

Approved Jim Braden

Date

5-7-86

MINUTES OF THE Legislative COMMITTEE ON Kansas Economic Development

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

12:00 a/m./p.m. on March 7, 1986, 19   in room 519-S of the Capitol.

All members were present except:

Committee staff present:

Paul West  
Belden Daniels

Visitor's Register (Attachment "E")

Conferees appearing before the committee:

Harold Stones - Kansas Bankers Association  
Ed Bruske - KCCI  
Dean Walter Woods - KSU  
Doyle Rajhes - Kansas Farm Bureau

The Chairman introduced Dean Walter Woods from Kansas State University. He presented testimony before the Commission (See Attachments "A"). He provided background on the Kansas Agricultural Experiment Station, explained some of the existing programs and how they might provide processes which in turn would create jobs. He expressed the need for a research program that will service the total agricultural need in the state.

Dean Woods responded to questions from Commission members regarding funds for research, the protection of research in this country, the future of agriculture in Kansas, infusion of equipment for scientific research, more efficient production and quality, and technical people to help with programs.

The Chairman then introduced Doyle Rajhes, President of the Kansas Farm Bureau. (Attachment "B") Mr. Rajhes stressed the diversification of agriculture into areas where there has been little or no research to date, and emphasized research in specialty crops, and that our experience in past research should be used and coupled with marketing and marketing development. He urged the Commission to look at the global market place.

Discussion revolved around national policy and the international market place.

The Chairman then introduced Harold Stones of the Kansas Bankers Association. He presented an informal report on recent discussion within the KBA. (Attachment "C"). A task force on economic development was created last year by KBA and events cumulated yesterday. The task force focused on the fact that there was a statewide lack of a private high risk venture capital pool. There was no organization willing to go outside of Kansas populous areas and take on very high risk projects. The task force met with Belden Daniels, Dr. Flentje, and Governor Carlin yesterday and endorsed all nine legislative initiatives. They will be testifying on all nine of those initiatives and will be urging other industry trade groups to do likewise.

CONTINUATION SHEET

MINUTES OF THE Legislative COMMITTEE ON Kansas Economic Development,  
room 519-S, Statehouse, at 12:00 A.M./P.M. on March 7, 1986, 19   .

Stones will meet with bankers over the state to raise \$10 million for equity in a statewide small business investment corporation venture capital pool. KBA proposes that the state match this \$10 million.

The Chairman then introduced Ed Bruske, Kansas Chamber of Commerce and Industry. He explained why they participated in the Redwood study, and that they will support the nine initiatives.

The Chairman passed out a brief summary of the nine initiatives for the Commission members to review. (See Attachment "D")

Belden Daniels said he would have a one-page description of the nine bills to be drafted at the next meeting.

Meeting adjourned 2:10 P.M.

Approved by Commission:

5-7-86  
(date)

March 7, 1985  
Economic Dev. Comm.

"X"

<u>Name</u>	<u>Representing</u>
Judy Krueger	1-1004
Steven Graham	KS. Wheat Commission
ED BRUSKE	K.C.C.I.
Rich McKee	K.L.A.
Walt Woods	KSU
Honey Dillard	KS. Legis. Res. Dept
Howard [unclear]	K.A.W.G.
Harold Stone	KCB
Paul E. Fleener	Kansas Farm Bureau
Deyle D. Raby	" " "
Bill Tuller	" " "
Jim Mang	KBA

Attachment E

March 1, 86  
Economic Dev Comm.

THE FUTURE DIRECTION  
OF  
KANSAS AGRICULTURE AND AGRIBUSINESS

A Proposal

Kansas Agricultural Experiment Station  
Walter R. Woods, Dean and Director  
February, 1986

Attachment A

THE FUTURE DIRECTION  
OF  
KANSAS AGRICULTURE AND AGRIBUSINESS

Summary of Need and Proposed Approach

Agricultural prices and incomes are much more unstable today than they were in the 1950's or 60's. The sector has moved from one almost totally dependent on relatively stable domestic pricing arrangements and policies of two decades ago to one now tightly linked to international markets. These changing patterns pose challenging questions about the future of the Kansas agricultural sector and its role in the economic development process of the State and Nation. Today, farm and business leaders concerned about the future of investments in the total agricultural sector need improved knowledge about possible impacts of a variety of major national and international economic policies. It is difficult for a single individual to trace and interpret the impacts of these major international events on a single sector such as Kansas or U.S. agriculture. Major advances in analytical capacity to analyze such questions can provide reasonable guidelines to Kansas decision makers for estimating probable effects of such events. This analytical technology needs to be used to project conditions most directly affecting farmers and agribusinessmen in the years immediately ahead.

