

MINUTES

LEGISLATIVE COMMISSION ON ECONOMIC DEVELOPMENT

June 27, 1986

Members Present

Representative Jim Braden, Chairman
Senator Wint Winter, Jr., Vice-Chairman
Senator Paul Feleciano
Senator Mike Johnston
Senator Dave Kerr
Representative Marvin Barkis
Representative David Heinemann
Representative Phil Kline
Representative Don Mainey

Members Absent

Senator Alicia Salisbury

Staff Present

Belden Daniels, Boston, Massachusetts, Consultant to the Commission
Chris Courtwright, Kansas Legislative Research Department
Tom Severn, Kansas Legislative Research Department
Paul West, Kansas Legislative Research Department
Gordon Self, Revisor of Statutes Office

Others Present

Anthony Redwood, Department of Economics, University of Kansas
Charles Krider, Department of Economics, University of Kansas
Dana Ferrell, Division of the Budget
Susan Duffy, Division of the Budget
David Barclay, Department of Economic Development
Roger Christianson, Department of Economic Development
Terry Denker, Department of Economic Development
Jack Montgomery, Department of Economic Development
Jim Ploger, Governor's Office
Barry Swanson, Governor's Office
Landene Morton, Midwest Research Institute
Ken Carter, City of Hays

Others Present (continued)

Dick Campton, Midwest Energy, Inc., Hays
Lexie Covington, KATC Commissioner, Kansas City, Kansas
Carolyn Coleman, IPPBR
Mark Tallman, Associated Students of Kansas
Kurt Feltner, Kansas State University College of Agriculture and
Agriculture Experiment Station
Mark A. Johnson, Kansas State Department of Agricultural Economics
Eldon R. Fastrup, Board of Agriculture
Shelby Smith

The Chairman called the meeting to order shortly after 9:00 a.m. The first order of business was to review the charges for the task forces. The Chairman introduced Belden Daniels, consultant to the Commission, who presented draft charges (Attachment 1). Mr. Daniels told the Commission that implementation of the initiatives addressed during the 1986 Session of the Legislature will be more difficult than their enactment. He also said that the interim topics will be more difficult than those already addressed.

With respect to the task forces, Mr. Daniels noted that they would be principally nonlegislators, and that their work product would not be legislation, but rather findings of fact and recommendations. The task forces, he said, were not to conduct original research, but to gather existing data, particularly to incorporate the work of the Public Agenda Commission and research done at the state universities. The deadline for the reports of the task forces is December 1.

Mr. Daniels then reviewed the charges to the task force (see Attachment 1). With respect to the task force on higher education, Mr. Daniels noted the importance of research universities to development centers around the country. He noted that the task force would need close operating collaboration with other studies such as the Regents' study of the mission of their institutions, the Special Committee on the Financing of the Regents' Institutions, and as pointed out by Senator Winter, the current study by the State Board of Education.

On motion of Representative Heinemann and second of Senator Winter, the charges were tentatively approved, but staff was instructed to remove from the charge to the education task forces any suggestion of what the task force is to find.

The Chairman then announced the appointment of the legislative members to the task forces (Attachment 2). The seven nonlegislative members of the Task Force on Capital Markets and Taxation were then announced, as follows:

Charles Becker
Ben Craig
Nancy Heibert
Lee Peakes
Darryl Schuster
Shelby Smith
Montie Taylor

It was announced that the Commission leadership has agreed upon the remaining appointments but not all appointees have been contacted for their acceptance. They will be announced when they have been accepted. On motion of Senator Feleciano and second of Representative Heinemann, the announced appointments were approved. On motion of Representative Heinemann and second of Senator Winter, the remaining appointments were approved.

The Chairman announced that the task forces were authorized a planning meeting, and suggested that these be conducted by conference call, to include when possible Tony Redwood and Belden Daniels.

The Chairman then introduced David Barclay, Deputy Director, Kansas Department of Economic Development (KDED), who discussed KDED's implementation of the economic development bills passed in the 1986 Session (Attachment 3). Mr. Barclay introduced Jack Montgomery and Terry Denker of KDED.

Mr. Barclay then discussed the distribution of the Certified Development Company (CDC) incentive grants (Attachment 4). He said that the plan had been unanimously approved the prior day at a meeting of all Kansas CDCs in McPherson. He related that they had been "thrilled by its simplicity."

Mr. Barclay reported that KDED had not yet defined "primary." He noted that in HCR 5047 exemptions were limited to manufacturing, research, and development, and the storing of goods sold or traded in interstate commerce, and banking, real estate development, and retail were excluded from the term.

There followed a discussion of "colocation." Tony Redwood reported that graduate students are often used as unpaid or low-paid consultants. Locating centers off campus reduces the availability of this important resource. It was noted that centers located on campus lose the advantages of colocation.

Dr. Redwood then presented the final report on the Kansas Economic Development Study. (The Final Report is available in the office of KDED, 5th Floor, Capital Towers.) Landene Morton, Midwest Research Institute, presented portions of the report. The final report contained 50 recommendations, several of which were new recommendations since the interim report.

The Commission then discussed how to address the new recommendations. It was suggested that the four task force chairmen attempt to integrate as many as possible into existing charges. Staff was instructed to attempt to incorporate the recommendations into the existing charges (including charges to interim committees, for Legislative Coordinating Council approval).

The Chairman adjourned the meeting shortly after 12:15 p.m.

Prepared by Tom Severn

Approved by Commission on:

November 17, 1986
(Date)

comtf-6.min/TS

TO: Legislative Commission on Economic Development
FROM: Jim Braden, Chairman
Wint Winter, Vice Chairman
DATE: June 27, 1986
RE: Charge to the Four Study Task Forces

- o The work of the 1986 Legislative Commission on Economic Development has been organized in two stages:

Stage 1 - The first stage, during the 1986 legislative session, focused on those initiatives about which consensus could be built relatively quickly. The ten initiatives were designed to be "do-able now." They were intended to build confidence that the private and public sector, working together, could change the direction of the Kansas economy and could solve much more difficult barriers to economic development in the interim.

