

**2010**  
**Topeka/Shawnee Co.**  
**Small Business**  
**Trends and**  
**Conditions**

**Topeka Independent**  
**Business Association**

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## INTRODUCTION

This report is a project of a special sub-committee of the Public Issues Committee of the Topeka Independent Business Association. TIBA has worked to identify Shawnee County's strengths and weaknesses in keeping and attracting business in Topeka, and report on them accurately.

Topeka and Shawnee County are highly co-dependent. Whatever harms Topeka harms Shawnee County and vice-versa. However it happens, government officials in Topeka and Shawnee County must cooperate fully if we are to grow and prosper.

Investment of private money is the most important factor for growth and development. Private money investments drive both the growth of private wealth and tax revenues. When someone wants to invest private money in Shawnee County, we must make sure that there are minimal barriers and that the investors know how much we value and appreciate them.

Every new fence, every new residence, every new anything built in Shawnee County helps all of us. Those things that are built with private dollars are the most important of all, because they stimulate the economy the most and provide the most tax revenues.

City officials estimate that 40% or more of all sales taxes collected by the city are paid by those living outside the city limits. Without residents who live outside the city limits buying in Topeka, city sales tax collections would plummet.

Anytime someone wants to add value to property through construction or re-construction in our community, especially with private money, we should be thankful and supportive, because they are the key to our growth. Conflicts between various entities in Shawnee County and the failure to work together cooperatively may be the single greatest impediment to our growth.

## CHAPTER 2: STRENGTHS AND WEAKNESSES

### Strengths

Topeka is attractive for businesses:

- Low cost of living to attract and keep employees.
- Excellent highway/street system around and throughout the city.
- Excellent location and connectivity outside the city.
- School districts producing quality entry-level employees.
- Local and area colleges and universities producing high-level graduates.
- Affordable land available for development.
- Workforce has good work ethic, is well trained and available.
- A model Small Business Development Center program.
- A heavily funded economic development program working to attract new employers.

Topeka is an attractive place for people to live:

- Low cost of living.
- Low costs of quality housing.
- Attractive housing developments in all price ranges.
- Wide variety of local and national retailers and restaurants.
- Excellent medical and health infrastructure.
- Quality parks and recreation areas throughout the city and county.
- Excellent arts and cultural offerings.
- Law enforcement has made great strides in minimizing crime.

### Weaknesses

- Of Kansas cities, Topeka is one of the highest in taxes on business.
- Kansas taxes on business are higher than surrounding states.
- Lack of development along older business corridors, such as 6<sup>th</sup> Street.
- Commercial real estate values and development held down by slow population growth.
- High city debt will be a long-term drag on the local economy.
- Real estate development held down by high development fees and costs compared to other Kansas cities.
- Economic burdens caused by unnecessary rivalries between city and county.
- Slow development in downtown Topeka.
- Lack of promotion of the community's image of a positive future.

### Strengths & Weaknesses, Part II

In mid-2008, a survey was sent to 1337 members of the Greater Topeka Chamber. The three-question survey was completed by 238 members. The following are breakdowns of the number of times various items were mentioned by respondents.

Question 1: What are the strengths of Topeka/Shawnee County as a place to do business?

- Low cost of living – 44 mentions

- Location (includes state capital, roads) –40 mentions
- Low cost of doing business – 15 mentions
- Stable economy – 15 mentions
- K-12 education – 8 mentions
- Washburn University – 5 mentions
- Few or no strengths – 4 mentions
- Low crime – 1 mention

Question 2: What are the weaknesses of Topeka/Shawnee County as a place to do business?

- City/County government – 62 mentions
- High taxes – 39 mentions
- Not business friendly – 22 mentions
- Downtown – 8 mentions
- Infrastructure – 7 mentions
- Streets – 6 mentions
- Crime – 2 mentions
- Riverfront – 1 mention
- Downtown parking – 1 mention

Question 3: What is your company's primary challenge for growth in Topeka/Shawnee County?

- Lack of population growth – 43 mentions
- Employee issues – 33 mentions
- Taxes – 3 mentions

### CHAPTER 3: GROWTH

Neither Topeka nor Shawnee County has experienced the growth that similar communities have enjoyed in the past 30 years. From 1970 to 2000, the U.S. population grew 39.8%, Kansas grew 19.7%, Shawnee County grew 9.4%, and Topeka shrank by 2.0%.

Census estimates since 2000 have not been very encouraging, either. From July 1, 2000 to July 1, 2008, the U.S. grew 8.04%, Kansas grew 4.23%, Shawnee County grew 2.74%, and Topeka grew .02%<sup>1</sup>.

