

KENTUCKY'S FUTURE ECONOMIC GROWTH POLICY: A LEGISLATIVE PERSPECTIVE

Honorable John A. "Eck" Rose

I am pleased to speak to you today on the subject of Kentucky's economic development policy. Of course, as a legislator and Senate President Pro Tem, my emphasis will be on the role of the General Assembly to set policy through legislation and general fund appropriations.

For years Kentucky's economic development agenda has been perceived as the function of the state's executive branch and the role of the General Assembly was considered perfunctory. While gubernatorial leadership is a requirement for strong economic development policy, we can no longer afford to have disruption and disintegration of programs each four years. Too often we have well-meaning appointees of the Governor come to Frankfort, with new faces and new buzz words, with new promises and new priorities. Too often have these new administrators tossed aside the positive accomplishments of their predecessors in a genuine, but uneven, effort to revamp the Commonwealth's business climate.



The legislative branch of government must and will provide the continuity and the strategic foresight to bring economic development and jobs to the Commonwealth, not just influencing policy directions for two or four years, but laying a framework for the generation ahead. Each member of the General Assembly is more knowledgeable of the economic forces here, nationally and internationally. Furthermore, we are more cognizant of the growing need for an active partnership among the legislature, executive agencies, and private sector to design and develop programs and government responses to

our society's growing list of problems and opportunities, such as how to achieve sustained economic growth while guarding our environment and heritage.

How do we do this? Where do we go from here? In response to these questions, I want to briefly discuss three issues of concern to me and the legislature.

Senator John A. "Eck" Rose was first elected President Pro Tem of the Kentucky State Senate in 1987 and was re-elected in January 1989. He also served as assistant president pro tem and chaired the Senate Transportation Committee. Senator Rose is a member of two standing committees: State Government and Transportation. He has served on numerous special and statutory panels, and has worked to help reform the state's education system.

Senator Rose, an auctioneer, holds a BS degree in mathematics from Eastern Kentucky University.

First, as I have already mentioned, is the need for long-range planning and policy direction; such issues as the six-year road plan come to mind here.

Second, is the need for a sound infrastructure, specifically a transportation system. Kentucky is within a day's drive of most of the nation's population. Approximately 20 percent of every business dollar goes to transportation, and distribution of products is critical to our business sector.

Third, such policies need to be responsive to the economic diversity of Kentucky. Each region of Kentucky has different potential and needs. Metropolitan versus rural character, recreational, as well as industrial manufacturing capacities, rivers, lakes, mining, and agriculture, all play a part in planning economic strategies.

Responsiveness by the Legislature also means an awareness of the rich, natural beauty and character of our geography and culture, which has netted us a \$4.2-billion tourism industry, contributing 117,000 jobs. With 15 resort parks, 20 state recreation parks and shrines, and a budget of \$51 million, the financial struggle of keeping our title as "the nation's finest" park system is always a concern of the Legislature and of equal concern to the growing private tourism business in Kentucky that is dependent on maintaining a good state tourism and state parks program.

Concerning the legislative role in planning continuity of policy, an important first step was the establishment of the Economic Development and Tourism Committee in the Senate and House of Representatives in the 1989 Organizational Sessions. These committees have offered your state legislature an excellent educational opportunity through studies, and statewide meetings, as well as through economic development and international marketing conferences offered last year and later on this month. To understand the economic potential of Kentucky one must know a great deal about our state's history, geography, sociology and diversity.

Kentucky's economy continues to move in ways that roughly parallel national economic trends. Personal per capita income in Kentucky continues to lag behind the U.S. figures. In 1988, Kentucky's personal per capita income was \$12,822, which is 77.8 percent of the U.S. figure of \$16,489. According to the University of Kentucky Center for Business and Economic Research, *Kentucky 1989 Annual Economic Report*, "Total employment grew by 18.9 percent in Kentucky compared to 17.6 percent in the U.S. Kentucky's growth was driven by manufacturing, where employment grew by 13.1 percent compared to only 6.0 percent in the nation. Moreover, employment in other goods-producing industries (mining and construction) grew faster (or declined more slowly, in the case of mining) than the nation. In the services-producing industries, Kentucky's employment growth exceeded the nation's in retail trade, services, transportation, communications and utilities, and state and local government. It lagged in wholesale trade, finance, insurance, and real estate, and federal government."

This dependency on manufacturing, which employs 20 percent of Kentucky's payroll workers, coupled with a higher percentage of the workforce in mining and agriculture, makes our state's economy vulnerable to future recessions. Past experience has proven that state

economic policies must strive to achieve economic diversity by attracting industries that are the least susceptible to erratic changes in the nation's economy.

The U.S. Department of Commerce identified 12 manufacturing industries that had and are expected to experience a decline. In 1988, fifty-three percent of Kentucky's manufacturing workers were employed in these declining industries. The 19 counties considered part of metropolitan areas tend to be more affluent than more rural counties because of the current manufacturing growth, specifically due to automotive-related industries. It was with an understanding of the volatility of some industrial sectors and an eye toward future generation's employment and quality of life, that the 1990 General Assembly took its boldest action ever.