Stage 2 - The second stage, the interim between the 1986 and 1987 legislative sessions, was designed to address the much more complex, difficult, deep-seated problem areas of:

- (1) agricultural research,
- (2) capital markets and tax structure
- (3) higher education
- (4) business training

- o The four Task Forces are study groups to the full Commission. They are not legislative interim committees.
- o The work product is not legislation, but an in-depth analysis of the role of each subject area in Kansas economic development and the barriers which prevent each subject area from making a maximum contribution to Kansas economic development.
- o The work product should be well-documented, specific practical recommendations for fundamental change. The recommendations should be bold.
- o The study Task Forces should document the fundamental underlying needs in Kansas, the experience of other states in meeting those needs, and the most appropriate approaches which should be undertaken by the Kansas private and public sectors acting together.
- o The study Task forces are not expected to keep meeting minutes or to hold hearings, but rather to direct staff to gather background information so that the study Task Force can arrive at its own independent judgments, which will be expressed in a final report to the Commission for its review. The Commission will make a single final report to the 1987

Legislature incorporating recommendations from all four study Task Forces as well as other matters before the Commission.

- o Based on extensive experience in other states, the private sector members of the study Task Forces should:
 - (1) be nonpartisan consensus choices
 - (2) be the highest quality people available
 - (3) be people who will look critically at the problems facing Kansas, but will bring positive, aggressive solutions to Kansas problems
 - (4) have a statewide vision
 - (5) be highly regarded by their peers as leaders, but should not be formal representatives or paid professionals of interest groups or trade organizations.

- o Proposed charges for the Task Forces are attached for review.

DRAFT

AGRICULTURE RESEARCH

The Need for an Agriculture Research and Development Task Force

- o A high proportion of the value of Kansas agriculture production is generated by two products, wheat and beef. This reliance on a few products makes the state agriculture sector and rural communities vulnerable to external forces such as chronic oversupply.
- o At the same time, a high proportion of the substantial state, federal and private funding of agriculture research in Kansas is spent enhancing the cost efficiency of existing crop production, particularly wheat. This is essential for competitive advantage, but it also tends to exacerbate the oversupply problem, and does not broaden the agricultural base.
- o Agricultural opportunity also lies in diversifying into other crops with market potential and in developing new industries and processes from a broadened agricultural base.

The Charge to the Agriculture Task Force

The Task Force is therefore charged to recommend ways and means by which agriculture research and development in Kansas might be redirected and enhanced

- (1) to underpin the development of a broader agricultural base through diversification into new commodities;
- (2) to facilitate the application of new scientific technologies to value added processing of Kansas agricultural commodities within Kansas; and
- (3) to support the successful commercialization of new products and processes in national and international markets.

DRAFT

CAPITAL MARKETS

The Need for the Capital Markets and Tax Structure Task Force

Capital Markets:

- o The Redwood/Krider report underlines the importance of capital formation to meet the rapidly changing needs of the Kansas economy and notes the widely held view of Kansans that current capital resources in the state are inadequate to meet the economy's needs.
- o Although in recent years Kansas has made some strides toward broadening intrastate banking markets and facilitating the creation of high risk capital pools, these changes are modest in comparison to the radical changes taking place in national and international capital markets.
- o Over 35 states now have interstate banking legislation, and regions such as the southeast and New England are establishing themselves as major interstate financial centers to join New York, California and Illinois.
- o Any bank smaller than \$3 billion is considered a country bank by the financial community and it is these small banks that have the most difficult time adjusting to new competitive pressures in financial markets. Kansas's many small banks are facing severe bank failure problems in this new environment bringing into question the supply of short, intermediate and long-term debt to Kansas businesses.
- o Between 1978 and 1984 the supply of venture capital in the United States increased 300%. There are now billions of dollars in venture capital but investment is concentrated in California and in the Northeast states.
- o Pending revisions to the federal tax system will profoundly influence Kansas capital markets. For instance, the federal government is revising policy on federally tax-exempt bonding, an area in which Kansas is woefully behind the most refined models in dozens of other states.
- o Kansas's U.S. Senators are exploring ways in which Kansas might become a pilot in taking over local level management of SBA, EDA and FmHA loan programs as a substitute for federal grants. The most appropriate way to attend to this would be as a part of the Kansas statewide risk capital system.

Tax Structure:

- o Although there has been a good deal of examination and revision to Kansas's tax structure, including a study by the Special Commission on a Public Agenda for Kansas, none of the tax structure reviews have

considered the tax system's influence on and responsiveness to the Kansas economy and Kansas business.

- o Pending revisions to the federal tax system will profoundly influence Kansas tax structure and will merit major revisions.
- o Many important tax issues remain unaddressed, including: (1) a sales/use tax exemption on machinery and equipment, (2) a benefit/cost analysis of existing tax incentive programs, and (3) a fundamental review of the impact of current Kansas tax structure on innovation, entrepreneurship, business formation, capital formation, and investment in productive business enterprise.