July 1 Estimate	City of Topeka	City sq mi	Shawnee County	Outside City
1960	119484	36.4	141286	21802
1970	125011	47.4	155322	30311
1980	118690	49.5	154916	36226
1990	119883	57	160976	41093
2000	123427	61	170049	47494
2001	123108		170310	47303
2002	122547		170285	47852
2003	122442		170662	48341
2004	121844		171079	49368
2005	121790		171454	49807
2006	122095		172206	50269
2007	122565		173247	50834
2008	123446		174709	51263

<b>Topeka Area Jobs<sup>2</sup></b>	Total Private Jobs (in 1000s)	Total Gov't Jobs (in 1000s)	Total Nonfarm Jobs (in 1000s)
Jan-99	83.3	26.6	109.9
Jan-00	84.7	26.8	111.5
Jan-01	86.4	26.9	113.3
Jan-02	86.4	27.3	113.7
Jan-03	84.9	27.6	112.5
Jan-04	82.8	27.2	110.0
Jan-05	80.3	28.3	108.6
Jan-06	79.9	27.3	107.2
Jan-07	78.9	27.7	106.6
Jan-08	81.1	27.8	108.9
Jan-09	81.6	28.7	110.3

<sup>1</sup> U.S. Census Bureau website, [www.census.gov](http://www.census.gov).

<sup>2</sup> U.S. Bureau of Labor Statistics, <http://data.bls.gov>

When one considers that some of Topeka's population growth has come at the expense of the county as county areas were annexed into the city, the conclusion is that all population growth in Shawnee County has occurred outside Topeka while Topeka has continued to shrink in population.

Furthermore, the city has statistics that show that many people moving out of older, established Topeka neighborhoods are moving outside the city limits to areas in rural Shawnee County or to surrounding counties. By doing so, they avoid Topeka's high taxes and building codes bureaucracy. Many prefer to access the excellent public school districts which surround the city.

The future is not promising for population growth within the Topeka city limits. The argument can be made that Topeka would be better off planning and working toward jobs growth while nurturing population growth in the rural parts of the county or even in surrounding counties. When planning, we should not rely on population growth to make the projects feasible.

One way to achieve local area growth would be to figure out how to encourage more of the people who work in Topeka to live here or near here. In 2003, 17,723 people commuted into Shawnee County each day from other counties, while only 5,614 commuted out<sup>3</sup>. In other words, 20% of our work force commutes in but only 6% commutes out. This trend has continued for thirty years or more. Looking at Shawnee, Jackson, Jefferson, Osage, and Wabaunsee Counties, Shawnee County out-commuters have stayed relatively steady, from 4,749 in 1970 to 5,235 in 2000. In-commuters have grown from 6,005 in 1970 to 17,198 in 2000.<sup>4</sup>

Of the five metro counties in Kansas, four exhibit strong historic patterns of out-commuting, while one, Shawnee County, is driven by in-migration. Trends over the last 30 years have remained consistent, indicating the likelihood that they will continue.<sup>5</sup>

According to U.S. Bureau of Labor statistics, Shawnee County had 4,570 private business establishments in 2000. By 2005, that number was 4,537.<sup>6</sup>

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<sup>3</sup> 2003 Kansas Department of Human Resources, 2000 U.S. Census (chart provided by Topeka Chamber).

<sup>4</sup> U.S. Census Bureau.

<sup>5</sup> "Creating Excellence in Economic Development": A Comprehensive Economic Development Strategy for Topeka and Shawnee County, Kansas", Competitive Strategies Group, 2007, page 59.

<sup>6</sup> Op. Cit., page 83.

Industry employment composition of Topeka differs notably from the nation, state, and other comparable metros. Two sectors are in greater relative proportion: Government and Health Services. Lesser relative proportions can be found in manufacturing, professional and business services, and leisure and hospitality sectors.<sup>7</sup>

*Recommendation: Topeka and Shawnee County should concentrate on nurturing and developing a more diverse range of businesses, both small and large. A diverse economic base provides more stability during economic swings.*

In the past 50 years, Topeka has devoted huge amounts of public money to fund a number of admirable projects, each of which we hoped would lead to growth. Some of these are the Forbes Field Air Terminal, the Topeka Performing Arts Center, the Shawnee County ExpoCentre, the USD 501 Sports Complex, and Heartland Park. Statistics demonstrate that none of these have produced population growth.

*Recommendation: Topeka and Shawnee County should concentrate on improving our current parks, public facilities and infrastructure instead of continuing to fund new public projects under the assumption "if you build it, they will come".*

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<sup>7</sup> Op. Cit., page 59.

## CHAPTER 4: TOPEKA TAXES

Along with lack of growth, businesses mention Topeka's high taxes as a problem more than anything else. The costs of taxes are of major concern to business because:

- They are not controllable expenses.
- Taxes add to the cost of doing business.
- Taxes play a role in the competitive situation of a business.
- Equity capital for smaller businesses comes mainly from profits. More taxes means less growth capital and less growth.

Topeka utilizes many types of taxes, and for most of them, our tax rates are among the highest in the state. High taxes make Topeka businesses less competitive and prevent the growth of equity capital for privately-owned businesses.

### Property Taxes – Countywide Averages 2007<sup>8</sup>

Property tax information on Kansas counties with populations of 50,000 or more:

Kansas City	Wyandotte	155.48
Hutchinson	Reno	144.55
<b>Topeka</b>	<b>Shawnee</b>	<b>135.51</b>
El Dorado	Butler	135.13
Wichita	Sedgwick	118.49
Lawrence	Douglas	113.98
Leavenworth	Leavenworth	113.48
Multiple Cities	Johnson	110.62
Salina	Saline	106.53
Manhattan	Riley	103.65

Even without mill levy increases, property tax revenues to the city have increased significantly every year because of valuation increases. Additional dollars are made available to all taxing authorities as appraised property increases in value or additional property is added.