The Kentucky Legislature attempted to redirect the economic courses of this Commonwealth by passing the Omnibus Education Reform Act, HB 940. Along with education reform, HB 814 reorganized existing adult training programs under a new Cabinet for Workforce Development. Both efforts are intended to provide a workforce that can function in the economies of the future--economies that will require skilled workers capable of understanding and implementing quickly and competently technological advancements.

The second issue I mentioned is the vital role of a sound transportation infrastructure to the state's economic well-being. Whether by rail, water, air, or highway, transportation of products and natural resources into, through, and out of Kentucky, remains basic to our productivity. The recently announced \$315 million expansion of Delta Air Lines at the Greater Cincinnati International Airport in Northern Kentucky is an excellent example of the relationship between transportation systems and economic development. This expansion alone will create 2,800 jobs and bring \$242 million a year to the Northern Kentucky-Cincinnati area.

Other projects equally important to our economic diversity and independence are the facilities of UPS at Standiford Field in Louisville and the proposed United Air Lines expansion at Standiford, which hopefully would create 5,000 to 7,500 new jobs, should it come to Louisville. Add to this, improvements to Blue Grass Airport and the new airport in Georgetown.

With this in mind, the 1990 General Assembly authorized the use of economic development bonds for airport construction and renovation and gave the Kentucky Development Finance Authority permission to finance certain airport projects. The General Assembly also recognizes the importance of a safe, well-constructed and maintained highway transportation system. I, as other members of the legislature, recognize the need for funding to expand and maintain our roads, highways, and substandard bridges. However, a sound highway plan must be grounded on a meaningful prediction of activities to be undertaken and costs to be incurred.

House Bill 929 of the 1990 Regular Session brought a higher level of accountability to highway projects by matching total dollar expenditures with planned projects and requiring specific detailed information on each construction project. Additionally, HJR 185 established a highway preconstruction plan for FY 1993-1996 that requires the Transportation

Cabinet to seek information from local governments and area development districts related to road and highway project needs.

The shortage of revenues and increasing demand for accountability have placed the Kentucky Legislature in a position to oversee transportation projects as well as other economic development initiatives funded by the state Legislature and implemented by the executive branch. This oversight role, which was regained in the 1980s and reconfirmed by the Court in *LRC v. Brown*, is the Legislature's constitutional responsibility. It is a role we intend never again to relinquish.

My third point relates to state economic development policies, which recognize regional diversity and opportunities. National and state experts have pointed out the need for local level initiatives in any successful economic development effort. While state government can provide limited funds and model plans, only local leadership can create and implement a viable structure in which a regional economic strategy can be developed and can succeed.

The 1990 General Assembly, aware of the need for local and regional response, established the East Kentucky Economic Development Job Creation Corporation with the authority to issue bonds and make loans and grants in the Appalachian Region. Also, SB 218 established the Kentucky Coal Authority to protect and expand markets for Kentucky coal. Both of these initiatives were designed to facilitate the development of a regional economic response unique to Eastern Kentucky.

The Legislature also has been responsive to the regional needs in Western Kentucky. In 1990, SB 275 created a process to fund industrial improvement projects such as General Tire, Inc. in Graves County, and SCR 92 directed and requested appropriations to the Transportation Cabinet to improve highway and rail access to the Paducah Gaseous Diffusion Uranium Enrichment Plant. Here we have designed legislation to retain jobs and stem possible job losses due to industrial relocations outside the region. These are just some examples of the policy issues we deal with, not just during the 60 days of the regular legislative session, but throughout the interim in meetings of various joint House and Senate Committees.

Let me touch briefly on what I believe must be considered in any future state economic development policy. First, future state financial incentives should promote sectorial and regional economic diversification. Second, any such policy must facilitate the maintenance and growth of existing businesses and industries. Third, state policies should encourage and support new ventures as well as the development of new technologies and products by Kentucky businesses and industries. Fourth, the state's economic development policies must promote value-added production of Kentucky agricultural and timber resources. And finally, the educational policies of the state must serve the needs of modern industries and businesses.

In summary, it has generally been felt that our state economic development policies were whatever the Governor said they were. This is no longer the situation. An outcome of the growth of legislative independence during the 1980s is the emergence of the state Legislature as the promulgator of state program policies. This is especially so in the area of state

economic development policies. The state Legislature has now reclaimed its rightful constitutional responsibilities and duties. At the same time, we recognize the role of the Governor to advise the General Assembly on these matters.

As Americans and Kentuckians, we face difficult decisions ahead. National economists and the news media are predicting a deep recession. All too often Kentucky finds itself blowing in the winds of a national chilly economic climate. Through a strong partnership between the Governor, Legislature, the private sector, and local leaders, we have the ability to mitigate these negative economic consequences. We welcome your participation in the decision-making process, and believe that strategic planning, education, continued training of skilled workers, diversity of industries, and a solid infrastructure will lead us to our desired goal of economic well-being.