The Charge to the Capital Markets and Tax Structure Task Force

The study Task Force on Capital Markets and Tax Structure is therefore charged with the responsibility to:

- (1) evaluate the appropriateness of Kansas capital markets to the rapidly changing needs of Kansas business, industry and agriculture, including:
 - (a) the adequacy of equity and near equity capital for Kansas businesses from Kansas financial institutions;
 - (b) the adequacy of intermediate and long-term debt capital and risk debt capital and mezzanine finance for Kansas businesses from Kansas financial institutions; and
 - (c) the appropriateness of Kansas state government's tax, expenditure and regulatory policies for fostering capital formation for Kansas business.
- (2) evaluate the appropriateness of Kansas tax structure to the rapidly changing needs of the Kansas economy, including:
 - (a) an overall review of the appropriateness of the state's tax structure for its impact on economic development and capital formation;
 - (b) a cost/benefit analysis of Kansas tax incentive programs; and
 - (c) the sales and use tax exemption on manufacturing machinery and equipment.
- (3) integrate Kansas tax structure and capital formation policy with new federal tax expenditure policies to best enhance the economic development of Kansas.
- (4) develop a clear picture that properly depicts the status of Kansas's capital markets and develop policies that properly direct Kansas capital formation within the context of the Kansas economy, and the regional, national and world economies.
- (5) develop a clear picture that properly depicts the status of Kansas's tax structure and develop policies that direct Kansas capital formation within the context of the Kansas economy, and the regional, national and world economies.

DRAFT

HIGHER EDUCATION

The Need for the Higher Education Task Force

- o The most rapidly growing economic areas of the United States, such as the greater Boston area, Northern California, the North Carolina research triangle and Austin, Texas, are characterized by very strong commitments to and investments in higher education, and by very close working relationships between higher education, industry and state government.
- o A substantial consensus is emerging among policy analysts that the most important single investment a state can make in economic development is a strong investment in higher education, including the development of programs that are closely targeted to the comparative economic advantages of the particular state.
- o Although Kansas has had an historic commitment to public higher education, during the past decade there has been a significant if unintended erosion of that support in Kansas.
- o Kansas's systematic disinvestment from higher education is made worse by the substantial higher education investment increases by state governments over the past decade in virtually every region of the U.S.
- o The result is that Kansas universities are placed in an increasingly competitive and destructive relationship with each other over decreasing shares of a shrinking financial pie.
- o Finally, there is no single governing body responsible for overseeing all higher education, as many other states have instituted.

The Charge to the Higher Education Task Force

The Task Force on Higher Education is therefore charged with making recommendations based on a review of the following dimensions:

- (1) evaluate the appropriateness of the state's higher education system to meet the rapidly changing needs of the Kansas economy.
- (2) evaluate other states' policies which increase their commitment and investment in higher education and which encourage closer working relationships between industry, higher education and state government.
- (3) evaluate control, supervision and financing of postsecondary education in Kansas including:

- (a) a review and determination of the mission of public postsecondary education to and beyond the year 2000;
 - (b) the kind of structure, control and supervision required of public postsecondary education to accomplish such mission; and
 - (c) the principles and level of financing of public postsecondary education necessary to accomplish such mission.
- (4) evaluate control, supervision and financing of postsecondary education in other states, compare other states' policies with those of Kansas, and create policies appropriate to Kansas based on the interstate analysis.

In undertaking this, the Task Force should:

- A. coordinate closely with the Board of Regents special study of the mission, role and scope of each Regents' institution. It should be noted that the Regents' study is concerned with the mission of individual Regents' institutions whereas the charge to this study Task Force is to look at the overall mission of public postsecondary education in Kansas; and
- B. coordinate closely with the Special Interim Committee on Financing of Regents Institutions. It should be noted that the Special Interim Committee's study is concerned with the appropriating and budgeting procedures for Regents institutions including enrollment adjustments whereas the charge of this study Task Force is to look at the overall financing of public postsecondary education necessary to accomplish its overall mission.

DRAFT

TRAINING AND VOCATIONAL EDUCATION

The Need for a Task Force on Business Training and Vocational Education

- o A vital strength of Kansas to underpin economic development is the labor force, because of its education level and productivity. Future business retention, expansion and attraction will depend on Kansas maintaining a competitive edge with respect to its human capital, and on the Kansas training system providing qualified employees with the skills firms need.

There are several problems with the present state effort that inhibit maximum effectiveness. The several training programs (e.g., JTPA, KIT, vocational education, community colleges) would seem to lack adequate coordination, a priority focus on economic development, and timely responsiveness. Consequently, even though the Kansas labor force is highly educated, it often lacks skills in areas of need to employers. (Redwood/Krider Final Report, Recommendations #43, 44, 45, 46)

The Charge to the Task Force on Training and Vocational Education

The Task Force is charged to make recommendations with respect to the following:

- (1) The development of a coordinated, directed and responsive human resources strategy with respect to the state's training and retraining programs that would include:
 - (a) adaptation of the federally funded and state controlled JTPA program to primarily serve the state's economic development needs;
 - (b) review and expansion of the state Kansas Industrial Training program to serve as a flexible and responsive tool for economic development; and
 - (c) integration of other programs (e.g., Job Service) that impact the state labor market.
- (2) The functioning of the vocational education system, embracing public vocational schools and community college programs, with the objective of ensuring market driven responsiveness to changing industry needs for skilled employees, including
 - (a) program funding and approval mechanisms;
 - (b) governance and coordination;

- (c) scope for greater regional and statewide program orientation;
 - (d) program effectiveness, particularly responsiveness to employment demands, job requirements and changing work place technologies;
 - (e) linkages to other training programs (e.g., JTPA, KIT);
 - (f) linkages to university-college technology transfer programs; and
 - (g) the location of vocational education in the state education structure.
- (3) New initiatives relevant to a future Kansas economy that will rely on a quality work force, including but not restricted to the retraining needs of small firm work forces, an aging work force in a context of rapid technological change, and displaced farm workers.

