	-38.88	-36.67	-34.59	-32.64	-31.22	-30.33	-29.64	-29.12
Wholesale Trade	-19.69	-19.76	-19.03	-17.73	-16.27	-14.89	-13.64	-12.70	-11.99	-11.47	-11.09
Services	-87.88	-89.13	-86.81	-82.95	-78.85	-75.38	-72.48	-70.12	-68.35	-67.20	-66.52
Transport, Comm, PU	-620.80	-621.20	-620.70	-619.80	-618.70	-617.70	-616.80	-616.10	-615.50	-615.00	-614.60
TOTAL	**-867.00**	**-862.80**	**-849.00**	**-829.80**	**-810.20**	**-792.70**	**-777.50**	**-765.70**	**-756.60**	**-749.70**	**-744.50**

Source: ES-202. Missouri Department of Economic Development and REMI.

IV. Overhaul Base Loss Scenario

The following impact scenario assumes the closure of TWA's overhaul base facilities in Kansas City (MO), resulting in a loss of 2,661 jobs and $132.4 million wages in the state. Impacts are ascertained by examining the difference between the baseline projection (no loss of jobs) and the scenario projection (loss of 2,661 jobs and $132.4 million wages). The differential indicates the number of jobs above or below what would have been expected if no change in the economy had occurred. Job losses include both direct (jobs losses attributable to TWA closing) and indirect (job losses in ancillary sectors related to TWA operations) effects.

It appears that the loss of 2,661 TWA overhaul base jobs in Kansas City would result in a total loss of 6,862 jobs and $171.5 million wages statewide in 2000. By 2010, the state economy regains some of these jobs, for a total loss of 5,282 jobs and $167.1 million in wages. As expected, the Kansas City region would experience the largest negative impacts. In 2000, the Kansas City region would lose 4,957 jobs and $143.9 million in wages. By 2010, there is there is some recovery of jobs in Kansas City, yet wages progressively fall - with 4,223 jobs and $156.8 million in wages lost in 2010. This may indicate the increase of low-wage jobs in the Kansas City region.

Also, the Kansas City Metro and St. Louis Metro regions also experience sizeable job losses in 2000, yet recover a good share of these jobs by 2010. In general, the state's economy would slowly recover from the direct and indirect job losses attributable to the closure of TWA's overhaul base in Kansas City. In particular, Kansas City's regional economy would be slow to recover from this loss of jobs. Refer to Tables 9 and 10, and Map 5.

As expected, the Transportation, Communications and Public Utilities sector would be most adversely affected by the loss of TWA's overhaul base in Kansas City - losing 3,173 jobs and $135 million wages in 2000, with almost no recovery by 2010. The Services sector would lose 1,324 jobs and $12.9 million in wages in 2000. By 2010, there is some recovery of Services jobs, yet wages progressively fall - with 810 jobs lost and $15.9 million in wages lost by 2010. This may indicate the growth of low-wage service jobs in the state. Further, the Retail Trade sector would lose 932 jobs and $6.4 million in wages in 2000, yet would recover slightly by 2010.

Interestingly, the Government sector experiences only a small loss of employment in 2000, losing 75 jobs. However, by 2010 the Government sector is expected to lose over 362 jobs - indicating that this sector does not recover over time. Also, wages in durable manufacturing increase over the baseline by 2010. Refer to Tables 11 and 12.

Table 9
Overhaul Base Loss Scenario - Employment Change by Region, 2000-2010
Difference from baseline projection.

REGION	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Bootheel	-34	-32	-29	-26	-23	-21	-19	-18	-18	-17	-17
Central	-75	-72	-68	-62	-57	-53	-50	-48	-48	-47	-47
Kansas City	-4,957	-4,873	-4,745	-4,623	-4,512	-4,417	-4,341	-4,293	-4,260	-4,238	-4,223
Kansas City Metro	-853	-802	-732	-664	-604	-555	-517	-497	-487	-484	-486
LE Central/Cape	-37	-34	-31	-28	-25	-22	-20	-19	-19	-19	-18
Lake Ozark	-45	-43	-39	-36	-32	-30	-27	-26	-26	-25	-25
North Central	-18	-17	-16	-14	-13	-12	-11	-11	-10	-10	-10
North East	-20	-18	-16	-15	-13	-11	-10	-10	-10	-9	-9
North West	-61	-59	-55	-50	-45	-41	-38	-37	-36	-36	-36
South Central	-18	-17	-16	-14	-13	-11	-10	-10	-10	-9	-9
Springfield	-128	-120	-109	-99	-89	-82	-76	-73	-72	-71	-72
St. Louis	-128	-118	-106	-95	-85	-78	-73	-71	-70	-70	-71
St. Louis Metro	-356	-326	-290	-258	-230	-209	-194	-186	-182	-180	-181
South West	-81	-75	-68	-60	-54	-48	-44	-42	-41	-40	-40
West Central	-50	-50	-47	-44	-41	-38	-36	-35	-35	-35	-36
MISSOURI	**-6,862**	**-6,656**	**-6,366**	**-6,085**	**-5,836**	**-5,630**	**-5,468**	**-5,376**	**-5,323**	**-5,292**	**-5,282**

