

Approved

Jim Braden
Date 5-7-86

MINUTES OF THE Legislative COMMITTEE ON Economic Development

The meeting was called to order by Representative Jim Braden at
Chairperson

1:00 /a.m./p.m. on March 5, 1986, 19 in room 313-S of the Capitol.

All members were present except:

Committee staff present:

Paul West
Belden Daniels

Visitor's Register (See Attachment "B")

Conferees appearing before the committee:

David Barclay, Deputy Secretary, KDED
Tony Redwood, Professor of Business & Executive Director, KU

The Chairman called the meeting to order. The minutes for meetings held on February 13, 20, and 28, 1986 were approved.

Kansas Technology Enterprise Corporation was the suggested name by Belden Daniels for a Kansas Science and Technology Authority.

The Chairman asked that Belden Daniels prepare a written summary report of the nine initiatives by Friday.

Daniels requested guidance on whether to go with existing bills or go for new bills. The Chairman felt we should go with existing bills when we can if the deadline does not interfere.

A review of all the states who have property tax abatements is being made by KDED, and a report will be before the Commission next week.

Dr. Anthony Redwood and David Barclay appeared before the Commission and explained the cost estimates for the study on economic development. (See Attachment "A")

Dr. Redwood worked through ten of the thirty-two cost estimates of the Economic Development Study, explaining that these were not firm recommendations, but considerations for the Commission.

Daniels said he would prepare with the aid of KDED one document which would chart the 32 recommendations on Attachment "A".

The Chairman reminded the Commission the Friday meeting would begin at noon.

Meeting adjourned 2:30 P.M.

Approved by Commission on:

5-7-86
(date)

March 5, 1986
Economic Dev. Comm.

Name

Representing

DANA FERRELL	Budget
Judy Krueger	IL/DAM
Christy Young	Topeka Chamber of Comm.
Tom Vittoria	Negotiation Dept. Budget
Ron Green	" " " "
Dan Raulow	Ks. Contractors Assn.
BUD CORROON	KCCI
CHARLES BELT	WICHITA CHAMBER OF COMMERCE
RON GACHES	BONAC
John Blythe	KFB
Jim Murphy	Gov. Office

March 5, 1986
Economic Dev. Comm.

"A"

TO: Joint Legislative Economic
Development Commission

FROM: Anthony Redwood
Charles Krider
Kansas Department of
Economic Development

RE: Cost Estimates of
Study Recommendations

DATE: February 27, 1986

The attached document attempts to provide ball park cost estimates for the recommendations contained in our January 1986 Kansas Economic Development Study. The estimates are intended to indicate the order of magnitude of the cost of each recommendation. They are not detailed cost estimates, nor do they allow for inflation.

Attachment A

Additional Funding Above FY 86 Levels

<u>Recommendation</u>	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
1. Agriculture Task Force			
Minimum	50,000	750,000	1.4M
Preferred	500,000	1.5M	2M
2. Sales/Use Tax Exemption on all Machinery and Equipment			
Minimum	0	0	5.3M
Preferred	0	5.3M	10.6M
3. Corporate R & D Income Tax Credits			
Minimum	150,000	500,000	750,000
Preferred	250,000	1M	1M
4. Tax Credit for Investment in Venture Capital Funds			
Minimum	300,000	1.5M	2M
Preferred	500,000	2M	3M
5. Property Tax Abatements	No cost to the state		
6. Property Tax on Inventories			

Assumptions

FY 1987 is assumed to be a planning year for the task force. These costs also assume some reallocation of the existing \$11 million R & D expenditures at KSU to provide significantly greater emphasis on value added processing and crop diversification instead of production. The preferred levels assume FY 87 implementation of the KSU proposal.

No increase in the current sales tax will occur. The removal of the sales tax should be phased in over three years at \$5.3 million per year. This cost could be offset by an expansion of sales tax to the service sector.

These estimates presume a 5% credit or amount equal to the average of the credit allowed by other states. The credit should not exceed 20% of the total tax liability and should only be available for R & D above and beyond a corporation's average expenditure during the previous three year period.

This recommendation is the most important of the tax measures. The estimates assume a 20% credit up to a fixed amount or some percentage of tax liability. \$3 million should be the maximum cost to the state. A 20% credit with a ceiling of \$3 million should generate \$12 million in private funds for an annual total of \$15 million (at the preferred funding level by the end of FY 1989). The differences between the minimum and preferred levels are the result of changes in the limits on the credit, targeting of credit amounts and the types of businesses that would receive the credit.

