

Approved

Jim Braden 5-186
Date

MINUTES OF THE Legislative COMMITTEE ON Economic Development

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

12:00 a.m./p.m. on March 19, 1986, 19 in room 527-S of the Capitol.

All members were present except:

Senator Alicia Salisbury

Committee staff present:

Belden Daniels
Paul West

Visitor's Register (Attachment "J")

Conferees appearing before the committee:

The Chairman called the meeting to order. Belden Daniels distributed copies of the Kansas Economic Development Interim Report. (Attachment "A") Within this report he can account for all 34 of the recommendations in the Redwood/Krider report. He passed out three additional documents (Attachments "B", "C" & "D").

Under Initiative No. 1 - B(e), the Chairman expressed he did not like the terminology "state surplus" and recommended "idle funds" instead.

Daniels asked whether he should include a one-sentence observation regarding the models in other states in the report. The Commission agreed.

Representative Heinemann made a motion that the Commission adopt Initiative No. 1 (To create a statewide risk capital system). The motion was seconded by Senator Kerr. The motion carried unanimously.

Senator Kerr made a motion that Initiative No. 2a (Small Business Venture Capital Act) be adopted. Representative Mainey seconded the motion. The motion carried unanimously.

Initiative No. 2b (Targeted Corporate Research and Development Income Tax Credit) (See Attachments "E" and "F"). Representative Barkis moved that this initiative be adopted. Senator Kerr seconded. The motion carried unanimously.

Initiative No. 3 - (Establish a Kansas Technology Enterprise Corporation) (See Attachment "G"). There was discussion regarding four legislative members as ex-officio nonvoting members. The Commission agreed to leave legislative members as ex-officio nonvoting. Senator Kerr moved that Initiative No. 3 be adopted. Representative Kline seconded. The motion carried unanimously.

Initiative No. 5 - (Property Tax Abatement for Economic Development) (See Attachment "H"). This is revised House Concurrent Resolution No. 5047. Discussion centered around including warehousing and whether the language should state whether the exemption should tie in with job creation. Senator Winter moved that the language in Initiative No. 5 be changed to include research and development and warehousing, and also tie it in with job creation. Representative Kline seconded. The motion carried unanimously.

CONTINUATION SHEET

MINUTES OF THE Legislative COMMITTEE ON Economic Development,
room 527-S, Statehouse, at 12:00 a.m./p.m. on March 19, 1986, 19 .

The Chair then asked for a motion on Initiative No. 5. Senator Kerr moved that this initiative be adopted. Senator Winter seconded. The motion carried unanimously.

Initiative No. 6 (Establish a Kansas Department of Commerce). Amendments to this initiative are being prepared. Representative Barkis moved that Initiative No. 6, to establish a Department of Commerce in Kansas, be adopted. Representative Kline seconded. After discussion the motion carried unanimously.

Initiative No. 7 - (Establish a Standing Committee on Economic Development) (See Attachment "I"). Daniels called attention to C (4) under Initiative No. 7 which states the Committee will be assigned full time permanent legislative research staff, and strongly urged that specially trained staff be recruited for the new standing committee on economic development. Daniels suggested there be some continuity between the Commission which is ongoing until November 1986 and the new committee effective January 1987. The Commission agreed. Representative Mainey moved that Initiative No. 7 be adopted. Representative Heinemann seconded. The motion carried unanimously.

The Chair asked about Initiative No. 9, 3(c) expressing concern regarding language on task forces, and was advised by Daniels that the language in this bill needs to be cleaned up.

Initiative No. 8 - (Establish a State Economic Development Policy Committee) (Kansas, Inc.). The Chairman asked how Kansas, Inc. would be formed. Daniels said the Governor would make the appointments. Of the 15 members proposed four would be legislators. A motion was made by Representative Barkis to use Representative Helgerson's bill (House Bill No. 2960) to adopt Initiative No. 8. Representative Kline seconded. The motion carried unanimously.

Representative Barkis then moved that the entire report of the Legislative Economic Development Commission to the Kansas Legislature be adopted. Senator Winter seconded. The motion carried unanimously.

Meeting adjourned 2:00 P.M.

Approved by Commission:

5-7-86
(date)

March 19, 1986

12:00

"X"

Economic Dev. Comm.

Name

Representing

Judy Krueger

Ron Green

~~Tom Vitell~~

Leo Hafner

John Blythe

Rep. Max Moorman

Christy Young

CHARLES BIRD

Fred Erdmann

Bill Abbott

Ron Caches

Ramona Jones

~~C. Schwantz~~

IL/DOA

Legis. Post Audit

Post Audit

Legislative Post Audit

Kansas Farm Bureau

Legislator 117 dist

Co. Topika Chas. of Comm.

WICHITA CHAMBER OF COMMERCE

Wichita State University

BOEING

BMAC

Wichita Eagle Beacon

KDEP

Attachment J

"A"

March 19, 1986
Eco. Dev. Comm.

DRAFT

REPORT OF THE
LEGISLATIVE ECONOMIC DEVELOPMENT COMMISSION
TO THE
KANSAS LEGISLATURE

March 19, 1986

Attachment A

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 - 2(a) Enact a targeted venture capital tax credit act.
 - 2(b) Enact a research and development tax credit act.
 - 3. Establish a Kansas Technology Enterprise Corporation.
 - 4. Repeal the internal improvements prohibition.
 - 5. Allow local governments the option to provide targeted property tax abatements for the location or expansion of industry.
 - 6. Restructure the Kansas Department of Economic Development.
 - 7. Establish a Legislative Economic Development Committee.
 - 8. Establish Kansas, Inc.
 - 9. Create four interim task forces.
- D. Appendix A: Recommendations of the Kansas Economic Development Study (interim report).

Appendix B: Proposed Kansas Department of Economic Development organization chart.

Basic Findings of the Kansas Economic Development Study (Interim report)

The current weakness of the Kansas economy is not a temporary phenomenon. Unabated, a continuation of existing trends will result in a relative erosion of the state's economic base and its ability to provide quality services for Kansans. However, the state can influence these trends in a positive direction. This will involve providing support for adaptation and change the application of science and technology to the existing economic base as well as building upon strengths to develop new industry.

Kansas has important strengths and sound economic fundamentals upon which to develop its future. At the same time, there are some barriers to the development of modern technology-based enterprises, to small business entrepreneurship, and to expeditious technology transfer to Kansas industry. The recommendations that follow are designed to remove the impediments and to build upon the strengths.

The basic strategy for development should emphasize a balanced approach of supporting the existing economic foundation, including the traditional sectors, as well as fostering growth through the expansion of current and the attraction of new industry. It should involve an integrated state-local community effort. The state should not adopt a strategy for development based on tax incentives, but rather have a tax structure which is consistent with that of competing states with respect to business tax burden.

The erosion of the state's economic base will continue unless Kansas makes a large and sustained funding investment over the next decade to support a well designed package of economic development initiatives. This will require a significant investment of state financial resources. Our survey of 700 Kansas business and governmental leaders show overwhelming support for "bold, new initiatives," and their input has considerably influenced the following recommendations.

KANSAS ECONOMIC DEVELOPMENT INITIATIVES

The nine economic development initiatives listed below are recommended by the Legislative Commission on Economic Development. These nine initiatives address all 34 recommendations contained in the 1986 Kansas Economic Development Study (interim report). Each initiative is 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. Increase available risk capital through a restructuring of the existing Kansas Development Credit Corporation and Kansas Venture Capital, Inc., with a secondary market in KPERS.
- b. Expand the capability of existing Small Business Development Centers to provide managerial counseling.
- c. Expand the capacity of the existing Certified Development Companies for financial packaging.

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 technical referral services to small, new and emerging companies.

The Corporation is intended to absorb and expand the activities of the existing Office of Advanced Technology and the Advance 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 state's 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 targeted property tax abatements for the location or expansion of industry.

Unless the Prohibition is repealed, several of the most important initiatives cannot be implemented.

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. This initiative proposes to amend the constitution to allow local governments the option to grant targeted tax abatements if they feel that the proposed expansion will provide economic benefits to their community. The proposal is targeted for job creation in primary industries.

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.

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.

INITIATIVE NO. 1:

CREATE A STATEWIDE RISK CAPITAL SYSTEM

REDWOOD/KRIDER REC. NO.:

BILL NO.:

A. Statement of Need

The State of Kansas is an extremely risk capital shy state. This becomes more true the smaller the enterprise, the more traditional the enterprise, the more mature the sector of economic activity, and the more far removed from major population centers the firm is located. There is a need to create a truly statewide rural/urban system of technical support and available risk capital for small enterprises, mature enterprises, existing enterprises as well as new and innovative enterprises, particularly those that are not located in major metropolitan centers. This system should be based on the current state of the art nationally for investing a modest amount of state surplus funds in order to trigger vastly larger amounts of private risk capital for investment in potentially profitable, growing, smaller Kansas firms.

B. Mission Statement

The purpose of this statewide risk capital system is to create a truly statewide, rural/urban system of technical support and risk capital which will:

- a) Meet the management and risk capital needs of potentially profitable existing small enterprise, especially in smaller, more remote, non-metropolitan areas of the state,
- b) Provide small, local banks throughout Kansas with a risk taking vehicle which can assist member banks by investing risk capital in their existing customers which the bank itself cannot afford to provide. One of the models upon which this system is based, says in its brochure to its member banks, "You don't have to say no".
- c) Expand the capabilities of existing Small Business Development Centers to provide managerial counseling to firms supported through this statewide risk capital system.
- d) Expand the capacity of existing initial Certified Development Companies for intake and referral and risk capital financial packaging as a key part of this statewide system.
- e) Create a new \$20 million Kansas Venture Capital Corporation in which Kansas banks and industries will invest \$10 million of private equity capital, matched by a \$10 million investment of state surplus funds, through a restructuring of a reorganization of the existing Kansas Development Credit Corporation. The \$10 million of private capital and the \$10 million of state surplus funds will be subject to the same rate of return, although the state funds will stand in a more senior position.
- f) Create a three-tiered secondary market for the sale of credit from the statewide risk capital system to KPERS at an appropriate rate of risk and return to KPERS with no legislative change to the existing KPERS statute.

This system will make private capital available to a sound local businesses in many parts of the state in 1986.

INITIATIVE NO. 2(a): SMALL BUSINESS VENTURE CAPITAL ACT

REDWOOD/KRIDER REC. NO.: 4

BILL NO.:

A. Statement of Need

Small businesses are responsible for most new job creation in Kansas. Difficulty in obtaining equity financing is inhibiting the establishment and growth of small and expanding firms in Kansas, the adoption of new and innovative production techniques, and the development of new products. The lack of risk capital is a significant weakness in the Kansas economy and may be the greatest impediment to Kansas economic development. Correction of this problem will result in diversification and stimulation of the economy of the state, attract new jobs, retain existing jobs, and retain and generate the financial resources necessary to foster a growth economy.