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<sup>8</sup> Kansas Department of Revenue, 2008 Annual Report, page 73.

**Sales Taxes – Rates as Of October 1, 2009<sup>9</sup>**

<b>Topeka</b>	<b>7.950%</b>
Lawrence	7.850%
Emporia	7.800%
Overland Park	7.650%
Kansas City	7.550%
Manhattan	7.550%
Hays	7.550%
Junction City	7.550%
Wichita	7.300%
Leavenworth	7.300%
Pittsburg	7.300%
Newton	7.300%
Salina	7.200%

See Appendix "C" for a comparison of local Franchise Fees with other cities.

See Appendix "D" for a list of other taxes and fees charged in Topeka but not in the county.

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<sup>9</sup> Kansas Department of Revenue

## CHAPTER 5: ECONOMIC DEVELOPMENT STRATEGY

Topeka and Shawnee County are highly co-dependent. Whatever benefits Topeka benefits Shawnee County and vice versa. To quote a 2007 study<sup>10</sup> published by the Topeka Chamber, "Topeka should be considered the living room for Shawnee County. Potential business investors use Topeka as the gateway to Shawnee County and the surrounding area."

### Who Creates Job Growth?

The following is from a compilation of 15 years of Kansas data (1990-2004) by the Center for Applied Economics of the KU School of Business. These statistics are not unique to Kansas. They are replicated nationwide.

#### NEW JOBS CREATED:

New jobs from Firm Births	1,171,133	57.03%
New jobs from Expansions	817,159	39.79%
New jobs from Move-Ins	65,186	3.17%

#### NET JOBS GAINED:

Jobs from Firm Births	1,171,133	
Jobs lost – Firm Deaths	-1,135,330	
Net Jobs	35,803	(32.67% of Net Job Increase)
Jobs from Expansions	817,159	
Jobs lost – Contractions	-764,360	
Net jobs	52,799	(48.18% of Net Job Increase)
Jobs from Move-Ins	65,186	
Jobs lost – Move-Outs	-44,197	
Net jobs	20,989	(19.15% pf Net Job Increase)

From these statistics, one can conclude that the smart strategy is to nurture those businesses that are already here rather than concentrating on attracting outside businesses to move here.

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<sup>10</sup> "Creating Excellence in Economic Development": A Comprehensive Economic Development Strategy for Topeka and Shawnee County, Kansas", Competitive Strategies Group, 2007, page 80.

**Key Issue: Headquarters Location**

The highest paying jobs in a company are in the headquarters city or cities. In large companies, that often includes regional or division headquarters.

The leaders of a business are more concerned about the quality of life where they live than where they don't.

Headquarters cities get the lion's share of the company's charitable and other gifts, and the gifts of the most highly paid people in the company. The company and its leaders spend much money near home.

The issue of "primary jobs" disappears when businesses are headquartered here. Businesses located in Topeka and providing "secondary jobs" are just as valuable if their leaders are located here.

High tax issues are far more important to companies that are headquartered here than to those who are not.

If Topeka wants more of the benefits of having headquarters located here, it must nurture all types of businesses and not just the "primary jobs" businesses.

*Recommendation: Topeka and Shawnee County should concentrate on nurturing new start-ups and existing Topeka businesses instead of concentrating almost exclusively on "elephant hunting", the practice of recruiting large outside companies to expand here or move here.*

**Common Sense in Commercial Development Planning**

Developers just want to know what the rules are. The city cannot be "fickle". It must be consistent. Developers dislike lack of certainty.

Delays are a big source of heartburn for developers. A rule of thumb is that it costs a developer about 1% per month for delays. A nine-month delay on a \$10 million development costs them \$900,000.

According to Topeka developers, commercial development in the city does not have many problems. The permit office is fairly business-friendly. However, zoning changes in Topeka have been far less predictable, which can cause big problems for developers.

Disregarding land costs, identical business buildings on the Wanamaker corridor and East Sixth Street will have radically different market values when finished. The Wanamaker building might be worth 125% to 150% of its costs. The East Sixth building might be worth 50% to 75% of its costs.

By buying nearly all of the old state hospital grounds, U.S.D. 501 has cut off virtually all commercial development nearby. The lack of coordination between the city and the school districts, particularly U.S.D. 501, is likely to result in negative population and economic growth.

Efforts to curtail residential development outside the city will also curtail commercial development both inside and outside the city. County residents can't shop in the city if they aren't there.

### **Down-Zoning**

TIBA has received comments regarding areas of the city that have been down-zoned. The intent of down-zoning was to address residential concerns but commercial properties have been negatively affected. TIBA believes there needs to be a review of the down-zoning decisions of commercial properties to determine a more business friendly answer to businesses located in those areas. In many instances the businesses have been a part of those neighborhoods for many years and have provided residents in the area with employment, services and goods. Accommodations need to be made for business development and growth where it is feasible and does not detract from the neighborhoods. The requirement for new zoning with each building expansion of 10% or more adds great expense and red tape, and is preventing businesses from expanding.

The down-zoning of commercial properties is anti-growth in nature. It assumes that development in the older parts of town is inherently detrimental to the quality of life in the neighborhood and adversely affects property values in the area. In reality, the opposite is usually true – development improves quality of life and property values.