JAMES D. BRADEN
MAJORITY LEADER

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TOPEKA

HOUSE OF
REPRESENTATIVES

July 2, 1986
FOR IMMEDIATE RELEASE:

Rep. James Braden
State Capitol, 381 W
Topeka, Kansas 66612

Phone: (913) 296-2302

House Majority Leader Jim Braden, the chairman of the Legislative Commission on Economic Development, has announced the appointment of members who will serve on 4 task forces established by the Commission.

The four task forces will address agricultural research, capital markets and tax structure, higher education and business training. Each will research its topic according to the guidelines established by the Commission, and make specific recommendations about what action the Commission should take.

Seven persons working in the private sector and six legislators will serve on each task force. They will meet through 1986 and report back to the Commission in December.

The Agriculture Task Force will recommend ways to redirect agricultural research to develop a broader agricultural base through diversification; to apply new scientific technologies to process Kansas agricultural commodities within Kansas; and to support the successful marketing of agriculture products in national and international markets.

The Training and Vocational Education Task Force will develop a human resources strategy for the state's job training programs; examine the vocational education and community college systems; and find new educational initiatives relevant to a future Kansas economy that considers the retraining needs of small business, an aging workforce, and displaced farm workers.

The Educational Task Force will evaluate how well the state's higher education system will meet the changing needs of the state's economy; evaluate other states' policies that increase their commitment to higher education and foster closer working relationships between industry, higher education and state government; and evaluate the supervision and financing of postsecondary education in Kansas and compare it with other states.

The Capital Markets and Tax Structure Task Force will evaluate the appropriateness of Kansas capital markets and tax structure to the changing needs of Kansas business. Also to be considered is how Kansas can integrate its tax structure and capital formation policy with new federal tax expenditure policies to promote economic development.

Those on the Task Forces are:

EDUCATION

Rep. Phil Kline, Chairman, Overland Park
Senator Audrey Langworthy, Vice Chairman, Prairie Village
Rep. Jo Ann Pottorff, Wichita
Senator Wint Winter, Lawrence
Senator Nancy Parrish, Topeka
Rep. Bill Reardon, Kansas City
Mr. Gary Bell, Wichita City Commissioner, Wichita
Mr. Frank Eaton, Engineer, Schwab-Eaton, P.A., Manhattan
Ms. Frances Royer, President, St. Marys State Bank, Topeka
Dr. Gery Hochanadel, President, Labette Community College, Parsons
Dr. Michael McCarthy, President, Saint Mary of the Plains College, Dodge City, Kansas
Ms. Sandra McMullen, Chairman, Kansas Board of Regents, Hutchinson
Mr. Don Slawson, President, Slawson Companies, Inc. Wichita

CAPITAL MARKETS & TAX

Senator Dave Kerr, Chairman, Hutchinson
Rep. Clyde Graeber, Vice Chairman, Leavenworth
Senator Bud Burke, Leawood
Rep. Clint Acheson, Topeka
Senator Frank Gaines, Augusta
Rep. Joan Adam, Atchison
Mr. Charles Becker, Executive Vice President Campbell-Becker, Inc.
Lawrence
Mr. Ben Craig, President Metcalf State Bank, Overland Park
Ms. Nancy Hiebert, Douglas County Commissioner, Lawrence
Mr. Lee W. Peakes, Senior Vice President, George K. Baum & Co.
Kansas City
Mr. Daryl Schuster, President, First National Bank, Liberal
Mr. Shelby Smith, Former Lt. Governor, Wichita
Mr. Montie Taylor, Senior Vice President, Peoples Savings & Loan,
Parsons

AGRICULTURE

Speaker Pro-Tem David Heinemann, Chairman, Garden City
Senator Fred Kerr, Vice Chairman, Hutchinson
Senator Merrill Werts, Junction City
Senator Jerry Karr, Emporia
Rep. Don Rezac, Onaga
Rep. Bill Bryant, Washington
Mr. Richard Basore, Diversified Farmer, Bentley
Mr. Eugene C. Beachner, Farmer, Livestock, Beachner Seed Co., St. Paul
Mr. John Davis, President Fidelity State Bank, Garden City
Mr. Gary Gilbert, President, Gilbert Grain Co., Clay Center
Mr. Wayne Hagerman, Farmer, Former Legislator, Larned
Ms. Dana Jackson, Founder, The Land Institute, Salina
Mr. Dale A. Rodman, Executive Vice President Excel Corp., Wichita

BUSINESS TRAINING

Senator Alicia Salisbury, Chairman, Topeka
Rep. Denny Apt, Vice Chairman, Iola
Senator Ben Vidricksen, Salina
Rep. Dorothy Nichols, Ottawa
Senator Leroy Hayden, Satanta
Rep. Rick Bowden, Goddard
Mr. Buddy Baker, Industrial Relations Manager, Midland Brake, Inc.
Iola
Mr. Fred P. Braun, Jr., President, Zephyr Products, Inc. Leavenworth
Mr. Gary Clark, Professor of Special Education, University of Kansas,
Lawrence
Mr. Richard Corwin, Executive Vice President Famous Companies, Topeka
Mr. Ron Hoover, President, United Rubberworkers Local #307, Topeka
Mr. John Moore, Senior Vice President, Cessna, Wichita
Dr. James H. Stringer, President, Hutchinson Junior College,
Hutchinson