This proposed study by the KSU Department of Agricultural Economics will utilize tested structural agricultural sector models of USDA, Center for Agriculture and Rural Development and Center for National Food and Agricultural Policy to develop projections for Kansas agriculture and agricultural industries to 1990, 1995 and 2000. A panel of Kansas agricultural leaders will be formed to help define specific economic scenarios to be evaluated through the projection models. Upon completion of the analysis, results will be presented at a major statewide conference of agricultural leaders for appraisal of implications and development of programs to take advantage of the findings.

The Problem

Although Kansas farmers and ranchers as well as agribusiness firms and agencies closely linked to the agricultural sector recently have been through the most severe financial pressure since the Great Depression, the agricultural sector will continue to be a major component of the Kansas economy. Budgets of our schools, churches, and other community services have been strongly impacted by this major economic adjustment process. Market conditions of the 70's provided strong signals to expand output, only to be followed by a dramatic turnaround resulting in sharp declines in operating profits and asset values.

This series of events poses challenging questions about the future of the Kansas agricultural sector and its role in the economic development process of the State and Nation. In any industry or sector characterized by wide swings in major economic signals, such as prices or income, there is a strong chance of overreacting or overshooting the adjustment that should take place. It is crucial, therefore, to provide the best possible judgement and facts about the future economic viability of Kansas farms, ranches and agribusinesses so that

the best possible individual and collective decisions can be made about current and future investments in people and in farms or agribusiness firms in this major economic sector of Kansas. Of extreme importance is its impact on decisions of young people considering agriculture and its related industries as a source of employment. This question is also crucial for younger age groups currently employed as Kansas farm operators or in agribusiness firms, but who still possess reasonable employment mobility.

Agricultural prices and incomes are much more unstable today than they were in the 1950's or 60's. The sector has moved from one almost totally dependent on relatively stable domestic pricing arrangements and policies two decades ago to one now tightly linked to international markets. Instabilities in the international market are transmitted with heavy impacts on Kansas farmers because we are so dependent on the exports of wheat, feed grains, and soybeans. Furthermore, the total U.S. economy is now much more open and interdependent with world wide economies than in early periods.

Today, farm and business leaders concerned about the future of investments in the total agricultural sector need improved knowledge about the possible impact of a variety of major national and international economic effects on the agricultural sector. Chief among these include: fiscal policy (the deficit), monetary policy, interest rate determination, energy (OPEC strategies), capital lending policies of major international banks to LDC's, the foreign exchange capacity of LDC's and their ability to buy U.S. exports, U.S. monetary policies, etc. It is difficult for a single individual to trace impacts of these major international events on a single sector such as Kansas or U.S. agriculture. However, there have been major advances in the analytical capacity to analyze such questions to provide some reasonable guidelines for estimating probable effects of such events.

It is not possible to forecast all future economic events with certainty since many of the key variables affecting future outcomes are policy decisions of national governments, including the U.S., that can change rapidly. However, once certain policies are in place, some reasonable appraisal of their economic impact can be made. This information can provide a basis for better private and public decisions.

Information is needed so that judgments can be made about industries on as specific a basis as possible. For example, what agricultural products offer the greatest potential for growth and profitability? What are the opportunities for enterprises not currently in the production mix of Kansas agriculture and agribusiness. It is important to arrive at reasonably accurate estimates of the aggregate level and mix of primary production in the State. It is also important to gain a better understanding of the possible structure of agriculture producing that output. How many and what types of Kansas farms will be in existence five to ten years from now? What will be their size, ownership, and financial organization? The same kind of answers are needed for agribusiness firms that provide services to agriculture and extend agricultural products and services to the rest of the economy.