Source: ES-202. Missouri Department of Economic Development and REMI.

Table 10
Overhaul Base Loss Scenario - Wage Change by Region, 2000-2010
In millions of nominal dollars.
Difference from baseline projection.

REGION	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Bootheel	-0.28	-0.26	-0.24	-0.21	-0.17	-0.15	-0.12	-0.10	-0.08	-0.07	-0.06
Central	-0.79	-0.76	-0.71	-0.64	-0.57	-0.51	-0.45	-0.41	-0.38	-0.35	-0.33
Kansas City	-143.90	-146.70	-149.60	-151.90	-153.80	-155.10	-155.80	-156.40	-156.70	-156.90	-156.80
Kansas City Metro	-15.93	-16.02	-15.25	-14.07	-12.76	-11.45	-10.20	-9.12	-8.19	-7.42	-6.76
LE Central/Cape	-0.32	-0.30	-0.26	-0.22	-0.18	-0.15	-0.11	-0.09	-0.07	-0.06	-0.05
Lake Ozark	-0.34	-0.32	-0.29	-0.25	-0.21	-0.18	-0.15	-0.12	-0.10	-0.09	-0.08
North Central	-0.15	-0.14	-0.13	-0.11	-0.10	-0.08	-0.07	-0.06	-0.05	-0.04	-0.03
North East	-0.16	-0.15	-0.14	-0.12	-0.10	-0.08	-0.07	-0.05	-0.05	-0.04	-0.03
North West	-0.71	-0.70	-0.65	-0.58	-0.50	-0.42	-0.35	-0.30	-0.25	-0.22	-0.19
South Central	-0.12	-0.12	-0.10	-0.09	-0.07	-0.06	-0.05	-0.04	-0.03	-0.03	-0.02
Springfield	-1.17	-1.12	-1.02	-0.89	-0.76	-0.65	-0.54	-0.46	-0.40	-0.36	-0.33
St. Louis	-2.18	-2.11	-1.96	-1.78	-1.60	-1.43	-1.28	-1.18	-1.11	-1.06	-1.04
St. Louis Metro	-4.20	-3.96	-3.54	-3.06	-2.61	-2.16	-1.80	-1.51	-1.32	-1.16	-1.07
South West	-0.67	-0.62	-0.55	-0.47	-0.39	-0.32	-0.25	-0.20	-0.17	-0.14	-0.12
West Central	-0.56	-0.56	-0.53	-0.47	-0.41	-0.36	-0.30	-0.26	-0.22	-0.20	-0.17
MISSOURI	**-171.50**	**-173.80**	**-175.00**	**-174.90**	**-174.20**	**-173.10**	**-171.50**	**-170.30**	**-169.20**	**-168.10**	**-167.10**

Source: ES-202. Missouri Department of Economic Development and REMI.

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Missouri Economic Development

Missouri would experience a 0.2% decrease in Gross State Product in 2000, which recovers to a 0.1% decrease in GSP by 2010. The Kansas City and Kansas City Metro Gross Regional Products would decrease by 0.9% and 0.3%, respectively. However, GRP for both regions recovers somewhat by 2010. Refer to Table 13.

Table 13
Overhaul Base Loss Scenario - Percent Change in Gross State/Regional Product, 2000-2010
Difference from baseline projection.

	2000	2005	2010
Kansas City GRP	-0.93%	-0.77%	-0.69%
Kansas City Metro GRP	-0.32%	-0.18%	-0.14%
St. Louis GRP	-0.04%	-0.02%	-0.02%
St. Louis Metro GRP	-0.03%	-0.02%	-0.02%
MISSOURI GSP	**-0.20%**	**-0.15%**	**-0.13%**

Source: ES-202. Missouri Department of Economic Development and REMI.