## CHAPTER 6: TOPEKA RESIDENTIAL DEVELOPMENT ISSUES

For many years, development occurring outside the city limits was unregulated. More recently there have been steps taken to control growth or even prevent it. Twenty-five years ago, it was possible to build residences in the county as long as there was 60 feet of frontage on a public road. To limit the number of houses that could be built, the law was changed to require 200 feet of frontage on the public road and a minimum 3-acre lot. This did not stop residential development, it just reduced the density of homes and pushed development further out, some of it out of the county. The result is that it will be very expensive to provide city-level services to those areas. Expansion of infrastructure has been haphazard and land use planning has not been in evidence.

Strong residential development usually occurs near new school buildings in rural and suburban areas. When Washburn Rural, Seaman, and Shawnee Heights districts built attractive new schools further out, we failed to develop plans to support residential development around them. Planning decisions not to enhance the roads, water and sewer access have limited development around the outlying schools, retarding growth both inside and outside the city.

It is not too late to take some advantage of those schools. Roads continue to be upgraded in the Washburn Rural and Seaman areas. However, the City continues to stifle development in the school areas by charging three times as much for water as in the city, and by charging exorbitant hookup fees for sanitary sewers, or refusing to build the sewers at all.

The development community has expressed significant concerns regarding housing developments and the inability to find cooperation for residential building in the areas surrounding the city. Those concerns included:

- discord between the city and county.
- many in the City continue to hold out for city-county consolidation, thinking that it will somehow lower their taxes.
- the lack of clear decisions regarding annexation and providing water and sewer service.
-

- the lack of a realistic land-use plan that is flexible enough to accommodate the need for change.
- the need for planning staffs and planning commissions that put high priority on assisting developers instead of stopping or delaying a project.
- decisions by the city council to discourage residential development around the fringe of the city.

### **Common Sense Flexibility in Residential Development Planning**

In the City, when three new grade schools were built, they were built in areas of the city with declining neighborhoods, limiting the opportunity for new residential developments around the schools. The lack of coordination between the city and the school districts is contributing to the City's negative population and economic growth.

A \$125,000 new house in Welton Grove is likely to appreciate in value, while the same house on East 4<sup>th</sup> Street and Golden might cost only \$110,000 because of lower land costs, but would likely have a market value of \$75,000 or less because of the neighborhood, even with a new school nearby.

Developers complain that idealistic and unreasonable requirements are driving up the costs of construction, making some development infeasible. It makes little sense to discourage projects in areas of the city that are less in demand by requiring extensive landscaping and architectural enhancements when the new structure alone will greatly enhance the neighborhood.

Unless the city finds ways to stabilize declining neighborhoods, large areas of the city will continue to deteriorate and thin out as buildings and houses reach the end of their useful lives. It is important that city officials recognize differences in the community and encourage development in distressed areas by allowing flexibility in some development requirements. Instead of forcing idealistically high requirements on projects in distressed areas, the city should allow variances that will encourage projects to be built, thereby increasing the neighborhood's appeal and value.

## CHAPTER 7: DEVELOPMENT OF DOWNTOWNS AND PUBLIC AREAS

In 2006, the United Way of Greater Topeka commissioned a survey entitled “Community Priorities for Topeka and Shawnee County.” They surveyed 1061 Shawnee County households with a separate survey of 303 community leaders.

The community leaders portion is very interesting. Their top choice of the 40 issues that should receive the highest priority over the next three years was downtown redevelopment. It was picked by 31% of the community leaders, while only 18% picked poverty and 16% picked K-12 education.

There is considerable disagreement within the community whether a “vibrant” downtown is an important “business friendly” issue. Obviously it is important to the “community leaders” surveyed in 2006, and to downtown businesses, but how important is it to the community as a whole and to businesses that are remote from downtown?

Downtown Lawrence is most often mentioned as a model of a “vibrant” downtown – busy, pleasant, and inviting, an exciting and fun place to be that is active in the evening, with lots of people living in the area.

*Recommendations: Topeka has wonderful facilities located in widely separate areas of the city. Because they are so widely separated, smaller support businesses such as bars and restaurants have difficulty surviving. If we hope to someday have an entertainment district, we must encourage development in a district rather than plopping a new improvement in the middle of another area, otherwise vacant of similar or supporting activities, just because the city or county already owns the land. This calls for development of a long-range master plan for city officials to follow.*

### **Downtown Topeka South of the River**

It is too late for Topeka's downtown south of the river to become like Lawrence. Current development leaves no places to build a “walking district” within the traditional downtown area. Too many large buildings take up most or all street-level spaces. We are left with a fairly attractive business district that can become highly attractive with a few more improvements.

The busy part of South Topeka's downtown is Kansas Avenue from Fifth or Sixth to Tenth or Eleventh Street and east and west from Kansas on some streets. Good progress has been made and continues to be made in redeveloping that area. Emphasis should be placed on remodeling the remaining inventory of older buildings and renovating their storefronts.

Many citizens describe the plan to redevelop the south riverfront as a "pipe dream". Crane Street is five blocks from the BankAmerica building and nine blocks from the Capitol building. One of the riverfront designs requires the demolition of 56 buildings on the south side of the river including many that contain existing small businesses and others built recently for governmental uses. When the State built a large parking lot for state employees at S.W. Second and Van Buren, the employees would not use it even though a trolley was furnished from the Capitol and the parking was free. Furthermore, there may be serious environmental problems in the area near the south levee.