## Objectives

To discover the future direction of agriculture and agribusiness in Kansas we propose a study with the following objectives:

1. Identify a range of probable national and international economic scenarios that will impact U.S. and Kansas agriculture for 1990, 1995, and 2000.
2. Given a range of probable economic scenarios from (1), estimate for each scenario by year to 1990 and for 1995 and 2000 the expected output of major U.S. crop and livestock enterprises with related economic data such as farm price levels, producer incomes, consumer prices, and government expenditures.
3. Determine from (2) the Kansas expected share of the U.S. national output of major crops and livestock enterprises under each scenario identified in (1).
4. Determine the impact of the output projections of Kansas crops and livestock from (3) on the Kansas agribusiness sector and firms.
5. Determine relevant economic data from (3) and (4) that is crucial for education, training, and capital investments in Kansas agriculture and agribusiness.
6. Compute the multiplier effects on other sectors of the Kansas economy of the primary agriculture and agribusiness linkage effects determined under the analytical scenarios specified in (1).
7. Extend research findings by appropriate communication techniques to all Kansans concerned about the future of Kansas agriculture and agribusiness. Provide guidelines for improved decisions concerning current and future investments of all types in primary agriculture and the agribusiness sector of the state.
8. Identify gaps in technology or information required by decision makers to achieve output potentials identified in (3) and (4). Suggest research for removing the above gaps.

## Procedure

1. Determine in consultation with Kansas leaders in agriculture and agribusiness, several most likely economic and agricultural policy scenarios impacting the demand and output of major U.S. crops and livestock sectors by year to 1990, and for 1995 and 2000.
2. In consultation with technical production departments in the College of Agriculture, estimate the most likely trends in irrigation, crop

and livestock yields, technology, pest and plant disease, etc., that can impact attainment of projected production levels of Kansas crops and livestock.

3. Given the economic and policy alternatives in (1), estimate by year to 1990, and for 1995 and 2000, for the major crop and livestock groups in the U.S. the following measures where applicable: planted and harvested acres, yields, production, stocks, domestic use and value, export use and value, national average producer prices, producer incomes, government payments to producers, government farm program expenditures, and consumer product price levels. These data are proposed to be estimated with the FAPRI model of the Center for Agricultural and Rural Development through consultative arrangements with the Department of Economics at Iowa State University. The impact of certain national macro economic effects such as monetary and fiscal policy projections will be taken from the national forecast of the "Wharton Model" and used as input to the FAPRI model.
4. By the use of market share analyses or other appropriate techniques such as spatial linear programming models determine the comparative advantage and share for Kansas in producing crops and livestock (where technically feasible). The Economic Research Service of the USDA, and CARD of the Department of Economics of Iowa State University have operating models appropriate for such studies. Cooperative arrangements are possible with Iowa State University to utilize their linear programming and other national economic models for such analyses. Appropriate data from the ERS and the Department of Commerce will be used where available.
5. Project for Kansas agriculture by year to 1990 and for 1995 and 2000 for each of the relevant major crop and livestock enterprises, key variables where appropriate such as: planted and harvested acres, yield, output, producer price levels, producer incomes, and government payments to producers. This is to be done within the analyses of (3) and (4) given the economic and policy scenarios of (1).
6. Check the "consistency and reasonableness" of the projections in (5) for each of the scenarios defined in (1) above with specialists from the technical Departments of KSU and farm leaders in agriculture. Fine tune the analyses if more detail is required for use by key decision makers.
7. From the analyses of (5) estimate the structure of Kansas agriculture in terms of the size, number, type, and location of Kansas farms required to produce the projected outputs by year to 1990, and for 1995 and 2000. Test the "consistency and reasonableness" of the results by constructing representative operating farms and by comparing with results likely to be achieved by top farmers in the Kansas Farm Management Association.
8. Estimate the farm labor force required to produce the outputs projected in (5) for 1990, 1995, and 2000.

