

**MINUTES**

LEGISLATIVE COMMISSION ON ECONOMIC DEVELOPMENT

December 2, 1986

Members Present

Representative Jim Braden, Chairman  
Senator Paul Feleciano, Jr.  
Senator Mike Johnston  
Senator Dave Kerr  
Senator Alicia Salisbury  
Representative Marvin Barkis  
Representative David Heinemann  
Representative Phil Kline  
Representative Don Mainey

Member Absent

Senator Wint Winter, Jr., Vice-Chairman

Staff Present

Ben Barrett, Kansas Legislative Research Department  
Chris Courtwright, Kansas Legislative Research Department  
Raney Gilliland, Kansas Legislative Research Department  
Tom Severn, Kansas Legislative Research Department  
Paul West, Kansas Legislative Research Department  
Julian Efird, Kansas Legislative Research Department  
Carolyn Rampey, Kansas Legislative Research Department  
Gordon Self, Revisor of Statutes Office  
Avis Swartzman, Revisor of Statutes Office

Others Present

Senator Ben Vidricksen  
Representative Eugene Shore  
Representative Clint Acheson  
Representative Marvin Smith  
Representative Denise Apt  
Merle Hill, Executive Director, Kansas Association of Community Colleges  
David Barclay, Department of Economic Development  
Harland Priddle, Special Assistant to the Senate Majority Leader

Others Present (continued)

Anthony Redwood, Consultant  
Charles Krider, Consultant  
Shelby Smith  
Jim Maag  
Dana Ferrell  
Mark Skinner  
Chip Wheelan  
Charles Becker

The Chairman called the meeting to order shortly after 1:30 p.m. Representative Kline, Chairman of the Task Force on Higher Education, presented the recommendations of the Task Force regarding the governance of postsecondary education in Kansas and funding for business/university relations (Attachment 1).

The Commission next heard from Senator Salisbury, Chairman of the Task Force on Business Training, who presented the Task Force's recommendations regarding improvements in the governance and funding of business and vocational training programs (Attachment 2). It was noted that a Minority Report was filed on the governance of Kansas Technical Institute. During the discussion, the Commission requested that staff prepare a memorandum reviewing current state expenditures for vocational education.

Senator Dave Kerr, Chairman of the Task Force on Capital Markets and Taxation, presented that Task Force's recommendations regarding improvements in the state's capital markets and taxation structures (Attachment 3). It was noted that Minority Reports were filed regarding the Task Force's banking and corporate taxation recommendations. Senator Kerr also distributed copies of news articles discussing recent developments in the state bond programs of Oregon and Illinois (Attachments 4 and 5) and a letter from the Missouri Department of Economic Development to a Kansas businessman encouraging him to move his business to Missouri (Attachment 6).

Representative Heinemann, Chairman of the Task Force on Agriculture, presented the Task Force's recommendations regarding improvements in the state's agriculture and agribusiness industries (Attachment 7).

Representative Braden commended the Task Force chairs and thanked the staff and consultants who assisted in the preparation of the Task Force recommendations.

The Chairman adjourned the meeting at 4:55 p.m.

Prepared by Paul West

Approved by Committee on:

December 8, 1986  
(Date)

ecodev12.min/PW

TASK FORCE ON HIGHER EDUCATION

Governance

The Task Force on Higher Education recommends that postsecondary education in Kansas be consolidated under the jurisdiction of the Kansas Board of Regents and that the statutory mission of the regents be defined as coordination of postsecondary education. This recommendation includes the following provisions:

1. The statutory mission of the Kansas Board of Regents would be redefined to include coordination of postsecondary education in addition to the performance of its constitutional powers and duties. The regents would be assigned specific statutory tasks as follows:
  - a. to conduct master planning for postsecondary education as a whole;
  - b. to review and have final authority for the approval of new programs in public postsecondary education;
  - c. to conduct ongoing review of existing programs in public postsecondary education and have final authority for the elimination of existing programs at state universities;
  - d. to review requests for state funds and make funding recommendations for postsecondary education to the Governor and the Legislature each year;
  - e. to develop each year and recommend to the Governor and the Legislature a policy agenda for postsecondary education, which assesses priorities among proposals for policy change, programmatic recommendations, and state funding requests;
  - f. to conduct ongoing study of ways to maximize the utilization of resources available to postsecondary education in Kansas and initiate action for improvement; and
  - g. to report annually to the Legislature and the Governor on the progress made in carrying out these assignments.
  