The creation of small business venture capital funds, which is recommendation #4 of the Redwood Report, will ameliorate this problem, resulting in diversification and stimulation of the economy of the state, new jobs, retention of existing jobs, and generation of the financial resources necessary to foster a growth economy.

B. Mission Statement

The purpose of the Small Business Venture Capital Act is to encourage the formation of private venture capital funds in Kansas.

C. Bill Provisions

1. Secretary of Economic Development is authorized to certify venture capital companies.
 - a. A capital company has as its primary purpose the investment of funds in return for equity in other companies that are in need of capital for survival, expansion, new product development.
 - b. A capital company must have greater than a \$1.5 million investment pool in order to be eligible for certification.
2. Investors in certified capital companies are eligible for income tax credits.
 - a. Persons who invest in a venture capital company will receive a 25% tax credit against their Kansas income tax liability. The credit would be spread over a four year period.
 - b. The tax credit given shall not exceed 25% of a person's total tax liability in any given year.
 - c. There will be a ceiling of \$1.5 million in tax credits given in the first year. This could generate \$24 million in venture capital funds.
3. The Secretary must review all certified capital companies on an annual basis to determine if they are in compliance with certification requirements.

- a. At least 30% of a capital company's capitalization must be in equity investments at the end of four years; 50% within seven years; 75% within nine years.
 - b. At the fourth year, seventh year and ninth year investment levels, 60% of the total investments must be in Kansas businesses in which the funds so invested are used solely for enhancing productive capacity, ability to do business within the state, or generating value added.
 - c. No one equity investment of a capital company can exceed 20% of its total assets.
 - d. Investments in oil and gas, real estate, banking and lending, service and retails do not count for purposes of maintaining certification.
4. ^{Salen} Five years after the effective date of this act, a special 12-member review panel shall be convened to perform a financial and program audit of the act.

INITIATIVE NO. 2(B): TARGETED CORPORATE RESEARCH AND DEVELOPMENT INCOME TAX CREDIT.

REWOOD/KRIDER REC. NO.:

BILL NO.:

A. Statement of Need:

Research and development activities play a vital role in the development of new products and processes. The promotion of such activities within the state of Kansas would lead to more interaction between the business community and institutions of higher learning. This increased interaction would assist in the creation of job opportunities and encourage more industry to expand or relocate to the state.

B. Mission Statement:

The purpose of the bill is to encourage increasing research and development activities within the state by providing corporate income tax credit to companies who make such additional investments.

C. Provisions:

1. Corporate income taxes shall be reduced by a state tax credit for increasing research and development activities in this state.
 - a. Corporations shall receive a credit equal to 6.5 percent of the expenditures for increasing research and development activities within the state.
 - b. Credit shall be based on the amount of expenditures which exceeds the corporations average expenditure during the previous three year period.
 - c. Credit allowed shall not exceed 20% of the total tax liability of a corporation.

INITIATIVE NO. 3:

ESTABLISH A KANSAS TECHNOLOGY ENTERPRISE CORPORATION

REDWOOD/KRIDER REC. NO.: 7, 8, 9, 11, 14, 15, 16

BILL NO.:

A. Statement of Need

The Interim Report of the Kansas Economic Development Study states that the economic strategy for Kansas will involve providing support for innovation and the application of science and technology to the existing economic base as well as building upon existing strengths to develop new industry.

The Report found that an important barrier to the development of modern enterprises was the lack of interaction between the private sector and educational institutions with respect to basic and applied research and technology transfer. Another significant barrier is the lack of seed capital financing for the development of new products or processes by small innovative enterprises or new enterprises that engage in or supply to key exporting industries.

B. Mission Statement

The purpose of the Kansas technology enterprise corporation (KTEC) is to foster innovation in existing industry and the development of new industry in key exporting areas of special importance to the Kansas economy.

C. Bill Provisions:

1. The bill creates a nonprofit corporation called the Kansas technology enterprise corporation and absorbs the functions of the existing Advanced Technology Office and Commission. The Act also creates a:
 - a. Provides for a continuation of centers of excellence.
 - b. Directs the Corporation to prepare need/mission statements and a business plan for institutes of applied science and technology to be located at state universities.
 - c. Provides for the continuation of the existing research matching grant program by creating an applied research fund.
 - d. Creates a seed capital fund which the corporation will invest in innovative, primarily technology based companies. These investments will generate a return on investment that will be recycled to be used for further seed capital investments.
 - e. Encourage the establishment of offices of technology transfer and industrial liaison programs to be located at the state universities.
 - f. Directs the corporation to prepare need/mission statements and a business plan for the establishment of a Kansas product development corporation.
 - g. Creates a state fund to match federal small business innovation research grants to small Kansas businesses.
2. The Corporation will be run by an 11-member, predominately private sector board appointed by the Governor:
 - a. The Secretary of the Department of Economic Development.

- b. Five representatives of private industry.
 - c. Three university engineers or scientists from Kansas universities.
 - d. Two representatives of the private financial sector
 - e. In addition, there are four non-voting ex officio directors, two from House of Representatives and two from the Senate.
3. Board shall appoint a corporate president who is not a board member.
4. To carry out the purpose of the act, the corporation may:
- a. Make investments to stimulate innovation.
 - b. Provide managerial and technical assistance to private enterprises.
 - c. Enter into agreements such as patents, copyrights and royalty payments.
 - d. Provide annual reports detailing costs and accountability of operations.

INITIATIVE NO. 4:

REPEAL OF THE INTERNAL IMPROVEMENTS PROHIBITION OF THE
CONSTITUTION

REDWOOD/KRIDER REC. NO.: 27

RESOLUTION NO.: SCR 1635

A. Statement of Need:

The internal improvements prohibition of the Kansas Constitution creates a serious impediment to Kansas economic development efforts by prohibiting the state from becoming a party to works of internal improvements. The prohibition would interfere with the implementation of several recommendations proposed in the Kansas Economic Development Study. The financing recommendations in particular are likely to be challenged on constitutional grounds. Many of these financing arrangements are commonly and successfully utilized in other states and (it would be detrimental to economic development efforts to forbid their implementation in Kansas.) The internal improvements prohibition must be repealed in order to allow effective economic development legislation.

B. Mission Statement:

The purpose of this legislation is to repeal the internal improvements prohibition of the Kansas Constitution.

C. Bill Provisions:

1. SCR 1635 provides that the proposal to repeal section of the Kansas Constitution prohibiting state participation in works of internal improvements be submitted to the electors of the state.
2. The resolution requires a 2/3 vote of both houses for approval.

INITIATIVE NO. 5:

PROPERTY TAX ABATEMENT FOR ECONOMIC DEVELOPMENT

REDWOOD/KRIDER REC. NO.: 5

BILL NO.: HCR 5047

A. Statement of Need:

Local government plays a vital role in economic development. Recommendation No. five of the Interim Kansas Economic Development Study provides that county and municipal governments should continue to encourage economic development in their jurisdictions by granting property tax abatements to enterprises that have the potential for primary job creation. At least thirty-two other states now offer such an option. These abatements have, in the past, been limited to improvements funded by industrial revenue bonds. With the phasing out of the IRB and in the absence of further legislation, local government will lose the authority to grant property tax abatements.

B. Mission Statement

The purpose of this bill is to encourage local economic development efforts for by giving municipal and county governments the option to grant property tax exemptions for new and expanding manufacturing facilities, research and development facilities, equipment and machinery, and other activity having the potentiall for job creation.

C. Provisions of HCR 5047

1. HCR 5047 proposes to amend the constitution to create a targeted property tax exemption.
 - a. The board of county commissioners or governing body of a city may exempt from ad valorem taxation:
 1. Buildings, land and tangible personal property of a business for the purpose of manufacturing, fabricating, assembling, processing, or finishing articles of commerce in this state and which is starting operations after approval of this act.
 2. Modifications made to existing business for the purpose of manufacturing, fabricating, assembling, processing or finishing articles of commerce in this state which is expanding operations after approval of this act.
 - b. An exemption or partial exemption is allowed for up to 10 years after commencement of operations.
 - c. The legislature may limit or prohibit the application of this section by enactment uniformly applicable to all cities or counties.
2. If approved by two-thirds vote of the house and senate, the proposed amendment will be submitted to voters in the 1986 general election.

INITIATIVE NO. 6: ESTABLISH A KANSAS DEPARTMENT OF COMMERCE

REDWOOD/KRIDER REC. NO.: 17-18, 21-26, 28-33

BILL NO.: HB 2951

A. Statement of Need

There has been serious concern throughout the state that Kansas could be losing its competitive edge in attracting industrial development. This creates a need for an expanded and coordinated effort to improve the economic development capabilities of the state. The Kansas Economic Development Study (interim report), has in fact revealed that chronic underfinancing and understaffing of the Kansas Department of Economic Development has made it enormously difficult for that department to implement an effective economic development effort -- one that involves not only attracting outside business but also encourages the retention and expansion of existing industry in the state and the marketing of Kansas products. A Kansas Department of Commerce should be established, and it should be funded and staffed in a manner that reflects the states strong commitment to economic development.

B. Mission Statement

The purpose of this bill is to ensure the organized, coordinated implementation of economic development policy throughout the state by restructuring the Kansas Economic Development Department into the Kansas Department of Commerce.

C. Provisions

1. HB 2951 replaces the existing Kansas Department of Economic Development with a restructured Kansas Department of Commerce.
2. The bill -- when taken together with the policy and funding recommendations of the Redwood/Krider report, and the Legislative Economic Development Commission and its consultant -- more clearly defines the mission of the department, creates new functions and substantially expands existing programs. Specifically, the bill:
 - a. Existing Industry. Expands and focuses the responsibilities of the existing small business division and increases the number of field offices from two to five.
 - b. Industrial Recruitment. Substantially increases the funding for targeted industrial recruitment and advertising, would open a new office in Europe and expand the Kansas presence in Japan.
 - c. Trade Development. Establishes 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.
 - e. Advanced Technology, Minority Business, Tourism. The bill splits the Office of Advanced Technology and Advanced Technology Commission from the department. Their duties are assumed by the Kansas Technology Enterprise Corporation created in initiative

number 1. The Office of Minority Business is moved to the Division of Existing Industry Development. The Division of Tourism is continued in its present form.

These changes, if funded adequately, will significantly improve the state's role and impact on economic development.