9. Estimate the financial condition and needs of Kansas farm operators in producing the projected output for 1990, 1995, 2000.
10. Given the projections in (5) to 2000 under several policy alternatives estimate the type, volume, number, capacities, technology, and probable location of agribusiness firms such as meat processing, feedlots, and grain handling systems as well as banks, farm supply and machinery dealers, etc., by providing inputs required to produce, distribute, store and market the output of primary agriculture.
11. Estimate as may be determined in the conduct of the study other structural information beneficial to the overall objective of the project.
12. Estimate the economic returns to other sectors of the state's economy of various production trends in Kansas agricultural to 2000 arising from the specifications of the various policy alternatives determined in (1). This is to be done in consultation with Dr. Jarvin Emerson of the Department of Economics who is revising a State Input-Output Model.
13. Identify gaps in the production, distribution, and marketing system that may prevent real world attainment of certain of the output targets derived in the projections of (5) and (10). Define possible research potentials to eliminate such gaps, given a favorable cost/benefit ratio.
14. Conduct in-depth seminars with key leaders in agriculture and agribusiness to outline the potential use of the projected research results in planning for investments in the agricultural and agribusiness sector to 1990 and beyond.
15. Develop appropriate research communication materials to demonstrate the role of investments in people who have a career interest in the agricultural and agribusiness sectors of Kansas and the Nation.

## Estimated Annual Project Costs

I. Support Personal			
A. Professional Assistance			
1. Research Associates including computer research system analyst	2.0	60,000	
B. Student Clerical	0.5	10,500	
C. Statistical-Clerical Assistance	<u>1.0</u>	<u>14,000</u>	84,500
II. Computer Services *			
A. Contractual services with USDA, Center for Agricultural and Development, Food and Agricultural Policy Research Institute, etc.			
		25,000	
B. Kansas State University		<u>5,000</u>	30,000
III. Travel			
A. Out-of-State			
<u>Washington, D.C.</u>			
1. Two staff 4 da. = 8 da. x 120 =	960		
air fare @ 350 x 2	700		
misc @ 20 x 2	<u>40</u>		
			1,700
<u>Ames, IA</u>			
1. Two staff, 2 trips @ 3 da. =			
12 da. x 70 =	840		
Mileage 1400 miles @ \$.22 =	308		
2. Research Assoc., 3 trips @ 4 da. =			
12 da. x 70 =	840		
Mileage 2100 miles @ \$.22 =	<u>462</u>		
			2,450
B. <u>In State</u>			
1. (a) Staff travel to organize preliminary conference 5 trips (milage only) @ 300 mi. x 22 = 66 x 5 =	330		
1. (b) per diem 5 trips, 5 x @ 40 =	<u>200</u>		
			530
2. (a) Data collection within state			
5 trips @ 300 mi. x 22 =	330		
2. (b) per diem 10 da. x 40 =	<u>400</u>		
			730
3. Regular meetings of consultative panel			
6 meetings @ 1 da. @ 100/da. x 10 advisors		<u>6,000</u>	
Sub Total Travel			11,410

			7
IV.	Expendable Supplies and Postage		500
V.	Communications		
	Telephone		
	Computer Networking		
	Telenet		500
VI.	Publications		
	Technical Report 1000 @ \$3.00	3,000	
	Summary Report 5,000 @ \$1.00	5,000	
	Popular Report 6,000 @ \$.35	2,100	
	Mailing	<u>8,000</u>	
			18,100
VII.	State Conference for Presentation and Evaluation of Findings		
	1. Conference Rooms	200	
	2. Coffee, Service, etc.	100	
	3. Preparation of Visuals	150	
	4. Record and Tape	100	
	5. Honoraria 2 @ \$500	1,000	
	6. Press and Media	<u>500</u>	
			<u>2,050</u>
	Total Support Expense		147,060