ECONOMIC DEVELOPMENT INITIATIVES
IMPLEMENTATION CHECKLIST

ATTACHMENT 3

<u>Venture and Risk Capital</u>	<u>Completion Date</u>	<u>Principle Agencies Involved</u>	<u>KDED Unit Responsible</u>
A. Venture Capital Company Act (SB 757)			
1. Develop rules and regulations to implement the act. The regulations are to describe:	Oct. 1, 1986	KDED/DOR	Small Business Div.
a. How to apply for certification.			
b. What information should be provided with the initial application.			
c. What information should be provided to maintain certification.			
B. Statewide Risk Capital System Act (SB 756)			
1. Develop a grant formula, incentives and performance measures for grants to certified development companies (CDC) and small business development centers (SBDC).	July, 1986	KDED	Small Business Div. & Admin. Div.
<u>Kansas Department of Economic Development</u>			
A. Department of Commerce Bill (HB 2951)			
1. Develop a comprehensive long term economic development strategy/plan.	Nov. 1, 1986	KDED	Administration Div.
2. Prepare to implement the Department of Commerce bill.	Jan. 12, 1987	KDED	
a. Design the existing industry and business retention activities of the new Existing Industry Division.	Jan. 12, 1987	KDED	Small Business Div.
b. Plan for the establishment of the new Trade Division.	Jan. 12, 1987	KDED/AG	Administration Div.
3. Transfer KDED's Housing Unit to SRS	July 1, 1986	KDED/SRS	Community Dev. Div.
B. Foreign Office/Contract (SB 759)			
1. Plan for the establishment of a European office.	Summer, 1986	KDED	Administration Div.
2. Expand the contract with Kansas' Japanese Office.	July, 1986	KDED	Industrial Dev. Div.

IMPLEMENTATION CHECKLIST

- 2 -

	<u>Completion Date</u>	<u>Principle Agencies Involved</u>	<u>KDED Unit Responsible</u>
C. Industrial Recruitment (SB 759)			
1. Design and implement an expanded industrial recruitment advertising program for the state.	Summer, 1986	KDED	Industrial Dev. Div.
D. Interim Activity (HB 3122)			
1. Assist the Legislative Economic Development Commission.	Ongoing	KDED	Administration Div.
2. Assist the task forces.	Ongoing	KDED	Administration Div.
<u>Kansas, Inc.</u>			
A. Kansas, Inc. Bill (HB 2960)			
1. Make gubernatorial board appointments.	July/August, 1987	Governor's Office & KDED	Secretary
a. One member from each of the state's primary economic sectors: agriculture, oil and gas and aviation.			
b. One member from one other primary sector.			
c. Two members from the private financial sector.			
- one experienced in high risk venture investments.			
- one with commercial banking experience in an industry of special importance to the Kansas economy.			
d. One representative of labor.			

Technology Transfer

A. Kansas Technology Development Corporation (SB 755)			
1. Prepare to spinoff the Advanced Technology Commission and Office from KDED as a new quasi-public entity (KTEC).	Jan., 1987	KDED	Off. of Advanced Tech.



617-492-5461

COUNSEL FOR COMMUNITY DEVELOPMENT, INC.
10 CONCORD AVENUE, CAMBRIDGE, MASSACHUSETTS 02138
BELDEN HULL DANIELS, PRESIDENT

TO: Kansas Legislative Commission on Economic Development
FROM: Belden Hull Daniels
President
DATE: June 26, 1986
RE: Implementing the ten 1986 Kansas Economic Development Initiatives

HB 3122 states that "The first priority of the Commission shall be to oversee the implementation of the economic development initiatives adopted during the 1986 legislative session". In our experience over many years and in many states, passing economic development legislation has been the easy part of the task; making the legislation work is always the much more difficult part.

Because of the working relationship that exists between Kansas's legislative and executive branches, and because Jamie Schwartz and David Barclay have such a thorough understanding of the ten initiatives, carrying out the first priority of the Commission during this Interim will certainly proceed much more smoothly and successfully than has been our experience in other states.

David Barclay has prepared an excellent checklist of KDED's responsibilities for implementing the initiatives. Here is a draft checklist for the Commission's use in overseeing the implementation of its initiatives.

DRAFT CHECKLIST FOR OVERSEEING IMPLEMENTATION OF 10 INITIATIVES

1. Create a Statewide Risk Capital System
 - a. Kansas Venture Capital, Inc. (SB 756) - The pooled money investment board will invest \$10 million of nonvoting preferred stock into KVCI, to be fully repaid prior to any repayment of common stock, provided the Secretary of KDED (KDOC) certifies that the following terms and conditions have been met:
 - (1) Private sector invests \$10 million of common stock into KVCI
 - (2) Common stock investments meet the conditions for the Venture Capital Income Tax Credit (SB 757).
 - (3) Common stockholders establish a 15 member common stockholder board composed of members recognized for outstanding leadership in their fields.
 - (a) Eight members from Kansas financial institutions representing a reasonable balance of relative proportion of common stock investment in KVCI by commercial banks, savings and loan associations, insurance companies, and other appropriate financial intermediaries.

- (b) Two members that are venture capitalists or investments counselors.
- (c) Five members from important Kansas business sectors in which Kansas Venture Capital Inc. shall be expected to invest its funds.
- (4) The Board conducts a national search and selects a president for KVCI with extensive venture capital investment experience.
- b. Expanded SBDC and CDC capabilities (HB 2951) - KDED's Division of Existing Industry Development shall develop a detailed plan for an integrated economic development system based on similar plans operating in other states. In specific, SBDC and CDC capabilities will be expanded "as key constituent elements" to support enterprises through the risk system [HB 2951 Sec 12(g)].
 - (1) SB 759 budgets \$250,000 in grants to SBDCs and \$400,000 to CDCs.
 - (2) KDED shall analyze and compare with other states the effectiveness of Kansas's existing method of funding in consultation with Kansas CDCs and SBDCs.
 - (3) KDED shall revise the grant distribution system, including
 - (a) performance standards
 - (b) a performance review system to be implemented prior to initial funding and to be used for all subsequent refunding
 - (c) base funding levels that consider other available sources of funds and different needs
 - (d) incentive funding features that encourage co-location of services essential to an effective and efficient statewide risk capital system.
 - (4) The new grant system will be reviewed and evaluated by Kansas, Inc.
 - (5) KDED is completing grant formula, incentives and performance measures by July 1, 1986.
- c. Intentionally no statutory provision to create the other two tiers of the three-tiered secondary market for the sale of credit from the risk capital system to KPERS was built into SB 756 or KPERS' statute because, from a financial management perspective, KPERS should not be legislatively restricted. The other two tiers of the risk capital system, however, do need to be informally developed with KPERS during this interim as we had agreed during the Legislative session.