INITIATIVE NO. 7:

ESTABLISH A STANDING COMMITTEE ON ECONOMIC DEVELOPMENT

REDWOOD/KRIDER REC. NO.: 20

BILL NO.:

A. Statement of Need:

It is essential that the Kansas legislature's responsibility for the state's more sustained commitment to economic development be more focused. A permanent legislative structure charged with the responsibility of authoring and reviewing legislation conducive to economic development would ensure that the momentum for this commitment is long-term (permanent). Over time, members of this committee would acquire valuable experience on public policies affecting economic growth in Kansas.

B. Mission Statement:

The purpose of this bill is to support the state's commitment to economic development by establishing standing House, Senate, and Joint Committees on Economic Development. The committees are to have the responsibility for proposing legislation on economic development in the state.

C. Bill Provisions:

1. Create an 11 member senate standing committee on economic development chaired by the President of the Senate or their designee.
2. Create a 15 member house standing committee on economic development chaired by the Speaker of the House or their designee.
3. Create a 13 member joint committee on economic development composed of three senators and four representatives, including the chair of the house and senate standing committees.
4. The committee will be staffed by the legislative research department and the Department of Economic Development, and will be authorized to contract for consulting and research services. It is anticipated that in FY 1988, the Committee will be assigned full time permanent legislative research staff.

INITIATIVE NO. 8:

ESTABLISH A STATE ECONOMIC DEVELOPMENT POLICY COMMITTEE

REDWOOD/KRIDER REC. NO.: 10

BILL NO.:

A. Statement of Need

A continuation of existing economic trends will result in an erosion of the state's economic base and its ability to provide quality services for Kansas. The state has an opportunity to influence these trends in a positive direction by fostering timely adaptation to change and transition. A comprehensive economic development strategy for Kansas must be formulated and modified on a continuing basis. Such a program should be based substantially on the recommendations for economic development in Kansas, as outlined in the Kansas Economic Development Study prepared for the legislature by the Institute for Public Policy and Business Research. The legislature's commitment to coordinate an economic development effort will be reflected in the establishment of an economic development policy committee representing the legislature, the executive branch, the business community and educational institutions.

B. Mission Statement

The purpose of this bill is to empower an economic development policy committee with the authority to formulate economic development policy for the state, specifically:

1. Undertake ongoing strategic analysis in order to determine the state's potential areas of continuing competitive advantage.
2. Undertake continuing strategic planning of improvements in state tax, regulatory and expenditure policy to enhance the state's potential comparative advantages.
3. Oversee crisis management and opportunity management of short term potential gains or losses in economic activity through impact analysis.

C. Bill Provisions

1. The bill creates a Kansas, Inc., a quasi-public, not-for-profit corporation. The corporation, which is run by a board of 15 predominately private sector members, is charged with the responsibility for:
 - a. Coordinating the activities of all parties having a role in the state's economic development through evaluating, overseeing, and appraising those activities on an ongoing basis.
 - b. Overseeing the implementation of the state's economic development plan and monitoring the updates of that plan.
 - c. Educating and assisting all parties involved in improving the long range vitality of the state's economy.

2. The Corporation is empowered to:
 - a. Update, revise, and manage the state's strategic planning process to adapt to changes in society and in the economy, and to thereby combat community deterioration by assuring that effective methods are developed for improving the state's economy.
 - b. Establish and coordinate the operation of programs commonly available to all citizens of Kansas to implement a strategic plan for the state's economic development and enhance the general welfare.
 - c. Evaluate and analyze the state's economy to determine the direction of future public and private actions, and report and make recommendations to the governor with respect to the state's economy.

3. Kansas Inc. will be authorized to hire staff and to draw upon the staff resources of the Kansas Department of Economic Development, legislative research and contract for consulting and research services.

INITIATIVE NO. 9: CREATE FOUR INTERIM TASK FORCES

REDWOOD/KRIDER REC. NO.: 1, 2, 5-16, 19

BILL NO.:

A. Statement of Need

Several major economic development areas require continued, extensive analysis by task forces during the 1986 interim.

B. Mission Statement

The purpose of the recommended task forces is to analyze the specified areas and prepare policy and funding recommendations to the 1987 legislature.

C. 1986 Interim Task Forces

1. Agricultural research

- a. Agricultural diversification and identification of new products and new technologies.
- b. Value added agricultural processing.
- c. State provision of technical assistance to farmers on processing technologies/enterprises and marketing alternatives.

2. Kansas business capital markets

- a. Availability of equity capital from Kansas financial institutions and availability for Kansas businesses.
- b. Adequacy of debt capital for Kansas businesses from Kansas financial institutions.
- c. Availability and adequacy of state government programs to foster business capital availability for Kansas businesses.

3. Kansas' tax structure

- a. Sales/use tax exemption on manufacturing machinery and equipment.
- b. Research and Development tax credit on corporate income tax.
- c. Allow local taxing jurisdictions to give targeted property tax abatements for new/expanding business expenses.
- d. Public education strategy concerning the 1986 constitutional amendment to phase out the property tax on inventories.

4. Funding for State Universities

- a. Examine the way that institutions of higher education are funded to determine how funding can be better structured to reward innovation.

Appendix A: Recommendations of the Kansas Economic Development Study (interim report).

KANSAS ECONOMIC DEVELOPMENT STUDY

Recommendations

Agriculture

1. Establish a Task Force on Agriculture Development and Marketing to develop a strategy on:
 - a) the diversification of Kansas agriculture into new products;
 - b) the application of science and technology to the value added processing of Kansas commodities within Kansas; and
 - c) the provision of technical assistance for production, processing and market development.

Taxation

2. Allow a sales/use tax exemption on all machinery and equipment used in manufacturing and on computers for business use.
3. Allow a reduction in corporate income tax liability through a tax credit given for research and development expenditures.
4. Allow a reduction in income tax liability through a tax credit for investment in private state-approved venture capital funds and state chartered innovation corporations.
5. Allow local taxing jurisdictions to give property tax abatements for new and expanding manufacturing facilities, research and development facilities, equipment and machinery, and for a limited scope of non-manufacturing facilities having a potential for job creation. The authority to grant the abatement should be detached from the issuance of industrial revenue bonds.
6. Support the 1986 constitutional amendment that would phase out the property tax on inventories.

Education, Research, and Technology Transfer

7. Expand substantially the level of funding for the Centers of Excellence Program.
8. Expand substantially the level of funding for the Research Matching Grant Program.
9. Establish Institutes for Applied Science and Technology at the major research universities.
10. Provide resources to the state universities for the purpose of upgrading the quality and increasing the quantity of applied social and economic research.

11. Provide funding for the establishment of an industry liaison function at the main universities.

12. Endorse strongly a continuation and expansion of the state's commitment to all levels of public education in Kansas. Public education in general and higher education in particular are crucial elements for the future progress of Kansas.

Finance, Capital Formation, and Innovation

13. Establish a Kansas Corporation of Innovation Development (KCID).
14. Establish a Kansas Product Development Corporation.
15. Establish a state fund to match federal Small Business Innovation Research grants to Kansas small businesses.
16. Establish a Kansas Science and Technology Authority.
17. Sponsor or organize a financial symposium for Kansas companies.
18. Provide temporary state funding for Certified Development Companies.
19. Establish a secondary market for the SBA guaranteed portion of bank loans.

State Organization for Economic Development

20. The Legislature should establish a permanent joint House-Senate Committee on Economic Development or, alternatively, separate committees in each house.
21. The Small Business Division of the Kansas Department of Economic Development should be substantially expanded, and additional field offices established.
22. A new international trade division within KDED should be established within the Kansas Department of Economic Development.
23. Increased efforts should be made to attract foreign firms to locate in Kansas.
24. An existing industry program should be initiated in Kansas Department of Economic Development.
25. Kansas Department of Economic Development should implement a marketing program aimed at targeted industries.
26. Kansas should initiate a national promotion campaign aimed at improving the image of Kansas among business leaders with responsibility to make business location decisions.
27. Review the constitutional prohibition on internal improvement to determine if it should be modified or repealed.

Community Development and Small Business

28. Provide low or no-interest matching loans to local governments and nonprofit organizations to facilitate establishment of the incubators.
29. A general loan pool for infrastructure development should be available for use by communities to promote economic development.
30. Substantially expand technical assistance to local communities on how to promote economic development.
31. Federal Community Development Block Grants should be used to the fullest extent possible for economic development projects.
32. A state community development block grant program should be established, targeted to economic development.
33. Expand the "Certified Cities" program.
34. Provide state funding for the Small Business Development Center (SBDC) network to expand technical assistance to small businesses through consulting and training sessions.

DEPARTMENT OF COMMERCE -- OFFICE OF THE SECRETARY

Mission: To assist and recruit businesses, provide assistance to businesses and loans to communities, and to increase the number of visitors to Kansas.

DEPUTY SECRETARY
GENERAL ADMINISTRATION
° Policy Analysis & Research Unit
° Fiscal

EXISTING INDUSTRY DEVELOPMENT DIVISION (Rec. No. 21 & 24)

Mission: To promote and encourage the growth, diversification, and retention of business and industry in Kansas.

Major Activities:

- * Small Business
- * Minority Business Devel.
- * One Stop Permitting
- * Field Offices (Rec. No. 21)
- * Local Community Technical Assistance (Rec. No. 30)
- * Community Development Block Grants--Economic Development (Rec. No. 31 & 32)
- * Liaison with Small Business Development Centers, Certified Development Companies

INDUSTRIAL DEVELOPMENT DIVISION

Mission: To attract new business and industry from outside the state, thereby creating jobs, attracting new capital investment, and expanding and diversifying the state's economic tax base.

Major Activities:

- * Domestic Business Recruitment
- * International Business Recruitment
- * Targeted Marketing Program (Rec. No. 25)
- * National Promotion Campaign (Rec. No. 26)

TRADE DEVELOPMENT DIVISION (Rec. No. 22)

Mission: To increase sales of Kansas agricultural and manufactured products worldwide, thereby creating jobs, bringing new dollars into the state, and enhancing the growth and expansion of the state's economic base.

Major Activities:

- * Domestic Trade Development
- * International Trade Development
- * Agriculture Trade Development

TRAVEL & TOURISM DEVELOPMENT DIVISION

Mission: To increase the number of visitors to Kansas by promoting the state as a travel opportunity to both Kansans and non-Kansans alike.

Major Activities:

- * Promotion
- * Tourist Information Centers
- * Kansas Magazine
- * Film Services

COMMUNITY DEVELOPMENT DIVISION

Mission: To provide grants, loans and technical assistance to Kansas communities to stimulate and support economic development activity.