FUTURE DIRECTION OF KANSAS AGRICULTURE AND AGRIBUSINESS

MONTHS		1	2	3	4	5	6	7	8	9	10	11	12
DEAN OF AG Select and Legitimize Panels					Direct 2nd Mtgs of Panels		Direct 3rd Mtgs of Panels		Direct 4th Mtgs of Panels		Direct 5th Mtgs of Panels		Conduct Leaders Meeting
TECHNICAL PANEL Establish Potentials					TP Review		TP Review		TP Review		TP Review		TP Review
LEADER PANEL Select Key Scenarios					LP Advise		LP Advise		LP Advise		LP Advise		LP Advise
CARD Con- tract Model Services				CARD Nation- al Model Output			CARD Kansas Output		CARD Tuned Output				
							KANSAS I/O MODEL Other Sector Links						CONFERENCE Program Development
PRIMARY RESEARCH TEAM Structure & Organize Study			Primary Kansas Data Assembly		Analyze Kansas Trends		Analyze Key Scenarios		Evaluate Findings		Projected Structure		Prepare Publica- tions and Commu- nications Findings
Select Project Models			Farm Baseline		Nat. Model Consistency		KS Model Consistency		Rep. Farm Validation		Structure of Farms		Technical Report
Define Policy Scenarios			Farm Projections		Market share Coefficients		Projections Reasonable		Rep Ag Bus Firm Valid		Farm Type and Location		Summary Report
Develop CARD Output Program			Agribusiness Baseline		Kansas I/O Relationships		Input for KS I/O Model		Technical Ag Validation		Structure of Ag Bus		Popular Reports
Establish Liaison w/P			Agribusiness Projections		Structure KS Returns		Structure CARD Returns		Infrastruc- ture Impacts		Location of Ag Processing		Leaders Conference
									Scenario Evaluation		Structure of Labor Force		
											Farm Financial Structure		
											Ag Bus Finan- cial Structure		
											Non-Ag Sector Impacts		
											Research Needs		

*March 1986*  
*Economic Dev Comm*

Kansas Agricultural Development and Marketing Program

The current economic plight of Kansas agriculture is obvious, and it impacts individual farm incomes, employment in agribusiness and related industry, and state general revenue. The Kansas Agricultural Experiment Station and Cooperative Extension Service have had a long history of responsiveness to problems facing agricultural production and agribusiness; and it is proposed that they participate in the Kansas Economic Recovery Act of 1986 in four areas comprising a Kansas Agricultural Development and Marketing Program.

- a. diversification of agriculture production
- b. research in diversification of agriculture production
- c. value added product research
- d. technical assistance on production and market development

Diversification

Diversification of the agricultural base of crops and animals may offer opportunities for Kansas farmers. Two movements in diversification may occur: a) a move by individual farmers to incorporate a greater number of commonly grown crops and/or animals into their farming operation; or b) a move to add relatively new enterprises to their operations. Economic evaluations are needed to determine the best combination for profitability and risk reduction. Markets may have to be developed for commodities new to an area.

To strengthen the ability of the producers in Kansas to consider diversification, an economic and market analysis team would be assembled with the following objectives:

- a) determine the potential for proposed diversification programs;
- b) develop economic analyses of production, processing, and distribution;
- c) assemble the current technology available;
- d) identify technology voids in production and processing;
- e) assure that research information and industry needs are closely coordinated; and
- f) provide concentrated economic and market analyses to enhance implementation of new production and processing techniques.

The need for staffing centers on production economists that can assemble the technical expertise, through consultants, to conduct the economic and market analyses. A steering committee composed of the following would help establish priorities for the economic and market analysis team—

Director of Agricultural Experiment Station - Chairman

Members:

- Chairman of Regents Committee on Agriculture and Economic Development
- Chairman or designee of Senate Ag Committee
- Chairman or designee of House Ag Committee
- Chairman or designees from four Kansas Commodity Commissions
- Chairman of KSU Ag Council
- Members at large--one each designated by Kansas Chamber of Commerce, Kansas Farm Bureau, Kansas Bankers Association, Kansas Livestock Association, and Kansas Pork Producers Council

Attachment B

From Paul Flamm - 10 Feb 81

The Budget request for annual operating expenses and proposed for a three-year period is:

	<u>Annual Budget</u>
Agricultural Economist (2)	\$79,540
Administrative and technical assistant (3)	71,400
Secretary	13,000
Consultants	150,000
COE	80,000
	Subtotal \$393,940

### Research in Diversification of Agriculture

Research to provide answers to voids in technology must be funded. An internal grants program, guided by the steering committee, is proposed as a means of providing needed resources and flexibility in research program management. The purpose of the research would be to provide information that the economic analysis team requires, and to provide data required to determine the competitive potential for new enterprises in the Kansas agricultural economy. Grant applications would be solicited throughout the Kansas Agricultural Experiment Station.