2. Implement Kansas Venture Capital Company Tax Credit (SB 757)

- a. This bill enacts tax credits for cash investment in certified Kansas venture capital companies in tax year 1987 which will generate \$24 million in new venture capital money. \$24 million is a market sensitive figure: \$10 million will be invested into Kansas Venture Capital, Inc. and the remaining \$14 million is based on demand estimates for more traditional private Kansas venture capital partnerships.
- b. Considering state of the art models from around the country, KDED's Small Business Division and Department of Revenue shall:
 - (1) Develop guidelines for application and certification which determine venture capital companies' ability to create, develop and expand Kansas businesses and to provide the maximum job opportunities through capital generated by the state tax exemption.

- (2) Determine what information should be provided with the initial application.
 - (3) Define what is a small business.
 - (4) Determine what information should be provided by venture capital companies to maintain certification including annual information requirements.
 - (5) Complete the above rules and regulations by October 1, 1986
 - c. Based on the experience of other states it is wise to get recommendations from the private sector regarding the rules and regulations placed on the venture capital tax credit.
 - d. DOR and KDED shall complete all tax revisions and legal documentation procedures for certification and tax exemption of venture capital companies.
 - e. KDED should create sufficient public awareness of the tax credit so that the maximum venture capital possible is generated by the credit.
3. Implement a Research and Development Tax Credit (SB 754)
- a. No action is required on the R&D tax credit beyond creating taxpayer awareness. This R&D Tax Credit is a signal to investors that Kansas is serious about innovation. 1987 is a base year which will not cost the state any tax dollars.
 - b. Kansas, Inc. will provide oversight on the economic impact of the tax credit.
4. Establish Kansas Technology Enterprise Corporation (SB 755)
- a. KTEC shall begin operation by January 12, 1987.
 - a. Governor shall appoint 10 of the 15 members of the Board of Directors subject to senate confirmation. (The remaining four are legislators who serve by virtue of their posts). The directors appointed by the governor shall be persons recognized for outstanding knowledge and leadership in their fields.
 - (1) Four private sector members representing resource-based, advanced technology and emerging industries.
 - (2) Two private sector members representing the financial sector, one of whom is experienced in high risk venture investments and the other experienced in commercial banking in an important Kansas industry.
 - (3) Four research engineers or scientists from Kansas educational institutions.
 - b. The Board will complete a national search for KTEC's president, a person with extensive experience in high technology product and business development.
 - c. KDED shall complete all financial and legal transactions for transition from Kansas Technology Commission and Office of Advanced Technology to KTEC by January 12, 1987.
 - d. KTEC Staff shall prepare a business plan encompassing preliminary investment and grant strategies for:
 - (1) Basic Research, Applied Research and Development, and Technology Transfer Centers of Excellence.
 - (a) KTEC Board shall develop criteria for grant awards.
 - (b) KTEC Board shall establish an external peer review system for funding decisions.

- c. It may be helpful to establish an informal public/private task force under the aegis of the Commission to think through the following KDED issues and responsibilities, and to present a plan for attending to these issues to the new Governor on January 12, 1987.
 - (1) Restructuring and reorganization from DED management to new DOC management.
 - (2) Develop and coordinate a comprehensive long term economic development strategy/plan for the state and submit it to Kansas, Inc. for review by November 1, 1986.
 - (3) Develop plans for each of the 6 new Divisions and allocation procedures for each of the grant and loan programs.
 - (4) Finalize DOC's budget for FY 1987.
 - (5) Begin marketing to inform public of transition from DED to DOC and to inform public of new DOC programs

8. Establish Kansas, Inc. (HB 2960)

- a. The Governor, with KDED's assistance, shall finalize Kansas, Inc. private sector board development by July, 1986 consisting of .
 - (1) One member from each of the state's primary economic sectors: agriculture, oil and gas and aviation.
 - (2) One member from another primary sector.
 - (3) Two members from the private financial sector, one of whom is experienced in high risk venture investments and one of whom is experienced in commercial banking with a key Nebraska industry.
 - (4) One representative of labor.
- b. Kansas, Inc. Board shall complete search for president/CEO experienced in business development, public policy, and major Kansas industries.
- c. The president shall immediately prepare a business plan for Kansas, Inc. to be reviewed by the Legislative Economic Development Commission.
- d. Kansas, Inc. will oversee implementation of the development plan
 - (1) It may be useful for the Governor, the Chair of the Legislative Commission and Kansas, Inc. board members to meet to determine how the Interim Task Forces and Legislative Commission should interrelate.
 - (2) Kansas, Inc will oversee implementation of legislation specifically pertaining to:
 - (a) Department of Commerce
 - (b) Kansas Venture Capital Company Tax Credits
 - (c) Kansas Technology Enterprise Corporation
 - (d) Kansas Venture Capital, Inc.
 - (e) The Research and Development Tax Credit
 - (f) The Statewide Risk Capital System
- d. Kansas, Inc. board shall finalize its Interim and FY 1987 budgets and develop initial procedures for raising nonstate matching funds toward the 1988 annual budget.