*Recommendation: The plans for riverfront development on the south side of the river do not appear to enjoy broad community support. Until there is a clear demonstration of broad, long-term public support, including funding issues, neither the city nor the county should expend any resources to develop the south riverfront. Otherwise, all plans for riverfront development on the south side of the river should be abandoned. Instead, resources should be devoted to rebuilding the I-70 viaduct and renovating, remodeling, or removing the remaining deteriorated buildings downtown south of fifth or sixth streets.*

### **North Topeka Downtown**

Unlike South Topeka Downtown, North Topeka Downtown has huge potential to become a "Lawrence-like" walking district. Starting north from the railroad tracks on Kansas Avenue, the existing storefronts are of the right size to lend themselves to small restaurants, bars, retail, and art studios. Convenient ground-level parking could be constructed east and west of Kansas Avenue behind the businesses.

### **North Topeka Riverfront**

A large amount of money from the Topeka Convention and Visitor's Bureau revenues has been dedicated by the Topeka City Council to the North Topeka Riverfront projects.

With the railroad museum and its grounds, North Topeka has a big jump on riverfront development. The river is much closer to downtown than in South Topeka. There are only about ten buildings that need to be acquired and razed to complete the park areas. A traffic fly-off has already been constructed from the Kansas Avenue bridge to the railroad museum area. Biking trails could be constructed on top of the river dike and at the base of it and connected to other planned biking trails in North Topeka. It would be possible to construct a weir in the river to create a "river pond".

To connect the north riverfront area to a redeveloped north downtown, a bridge may need to be constructed over the railroad tracks. Industrial buildings on Kansas Avenue near the tracks would need to be remodeled or razed.

*Recommendation: Funding and efforts to establish a riverfront park in the downtown areas should first concentrate on the North Topeka Riverfront.*

### **Funding for North Topeka Downtown**

The Riverfront Authority, which has no North Topeka residents as members, is asking the City to give them thirty parcels of land along the river so they can lease sand and gravel mining rights and use the proceeds to hire a staff. This is in spite of the fact that the Riverfront Authority's statutory lifetime will expire soon, and it has no funding to continue with the actual project.

*Recommendation: The City should give those parcels to a new North Topeka Development Authority populated mostly with North Topeka residents and let them use the money to hire a staff to accomplish North Topeka business district and riverfront projects. As an alternative, the City should give the parcels to a new Parks Projects Authority to develop other parks.*

### **Alternatives to Riverfront Parks Projects**

Topeka already has a number of parks that should not be ignored before large expenditures are made on riverfront parks remote from where people live.

Gage Park is a wonderful asset, and it is about to get better. The new Children's Discovery Center will be open in 2010 and at least one new project will be complete at the zoo. Blaisdell Pool was upgraded and rebuilt recently, a "bark park" was established, the rose gardens are an established attraction as is the Gage Park train.

Within the park, walking and biking trails are needed to connect the attractions and provide safe off-road travel. Trails will be needed to connect the park with other community trails already planned.

Shunga Park is another great community asset with many attractions that needs to be put in first-class condition. It is already connected to the planned trails system.

There are several other major parks that serve portions of the community. Those, too, could be brought up-to-date.

## 8. SMALL BUSINESS ISSUES

Perhaps the best basic economic development strategy for small businesses is to hold small business taxes down, limit red tape, and leave them alone.

Local small business startups are extremely important. Most large businesses were small businesses at one time. Of the 25 largest U.S. companies in 1998, 19 were either small businesses or did not exist in 1960<sup>11</sup>. Topeka's best chance to have another Fortune 500 company headquartered here is for us to grow our own.

### **Economic Development Efforts For Small Business In Topeka**

The huge majority of small business risk capital comes from personal savings and retained profits. Economic development incentives provide very little capital for small businesses in Topeka.

Few incentives are even available to small businesses. Even where they exist, the process is often so complicated that few small business owners will devote the time to access them.

GO Topeka funding and incentives are available only for primary jobs such as manufacturing, distribution, or home office jobs. Even though small businesses provide some of these types of jobs, it is rare for them to access GO Topeka funding.

As was shown in Chapter Five, 97% of new jobs in Kansas come from new firms "born" here and expansions of existing firms. Only 3% come from "elephant hunting", the practice of recruiting large outside companies to expand here or move here. Nonetheless, GO Topeka expends a huge amount of its talent and resources hunting elephants.

Nationally, since 1970, 75% of net new jobs have come from small and medium-sized enterprises (SMEs). In difficult economic times, it is not unusual for more than 100% of net new jobs to come from SMEs. This happens when small businesses are expanding employment while larger businesses are reducing their workforces.

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<sup>11</sup> "Creators of Our Prosperity", U.S. News and World Report, June 8, 1998, Page 64.

In Topeka, the incentives most available to small businesses are the property tax abatements for new facilities under the Neighborhood Revitalization Act (NRA). For new facilities constructed in an NRA area, 95% of the increase in property taxes from those properties can be abated for up to ten years. This incentive is perhaps the only way many projects in declining areas of Topeka are economically feasible.