	<u>Annual Budget</u>
Budget requested	annual request
Internal grants	\$450,000
	Subtotal \$450,000

*Research for*  
*1) Alternative Crops*  
*2) Enterprises*

### Value Added Research

Value added production amounts to adding labor services to agricultural commodities produced in Kansas. These activities may include conditioning, storing, packaging, and processing. It may include repositioning existing products or the development of entirely new products. The greatest benefit would be in the form of employment of local people in processing facilities. Kansas Agricultural Experiment Station scientists are already doing value added research in food science, meat science, grain science, and agricultural economics. However, in order to determine which new value added products are economically viable in Kansas, new resources are needed.

Potential examples of value added products from current Kansas products are:

- a) food coatings -- Currently, Kansas wheat is not used in the billion dollar industry of food coatings. *... making batter, etc.*
- b) restructured meat products -- Restructured, pre-cooked, and portioned controlled meat items are needed to meet the demand in a society requesting convenience and value.
- c) "lite" foods -- Modern value added foods are those that emphasize nutritional concerns of consumers. Opportunities exist for combining meat and fiber products for diet conscientious consumers.
- d) extrusion products -- Snack foods represented a \$25.2 billion industry in 1985. Most snack foods are cereal based. Opportunities exist for combining cereal and meat products via extrusion technology.
- e) new uses for wheat and sorghum grain -- New uses might be created by

separating into components and, where necessary, modifying components by physical, chemical, or biochemical means. Efficient methods to wet-mill wheat into starch protein, germ, bran, and other components must be developed. It will be necessary to modify wheat starch for use in food, plastics, and other industries. Increasing wheat gluten dispersability, water binding capacity, and adhesion to meat would enhance its utilization and versatility.

The annual budget requested to support value added research is:

	<u>Annual Budget</u>
Technical assistants (5)	\$119,000
Graduate student stipends (6)	48,000
OOE	125,000
Equipment	50,000
Subtotal	\$342,000

#### Technical Assistance for Production and Market Development

The success of the diversification and valued added programs requires the extending of technology to farmers and agribusiness. To rapidly impact the system, concentrated efforts on single programs must occur, and the recruitment of experts as consultants would bring to Kansas the needed expertise on potential new crops and/or production programs. Economic impact into the decision making process is of essence to continue to enhance the opportunity for Kansas agriculture and industry to be competitive and profitable. A small team would be assembled and given the responsibility to service the diversification thrust in agriculture production and value added products.

The annual budget needed for technical assistance and market development in Extension is:

	<u>Annual Budget</u>
Agriculture Economist (1)	\$39,770
Extension Assistants (2)	47,600
Production and Processing Consultants (short term)	60,000
OOE	60,000
Subtotal	\$207,370

#### Summary of annual budget request\*

a. Diversification of Agriculture Products	\$393,940
b. Research in Diversification of Agriculture	450,000
c. Value Added Research	342,000
d. Technical Assistance and Market Development in Extension	207,370
TOTAL	\$1,393,310

\*Budget requested for minimum of three years.

MAR 17 1986

March 13, 1986

TO: Legislative Commission on Kansas Economic Development

FROM: Harold Stones, Kansas Bankers Association

RE: Confirmation of oral testimony presented March 7, 1986

The KBA Board of Directors has tentatively approved the recommendation of the KBA Task Force on Economic Development. The approval is considered "tentative" because the decision was reached by mail, and it will be final when formally approved at a regular Board meeting.

Private discussions with some members of the Commission lead me to believe some clarification may be helpful. That is the purpose of this Memorandum.

The KBA Task Force has recommended we ask the Kansas Legislature to consider issuing an "Incentive Challenge" to the Kansas Bankers Association. If such challenge would include an appropriation for \$10 million to be used in equity for the funding of a Venture Capital Corporation, technically referred to as a Small Business Investment Company (SBIC), then the KBA would accept the challenge and attempt to raise more than \$10 million for the same purpose, and for the same SBIC.

There is already a vehicle in place, but it will have to be funded. Twenty years ago the Kansas Development Credit Corporation was funded by equity stock of around \$400,000 from various corporations, and a line of credit arrangement of some \$5 million from 400 Kansas banks. Years later, an offshoot called Kansas Venture Capital, Inc., was founded, but is not well funded. The KBA would recommend these two organizations merge into one Small Business Investment Corporation, and invest their current funds in the new SBIC. We will encourage the 400 banks with lines of credit to the KDCC to convert that credit into equity capital in the new SBIC, and we will work with the remaining 225 banks to encourage them to contribute at least 1% of their capital and surplus as equity in the SBIC. We will also work to solicit other types of business organizations to support the equity funding.