State tax revenues would also experience sharp decreases in 2000, yet would recover somewhat by 2010. General sales tax revenues would fall by $6.7 million in 2000; individual income tax revenues would fall by $5.6 million; and corporate income tax revenues would fall by $893,300. Refer to Table 14.

Table 14
Overhaul Base Loss Scenario - State Tax Revenue Change, 2000-2010
Difference from baseline projection.

	2000	2005	2010
General Sales Tax	-6,746,000	-4,799,000	-4,174,000
Individual Income Tax	-5,622,000	-5,152,000	-5,056,000
Corporate Income Tax	-893,300	-702,400	-652,800

Source: ES-202. Missouri Department of Economic Development and REMI.

Missouri would experience a sharp decline in population by 2010. In 2000, Missouri would lose 1,347 people, with over three-quarters coming from the Kansas City metropolitan area. By 2010, this decline expands to a loss of 6,394 people, again with over three-quarters coming from the Kansas City metropolitan area. Refer to Table 15.

Table 15
Overhaul Base Loss Scenario - Population Change, 2000-2010
Difference from baseline projection.

	2000	2005	2010
Kansas City	-399	-1,618	-2,006
Kansas City Metro	-693	-2,878	-3,315
St. Louis	-13	-51	-57
St. Louis Metro	-79	-299	-320
MISSOURI	**-1,347**	**-5,490**	**-6,394**

Source: ES-202, Missouri Department of Economic Development and REMI.

Map 6
Administrative and Corporate Loss Scenario - Employment by Region, 2000-2010

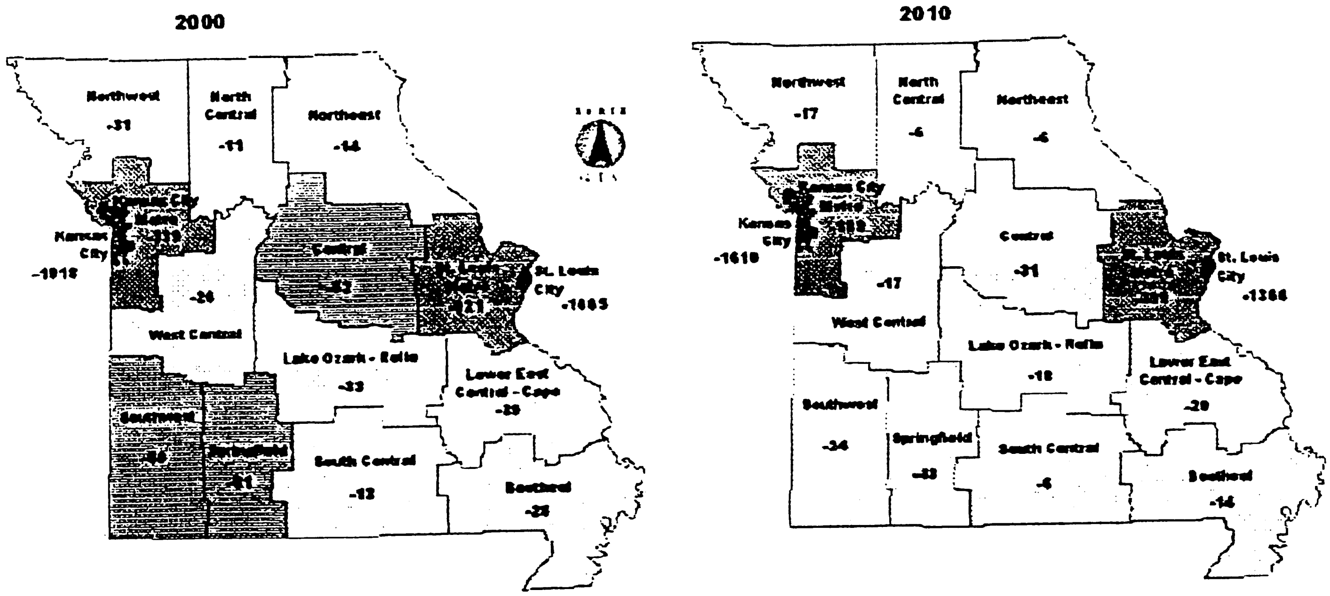

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Table 18
Administrative and Corporate Loss Scenario - Employment Change by Sector, 2000-2010
Difference from baseline projection.