Tax Increment Financing (TIFs) and Community Investment Districts (CIDs) are two development tools that might be used by more Topeka small businesses. So far only two TIFs have been established. CIDs were only enabled by the Kansas Legislature last year, and none have been established as yet in Topeka.

*Recommendation: The city should put priority on educating small business owners on the use of NRAs, TIFs, and CIDs.*

A very small amount of GO Topeka funding goes to help minority and start-up businesses, a commendable effort which will take considerable time to pay off.

*Recommendation: Find a way to offer economic development incentives to a wider range of existing and expanding small businesses, not just those offering "primary" jobs. Perhaps a portion of GO Topeka's \$5,000,000 of sales tax money, say \$1,000,000 per year, should be devoted to expansions of existing small businesses which offer jobs other than "primary" jobs.*

### **Health Insurance and Health Care Costs**

Nationally, according to numerous surveys, health insurance costs and the availability of health insurance are the top problems for small business owners. It has been that way for at least 25 years, and it is getting worse.

The word insurance is vitally important. Most big businesses and unions are self-insured, a very important distinction.

They do not pay premiums taxes to the state, which the insurance companies are required to pay, and which are passed on to those of us who are not self-insured.

They do not have to comply with the mandated coverages that state legislatures require be included in health insurance policies. Kansas has 41 such mandates. The costs of those mandates are passed on to those of us who are not self-insured.

They do not have to pay their share of the Kansas high-risk pool, which insures people who can't obtain coverage direct from the insurance companies. The \$25 million annual cost of the high-risk pool is passed on to those of us who are not self-insured.

They do not pay their share for bankrupt health insurance companies. If a health insurer goes bankrupt, and it has insureds in Kansas, the insureds are made whole by assessments on the remaining Kansas insurance companies. The costs of those assessments are passed on to those of us who are not self-insured.

In addition to the self-insured, there are many others that do not contribute to all the fees and taxes that insureds have to pay. The 90,000 Kansans covered by the State Employee Health Plan do not pay, nor does the State pay for them. The 300,000 Kansans covered under Medicaid do not pay these charges, nor does the state pay for them.

Big self-insured groups have another big advantage, and that is that they can negotiate their prices with health care providers. NFIB estimates that provides a 14% to 18% advantage in costs over small groups .

### **Lack of Competition**

In Topeka, there is very little meaningful competition between the health insurance providers. There are really only a few powerful insurance companies – Blue Cross Blue Shield of Kansas, United Health Care, Coventry Health Care, and Preferred Health Systems. Coventry has reportedly made a deal to purchase Preferred Health Systems, and is working to gain regulatory approval. That would leave only three big carriers.

In Topeka, Blue Cross Blue Shield dominates the market. Stormont-Vail Hospital accepts Blue Cross and Preferred but not Coventry or United. It remains to be seen whether Stormont-Vail will accept Coventry if its acquisition of Preferred goes through.

The biggest physician group in Topeka, Cotton-O'Neil, is owned by Stormont-Vail, and does not accept Coventry or United.

St. Francis accepts all four of the big insurers.

### **Other Health Care and Health Insurance Factors**

Topeka has an advantage in the areas of health insurance costs, health care costs and a low number of uninsured. We need more competition. Blue Cross Blue Shield is very weak on furnishing insurance to individuals and groups of ten or less. Blue Cross does not use insurance agents for groups of fewer than 25, and those agents are few.

The federal and state governments have outlawed “small business health plans” where groups of small businesses could bind together to purchase health insurance and compete with big self-insureds.

*Recommendation: Topeka needs additional competition for individuals and groups under twenty-five.*

### **Training**

Topeka is providing excellent training and support to small businesses. The recent merger of Washburn University and the Washburn Institute of Technology (formerly known as the Kaw Area Technical School) make seamless educational programs available for a wide range of professions and occupations.

The programs of the Washburn University Small Business Development Center are excellent. Nationwide, the SBA-sponsored Small Business Development Centers (SBDCs), are by far the most effective program for assisting small businesses. The Washburn Center is a partner of NetWork Kansas, a statewide network of 500 economic development and training programs for small businesses.

Topeka is rich in resources for small business training. Junior Achievement provides young people with business training in grade school and middle school. Area high schools offer business courses. Washburn Technical Institute offers business, entrepreneurial, and technical training. Washburn University is an excellent source of business education and, through Washburn Tech, helps students to move seamlessly from technical training into university business offerings.

When a person is interested in starting a business, the Washburn SBDC offers on-target courses and individual assistance. Its SCORE program provides mentoring for small business owners.

*Observation: If Topeka has room for improvement in the training area, it might be in how our educational institutions link up to meet the specific needs of local employers. Specific training, internships, work/study programs and such can provide targeted training to benefit local businesses, students and the community.*

### **Small Business Funding**

There is a widely held misconception that lack of public funding is holding back small business. The truth is that most small businesses have no outside funding of any kind. Almost all the rest have loan relationships with banks, and only a tiny number of small business startups and expansions need any public funding assistance. Less than 1% of small businesses ever receive any "risk capital" funding from government grants. Another 1% or 2% receive government loans or loan guarantees to provide working capital loans or installment loans.