If such funding is forthcoming, the SBIC can apply to the Small Business Administration to leverage that part of the private \$10+ million which is used or committed on a three-to-one basis. There is a \$35 million limit to matching funds, so we would be looking at an SBIC with a \$50 million potential to attract new jobs for Kansans. (\$10mm State; \$10mm+ KBA; \$30mm SBA)

I am told by the Wichita and Kansas City SBA officials that some \$69 million in SBIC funding has occurred nation-wide this year, and that \$181 million is left unappropriated, and is available through the end of their fiscal year, which is September 30, 1986. They informed me that this is the last year such public funding will be available, and, absent unexpected Congressional action, all SBIC funding after October 1, 1986, will have to come from "privatized" SBA markets which will carry more expensive terms. This was unexpected news, and places an even greater urgency for action now. I would urge Commission staff to confirm this by calling Mr. Clayton Hunter or Howard Teeter of the Wichita SBA Office, Harold Nossman of the Kansas City office, or Leonard Fagan, Area Financial Analyst in the Washington D. C. office (202/653-6473).

(over, please)

Attachment C

I recommended to the Commission, and will elaborate here, the inclusion of an Investment Tax Credit both on the investment of equity into a Venture Capital Corporation, and on the future income of such equity. **Some members of the Commission erroneously believed that this Investment Tax Credit was the origination and invention of the KBA.** I would not apologize if this were the case, but it happens that it is not. Members need to recall that the "Redwood Study", on page 14 elaborates in Taxation Recommendation Number 4 that such Investment Tax Credit is needed to encourage high-risk investment in venture capital corporations.

Later, Belden Daniels confirmed that one of the nine initiatives being prepared for the Legislature includes such an Investment Tax Credit at the rate of 30%. Also, legislation is apparently being prepared to exempt future income from such high-risk investment corporations. We believe such tax treatment is necessary to provide the incentive to make high risk investments, and we hope there will be many smaller local SBIC's developed, in addition to the larger, state-wide one we propose. If they are to develop, such tax credit is essential. Again, these are part of the nine major legislative initiatives being prepared for legislative consideration. The KBA Task Force endorsed all nine of them, and will testify in their behalf. We assumed, rightly or wrongly, that the Legislature would not want to discriminate against the banking industry, or any other industry by legislating them out of any of the proposed initiatives.

So we are in favor of the Investment Tax Credit of 30% on investment in an SBIC, and we do urge inclusion of that provision in the Legislature's Incentive Challenge Package to us.

What if the Legislature does not see fit to issue such challenge? We will do our best to make progress without it, but the road will be much more difficult, and results much more meager. The Legislature's incentives would make raising the \$10 much more "do-able" and such a strong message would raise the industry's enthusiasm level where it needs to be to voluntarily invest that large amount of capital. Also, the Legislature's non-involvement means the loss of an original \$10 million equity which could be used over and over again.

We are pleased to suggest such a plan for bold action and the formation of the most significant "public-private partnership" in recent history. We truly believe the people of Kansas will be very positively served through such an arrangement. We look forward to hearing the Kansas Legislature's response to this suggestion.

March 7, 1986

KANSAS ECONOMIC DEVELOPMENT INITIATIVES

The nine economic development initiatives listed below are under consideration by the Legislative Commission on Economic Development. These nine initiatives address all 34 recommendations contained in the 1986 Redwood/Krider Interim Report. Each initiative will be precisely targeted for Kansas and is drawn from the very best models in other states.

INITIATIVE

DESCRIPTION

1. Create a Statewide Risk Capital System

This initiative will create a truly statewide, rural/urban system of technical support and available capital for new, existing and innovative businesses. The establishment of a statewide risk capital system will:

- a. Expand the capability of existing Small Business Development Centers to provide managerial counseling.
- b. Expand the capacity of the existing Certified Development Companies for financial packaging.
- c. Increase available risk capital through a restructuring of the existing Kansas Development Credit Corporation in a secondary market in KPERS.

This system will make private capital available to sound local small businesses in any part of the state in 1986.