Major Activities:

- * Community Assistance (Rec. No. 30)
- * Mainstreet Program
- * PRIDE Program
- * Community Development Block Grants--Small Cities (Rec. No. 31)
- * Enterprise Zones
- * Certified Cities Program (Rec. No. 33)

OFFICE OF ADVANCED TECHNOLOGY

Mission: To improve the environment for the development, retention, expansion and attraction of technology based industry in Kansas. NOTE: This chart assumes that the existing Advanced Technology Commission and its staff are split from KDED and become a completely separate entity. The Commission is to be absorbed by the proposed Kansas Technology Enterprise Corporation (KTEC).

REDWOOD/KRIDER REPORT

Rec. No	Recommendation
21	Substantially expand the KDED Small Business Division; add field offices.
22	Establish a KDED International Trade Division.
23	Expand the state's efforts to attract foreign firms.
24	Initiate a KDED existing industry program.
25	Implement a KDED targeted industries marketing program.
26	Initiate a national promotion campaign.
30	Substantially expand technical assistance to local communities.
31	Use federal Community Development Block Grant funds to the fullest extent.
33	Expand the Certified Cities Program.
34	Provide state funding to Small Business Development Centers.

Appendix B: Proposed Kansas Department of Economic Development organization chart.

Date: March 19, 1986

Benefits of 503.

The Small Business Administration (SBA) 503 Program provides an easy solution to what used to be a difficult problem — long-term, fixed asset financing for small business. In the past, many lenders were often unable to provide certain loans to small businesses because too much money, too long of terms, or too much risk was involved. But now, with the 503 Program, lenders can provide small business customers with the long-term, low interest, fixed asset financing that they need.

The Program is administered by the Business Development Corporation of Nebraska (BDCN), which recognizes the special needs of small business and its enormous contribution to local economies. The BDCN was formed with the sole purpose of increasing commercial expansion to broaden the tax base, create new employment opportunities, and generate a favorable business climate for the state of Nebraska. The SBA 503 Program is one way we can help.

How 503 works.

The SBA 503 Program allows the Business Development Corporation to generate a loan package involving three sources:

1. Private lending institution
2. Small Business Administration
3. Small business concern

The private lending institution provides 50% of the total project cost at a conventional interest rate which is negotiated between the institution and the borrower. The institution has the option of setting a fixed or variable rate for their portion of the loan, with a minimum of a 10 or 12½ year term.

The Small Business Administration provides 40% of the total project cost, not exceeding \$500,000, at an interest rate which is ¾% above long-term

Treasury Bonds. The interest rate is set at the time of the loan closing and is fixed for the life of the loan. The term of the loan is 15, 20 or 25 years, and is tied to the expected life of the asset being financed.

The remaining 10% of the project is designated as the equity injection, or down payment portion of the project. This portion is provided by the borrower, or in some cases, a local development corporation.

Example:

A small business wants to borrow \$1,000,000 for land acquisition and plant expansion. Typically, this SBA 503 project would be structured as follows.

AMOUNT	SOURCE	SECURITY
\$500,000 (50%)	Private Lender	First mortgage
\$400,000 (40%)	SBA guaranteed Debenture	Second mortgage
\$100,000 (10%)	Borrower	
\$1,000,000 (100%)	Total — less than market interest rate.	

This loan structure helps prospective borrowers finance a project with a low equity requirement, a long term, and a low rate of interest on a major portion of the loan. The low down payment enables business to retain more working capital, and start

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expansion earlier. The attractive rate means that not as much cash flow is going to debt service. And the lower credit and collateral risks make the loans more easily attainable.

Who is eligible.

The net worth of a business applying for 503 Funds must not be in excess of \$6 million, and its net profits after taxes must have averaged less than \$2 million during the previous two years. Only for-profit corporations, partnerships, and proprietorships of this size are eligible. SBA financing is not available for non-profit organizations; print media such as newspapers and magazines; lending institutions; recreation facilities that are not open to the public; and investment real estate.

Financing obtained from the 503 Program must be used for acquisition of land and buildings, construction, expansion, renovation and modernization, machinery and equipment, and reasonable contingencies. In addition, there are certain "soft costs" which qualify for financing, including interim interest, professional fees for services such as appraisals, surveying, accounting, engineering, and architectural services.

Attachment B

8/85
Region VII

Economic Dev. Comm.

University & Address

Contact

Telephone

3-19-86
Attachment C

Wichita State University
SBDC
College of Business Administration
1845 Fairmount
Wichita, KS 67208

↓ Mary Jenkins

316-689-3193

Emporia State Univ.
SBDC
School of Business Building
Emporia, KS 66801

Dr. Bart Finney

316-343-1200 (Ext. 308)

Fort Hays State Univ./SBDC
School of Business Building
Hays, KS 67601

↓ Dr. Robert Camp

913-628-5340

Johnson County Comm. College/SBDC
College Blvd at Quivira Rd.
Overland Park, KS 66210

David Smith

913-888-8500

Kansas State University
SBDC
Manhattan, KS 66506

Dr. J. Barton-Dobenin

913-532-5827

Pittsburg State University/SBDC
Gladys A. Kelce School of Business
& Economics
Kelce Center
Pittsburg, KS 66762

Dr. Terry L. Mendenhall

316-231-7000 (Ext. 435)

University of Kansas/SBDC
School of Business
Summerfield Hall
Lawrence, KS 66045

↓ Joyce Claterbos

913-864-3117

Washburn University/SBDC
Henderson Learning Center
Topeka, KS 66621

Dr. Frank A. Sotrines

913-295-6305

Kansas State Director of Small Business Development Center: Susan Osborne-Howes, 316-689-3193

EXHIBIT A

March 19, 1986
Economic Dev. Comm.

KANSAS CERTIFIED DEVELOPMENT COMPANIES
AND THEIR DIRECTORS

- °1. Joni Fish, Director
Big Lakes
1006 Poyntz Ave.
Manhattan, KS 66502
(913) 776-4859
- °2. John Meyers, Director
Douglas County
823 Vermont
P.O. Box 581
Lawrence, KS 66044
(913) 843-4411
- *3. Gary Graham, General Manager
Four Rivers
Municipal Building
Beloit, KS 67420
(913) 738-2210
4. Gerald Cooper, Director
Greater Southwest Kansas
1111 Kansas Plaza
Garden City, KS 67846
(316) 275-9176
- °5. Peggy Proestos, Director
Lenexa (City-wide)
Lenexa State Bank Bldg.
12345 W. 95th, Suite 309
P.O. Box 14244
Lenexa, KS 66215
(913) 888-1826
6. LaVert A. Murray, Deputy Director
Kansas City Kansas
Dept. of Economic Dev.
Municipal Office Bldg.
One Civic Plaza
Kansas City, KS 66101
(913) 573-5000
7. Jim Dahmen, Exec. Vice President
Mid-America, Inc.
1715 Corning
Parsons, KS 67357
(316) 421-6350
8. Mrs. Jean Waltemath, Exec. Director
MO-KAN Development, Inc.
1302 Faron St.
St. Joseph, MO 64501
(816) 233-8485
9. Don Reed, President
McPherson County Small Business
Development Assoc.
101 S. Main McPherson
McPherson, KS 67460
(316) 241-0431
10. Ronald D. Nicholas, Director
Nine County
407 S. Main St.
P.O. Box 8776
Pratt, KS 67124
(316) 672-9421
11. Leroy Lyon, Exec. Director
Pioneer Country
414 North West St.
P.O. Box 248
Hill City, KS 67642
(913) 674-5851
12. Jack Alumbaugh, Exec. Director
South Central Kansas
Economic Dev. District
Sutton Place, Suite 102
209 E. William St.
Wichita, KS 67202
(316) 262-5246
13. Chris Imming, Director
Topeka/Shawnee County
820 Quincy, Suite 501
Topeka, KS 66612
(913) 234-0076
14. Jerry Mallot, President
Wichita Area Dev. (City-wide)
350 W. Douglas
Wichita, KS 67202
(316) 265-7771

° Organizing

* Pending approval

Attachment D

"E"
March 19, 1985 (Mon)
Economic Dev. Comm.

Institute for Public Policy and Business Research

Recommendation #3 Tax Credit for Research and Development Expenditures

INTRODUCTION

This type of an exemption is one the 12 most prevalent tax incentives according to Industrial Development (January/February 1985). The promotion of research and development (R & D) within Kansas would lead to a higher level of interaction between the business community and universities as well as increase the business community's role in research and development.

It has also been reported that Kansas has been losing over half of their college graduates to other states where there are increased job opportunities. Increasing the amount of R & D in the state should provide more job opportunities and encourage more Kansas' graduates of higher education to remain within the state.

TAX POLICY AND ITS EFFECT ON R & D

In a recent article, Edwin Mansfield assesses the impact of tax policy and R & D (Science, March). Prior to the 1981 federal tax changes, four provisions of the U.S. tax code were widely regarded as having a significant effect on R & D expenditures. These provisions included a deduction for R & D expenditures in the year in which they occur and a deduction for both individuals and corporations for contributions to educational and scientific institutions. In 1981, the U.S. Congress approved a change in the tax law which provides a 25 percent tax credit against

federal income tax liability for R & D expenditures in excess of the average amount of R & D expenditures in a base period (the previous three taxable years). Several states have also adopted their own legislation to encourage R & D and technological innovation. These tax policies appear to have had a positive effect on the rate of R & D and technological innovation both on the federal and state levels.

OTHER STATES

By the end of 1985, nineteen states offered either a tax exemption or tax credit to encourage research and development. In those states where a tax credit is offered, the amount of the credit ranges from 3 to 10 percent of qualifying R & D expenditures. The only state in this region to offer such a credit is Iowa. Other states offer a tax exemption for expenditures incurred for research and development facilities and equipment.

Incentives given for R & D for some of the nineteen states are as follows:

Alabama - The state allows a deduction to be taken for actual R & D expenditures.

Florida - The state exempts equipment used in R & D from the state sales tax.

Indiana - A credit is provided through 1986 against the adjusted gross income and the gross income tax for R & D expenses to taxpayers receiving a federal credit for increasing research activities. The credit is based on the amount of research

expenses incurred in that year in excess of a base period's expenses, minus the amount of the federal credit. The credit is equal to 5% of qualifying research expenses. The maximum credit allowed in one year is 100% of a corporation's income tax liability. Any unused credit may be carried forward up to 15 years.

Iowa - The state provides a tax credit equal to 6.5% of qualified research expenditures in excess of a 3 year average base. A corporation may reduce their tax liability by up to 100% by the credit. Any unused credit may be carried forward.

Maine - The state provides an exemption from the state sales tax for new machinery and equipment used by the purchaser directly and exclusively in R & D in the experimental and laboratory sense.

Maryland - Equipment purchased for use in R & D is exempt from state sales/use taxes.

Massachusetts - The state follows federal tax provisions in allowing corporations to expense R & D expenditures. There is also a five year tax exemption on gross income derived from the development in the state of patents useful for energy conservation or from activities related to such development.