Risk capital for small businesses almost always comes from personal savings or reinvested profits. The more savings and profits you take away for taxes, the less equity they will have, and the less they will grow. Although they are rare, government grants to businesses are risk capital. The granted money becomes a part of the permanent equity of the company and does not have to be paid back.

Loans, whether private or government, are temporary capital, even though "temporary" can be a very long time. Eventually the money must be paid back.

Topeka is blessed with nearly twenty local banks that cater to small businesses. Where government programs are needed, The Washburn University Small Business Development Center does an excellent job of connecting a small business person with local, state and federal programs.

## APPENDIX A: 2007 ECONOMIC DEVELOPMENT STRATEGY

In February 2007, the Greater Topeka Chamber of Commerce and GO Topeka released an economic development report and recommendations by McCallum Sweeney Consulting and Applied Marketing Sciences. It was entitled "Creating Excellence in Economic Development: A Comprehensive Economy Development Strategy for Topeka and Shawnee County, Kansas."

Various observations in the report:

"The efforts of the public and private sectors through their GO Topeka economic development acceleration program are paying dividends."<sup>12</sup>

"Government employment continues to be the backbone of economic activity, representing a quarter of the workforce. Overall employment growth has been negative or very small over the past several years and is projected to be a challenge in the future."<sup>13</sup>

"The Topeka area is at a critical point in transition in which it must move from its dependency on government employment to one that is more attuned to the regional, national, and global economy if it is to flourish."<sup>14</sup>

"The region suffers from a lack of Class A office space and the fact that it is a build-to-suit market."<sup>15</sup>

"The region's labor market is challenged by the dominance of government and the wage and work ethic issues such dominance represents for many private employers. In addition, there is enough active union presence to raise concerns for non-union operations."<sup>16</sup>

"Labor costs are somewhat of a challenge due to high average wages."<sup>17</sup>

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<sup>12</sup> "Creating Excellence in Economic Development, page 3.

<sup>13</sup> op.cit., page 8.

<sup>14</sup> op.cit., page 80.

<sup>15</sup> op.cit., page 8.

<sup>16</sup> op.cit., page 9.

<sup>17</sup> op.cit., page 17.

Taxes rates in Kansas are a challenge, but incentive programs have reduced the tax base through tax exemptions and also provide relief through tax credits.<sup>18</sup> State income taxes are near 8% and high. Sales tax rates are near 8% and high.<sup>19</sup>

"...Topeka would benefit greatly from a Visioning and Strategic Community Plan process."<sup>20</sup>

"The failure to consolidate city and county governments was noted as a missed opportunity to lower government costs as well as to position government to be able to develop a more comprehensive and coordinated vision."<sup>21</sup>

The Chamber report recommended the following industries as targets for relocations and expansions:<sup>22</sup>

- Warehousing and Transportation
- Shared Services (Financial, Insurance, Software)
- Value-Added Food Manufacturing
- Business and Professional Associations
- Animal and Pet Products Manufacturing and Research

Since the report was published, "Bioscience" has been added as a key category.

"Based on the target markets we have identified, we recommend a 100,000 sq. ft. shell building, expandable to 200,000 sq. ft. for manufacturing, distribution, and office shell for companies that need a facility quickly."<sup>23</sup>

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<sup>18</sup> Note that virtually none of these exemptions or credits are available to virtually any small businesses.

<sup>19</sup> op.cit., page 17.

<sup>20</sup> op.cit., page 19.

<sup>21</sup> Ibid.

<sup>22</sup> "Creating Excellence in Economic Development", pages 71-78.

<sup>23</sup> Op. Cit., page 92.

## **APPENDIX B. OTHER ECO DEVO SUGGESTIONS**

If GO Topeka is to give away land, it should also make it available to private developers who can offer a building and leaseback to prospective tenants.

Topeka has a great deal of unused capacity in both water and wastewater treatment. Many of the expenses of maintaining that capacity go on whether the capacity is used or not. Most food plants use a lot of water and typically have to pay heavily to have their wastewater treated, or pay heavily to treat it themselves before they send it on. To attract food plants or encourage the ones here already to expand, why not make them an extremely good deal on water and wastewater? Some income from that capacity is better than none. Most cities can't go after these plants because they are limited in capacity on either water or wastewater. And, lots of agricultural products are grown in and near Kansas.

Why couldn't Topeka team up with Kansas State or K.U. in a similar effort based on the food industry (but not necessarily biotech)? We already have Reser's, Frito-Lay, Cargill, Del Monte, Hill's and others here.

Greenville, North Carolina narrowed its wide downtown main street to two lanes from four or five, and used the extra space at each side for sidewalk cafes and other uses. They adopted a "barbell" approach – two main attractions, one at each end of the strip. One end has a large Regency Hotel, and the other, five blocks away, has a large, privately-owned performing arts center costing about \$40 million. \$10 million of public funds was put into the performing arts center. They now have a downtown basketball arena, a school for the arts, and a downtown baseball stadium.

### APPENDIX C. FRANCHISE FEES COMPARISON

Topeka's franchise fees, which fall heavily on businesses, were increased dramatically in July of 2004. These increases produced more than \$3,000,000 beginning in 2005. Fewer than 40 Kansas cities have franchise fees. Topeka's franchise fees offset about ten mills of property taxes. There are no franchise fees in the county (outside the city limits).

