

Approved February 11, 1985
Date

MINUTES OF THE Senate COMMITTEE ON Governmental Organization

The meeting was called to order by Senator Vidricksen at
Chairperson

1:30 ~~am~~/p.m. on February 5, 1985 in room 531N of the Capitol.

All members were present except:

Committee staff present:

Julian Efird - Research
Bruce Kinzie - Revisor

Conferees appearing before the committee:

Jamie Schwartz - Secretary, Kansas Department of Economic Development

The Chairman called the meeting to order and introduced Jamie Schwartz who passed out written copies of his testimony and addressed the committee on the proposed reorganization of the Department of Economic Development. (Exhibit A) After hearing this presentation, Senator Bogina made a motion to introduce legislation to have a bill drafted as requested by the Kansas Department of Economic Development. This was seconded by Senator Gaines and the motion carried.

A motion to approved the minutes of the February 4 meeting was made by Senator Bogina, seconded by Senator Francisco and carried.

There being no further business the meeting was adjourned by the Chairman.

GUEST LIST

COMMITTEE: Senate Governmental Organization DATE: Feb. 5, 1985

NAME	ADDRESS	COMPANY/ORGANIZATION
Jamie Schwart	Topeka	KOFO
Barb Horton	Topeka	Legislative Post Audit
BRAD WEARS	Horton	Governor's Policy Office
Juan Schroeder	Topeka	Budget Div.
Jackie DeLong	"	KDII
Allen Cot	Lawrence	Intern - Gen. Karr
BOB HONEYMAN	JUNCTION CITY	J.C. DAILY UNION

TESTIMONY BEFORE THE
SENATE GOVERNMENTAL ORGANIZATION COMMITTEE

February 5, 1985

CHARLES J. SCHWARTZ, SECRETARY
KANSAS DEPARTMENT OF ECONOMIC DEVELOPMENT

EXHIBIT A 2/5/85

KANSAS DEPARTMENT OF ECONOMIC DEVELOPMENT

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JOHN CARLIN
Governor

CHARLES J. "Jamie" SCHWARTZ
Secretary

Mr. Chairman and Members of the Committee:

The proposed reorganization of the Department of Economic Development was primarily driven by the desire to create a new Division of Small Business. The idea to establish a new division provided an excellent opportunity to take a comprehensive look at the present organizational structure and make changes which more accurately reflect agency priorities and program objectives. However, before highlighting the specifics of the reorganization plan, I would like to discuss the rationale for recommending a new Division of Small Business Development.

Background

The small business initiatives we have thus far undertaken and those we hope to implement over the next two years are premised upon two facts:

1. Kansas is essentially a state of small business. Some relevant data are as follows:

--Of 3,907 firms listed in the Directory of Kansas Manufactures, 82% have 49 employees or less

--Over 85% of all jobs in Kansas are created by small businesses

--On the national level, between 1980 and 1982, small businesses created all the 984,000 net new jobs.

These small firms encounter problems accessing long-term, low interest loans for start-ups and expansion.

2. Kansas is predominately a state of small and medium-sized communities. Smaller cities do not have the kind of economic development tools available to urban areas. Large cities can easily set up revolving loan funds, provide venture capital funding, capitalize local development corporations, and hire economic development professionals trained to coordinate resources for growing businesses. Small cities, on the other hand, face special obstacles which hinder the competitiveness in the economic development process.

Given both these factors, if the State is to promote generally favorable conditions for the small business sector, efforts must be made to address the barriers which restrict its growth. Some important steps have already been taken to accomplish this:

- (1) The 1983 Legislature approved funding to implement a Small Business Assistance Program with the Department's Industrial Development Division. Since its inception, efforts have been focused upon providing assistance in establishing a state-wide network of Certified Development Companies (CDCs). To date, ninety-four counties are covered, and the balance are in developmental stages. In the last two years, CDCs have secured over \$20 million in loan approvals for small businesses, creating or retaining over 1,200 jobs.
- (2) The 1984 Legislature approved partial funding to allow Kansas' participation in the Small Business Revitalization Program, a national program cosponsored by HUD and SBA. Through a contract with the

National Development Council (NDC) for training and technical assistance, the Agency is in the process of developing the capacity to coordinate and package federal, state, and local financing tools, especially in areas where expertise has not historically existed. In addition, NDC has provided materials and instructors for three state-sponsored financing seminars and will work with banks and local development staff to develop projects across the state.