Minnesota - A deduction from gross income is allowed for research and experimental expenditures as per the Federal Internal Revenue Code and for expenses associated with exploring and developing mineral deposits. Additionally, a credit against income tax liability may be taken for 10% of research expenses incurred in

the state in excess of a 3 year average base. The credit may be up to 10% of tax liability for the year or \$300,000, whichever is less.

New Jersey - The state exempts property used for R & D from the state sales tax.

New York - Expenses incurred by an incorporated business for experimental R & D facilities may be deducted from net income for tax purposes. An investment credit equal to 6% of qualified capital invested in new production facilities may be taken in lieu of the deduction. In lieu of all other credits or deductions, a firm may take a credit against the corporate franchise/income tax of 10% of the cost of tangible personal property purchased for R & D use.

North Dakota - A sales/use tax exemption is allowed for equipment purchased for use in R & D.

Pennsylvania - Property used for R & D is exempt from the state sales tax.

Rhode Island - Although the state allows a tax deduction for expenditures on R & D facilities in one year, corporations have chosen instead to use an investment tax credit equal to 2% of expenditures on facilities and equipment used in R & D or manufacturing. Any unused credit may be carried forward up to 7 years.

South Carolina - Starting July 1, 1986, the state will place a lid of \$300 on the amount of sales/use tax a corporation pays per piece of machinery and equipment used in R & D. Also beginning

July 1, 1986, the state will exempt R & D facilities from ad valorem property taxes.

Virginia - Local governments may classify separately the tangible personal property of R & D firms from that of other taxpayers and tax it at different rates. The state also exempts machinery and equipment used in R & D from the state sales/use tax.

West Virginia - A tax credit to be used against a corporation's Business and Occupation Tax liability is allowed for any investment in a R & D project carried out by either an industrial or natural resource development firm. The credit is based upon the useful life of the property. The credit is equal to 33 1/3% of the cost of property with a useful life of 4 to 6 years, 66 2/3% of the cost of property with a useful life of 6 to 8 years, and 100% of the cost of property with a useful life of over 8 years.

Wisconsin - The state provides a tax credit equal to 5% of total qualifying research expenditures in excess of a 3 year average base and for capital expenditures on research facilities. The maximum tax credit allowed in any one year is 100% of a corporation's tax liability, but the credit may be carried forward for up to 15 years.

COST

The cost of Iowa's tax credit for research and development expenditures was approximately \$1 million in both FY1984 and FY1985. In Wisconsin, approximately 200 corporations took advantage of a tax credit for R & D expenditures. Wisconsin's

cost in FY1984 was \$3.8 million. Minnesota has a similar program to both Iowa and Wisconsin and has estimated their cost for this credit was \$8.4 million in FY1984 and will be \$12 - \$16 million for FY1985.

Laurian Elizabeth Casson
Research Assistant
Institute for Public Policy and Business Research
March 17, 1986

"F"

5 RS 275.

March 19, 1986 (date)
Economic Dev. Comm.

BILL NO. _____

By

AN ACT

(Research and development tax credits)

Be it enacted by the Legislature of the State of Kansas:

Section 1. Every corporation shall be entitled to claim a credit in an amount equal to 6 1/2% of the amount by which the amount invested in research and development activities within this state in the tax year for which such credit is claimed against the tax liability imposed against such taxpayer pursuant to article 32 of chapter 79 of the Kansas Statutes Annotated exceeds the corporation's average expenditure for such purpose during the three immediate preceding years of the taxpayer. In no case shall such credit exceed an amount equal to 20% of the total tax liability of the taxpayer.

For the purposes of this section "investment in research and development activities" shall mean and include expenditures incurred in connection with the taxpayer's trade or business which represents research or development costs in the experimental or laboratory sense. The term includes generally all costs incident to the development of an experimental or pilot model, a plant process, a product, a formula, an invention, or similar property, and the improvement of already existing property of the type mentioned. The term does not include expenditures such as those for the ordinary testing or inspection of materials or products for quality control or those for efficiency surveys, management studies, consumer surveys, advertising, or promotions.

Sec. 2. This act shall take effect and be in force from and after its publication in the Kansas register.

Attachment F

"G"

5 RS 2673

March 19, 1986 (New)
Economic Dev. Comm.

BILL NO. _____

By

AN ACT relating to the Kansas technology enterprise corporation; limiting expenditures; and abolishing the Kansas advanced technology commission.

Be it enacted by the Legislature of the State of Kansas:

Section 1. Statement of need. The legislature of the state of Kansas finds that:

(a) There exists in the state a great and growing opportunity for cooperation between private enterprise and educational institutions in the areas of innovation, basic and applied research and the transfer of new technologies between educational institutions and private enterprises;

(b) there exists a lack of seed-capital financing for the development of new products or processes by small innovative enterprises or new enterprises engaged in, or supplying to, key exporting industries of special importance to the Kansas economy;

(c) encouraging these activities can lead to increased industrial and commercial development to provide and maintain employment and revenues which are important functions to the state;

(d) these activities can improve the pace at which existing industries innovate and grow, increasing opportunities for small and large enterprises alike and creating new exporting industries and services within the state, resulting in increased employment and public revenues; and

(e) these opportunities for innovation and growth lie particularly in those small enterprises engaged in agricultural, manufacturing and technology based exporting industries, which are increasingly recognized as the sources of new job creation within Kansas and the nation.

Attachment G

Sec. 2. Mission statement. (a) The purpose of the Kansas technology enterprise corporation is to foster innovation in existing industry and the development of new industry in key exporting areas of special importance to the Kansas economy, especially in those small enterprises including, but not limited to:

(1) Existing resource based industries of agriculture, oil, gas, coal and helium.

(2) existing advanced technology industries of aviation, pharmaceuticals, computers and electronics; and

(3) emerging industries of telecommunications, computer software, information services and research services.

(b) The corporation shall achieve the purpose stated in subsection (a) of this section by:

(1) Financing centers of excellence at education institutions to engage in basic research that potentially has application in existing and new Kansas industries;

(2) awarding applied research matching grants to educational institutions and private enterprises in order to move innovation and applied research toward commercial application; and

(3) engaging in seed-capital financing for the development and implementation of innovations or new technologies for existing resource, technology based and emerging exporting industries;

(4) providing technical referral services to such small, new, emerging or mature exporting enterprises and encouraging educational institutions to establish technical information data bases and industrial liaison offices which are easily accessible by both private and public sector organizations.

Sec. 3. Definitions. As used in this act:

(a) "Applied research" means those research activities occurring at educational institutions and in private enterprises, which have potential commercial application in key exporting areas of special importance to the Kansas economy;

(b) "basic research" means research that has longer range generic value to an industry classification or group of companies. It is distinguished from applied research which has more present value to a single company or project to be achieved in a limited time period;

(c) "corporation" means the Kansas technology enterprise corporation;

(d) "educational institutions" means public and private community colleges, colleges and universities in the state;

(e) "enterprise" means a firm with its principal place of business in Kansas which is engaged or proposes to be engaged in this state in agricultural, natural resource based or other manufacturing, research and development, or the provision of technology based services;

(f) "innovation" means any new technology, product or process without regard to whether a patent has or could be granted;

(g) "new technology" means the development through science or research of methods, processes and procedures, including but not limited to those involving the utilization of agricultural products and by-products and oil and gas and other mineral resources, for practical application in industrial and service situations;

(h) "person" means any individual, partnership, corporation or joint venture carrying on business or proposing to carry on business within the state;

(i) "product" means any product, device, technique or process, which is or may be exploitable commercially; however, "product" does not refer to basic research but shall apply to such products, devices, techniques, or processes which have advanced beyond the theoretical stage and are in a prototype or practice stage;

(j) "qualified security" means any public or private financial arrangement, involving any note, security, debenture, evidence of indebtedness, certificate of interest or

participation in any profit-sharing agreement, preorganization certificate or subscription, transferable security, investment contract, certificate of deposit for a security, certificate of interest or participation in a patent or application therefor, or in royalty or other payments under such a patent or application, or, in general, any interest or instrument commonly known as a "security" or any certificate for, receipt for, guarantee of, or option, warrant or right to subscribe to or purchase any of the foregoing to the extent allowed by law;

(k) "seed capital" means financing that is provided for the development, refinement and commercialization of a product, process or innovation, whether for the startup of a new firm, the expansion of a young, small firm or the restructuring of a mature, small firm;

(l) "small business" means an enterprise engaged in manufacturing having 500 or fewer employees and all other business enterprises having 100 or fewer employees; and

(m) "exporting" means those Kansas enterprises that sell goods or services outside the state and their suppliers.

Sec. 4. Powers. To carry out the purposes specified in section 2 of this act, the corporation shall have all the powers necessary to carry out its purposes, which include the power to:

(a) Make, amend and repeal bylaws, rules and regulations for the management of its affairs;

(b) sue and be sued;

(c) make contracts and execute all instruments necessary or convenient for carrying out its business;

(d) acquire, own, hold, dispose of and encumber real or personal property of any nature, both tangible and intangible, of any nature or any interest therein;

(e) enter into agreements or other transactions with any federal, state, county or municipal agency and with any individual, corporation, enterprise, association or any other entity involving applied research and technology;

(f) acquire real property or an interest therein, by

purchase or foreclosure, where such acquisition is necessary or appropriate to protect or secure any investment or loan in which the corporation has an interest;

(g) sell, transfer and convey any such property to a buyer, and in the event such sale, transfer or conveyance cannot be effected with reasonable promptness or at a reasonable price, to lease such property to a tenant;

(h) invest any funds appropriated by the state and held in reserve in funds not required for immediate disbursement, in such investments that may be lawful for fiduciaries in this state, and invest funds received from gifts, grants, donations and other operations of the corporation in such investments as would be lawful for a private corporation having purposes similar to the corporation;

(i) borrow money and give guaranties, provided that the indebtedness and other obligations of the corporation shall be payable solely out of its own resources, and shall not constitute a pledge of the full faith and credit of the state or any of its revenues;

(j) appoint officers, consultants, agents and advisors, and prescribe their duties and compensation;

(k) appear in its own behalf before boards, commissions, departments or other agencies of municipal, county or state government or federal government;

(l) procure insurance against any losses in connection with its properties in such amounts from such insurers as may be necessary or desirable;

(m) consent, subject to the provisions of any contract with note-holders, whenever it considers it necessary or desirable in the fulfillment of the purposes of this act, to the modifications, with respect to the rate of interest, time payment or of any installment, of principal and interest or any terms of any contract or agreement of any kind to which the corporation is a party;