- (2) Applied Research Matching Grant Fund
 - (a) KTEC Board develops, adopts and publishes grant criteria.
 - (b) Establish an Applied research grant committee to evaluate projects.
 - (3) SBIR Matching Grant Program
 - (a) KTEC staff will survey existing state matching grant SBIR programs.
 - (b) KTEC will establish an SBIR matching grant program.
 - (4) Seed Capital Fund - KTEC Board will create an investment committee and begin accepting proposals for seed capital investments.
 - (5) KTEC will establish a technology transfer clearinghouse and will fund educational institutions to establish technical information data bases.
- e. KTEC Board shall develop a preliminary budget with a threshold funding level for each of the above programs for FY 1987 and recommend to the Legislature and the Governor appropriations to make the programs competitive with comparable programs in other states.
5. Repeal the Constitutional Internal Improvements Prohibition (SCR 1635)
- a. Passage of the amendment would make two changes to the state constitution
 - (1) The amendment would allow the state to participate in the development of a capital formation system through limited investments of state funds in works of internal improvements which are for the purpose of stimulating economic development and private sector job creation in all areas of the state.
 - (2) The amendment would let the state participate in other projects not specifically authorized in the Constitution, whenever such participation is authorized by a law passed by two-thirds of the Legislature.
 - b. A plan for public education on the amendment needs to be developed for the state by the Governor's office.
 - c. Amendment is voted on August 5, 1986.
6. Local Targeted Property Tax Abatements (HCR 5047)
- a. The amendment would permit counties and cities to exempt all or any part of buildings and tangible personal property used exclusively by a new business for manufacturing, research and development, or the storing of goods which are sold or traded in interstate commerce. An exemption would also be granted to existing businesses for new buildings or for expansions to buildings and associated equipment provided new employment is created.
 - b. Again, the Governor's office should develop a public education plan.
 - c. Amendment is voted on August 5, 1986.
7. Establish State Department of Commerce (HB 2951)
- a. KDED shall complete all financial and legal transactions for transition from Kansas Department of Economic Development to Kansas Department of Commerce by January 12, 1987.
 - b. KDED is developing new accountability procedures that will be implemented immediately.

9. Economic Development Legislative Committees and Studies (HB 3122)
- a. The interim Task Forces will operate throughout the 1986 interim in cooperation with KDED.
 - (1) Agricultural Research
 - (2) Capital Markets and Kansas Tax Structure
 - (3) Control, Supervision and Financing of Postsecondary Education
 - (4) Vocational, Retraining Programs
 - b. Mission statements for each Task Force should be developed by June 26, 1986.
 - c. Task Forces shall deliver reports and recommendations by December 1, 1986
 - d. The Commission should make provision to oversee implementation of the final Redwood/Krider recommendations that do not fall within the scope of the interim Task Forces.

July 25, 1986

Mr. Jack E. Alumbaugh
Executive Director
South Central Kansas
Economic Development District
River Park Place, Suite 565
727 North Waco
Wichita, Kansas 67203

Dear Mr. Alumbaugh:

In accordance with the intent of legislation adopted during the 1986 session, the Department of Economic Development is responsible for making performance grants to certified development companies to provide base funding levels and incentives for assistance to primary, job creating enterprises.

After consultation with affected groups, we have adopted criteria which bases distribution of the grants on the following three factors: (1) performance (\$1,000 for each deal from 1 to 10, \$1,500 for 11 to 20, and \$2,000 per deal for 21 and over, for the period 7/1/85 to 6/30/86), (2) stage of development (an amount ranging from \$15,000 to \$5,000 depending on the date of SBA certification) and (3) geographic area covered (\$500 per county served or for each citywide CDC). The attached sheets indicate the specific category amounts for each CDC.

Grant monies will be distributed in two parts. The initial disbursement will consist of the Stage of Development portion plus one-half of the Performance and Area amounts. The balance will be disbursed as soon as the CDC's previous year's activity can be verified, but no later than six months from the initial disbursement.

It should also be noted that, although all CDC's have received a grant award under this distribution plan, funding in subsequent years may well depend on at least a minimal level of activity.

Additional funds will be available for distribution to those CDC's which collocate with other member elements of the statewide risk capital system (e.g., SBDC's, Chambers of Commerce or other local economic development organizations, and Regional Planning Commissions). The purpose of these funds will be to cover moving and renovation expenses; advance notice must be given, and reimbursement will be made upon submittal of appropriate documentation to this office. Further collocation incentives are being considered, and your suggestions and comments are invited and welcome.



JOHN CARLIN, GOVERNOR CHARLES J. "JAMIE" SCHWARTZ, SECRETARY

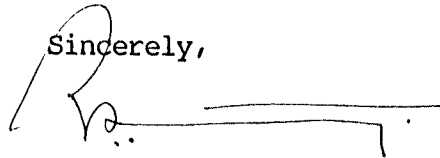
Attachment 4

In an attempt to address legislative intent, 51 percent of the jobs created as a result of the individual CDC's total activity in FY87 should be in primary industries. Progress toward this goal will be documented by quarterly reports to this office using the attached format. The extent to which CDCs meet this goal will be taken into account in awarding FY 1988 grants.

Enclosed is a contract for your review. If you are in agreement with the terms as stated, please sign all copies and return them to us.

If you have any questions, please call us at (913) 296-2932.

Sincerely,

A handwritten signature in black ink, appearing to read "R. S. (Jack) Montgomery". The signature is written in a cursive style with a long horizontal line extending to the right.