SECTOR	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Agric, Forestry, Fishing	-27	-25	-23	-21	-19	-18	-17	-16	-16	-16	-16
Construction	-395	-355	-311	-265	-225	-192	-165	-147	-134	-124	-117
FIRE	-257	-243	-223	-204	-188	-175	-164	-156	-150	-146	-144
Government	-57	-124	-162	-192	-215	-231	-244	-253	-261	-267	-271
Manufacturing	-185	-137	-90	-51	-20	3	17	25	27	27	24
Mining	-7	-7	-6	-5	-5	-4	-4	-3	-3	-3	-3
Retail Trade	-753	-709	-656	-603	-556	-517	-485	-469	-461	-458	-457
Wholesale Trade	-200	-183	-164	-145	-128	-113	-101	-94	-90	-87	-86
Services	-1,025	-945	-853	-774	-708	-657	-622	-604	-593	-591	-594
Transport, Comm, PU	-2,318	-2,298	-2,278	-2,259	-2,242	-2,229	-2,218	-2,211	-2,207	-2,204	-2,202
TOTAL	**-5,223**	**-5,025**	**-4,764**	**-4,518**	**-4,305**	**-4,133**	**-4,002**	**-3,929**	**-3,888**	**-3,868**	**-3,865**

Source: ES-202. Missouri Department of Economic Development and REMI.

Table 19
Administrative and Corporate Loss Scenario - Wage Change by Sector, 2000-2010
In millions of nominal dollars.
Difference from baseline projection.

SECTOR	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Agric, Forestry, Fishing	-0.13	-0.13	-0.12	-0.11	-0.10	-0.10	-0.09	-0.08	-0.08	-0.07	-0.07
Construction	-4.87	-4.29	-3.74	-3.13	-2.55	-2.01	-1.53	-1.14	-0.81	-0.52	-0.29
FIRE	-2.36	-2.43	-2.50	-2.53	-2.54	-2.52	-2.48	-2.43	-2.39	-2.35	-2.31
Durable Manufacture	-2.14	-2.00	-1.67	-1.27	-0.87	-0.48	-0.12	0.18	0.44	0.67	0.86
Non-Durable Manufacture	-0.91	-1.08	-1.16	-1.16	-1.12	-1.04	-0.94	-0.83	-0.70	-0.58	-0.45
Mining	-0.06	-0.06	-0.05	-0.04	-0.04	-0.03	-0.02	-0.02	-0.01	-0.01	0.00
Retail Trade	-4.38	-4.56	-4.59	-4.52	-4.40	-4.24	-4.06	-3.92	-3.83	-3.74	-3.67
Wholesale Trade	-1.99	-2.13	-2.21	-2.23	-2.20	-2.14	-2.06	-1.99	-1.93	-1.87	-1.82
Services	-8.99	-10.18	-10.74	-10.97	-11.01	-10.94	-10.76	-10.53	-10.29	-10.03	-9.81
Transport, Comm, PU	-78.67	-78.89	-79.07	-79.18	-79.25	-79.28	-79.27	-79.27	-79.24	-79.21	-79.17
TOTAL	**-104.50**	**-105.70**	**-105.90**	**-105.10**	**-104.10**	**-102.80**	**-101.30**	**-100.00**	**-98.86**	**-97.72**	**-96.72**

Source: ES-202. Missouri Department of Economic Development and REMI.

VI. Summary and Implications

The **total loss impact scenario** assumes the closure of all TWA facilities in Missouri, resulting in the loss of all TWA jobs in the state - a loss of 12,430 jobs and $604.4 million wages. It appears that the loss of all 12,430 TWA jobs in Missouri would result in a total loss of 32,810 jobs and $876 million wages in 2000. By 2010, the state economy regains 10,000 jobs, for a total loss of 22,960 jobs and $744.5 million in wages. As expected, the St. Louis and Kansas City metro regions would experience the largest negative impacts.

As expected, the Transportation, Communications and Public Utilities sector would be most adversely affected by the loss of all TWA employment in Missouri - losing 14,710 jobs and $620.8 million wages in 2000, with only small recovery in 2010. Interestingly, the Manufacturing sector experiences a loss of 1,072 jobs in 2000. However, by 2004 the manufacturing sector recovers all of these previously lost jobs; and by 2010 there is an additional 371 manufacturing jobs in the state's economy. Also, wages in durable manufacturing recover by 2006; and by 2010 there is an additional $4.9 million in wages. Further, the Government sector experiences a small loss of employment in 2000, losing 325 jobs. However, by 2010 this expands to a loss of 1,427 jobs.