(n) accept any and all donations, grants, bequests and

devises, conditional and otherwise, of money, property, services or other things of value which may be received from the United States or any agency thereof, any governmental agency, or any institution, person, firm or corporation, public or private, to be held, used or applied for any or all of the purposes specified in this act, in accordance with the terms and conditions of any such grant; receipt of each such donation or grant shall be detailed in the corporation's annual report; such report shall include the donor or lender's identity, the nature of the transaction and any conditions;

(o) trade, buy or sell qualified securities;

(p) finance, conduct or cooperate in the financing or conducting of scientific, technological, business, financial or other investigations which are related to or likely to lead to business and economic development, involving natural resources, innovation, applied research and new technology, by making and entering into contracts or other appropriate arrangements, including the provisions of grants, loans and other forms of assistance;

(q) solicit, study and assist in the preparation of business plans and proposals of new or established resource and technologically oriented enterprises, particularly in those exporting areas of special importance to the Kansas economy;

(r) prepare, publish and distribute, with or without charge as the corporation may determine, such technological studies, reports, bulletins and other materials as it considers appropriate, subject only to the maintenance and responsibility for confidentiality of the client proprietary information and encourage educational institutions to develop and disseminate similar materials;

(s) organize, conduct, sponsor or cooperate with, and assist both the private sector and educational institutions in the conduct of, special institutes, conferences, demonstrations and studies relating to the stimulation and formulation of innovation, applied science and technologically oriented

enterprises and studies relating to the formulation of resource and technologically oriented enterprises and industry endeavors;

(t) provide and pay for such advisory services and technical assistance that may be necessary or desirable to carry out the purposes of this act;

(u) own, possess and take license in, patents, copyrights and proprietary processes and negotiate and enter into contracts and establish charges for the use of such patents, copyrights and proprietary processes when such patents and licenses for innovation or inventions result from research sponsored by the corporation in a private enterprise or when the corporation finances a product developed by a private enterprise;

(v) negotiate royalty payments to the corporation on patents and licenses for innovations or inventions arising in the course of research sponsored by the corporation at educational institutions under the jurisdiction of the Kansas board of regents; such negotiated royalty arrangements should reflect an appropriate sharing of legal risk as well as financial return between the corporation and educational institution; such patents and licenses shall be in keeping with the patent policies of the Kansas board of regents;

(w) exercise any other powers necessary for the operation and functioning of the corporation within the purposes authorized in this act;

(x) participate with any state agency or educational institution in developing specific programs and goals to assist in the development of industrial innovation, applied research and new technology in those exporting areas of special importance to the Kansas economy and monitor performance;

(y) cooperate with the department of economic development regarding financial assistance programs targeted to small enterprises engaged in key exporting industries of special importance to the Kansas economy; and

(z) provide resource based, scientific and technological data and information required by the governor, the legislature,

or its committees, and to state agencies, educational institutions and cities, counties and school districts and to private citizens and groups, within the limitations of the resources available to the corporation. This service shall be in addition to any services currently provided by any educational institution, committee or other organization;

(aa) the corporation shall be exempt from all franchise, corporate business and income taxes levied by the state. However, this act is not intended to exempt from any such taxes, or from any taxes levied in connection with the manufacture or sale of any products or processes which are the subject of any agreement made by the corporation, or any person entering into any agreement with the corporation;

(bb) documents and other materials submitted to the corporation by Kansas businesses shall not be public records if such records are determined to be trade or business secrets and shall be maintained in a secured environment by the president;

(cc) the corporation shall not be subject to state purchasing laws.

Sec. 5. Board of directors. (a) The Kansas technology enterprise corporation is created as an independent, nonprofit, public corporation.

(b) The corporation shall be governed by a board of 11 members who shall be residents of this state. The board shall consist of the governor, or the secretary of the department of economic development, and 10 directors appointed by the governor, subject to senate confirmation as provided in K.S.A. 75-4315b, and amendments thereto, as follows:

(1) Five directors shall be persons from the private sector who have demonstrated leadership, knowledge and experience in key exporting industries of special importance to the Kansas economy including those small enterprises which include, but are not limited to:

(A) Existing resource based industries of agriculture, oil and gas;

(B) existing advanced technology industries of aviation, manufacturing and information and design; and

(C) emerging industries of telecommunications, computer software, information services and research services;

(2) three directors shall be engineers or scientists who have extensive experience in managing basic or applied scientific and technological research at Kansas universities and who are recognized by their peers for outstanding knowledge and leadership in their fields; and

(3) two directors shall represent the private financial sector; one shall have experience in the area of high-risk venture investments; and the other shall have commercial banking experience in an industry of special technological importance to the Kansas economy and both of whom are recognized by their peers for outstanding knowledge and leadership in their fields.

(c) The governor shall give consideration to geographical representation when making board appointments.

(d) Two directors shall be appointed for a term of one year, two directors shall be appointed for terms of two years, three directors shall be appointed for terms of three years and three directors shall be appointed for terms of four years. Successors to such directors shall be appointed for terms of four years. Each director shall hold office for the term of appointment and until the successor shall have been appointed and confirmed. In the event of a vacancy, the vacancy shall be filled by the governor in the manner provided for appointments for the remainder of the unexpired portion of the term.

(e) In addition to the 11 directors, there shall be four nonvoting, ex officio directors, one member of the house of representatives appointed by the speaker, one member of the house of representatives appointed by the minority leader, one member of the senate appointed by the president, and one member of the senate appointed by the minority leader. The ex officio directors shall serve from the date of their appointment until the opening day of the next regular session of the legislature. Ex officio

directors may be reappointed.

(f) Members of the board of directors shall, in their dealings with enterprises that may receive financing through the corporation, declare any potential conflict of interest and abstain from voting prior to taking any actions relating to that transaction.

(g) The board of directors shall select a corporate president who is not a board member.

(h) The board of directors shall hold all board meetings within the state of Kansas.

(i) Members of the board of directors are entitled to compensation and expenses as provided in K.S.A. 75-3223, and amendments thereto.

(j) The board shall annually elect from the private sector membership one member as chair and one member as vice-chair.

(k) The board of directors shall meet at least once during each calendar quarter, and at such other times as may be provided in the rules of the corporation, upon call by the president, the chair or upon written request of a majority of the directors.

(l) A majority of the board of directors shall be necessary to transact corporation business, and all actions of the directors shall be by a majority vote of the full number of corporate directors.

(m) The directors shall establish an executive committee composed of the chair, vice-chair and three additional members chosen by the chair from the remaining directors. The executive committee, in intervals between board meetings, may transact any board business that has been delegated to the executive committee. A majority of the executive committee shall be necessary to transact business and all actions of the executive committee shall be by a majority vote of the committee.

(n) No member of the board of directors is eligible to serve more than two terms of office.

(o) A member of the board of directors may be removed by the governor for cause, stated in writing, after a hearing

thereon.

Sec. 6. Management. (a) The president shall be the chief executive officer of the corporation who shall serve at the pleasure of the board. The president's salary shall be set by the board of directors. The president shall direct and supervise administrative affairs and the general management of the corporation.

(b) The president:

(1) May employ and terminate such other officers and employees as designated by the board of directors and who shall be members of the unclassified service;

(2) shall attend board meetings;

(3) shall appoint a secretary to keep a record of all proceedings and maintain and be custodian of all financial and operational records, documents and papers filed with the corporation and of the minute book of the corporation;

(4) shall, before receiving operating funds or accepting any applications from an enterprise for applied research grants or seed-capital funds, prepare a business plan before October 1, 1986, which shall be approved by the board of directors, shall be submitted for review to the economic development commission and to Kansas, Inc. Upon approval of the commission, the state finance council shall release operating funds for the corporation prior to the 1987 legislative session.

Sec. 7. Centers of excellence. (a) The purpose of this section is to authorize the establishment of centers of excellence at the state universities that will undertake ongoing basic research with a particular focus that will have long run potential for commercial development. The centers should build on institutional strengths and be in areas of research where the university has achieved or has true promise of attaining excellence as recognized by national and international peers.

(b) The Kansas technology enterprise basic research fund is hereby created to which shall be credited any state funds specifically so designated. The fund is not to be used for

technical assistance, training or applied research, but only for actual basic research.

(c) The corporation may use the Kansas technology enterprise fund to carry out the purposes of this act by awarding funds to establish new centers of excellence or to increase funding to already established centers of excellence. Awards of funds shall be made on a competitive basis, and all proposals shall be subject to external peer review on the basis of scientific merit and subsequent potential for commercial application.

(d) In carrying out its functions under this section, the corporation is directed to create a centers of excellence committee to assist in evaluating the establishment of new centers of excellence and in evaluating increases in funding for already established centers of excellence. The membership of the centers of excellence committee may include both directors and staff members of the corporation, and other persons drawn from sources other than the corporation who meet standards similar to those applying to the board of directors and who are recognized by their peers for outstanding knowledge and leadership in their fields.

(e) The corporation shall award funding for new centers and increased funding for established centers only after:

(1) Developing, adopting and publishing the criteria it shall use when evaluating centers of excellence; and

(2) receiving the recommendation of the centers of excellence committee which will review proposals for new or established centers of excellence containing:

(A) Documentation that not less than 50% of the center's total funding will be matched by sources other than the corporation; equipment may be considered as part of the matching funds, but must be accompanied by a statement that the center of excellence has received the machinery or equipment, and it is state of the art and either:

(i) Verifying that the equipment or machinery is donated

and has only been used in testing to insure quality control, or used by a wholesaler or retailer for demonstration purposes only; or

(ii) detailing the price paid by the center of excellence, with an invoice showing the amount paid for the equipment;

(B) a description of a potential for future benefit to industry;

(C) an itemized operations budget; and

(D) other information that may be required by the board.

(f) The three existing Kansas centers of excellence--the center for artificial intelligence and automated control systems at Kansas state university, the center for bioanalytical research at the university of Kansas, and the center for productivity enhancement at Wichita state university--are eligible for continuing support from the corporation according to the same terms and conditions as provided in this act following an external review to determine under what provision of this statute and by what terms continuing funding is appropriate.

(g) The board shall approve such basic research proposals after the board finds, based upon the proposal submitted, external peer reviews, and such additional investigation as the staff of the corporation shall make and incorporate in its minutes that:

(1) The proposed center of excellence has the potential to stimulate economic growth by bringing together university-industry partnerships to focus on basic research and technology transfer; and

(2) the center has the long run potential for benefit to existing and new industries through innovation and development of new technology.

Sec. 8. Centers for technology transfer. The corporation shall provide funding to educational institutions to establish centers of technology transfer. Each such center shall emphasize technology transfer to Kansas industry.