- (3) The 1984 Legislature introduced a package of bills aimed at alleviating some of the special problems of small businesses. These included one-stop permitting, proposed measures to soften regulation impact, and legislation to effect incubator facilities. While only the one-stop permitting became a reality, such proposals reflect an increased recognition of the importance of small businesses to the Kansas economy and an attempt to come to grips with some of the difficulties impeding their growth.

- (4) Since the State assumed administration of the CDBG program, the program has been designed to utilize funds for economic development loans. This is a departure from the federally-administered program. The Economic Development Set-Aside has enabled local governments to provide loans to private businesses. The funds recaptured by the city or county from loan process may in turn be used to capitalize a revolving loan fund for economic development at the local level. The 4.5 million set-aside for this year will result in the creation of over 2,000 jobs and \$30 million in additional leveraged project funds in all parts of the state.

These steps represent a growing commitment to involve the State's small and medium-sized communities and businesses in the overall development process. While some significant things have been accomplished by KDED's Small Business Assistance Program, its scale (one position) poses obvious limitations. In addition, national economic development programs are shrinking (Economic Development Administration, Industrial Development Bonds, Small Business Administration, Urban Development Action Grants and CDBG.) The programs that continue to exist rely heavily upon private sector participation, and this has led to growing innovation at the state level in the area of development finance. Because Kansas has no direct loan programs available to offset decreasing federal dollars, it is especially important for us to leverage as many private dollars as possible with remaining federal programs. This requires marketing programs and projects to the banking community whose participation is essential.

FY 1986 Recommendations for Reorganization

In concert with the steps already taken, the creation of a Division of Small Business Development seems a valid and timely approach for the state to follow in promoting small business growth. The Division would be the only small business advocate at the state level and would focus on the importance of small business in both the state and nation's economy. The functions and structure of the Division would be as follows:

1. Functions of the Division:

Generally, the Division of Small Business Development would be the focal point for the development and coordination of all the State's programs concerning small business development. Specifically, the Division would: (1) be the point of contact for existing small businesses as well

as federal, state, and sub-state entities working toward small business development; (2) provide loan packaging assistance to existing firms seeking financing to expand; (3) assist in locating sources of venture capital financing to assist in new business development; (4) promote and market services available within the Department as well as developing and maintaining a statewide network capable of coordinating financial resources and structuring packages for local economic development; (5) establish tracking and referral systems; and (6) pursue the development of an active lender participation program within the State.

2. Structure of the Division:

The majority of the individuals appropriate to assume positions within the new Division are already on staff and have received intensive NDC training. Specifically these positions are as follows: (1) two field representatives (one stationed in the northwest and one stationed in the southwest part of the state); an Economic Development Specialist who has the responsibility for administering the Economic Development Set-Aside and is currently positioned on the CDBG staff; an IDR I currently responsible for the Small Business Assistance Program within the Industrial Development Division, and an EDR II currently responsible for the one-stop permitting function.

The proposed new positions include a Director and a Secretary. The Director would be primarily responsible for marketing activities and overall administration of the program. In addition, the Director would coordinate efforts at the state level to work with financial institutions toward establishing a viable lender participation program.

3. Fiscal Impact:

\$84,000 (State General Revenue)

Salaries: \$55,455

* Operating: 28,647

\$84,102

* includes an additional \$10,000 for NDC contract over FY '85, to be matched with \$50,000 federal dollars.

Other Features of the Reorganization

1. The Department would be composed of four divisions: Community Development Division; Industrial Development Division; Travel, Tourism & Film Division (addition of film to title); and a new Division of Small Business. There will be two special offices under the Secretary -- a newly created Office of Advanced Technology; and an elevated Office of Minority Business.

2. Research Component in Administration

Purpose: Moving this activity from a line function to an agency function will enable the agency to research broader economic development issues.

Personnel Changes: 3 positions reassigned

Economic Development Rep. II	(from Development Division)
Planner II	(from Comm. Development Division)
Planner III	(from Comm. Development Division)

Fiscal Impact: None

3. Creation of Office of Minority Business and Office of Advanced Technology

Purpose: To provide emphasis to these issues and encourage interagency communication. Both functions cut across all agency programs.

Fiscal Impact: None

4. Upgrade of the Special Assistant position to Deputy Secretary

Purpose: The Secretary is playing an increasingly important role as the spokesman for economic development on both a national and international level. The Deputy Secretary would assume greater responsibility for the internal operations of the agency as well as intergovernmental relations.

Fiscal Impact: \$4,598