	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
7.			
Minimum	500,000	835,000	1.17M
Preferred	835,000	1.17M	1.5M
8. Research Matching Grant			
Minimum	200,000	400,000	400,000
Preferred	250,000	500,000	500,000
9. Institutes for Applied Science and Technology			
Minimum	220,000	2.5M	5M
Preferred	1M	5M	10M
10. Applied Social and Economic Research			
Minimum	185,000	385,000	500,000
Preferred	385,000	500,000	500,000
11. Industrial Liaison			
Minimum	60,000	300,000	360,000
Preferred	300,000	360,000	360,000

Assumptions
\$500,000 represents the additional cost of doubling the current funding of \$167,000 for the three centers of excellence at KU, KSU & WSU. \$835,000 is the cost of doubling the funding in the three existing centers plus adding one additional fully funded center at one of the three major research universities. \$1,070,000 is the cost of doubling funding for the three current centers plus two new fully funded centers. \$1,500,000 provides for a total of six centers. It should be noted that although this cost estimate assumes equal funding levels for each center, they would not have to fund equally.

The program is currently funded at \$610,000. The estimates represent the increase over current funding. This additional funding would be split between the participating universities.

\$220,000 provides \$120,000 to establish a center for technology transfer at Pittsburg State University in lieu of a center of excellence at PSU as now proposed, plus \$100,000 to plan the creation and areas of concentration for each institute. The ultimate desired level of funding--\$10 million in FY 1989--represents the likely state commitment to match federal & private funds if these can be garnered for one or more institutes at the research universities, plus state funding for one or more centers for technology transfer at the smaller universities. The preferred funding level would expedite the development of the institutes through initial staff appointments, equipment/instrumentation, etc., concurrent with the detailed planning process. While a \$10 million commitment is substantially below the commitment in a number of other states, it represents a solid effort for a state the size of Kansas. Less money might be required in subsequent years.

\$185,000 is recommended to fund the development of KU's econometric model. The \$385,000 includes \$185,000 for the econometric model, \$100,000 for the development and maintenance of an economic data base for Kansas and \$100,000 for state population projections, small business research, international trade research and other Kansas business related research. \$500,000 would enable regional centers for business research to be funded to assist local communities with data needs and regional problem research.

The \$60,000 would fund the industrial liaison program proposed by KSU. \$300,000 provides \$100,000 to each of the three main universities to have an industrial liaison program. The \$360,000 figure adds \$60,000 for part-time industrial liaison staff at the three small Kansas universities.

<u>Recommendation</u>	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
12. Public & Higher Education			
Minimum			
Preferred			
13. Corporation of Innovation Development			
Minimum	350,000	550,000	550,000
Preferred	800,000	800,000	1M
14. Product Development Corporation			
Minimum	750,000	1M	1M
Preferred	1M	2M	2M
15. State Matching Fund for Federal Small Business Innovation Research Grants			
Minimum	200,000	200,000	200,000
Preferred	200,000	250,000	300,000
16. Science & Technology Authority			
Minimum	220,000	220,000	220,000
Preferred	275,000	320,000	320,000
17. Financial Symposium			
Minimum	5,000	5,000	5,000
Preferred	5,000	5,000	5,000

Assumptions

The Kansas Board of Regents Issue Papers for FY 87 indicate a funding shortfall of the order of \$85-95 million in state funding for the universities. Similar funding problems exist for the community college system and public education.

The minimum level attempts to create a pool of \$5 million over three years. The preferred level attempts to create a pool of \$10 million over three years. It is believed that funds of this size can be generated through a 20% tax credit for investment in the corporation. (Further analysis may determine that a higher credit is needed to achieve the desired fund size.) \$350,000 is based on \$150,000 for staff and operations expenses plus \$200,000 in tax credits given to generate a \$1 million fund pool. \$550,000 provides \$150,000 administrative funds plus \$400,000 in tax credits to generate an additional \$2 million in funds. \$800,000 provides \$200,000 in administrative funds plus \$600,000 in tax credits to generate an additional \$3 million. \$1 million provides \$200,000 in administrative funds plus \$800,000 in tax credits to generate an additional \$4 million in funds. After a three year period, a determination should be made as to whether the CID can be self-supporting.

These funding amounts are intended to generate \$5 million in available capital. The minimum funding option would reach \$5 million in five years. The preferred option would grow to \$5 million in three years.