(a) The corporation may use funds from the Kansas

technology enterprise fund to carry out the purpose of this section by establishing new centers of technology transfer. If the Kansas legislature establishes a center at Pittsburg state university during 1986, funding will be continued by the corporation in subsequent years in accordance with the criteria for centers under this section.

(b) Awards of funds shall be made on a competitive basis and all proposals shall be evaluated by the corporation on the basis of merit and potential for increasing the competitiveness of Kansas industry.

(c) The corporation shall award funding to centers of technology transfer in accordance with sections 7(f) and 7(g).

Sec. 9. Applied research fund. (a) The Kansas technology enterprise applied research fund is hereby created, to which shall be credited any state funds specifically so designated.

(b) The corporation may use the Kansas technology enterprise applied research fund to carry out the purposes of this act by awarding competitive applied research grants to educational institutions and private enterprises in key exporting areas of special importance to the Kansas economy. The fund is not to be used for technical assistance or training but only for actual applied research.

(c) The board shall award grants only after:

(1) Developing, adopting and publishing the criteria it shall use when evaluating research proposals; and

(2) reviewing applied research proposals which present:

(A) Documentation, if the proposal is from an educational institution, that not less than 60% of the total direct cost of the proposed project will be provided by sources other than the corporation; equipment may be considered as part of the matching funds for the research, but must be accompanied by a statement:

(i) That the educational institution has received the machinery or equipment and it is state of the art; and either

(ii) verifying that the equipment or machinery is donated and has only been used in testing to insure quality control, or

used by a wholesaler or retailer for demonstration purposes only;
or

(iii) detailing the price paid by the educational institution, with an invoice showing the amount paid for the equipment;

(B) documentation, if the proposal is from a private enterprise, that not less than 60% of the total direct cost of the proposed project will be provided by sources other than the corporation or through in-kind services provided through the private enterprise as evaluated by the board or review committee;

(C) a description of the future commercial application and the industrial sectors that will likely benefit by the applied research project and the potential for job creation;

(D) an itemized research budget, time line and research methodology;

(E) a recommendation from the sponsoring educational institution or business enterprise; and

(F) other information that may be required by the board.

(d) The board shall approve such applied research proposals after the board of directors finds, based upon the proposal submitted and such additional investigation as the staff of the corporation shall make and incorporate in its minutes, that:

(1) The proposed project is research that leads to innovation, new knowledge or technology and is not training or technical assistance for business firms;

(2) the proposed applied research project will expand that field's technological base within the state;

(3) the project will enhance employment opportunities within Kansas; and

(4) the project is technically sound and will produce a measurable result.

(e) In carrying out its functions under this section, the board of directors is encouraged to create an applied research committee to assist in evaluating potential applied research projects. The membership of this applied research committee may

include both directors and staff members of the corporation, and other persons drawn from sources other than the corporation who meet standards similar to those applying to the board of directors and who are recognized by their peers for outstanding knowledge and leadership in their fields.

(f) Any commercialized research that results from a corporation applied research grant shall be subject to the provisions of subsections (v) and (w) of section 6 of this act.

Sec. 10. Seed-capital fund. (a) There is hereby created the technology enterprise seed-capital fund to which shall be credited any state funds specifically so designated. The corporation may credit the fund with such unrestricted appropriations, gifts, donations or grants from any source, with payments on loans made from the fund.

(b) The corporation may use the Kansas technology enterprise seed-capital fund as follows:

(1) To carry out the purposes of this act through investments in qualified securities and through the forms of financial assistance authorized by this act, including:

- (A) Loans, loans convertible to equity, and equity;
- (B) leaseholds;
- (C) management or consultant service agreements;
- (D) loans with warrants attached that are beneficially owned by the corporation;
- (E) loans with warrants attached that are beneficially owned by a party other than the corporation; and

(F) any other contractual arrangement in which the corporation is providing scientific and technological services to any federal, state, county or municipal agency, or to any individual, corporation, enterprise, association or any other entity involving science and technology. The corporation, in connection with the provision of any form of financial assistance, may enter into royalty agreements with an enterprise.

(2) To pay all or a portion of the corporation's operating expenses from revenues generated by seed-capital fund

investments, which shall be an amount sufficient to allow the corporation to undertake and efficiently manage its responsibilities.

(3) To invest in such other investments as are lawful for Kansas fiduciaries.

(c) The corporation may use the Kansas technology enterprise seed-capital fund to purchase qualified securities issued by enterprises as a part of a resource and technology project for the purpose of raising the initial capital for such projects subject to the conditions set forth in this section.

(d) The corporation may use the fund to make low-interest or zero-interest loans to business incubator facilities in exchange for royalties from future gross sales generated by enterprises created in the incubator.

(e) The corporation shall purchase qualified securities issued by an enterprise as a part of a resource and technology project only after:

(1) Receipt of an application from the enterprise which contains:

(A) A business plan including a description of the enterprise and its management, product and market;

(B) a statement of the amount, timing and projected use of the capital required;

(C) a statement of the potential economic impact of the enterprise, including the number, location and types of jobs expected to be created; and

(D) such other information as the corporation board of directors shall request.

(2) Approval of the investment by the corporation may be made after the board of directors finds, based upon the application submitted by the enterprise and such additional investigation as the staff of the corporation shall make and incorporate in its minutes, that:

(A) The proceeds of the investment will be used only to cover the seedcapital needs of the enterprise except as

authorized by this section;

(B) the enterprise has a reasonable chance of success;

(C) the corporation's participation is instrumental to the success of the enterprise and its retention within the state because otherwise funding available for the enterprise is less readily available or offered on terms on less desirable terms than can be obtained if the enterprise were located outside of Kansas.

(D) the enterprise has the reasonable potential to create a substantial amount of primary employment within the state;

(E) the entrepreneur and other founders of the enterprise have already made or are contractually committed to make a substantial financial and time commitment to the enterprise;

(F) the securities to be purchased are qualified securities;

(G) there is a reasonable possibility that the corporation will recoup at least its initial investment; and

(H) binding commitments have been made to the corporation by the enterprise for adequate reporting of financial data to the corporation, which shall include a requirement for an annual report, or if required by the board, an annual audit of the financial and operational records of the enterprise, and for such control on the part of the corporation as the board of directors shall consider prudent over the management of the enterprise, so as to protect the investment of the corporation, including in the discretion of the board and without limitation, right of access to financial and other records of the enterprise.

(f) In carrying out its functions under this section, the board of directors is encouraged to create an investment committee to assist in evaluating potential investments in qualified securities. The membership of this investment committee may include both directors and staff members of the corporation, and other persons drawn from sources other than the corporation who meet standards similar to those applying to the board of directors and who are recognized by their peers for

outstanding knowledge and leadership in their fields, all of whom shall serve at the pleasure of the board. Members of the investment committee shall serve without compensation for their membership on such committee, but shall be reimbursed for any reasonable expenses incurred by them in the performance of duties assigned by the board.

(g) The corporation shall not make investments in qualified securities issued by enterprises in excess of the smaller of the following limits:

(1) Not more than the amount necessary to own more than 49% of qualified securities in any one enterprise at the time of the purchase by the corporation, after giving effect to the conversion of all outstanding convertible qualified securities of the enterprise except that in the event of severe financial difficulty of the enterprise, threatening, in the judgment of the board of directors, the investment of the corporation therein, a greater percentage of such securities may be owned by the corporation; or

(2) not more than 20% of the fund available for investment shall be invested in any one enterprise.

Sec. 11. Industrial liaisons and technology transfer. (a) The Kansas technology enterprise corporation shall establish a clearinghouse to deliver managerial assistance and technical referral services, particularly to small, new, emerging or mature exporting enterprises and shall fund educational institutions to establish technical information data bases and industrial liaison offices which are easily accessible by both private and public sector organizations.

(b) The corporation shall provide funding to educational institutions to establish centers of technology transfer. Each such center shall emphasize technology transfer to Kansas industry.

(1) The corporation may use funds from the Kansas technology enterprise fund to carry out the purpose of this section by establishing new centers of technology transfer. If

the Kansas legislature establishes a center at Pittsburg state university during 1986, funding will be continued by the corporation in subsequent years in accordance with the criteria for centers under this section.

(2) Awards of funds shall be made on a competitive basis and all proposals shall be evaluated by the corporation on the basis of merit and potential for increasing the competitiveness of Kansas industry.

(3) The corporation shall award funding to centers of technology transfer in accordance with sections 7(f) and 7(g).

(c) The corporation shall provide to private enterprises and individuals services which include, but are not limited to:

(1) Disseminating such research and technical information as is available to the corporation;

(2) referring clients to researchers or laboratories for the purpose of testing and evaluating new products, processes or innovations;

(3) assisting persons developing innovations or new technology in locating enterprises or entrepreneurs that may be interested in applying such innovations or new technologies; and

(4) providing managerial assistance to enterprises requesting such assistance, but particularly to those small enterprises in key exporting of special importance to the Kansas economy.

(d) The corporation shall encourage business enterprises to use such technical support services as provided by educational institutions and especially the state's small business development centers.

Sec. 12. Accountability. (a) The corporation shall publish an annual report which shall include an audit by an independent third party, by June 30 of each year, and present the report to the governor, legislature and Kansas, Inc., setting forth in detail the operations and transactions conducted by it pursuant to this act or to other legislation. The corporation shall distribute its annual report by such means that will make

it widely available to those innovative enterprises in exporting of special importance to the Kansas economy.

(b) The corporation shall also annually review and prepare a report showing how and at what level other states fund centers of excellence, institutes of applied research, institutes of technology transfers, research matching grants, small business innovation research and seed-capital programs. The corporation shall recommend an appropriate funding level for Kansas which will make these activities nationally competitive with other states. The corporation's findings and recommendations shall be submitted to the governor and the legislature.

(c) The corporation shall adopt a threshold funding level for each of the activities listed in section . The threshold amount shall provide for funding that is great enough to have a significant impact and carry out the intent of this act. If the appropriation to fund these activities falls below the threshold, then no funding shall be provided.

(d) The corporation shall be subject to a fiscal audit by the legislative division of post audit.

(e) Seven years after the effective date of this act, a special review panel shall be convened to perform a financial and program audit of the corporation. The panel shall consist of the corporation chairperson and 12 members, who are not members of the board of directors, as follows:

(1) Six chosen by the governor, of whom:

(A) Two shall be entrepreneurs or representatives of the business community;

(B) two shall be scientists or engineers from either educational institutions or private enterprise; and

(C) two shall be representatives of the private financial community;

(2) three chosen by the president of the senate, of whom:

(A) One shall be an entrepreneur or representative of the business community;

(B) one shall be a scientist or engineer from either an

educational institution or private enterprise; and

(C) one shall be a representative of the private financial community; and

(3) three chosen by the speaker of the house of representatives, of whom:

(A) One shall be an entrepreneur or representative of the business community;

(B) one shall be a scientist or engineer from either educational institution or private enterprise; and

(C) one shall be a representative of the private financial community.