Franchise Fees <sup>24</sup> City	Population	Cable/ CATV Rate	Elect. Rate	Natural Gas Rate	Phone Rate	Other Franchise Fee Rate
Merriam	10,835	5.00%	5.00%	5.00%	5.00%	7.00%
<b>Topeka</b>	<b>122,008</b>	<b>5.00%</b>	<b>5.00%</b>	<b>5.00%</b>	<b>5.00%</b>	<b>5.00%</b>
Prairie Village 2003	21,514	5.00%	5.00%	5.00%	5.00%	5.00%
Leavenworth	35,211	5.00%	5.00%	5.00%	5.00%	0%
Liberal	20,067	5.00%	5.00%	5.00%	5.00%	0%
Pittsburg 2003	19,086	5.00%	5.00%	5.00%	5.00%	0%
Newton 2003	17,913	5.00%	5.00%	5.00%	5.00%	0%
Derby 2003	18,908	5.00%	5.00%	5.00%	?	5.00%
Gardner	11,670	5.00%	5.00%	4.00%	5.00%	0%
Lenexa 2003	41,249	5.00%	5.00%	5.00%	3.50%	?
Shawnee	54,093	5.00%	5.00%	3.00%	5.00%	0%
El Dorado	12,686	3.00%	4.00%	5.00%	5.00%	0%
Leawood 2003	28,270	5.00%	5.00%	5.00%	2.00%	0%
Ottawa	12,031	5.00%	0%	5.00%	5.00%	0%
Unified Gov't 2003	146,978	5.00%	?	4.00%	5.00%	0%
Great Bend	14,927	5.00%	5.00%	3.00%	0%	0%
Overland Park 2003	158,430	4.50%	3.00%	2.50%	3.00%	0%
Lansing	10,032	5.00%	3.00%	0%	3.00%	0%
Parsons 2003	11,289	3.00%	3.00%	5.00%	?	0%
Lawrence	82,120	3.25%	4.00%	0%	2.00%	0%
Garden City	27,216	5.00%	0%	4.00%	0%	0%
Winfield	12,016	5.00%	0%	0%	3.00%	0%

In the above chart, the latest information submitted by the cities is shown. Where the rate is shown as zero percent, there is no tax. Where it is shown as a question mark, there may or may not be a tax. The franchise fee rate for electricity is 3% in Salina and Manhattan, and 5% in Wichita, cities not included above

<sup>24</sup> 2004 and 2005 annual survey of members by the Kansas League of Municipalities, capturing mostly 2003 and 2004 information. Where the 2005 figures have not yet been furnished by the cities, the figures from the 2004 survey were used.

## APPENDIX D. OTHER TOPEKA TAXES AND FEES

This is a partial list of other fees and licenses charged by the City but not by the county. Items like swimming pool and parking charges are not listed, since the user gets value and has a choice of whether to use them or not.

Parkland Development Fees	Cable/CATV Franchise Fees
Special Assessment District Taxes	Electricity Franchise Fees
Business Improvement District Tax	Natural Gas Franchise Fees
Transient Guest Taxes	Telephone Franchise Fees
Sewer/Wastewater Fees	Other Franchise Fee Fees
Water Dept. Services Fees	
Storm Water Fees	Alcoholic Liquor Distributor License
Storm Water Services Fees	Ambulance Business License
Fines and Forfeitures Collected	Ambulance Vehicle License
Municipal Court Costs Collected	Amusement Park License
Parking Fines	Auctioneer License
Environmental Code Assessments	Bill Poster License
Dog and Cat Licenses	Cereal Malt Beverage License
Building and Construction Fees	Circuses License
Building Permit Charges	Cleaners/Dry Cleaners License
Contractor License Fees	Dance Hall Licenses
Contractor Examination Fees	Fireworks License
Dangerous Structure Removal Fees	Funeral Escort Service License
Mobile Home Permits	Going Out of Business License
Building Inspection Charges	Haunted House Permit
Street and Curb Cut Fees	Microbrewery, Winery License
Zoning Amendment Fees	Mobile Food Service License
Zoning Board of Appeals Fees	Open After Midnight License
Sign Permit Fees	Paintball Guns License
Special Use Permit Fees	Pawnbrokers License
Street Vacation Fees	Peddlers License
Zoning Change Permit Fees	Precious Metals Dealers License
Subdivision Plat Fees	Private Club License
Commercial Re-roofing Permits	Professional Boxing/Wrestling License
Demolition Permit Fees	Retail Liquor Store License
Driveway Permit Fees	Salvage Yard License
Elevator Permit Fees	Second Hand Dealer License
Excavation Permit Fees	Septic Tank Cleaning License
Expedited Plan Review Fees	Sign Hanger License
Fencing Permit Fees	Solicitors License
Grading Permit Fees	Taxi Cab Company License
Moving Permit Fees	Taxi Cab Driver License
Over Width Over Length Permit Fees	Tobacco/Novelty Retailer License
Parking Lot Permit Fees	Transient Merchant License
Sidewalk Permit Fees	Tree, Shrub & Vine Service License
Tank Permit Fees	Wholesale Beer Distributor License
Temporary Structure Permit Fees	