R. S. (Jack) Montgomery
Director
Small Business Development Division

enclosures
RSM/vw

CERTIFIED DEVELOPMENT COMPANY GRANT AWARDS
(\$400,000)

Factor No. 1: Performance

CDC	No. of Deals	Deals 1-10	Deals 11-20	Deals >20	
Grant		\$1,000/ea.	\$1,500/ea.	\$2,000/ea.	
Big Lakes	6	\$6,000			
Four Rivers	2	\$2,000			
Greater S.W.	32	\$10,000	\$15,000	\$24,000	
Lenexa	0				
Avenue Area	5	\$5,000			
Mid-America	0				
MO-KAN	1	\$1,000			
McPherson	1	\$1,000			
Nine County	41	\$10,000	\$15,000	\$42,000	
Pioneer Country	5	\$5,000			
SCKEDD	22	\$10,000	\$15,000	\$4,000	
Topeka/Shawnee	3	\$3,000			
Wichita	0				
Neosho Basin	0				
Douglas	0				
Subtotal		\$53,000	\$45,000	\$70,000	\$168,000

Factor No. 2: Stage of Development

CDC	Start-up 0-6 mo.	6 mo.- 2 years	2-4 years	4-6 years	
Grant	\$15,000	\$10,000	\$7,500	\$5,000	
Big Lakes		\$10,000			
Four Rivers			\$7,500		
Greater S.W.			\$7,500		
Lenexa		\$10,000			
Avenue Area				\$5,000	
Mid-America				\$5,000	
MO-KAN			\$7,500		
McPherson				\$5,000	
Nine County			\$7,500		
Pioneer Country			\$7,500		
SCKEDD			\$7,500		
Topeka/Shawnee			\$7,500		
Wichita				\$5,000	
Neosho Basin	\$15,000				
Douglas	\$15,000				
Subtotal	\$30,000	\$20,000	\$52,500	\$20,000	\$122,500

Factor No. 3: Geographic Area

CDC	No. of Counties	Counties	Citywide
Grant		\$500/ea.	\$500/ea.

Big Lakes	5	\$2,500	
Four Rivers	10	\$5,000	
Greater S.W.	19	\$9,500	
Lenexa			\$500
Avenue Area	1	\$500	
Mid-America	10	\$5,000	
MO-KAN	6	\$3,000	
McPherson	1	\$ 500	
Nine County	9	\$4,500	
Pioneer Country	18	\$9,000	
SCKEDD	13	\$6,500	
Topeka/Shawnee	1	\$ 500	
Wichita			\$500
Neosho Basin	6	\$3,000	
Douglas	1	\$ 500	

Subtotal		\$50,000	\$1,000	\$51,000
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Factor No. 4: Co-Location Incentive..... \$58,500

GRAND TOTAL \$400,000

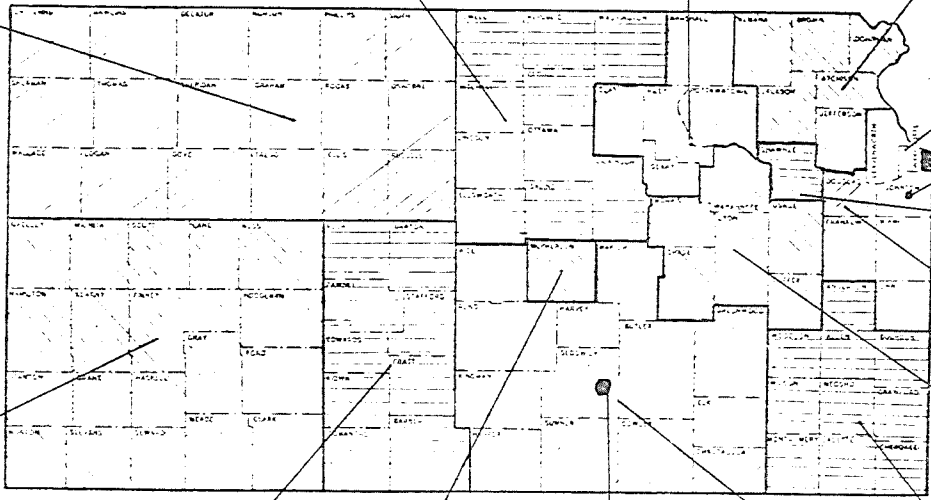
Pioneer Country
 Performance: \$ 5,000
 Stage: 7,500
 Area: 9,000
 TOTAL: \$21,500

Four Rivers
 Performance: \$ 2,000
 Stage: 7,500
 Area: 5,000
 TOTAL: \$14,500

MO-KAN
 Performance: \$ 1,000
 Stage: 7,500
 Area: 3,000
 TOTAL: \$11,500

Big Lakes
 Performance: \$ 6,000
 Stage: 10,000
 Area: 2,500
 TOTAL: \$18,500

Avenue Area
 Performance: \$ 5,000
 Stage: 5,000
 Area: 500
 TOTAL: \$10,500



Lenexa
 Performance: \$ -0-
 Stage: 10,000
 Area: 500
 TOTAL: \$10,500

Topeka/Shawnee
 Performance: \$ 3,000
 Stage: 7,500
 Area: 500
 TOTAL: \$11,000

Douglas County
 Performance: \$ -0-
 Stage: 15,000
 Area: 500
 TOTAL: \$15,500

Neosho Basin
 Performance: \$ -0-
 Stage: 15,000
 Area: 3,000
 TOTAL: \$18,000

Mid-America
 Performance: \$ -0-
 Stage: 5,000
 Area: 5,000
 TOTAL: \$10,000

Greater Southwest
 Performance: \$49,000
 Stage: 7,500
 Area: 9,500
 TOTAL: \$66,000

McPherson
 Performance: \$ 1,000
 Stage: 5,000
 Area: 500
 TOTAL: \$ 6,500

SCKEDD
 Performance: \$29,000
 Stage: 7,500
 Area: 6,500
 TOTAL: \$43,000

Nine County
 Performance: \$67,000
 Stage: 7,500
 Area: 4,500
 TOTAL: \$79,000

Wichita
 Performance: \$ -0-
 Stage: 5,000
 Area: 500
 TOTAL: \$ 5,500