The **overhaul base loss impact scenario** assumes the closure of TWA's overhaul base facilities in Kansas City (MO), resulting in a loss of 2,661 jobs and $132.4 million wages in the state. It appears that the loss of 2,661 TWA overhaul base jobs in Kansas City would result in a total loss of 6,862 jobs and $171.5 million wages statewide in 2000. By 2010, the state economy regains some of these jobs, for a total loss of 5,282 jobs and $167.1 million in wages. As expected, the Kansas City region would experience the largest negative impacts.

As expected, the Transportation, Communications and Public Utilities sector would be most adversely affected by the loss of TWA's overhaul base in Kansas City - losing 3,173 jobs and $135 million wages in 2000, with almost no recovery by 2010. Interestingly, the Government sector experiences only a small loss of employment in 2000, losing 75 jobs. However, by 2010 the Government sector is expected to lose over 362 jobs - indicating that this sector does not recover over time. Also, wages in durable manufacturing increase over the baseline by 2010.

The **administrative and corporate loss impact scenario** assumes the closure of TWA's administrative and corporate facilities in Kansas City (loss of 985 jobs and $41 million wages) and St. Louis (loss of 962 jobs and $36 million wages), which would result in the loss of 1,947 jobs and $77.1 million wages in the state. It appears that the loss of all 1,947 TWA administrative jobs in Kansas City and St. Louis would result in the loss of 5,223 jobs and $104.5 million in wages statewide in 2000. By 2010, the state economy regains some of these jobs, for a total loss of 3,865 jobs and $96.7 million in wages. As expected, the Kansas City and St. Louis regions would experience the largest negative impacts.

LRS-0101-1

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APPENDIX GGG

"Incentives Prompt Datacore to Leave KC for Westwood"
The Kansas City Star
October 28, 2003

1ST STORY of Level 1 printed in FULL format.

The Kansas City Star

October 28, 2003 Tuesday

LENGTH: 527 words

HEADLINE: Incentives prompt Datacore to leave KC for Westwood

BYLINE: By KEVIN COLLISON; The Kansas City Star

BODY:

Datacore Marketing Inc.is relocating from downtown Kansas City to Westwood, citing economic development incentives from Kansas as a key factor in its decision.

"It was the only financially responsible decision for me to make," said Jeff Yowell, Datacore's president. "When I went into this, my desire was to stay downtown. I want downtown to prosper, but once I got into it, it was a no-brainer decision."

The move indicates that economic development border skirmishing is continuing along the state line. Two years ago, Kansas provided several million dollars in incentives to lure Midland Loan Servicesfrom downtown to Overland Park. Kansas City has been trying to pull Waddell & Reedfrom Overland Park to downtown. Tax preparation company H&R Block Inc.is weighing Missouri and Kansas options in its search for a new headquarters location.

Kansas development officials said Monday they don't focus on companies on the Missouri side of the state line.

"We have not marketed in the Kansas City area," said Steve Kelly, director of business development for the Kansas Department of Commerce and Housing. "We don't target companies or make calls. We respond to companies or their representatives."

Datacore, which is at 934 Wyandotte St., plans to move its 80 employees to the Westwood Plaza building, 1900 W. 47th Place, before the end of the year. It will occupy 20,000 square feet on the second floor with another 2,700 square feet for mailroom and storage on the first floor.

The fast-growing company provides data-based marketing services to such big companies as Bayer Corp., Eli Lilly & Co., Hill's Pet Nutritionand Michelin. The Greater Kansas City Chamber of Commercehonored it with the 2003 Small Business of the Year award. Founded in 1992, Datacore has grown from 27 employees and $3 million in revenue in 1997 to 80 employees and $13 million in annual revenue today.

"Westwood will allow us to grow to 130 employees," Yowell said.

Neither Yowell or Kelly would discuss specifics about the incentives offered. But as a new company to Kansas, Kelly said Datacore would be eligible for money to train employees; tax credits for creating new jobs and capital investment; enterprise zone tax credits; and possible incentives for providing jobs that pay above-average wages.

Yowell said incentives offered by the city were not competitive with Kansas. Officials at the Economic Development Corp.of Kansas City were unavailable for comment.

Earlier this year, the EDC played a major role in persuading state lawmakers to approve the Missouri Downtown Economic Stimulus Act. The legislation allowed the state to offer sales and income tax incentives for new downtown development but is less effective as a tool to retain existing employers.

The landlord of the building in Westwood, Midwest Transplant Network, was represented by Ashlie Dillard of Acacia Commercial Real Estate. Datacore was represented by Greg Swetnam of Kessinger/Hunter & Co.

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