These funds would be used to match federal \$50,000 Phase I Small Business Innovation Research Grants. \$200,000 would enable Kansas to match four grants; \$250,000, five grants; and \$300,000, six grants. By providing additional funding at the Phase I prototype stage, Kansas firms will be able to prepare better proposals for SBIR Phase II. Phase II winners receive a \$500,000 federal SBIR grant to further develop the product.

These figures assume that the Science & Technology Authority will be the umbrella administrative unit for a Corporation of Innovation Development and a Product Development Corporation, as well as the other responsibilities spelled out in the Report. \$220,000 provides four full time positions. \$275,000 funds five FTE and \$320,000 provides six FTE.

<u>Recommendation</u>	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
18. Temporary Funding for Certified Development Companies			
Minimum	200,000	300,000	400,000
Preferred	400,000	400,000	400,000
19. Secondary Market for the SBA Guaranteed Portion of Bank Loans			
Minimum	No cost to the state		
Preferred			
20. Joint House/Senate Economic Development Committee			
Minimum			
Preferred			
21. Expand KDED Small Business Division; Add Field Offices			
Minimum	350,000	350,000	350,000
Preferred	350,000	470,000	550,000
22. Establish a KDED International Trade Division			
Minimum	125,000	125,000	175,000
Preferred	125,000	175,000	225,000
23. Efforts to Attract Foreign Firms			
Minimum	600,000	800,000	1M
Preferred	750,000	1M	1.2M
24. Existing Industry Program			
Minimum	120,000	120,000	120,000
Preferred	120,000	135,000	155,000

Assumptions

It is anticipated that the funding level for each CDC would be \$50,000. The preferred level would allow eight of the 13 CDCs to receive temporary funding.

The recommended funding level would increase the number of KDED field offices from the current two (Garden City and Hill City) to a total of five. The variations in the funding levels represent increases in the staff in each office. \$350,000 provides funding for 13 FTE--three staff in each new office and two additional staff in the two current offices. (Each existing office is staffed by one person.) Staff duties will include technical assistance, financing counseling, assistance with incubators, an existing industry and business retention program, and work with the state's Small Business Development Centers.

The role of this unit is to assist Kansas companies with export/import trade problems distinct from international industrial development (recruitment) activities. The funding provides varying levels of staffing and some funds for contracting costs with universities. \$125,000 provides for three staff positions, \$175,000 provides for four FTE and \$225,000 provides five FTE. The funding does not include funds for advertising.

The recommended amounts fund two international offices--one in Japan and one in Europe. (Kansas currently has a \$40,000 contract with a consulting firm in Japan to represent the state. There is no such arrangement in Europe.) It is assumed that funds would be evenly divided between the two offices at each funding level.

These figures assume that two staff will be dedicated to this function. The increasing amounts are for additional travel, workshops on business retention, contracts for surveys of businesses and the development of a computer data base for a buyer/seller link program. The two staff members will work with field staff and communities across the state.

<u>Recommendation</u>	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
25. KDED Targeted Industries Marketing Plan			
Minimum	750,000	?	?
Preferred			
26. KDED National Image Promotion Campaign			
Minimum	100,000	?	?
Preferred			
27. Internal Improvements Amendment	Costs not now available		
28. Matching Loans to Facilitate Incubators	Costs not now available		
Minimum			
Preferred			
29. Loan Pool for Infrastructure Development	Costs not now available		
Minimum			
Preferred			
30. Technical Assistance to Communities			
Minimum	Costs included in recommendations 21 and 24		
Preferred			
31. Federal Community Development Block Grants	No cost to the state		
32. State Community Development Block Grant Program			
Minimum	5.3M	10.6M	16M
Preferred	5.3M	10.6M	16M

Assumptions
It is assumed that these advertising funds will be used to implement the targeted industries study now being conducted. The study attempts to identify those industries particularly suited to locate in Kansas by geographic area of the state.

The national image campaign attempts to create a favorable impression of Kansas among business leaders in positions to make company relocation decisions.

The future cost to the state will be determined by how narrowly a constitutional amendment is written.

Further research is needed on the various incubator models now in existence.

These figures assume that the federal government will phase out the Community Development Block Grant program (currently funded at \$16 million) and that the state will replace federal cutbacks with state funds.

<u>Recommendation</u>	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
33. Certified Cities Program	Costs not now available		
Minimum			
Preferred			
34. Small Business Development Centers			
Minimum	350,000	350,000	350,000
Preferred	350,000	350,000	350,000

Assumptions

The Kansas Small Business Development Centers have requested \$350,000 in funds to be divided among the existing centers on an annual basis.