(d) All panel members shall be recognized by their peers for outstanding knowledge and leadership and have particular experience with those small, exporting enterprises of special importance to the Kansas economy.

(e) The panel will have six months to review the corporation's investments, grants and activities including:

(1) a financial performance analysis of seed-capital fund investments;

(2) an economic and fiscal impact; and

(3) the extent to which the corporation employed its powers and the seed capital, applied research and clearinghouse functions to carry out its purpose and to address the opportunities found by the legislature to require its creation.

(f) Based on the panel's findings, it will recommend to the legislature one of the following actions:

(1) Continue the corporation in its statutory form;

(2) continue the corporation, but with modifications recommended by the committee; or

(3) dissolve the corporation with recommendations on how to dispose its assets and liabilities.

Sec. 13. Advanced technology commission. This act abolishes the office of advanced technology in the Kansas department of economic development and the Kansas advanced technology commission by repealing K.S.A. 74-5034 et seq. and transfers its

resources and funding to the Kansas technology enterprise corporation.

Sec.. 14. Effective date. This act shall take effect and be in force from and after its publication in the statute book.

House Concurrent Resolution No. 5047

By Representatives Hayden, Braden, Acheson, Apt, Aylward, Baker, Barr, Bideau, Brown, Bryant, Buchler, Bunten, C. Campbell, K. Campbell, Cloud, Crowell, Crumbaker, Dyck, Erne, Foster, Fox, Freeman, Friedeman, Fuller, Goossen, Graeber, Harper, Hassler, Hoy, Jenkins, King, Kline, Knopp, Littlejohn, Long, Louis, Lowther, R. D. Miller, Mollenkamp, Nichols, O'Neal, B. Ott, K. Ott, Patrick, Polson, Pottorff, Ramirez, Reardon, Roe, Rolfs, Runnels, Sand, Sifers, Smith, Snowbarger, Solbach, Sughrue, Vancrum, Wagnon, Walker, Whiteman, Williams and Wunsch

3-4

0026 A PROPOSITION to amend article 11 of the constitution of the
0027 state of Kansas by adding a new section thereto, relating to the
0028 exemption of property for economic development purposes.

0029 *Be it resolved by the Legislature of the State of Kansas, two-*
0030 *thirds of the members elected (or appointed) and qualified to*
0031 *the House of Representatives and two-thirds of the members*
0032 *elected (or appointed) and qualified to the Senate concurring*
0033 *therein:*

0034 Section 1. The following proposition to amend the constitu-
0035 tion of the state of Kansas shall be submitted to the qualified
0036 electors of the state for their approval or rejection: Article 11 of
0037 the constitution of the state of Kansas is amended by adding a
0038 new section thereto to read as follows:

0039 "§ 13. Exemption of property for economic development
0040 purposes; procedure; limitations. (a) The board of county
0041 commissioners of any county or the governing body of any city
0042 may, by resolution or ordinance, as the case requires, exempt
0043 from ad valorem taxation all or any portion of the appraised
0044 valuation of: (1) All buildings, together with the land upon
0045 which such buildings are located, and all tangible personal
0046 property associated therewith used exclusively by a business

for the purpose of manufacturing, fabricating, assembling, processing or finishing articles of commerce in this state and which is

"H"

March 19, 1986

Economic Dev. Comm.

Attachment H

0047 commencing operations after the date on which this amend-
 0048 ment is approved by the electors of this state; or (2) all
 0049 buildings, or added improvements to buildings constructed
 0050 after the date on which this amendment is approved by the
 0051 electors of this state, together with the land upon which such
 0052 buildings or added improvements are located, and all tangible
 0053 personal property purchased after such date ~~and associated~~
 0054 ~~therewith~~ necessary to facilitate the expansion of an existing
 0055 business.

0056 (b) Any ad valorem tax exemption granted pursuant to
 0057 subsection (b) shall be in effect for not more than 10 calendar
 0058 years after the calendar year in which the business com-
 0059 mences its operations or the calendar year in which expansion
 0060 of an existing business is completed, as the case requires.

0061 (c) The legislature may limit or prohibit the application of
 0062 this section by enactment uniformly applicable to all cities or
 0063 counties.

0064 (d) The provisions of this section shall not be construed to
 0065 affect exemptions of property from ad valorem taxation
 0066 granted by this constitution or by enactment of the legislature,
 0067 or to affect the authority of the legislature to enact additional
 0068 exemptions of property from ad valorem taxation found to
 0069 have a public purpose and promote the general welfare."

0070 Sec. 2. The following statement shall be printed on the bal-
 0071 lot with the amendment as a whole:

0072 "*Explanatory statement.* This proposed amendment would
 0073 authorize cities and counties to grant property tax exemptions
 0074 for economic development purposes.

0075 "A vote for the proposed amendment would allow the gov-
 0076 erning body of a city or county to exempt property of a new
 0077 business or property necessary to facilitate the expansion of an
 0078 existing business from property taxation for a period not to
 0079 exceed 10 years.

0080 A vote against the proposed amendment will continue the
 0081 existing law that the legislature is the only authority to grant
 0082 property tax exemptions."

0083 Sec. 3. This resolution, if approved by two-thirds of the

for the purpose of manufacturing, fabricating,
 assembling, processing or finishing articles
 of commerce in this state which is

for R & D

0084 members elected (or appointed) and qualified to the house of
0085 representatives and two-thirds of the members elected (or ap-
0086 pointed) and qualified to the senate, shall be entered on the
0087 journals, together with the yeas and nays. The secretary of state
0088 shall cause this resolution to be published as provided by law
0089 and shall cause the proposed amendment to be submitted to the
0090 electors of the state at the general election in the year 1986
0091 unless a special election is called at a sooner date by concurrent
0092 resolution of the legislature, in which case it shall be submitted
0093 to the electors of the state at the special election.

*March 19, 1986
Economic Dev. Comm.*

BILL NO. _____

By

AN ACT

(Joint Committee and Task Forces)

Be it enacted by the Legislature of the State of Kansas:

Section 1. Senate economic development committee. There is hereby established a standing committee of the senate known as the senate committee on economic development which shall consist of 11 members of the senate. Ten members of the committee shall be appointed in the same manner as members of other standing committees of the senate. The president of the senate, or another senator of the same party designated by the president, shall be a member and chairperson of the committee.

Sec. 2. House economic development committee. There is hereby established a standing committee of the house of representatives known as the house committee on economic development which shall consist of 15 members of the house of representatives. Fourteen members of the committee shall be appointed in the same manner as members of other standing committees of the house of representatives. The speaker of the house of representatives or another representative of the same party designated by the speaker shall be a member and chairperson of the committee.

Sec. 3. Joint economic development committee. (a) There is hereby created the joint committee on economic development which shall be composed of five senators and eight members of the house of representatives. The five senate members shall be the chairperson of the standing committee on economic development of the senate, or a member of such committee appointed by the chairperson, two members of such committee appointed by the

president and two members of such committee appointed by the minority leader. The eight representative members shall be the chairperson of the standing committee on economic development of the house of representatives, or a member of such committee appointed by the chairperson, four members of such committee appointed by the speaker and three members of such committee appointed by the minority leader.

(b) All members of the joint committee on economic development shall serve for terms ending on the first day of the regular legislative session in odd-numbered years. After June 30 in odd-numbered years, the chairperson shall be one of the representative members of the joint committee selected by the speaker and the vice-chairperson shall be one of the senate members selected by the president. After June 30 in even-numbered years, the chairperson shall be one of the senate members of the joint committee selected by the president and the vice-chairperson shall be one of the representative members of the joint committee selected by the speaker. The chairperson and vice-chairperson of the joint committee shall serve in such capacities until July 1 of the ensuing year. The vice-chairperson shall exercise all of the powers of the chairperson in the absence of the chairperson.

(c) The joint committee on economic development may meet at any time and at any place within the state on the call of the chairperson.

(d) The provisions of the acts contained in article 12 of chapter 46 of the Kansas Statutes Annotated, and amendments thereto, applicable to special committees shall apply to the joint committee on economic development to the extent that the same do not conflict with the specific provisions of this act applicable to the joint committee.

(e) In accordance with K.S.A. 46-1204 and amendments thereto, the legislative coordinating council may provide for such professional services as may be requested by the joint committee on economic development.

(f) The joint committee on economic development may introduce such legislation as it deems necessary in performing its functions.

Sec. 4. Advisory committees or task forces. For the purpose of conducting an in-depth analysis of major areas of economic development requiring legislative action in the 1987 regular session of the legislature, the joint committee on economic development shall appoint such advisory committees or task forces as it shall determine necessary. Each task force shall consist of not less than seven and not more than 13 members representing the business community, financial institutions, institutions under the control of the board of regents and the legislature. A majority of the members of each task force shall be representative of the business and financial communities. The joint committee on economic development shall appoint the chairperson and vice-chairperson and specify the subject of study to be conducted by each task force. Each task force shall prepare policy and funding recommendations regarding the subject of study assigned and shall make a report and recommendations thereon to the joint committee on economic development on or before December 1, 1986. Task forces shall be established for the study of the following described purposes and may be established for such additional areas of study as the joint committee may deem necessary.

A task force shall be appointed for the study of the following:

(a) Agricultural research - which shall include:

(1) Agricultural diversification and identification of new products and new technologies;

(2) the scope of value added agricultural processing; and

(3) state provision of technical assistance to farmers on processing technologies and enterprises and marketing alternatives.

(b) Kansas business capital markets - which shall include:

(1) The availability of equity capital from Kansas

financial institutions and availability for Kansas businesses;

(2) the adequacy of debt capital for Kansas businesses from Kansas financial institutions; and

(3) the availability and adequacy of state government programs to foster business capital availability for Kansas businesses.

(c) Kansas' tax structure - which shall include:

(1) The appropriateness of the state's tax structure for economic development;

(2) the sales and use tax exemption on manufacturing machinery and equipment;

(3) the research and development tax credit on corporate income tax;

(4) the allowance of local taxing jurisdictions to give targeted property tax abatements for new or expanding business expenses; and

(5) the public education strategy concerning the 1986 constitutional amendment to phase out the property tax on inventories.

(d) control, supervision and financing of postsecondary education in Kansas - which shall include:

(1) A review and determination of the mission of public postsecondary education to and beyond the year 2,000;

(2) the structure, control and supervision required of public postsecondary education to accomplish such mission; and

(3) the financing of public postsecondary education for this period.

Sec. 5. This act shall take effect and be in force from and after its publication in the Kansas register.