2. Enact a Targeted Venture Capital Tax Credit Act

The state's extreme shortage of high risk and venture capital was described in the 1986 Interim Kansas Economic Development Study as "the main economic development problem for Kansas." Until one was established this year, there were no formal Kansas venture capital partnerships. As a result, there is a serious lack of financing for new innovative businesses and the expansion of solid established businesses that are applying research to develop new and innovative products. This initiative is intended to stimulate the formation of venture capital partnerships by establishing a tax credit against Kansas tax liability for persons or entities that invest in venture capital firms which in turn invest in Kansas companies.

3. Establish a Kansas Technology Enterprise Corporation (KTEC)

This initiative is intended to address two problems:

- a. The relative lack of interaction between private enterprise and educational institutions in areas of innovation and applied research.
- b. The lack of seed-capital financing for the development and commercialization of new products or processes.

The Corporation would foster innovation by:

- a. Engaging in seed capital financing for the development and implementation of innovations.
- b. Awarding applied research matching grants to educational institutions and businesses to more innovation toward commercial application.
- c. Providing managerial assistance and technical referral services to small, new and emerging companies.

The Corporation is intended to absorb and expand the activities of the existing Advanced Technology Commission. It is a powerful institution which brings Kansas universities, the private sector and state government into a creative partnership to finance research and development in the states basic industries and to support the birth and expansion of innovative new Kansas firms.

The establishment of such a Corporation can improve the pace at which industries innovate and grow, thereby increasing the number of available jobs and stimulating the economy.

4. Repeal the Internal Improvements Prohibition

The Constitutional prohibition against the use of state funds for internal improvements stems from excessive debts incurred by several states by funding the construction of canals, roads and railroads during the early 1800's. Following the national financial crisis of 1837, a few states defaulted on their loans for internal improvements. The Kansas provision reflects the desire of the 1859 Wyandotte Convention to avoid a similar situation in Kansas.

5. Allow local governments the option to provide property tax abatements for the location or expansion of industry.

Tax burdens sometimes become deterrents to locations in Kansas. These burdens prohibit the creation of employment and the increase in personal income for a community if they restrain the company from locating.

An option that can be available to cities or counties is the abatement or exemption of property taxes. This option is intended to allow industry to concentrate their money in the equipment and land purchases necessary for expansion or relocation. Twenty-four states currently offer constitutional or statutory provisions which allow companies this incentive.

Local governments will be allowed the option to grant these abatements if they feel that the proposed expansion will provide economic benefits to their community.

March 9, 1986  
Economic Dev. Comm.

Attachment D

6. Restructure the Kansas Department of Economic Development

This initiative will more clearly define the mission of KDED and fund additional activities. The proposals being considered by the Commission are:

- a. Existing Industry - Expand and focus the responsibilities of the existing small business division and increase the number of field offices from two to five.
- b. Industrial Recruitment - Substantially increase the funding for targeted industrial recruitment and advertising, open an office in Europe and expand the Kansas presence in Japan.
- c. Trade Development - Establish a new division focused solely on interstate and international trade, including all of the state's agricultural marketing functions.
- d. Community Development - Expand the activities of the Community Development division in assisting Kansas communities.

These changes, if funded adequately, will substantially improve the state's leadership role in economic development.

7. Establish a Legislative Economic Development Committee

The proposal to establish a permanent committee(s) on economic development is intended to address two key problems:

- a. Economic development legislation is handled by multiple committees in each house. This results in less visibility for economic development issues and fragments the policy making process.
- b. The appointment of temporary ad hoc or interim committees on economic development lacks the continuity needed to address the state's economic and employment needs.

A permanent committee devoted exclusively to economic development policy is badly needed.

8. Establish Kansas, Inc., a forum for strategic economic planning

Kansas lacks an entity to provide ongoing short and long term strategic economic analysis and planning. Its establishment would give Kansas the capability to analyze the economic impact of gaining or losing a major industry, the potential benefits of a particular economic policy and to identify opportunities and strategies for economic growth. The mission and organization of "Kansas, Inc." will be based on the best models in other states.

9. Create four Interim Task Forces

Four areas need special analysis during the 1986 interim: agricultural research, funding for state universities, the state's capital markets, and the state's tax structure.