2. A state board of community colleges and vocational education would be created within the coordinating jurisdiction of the regents. The board would be composed of seven members appointed by the Governor with the consent of Senate. This board would provide a state authority for public review,

assessment, advocacy, and leadership in behalf of this segment of education; its powers would parallel but be subject to those of the Kansas Board of Regents. In other words, this board would perform key functions for its segment of education, that is, master planning, review of requests for state funds, program review, and agenda-setting within overall coordination by the regents. The authority of local governing boards for community colleges would remain intact. When state financing of community colleges reaches 50 percent, steps should be taken to bring the governance of community colleges under greater state control. The creation of this board would require an independent staff.

3. In addition to shifting statutory authority for community colleges and postsecondary vocational schools from the State Board of Education to the Kansas Board of Regents, the regents would also be assigned authority for coordination of Washburn University within postsecondary education. This change would keep the Washburn Board of Regents intact but would require delegation of program approval powers currently held by the State Board of Education and the Kansas Legislature to the Kansas Board of Regents.
4. An institutional governing board would be provided for the state universities, Kansas Technical Institute, and Washburn University. This board would be composed of seven members appointed by the Governor with the consent of Senate. This institutional board would appoint the campus chief executives with confirmation by the regents; would initiate plans for institutional advancement, new programs, and budget requests; and would have supervisory authority over each institution within policy established by the regents and within the parameters of plans, programs, and budgets approved by the regents. The creation of this board would require an independent staff. These changes in governance would be made without any major revision in the financing of Washburn. If a major shift in state financing of Washburn moves forward, further steps to bring Washburn under state control could be considered.
5. The Kansas Board of Regents would be authorized by statute to create a position of chief executive officer, in the form of a commissioner of higher education, and granted powers of appointment and removal over this officer. This officer's full-time occupation would be the execution of the regents' statutory assignments. The creation of such an office would require a delegation by the regents to this officer of recommending in the appointment of campus chief executives, in setting the regents' agenda, in reviewing academic programs and budget requests, in making representations before the Governor and the Legislature, in speaking on behalf of postsecondary education, among other matters.

Business/University Relations

1. Centers for Excellence. The Task Force recommends the following to ensure a viable and productive program:
  - a. Endorses the concept of small or mini-Centers of sufficient number to tap an array of strengths at Kansas universities rather than focus on one or two major Institutes.
  - b. Establish the following priorities in funding levels and sequence: (1) bring existing Centers, after appropriate review, to viable funding levels; (2) provide start-up funding for the approved Center for Technology Transfer at Pittsburg State; and (3) establish new Centers, through the external review competitive process, with a somewhat equal emphasis on the basic and applied research funds.

Minimum funding of \$2,200,000 in FY 1988 and \$3,200,000 for subsequent years, or preferred funding of \$3,500,000 in FY 1988 and \$5,000,000 in subsequent years, is recommended.
  - c. Recognize that basic research drives applied research and technology transfer, but that with respect to basic research, the scope for matching funding is more limited and the payoff longer term. Therefore, provide a modest core budget for basic research Centers that would be exempt from the matching provision.
2. Research Matching Grant Program. The Task Force recommends that the present level of funding be increased from \$610,000 to \$1,000,000.
3. Equipment Grant Program. The Task Force recommends a five-year program of equipment enhancement. Minimum funding of \$2,000,000 annually or preferred funding of \$3,000,000 annually to remedy present deficiencies in research equipment at state universities is recommended. Minimum funding of \$1,000,000 annually or preferred funding of \$2,000,000 annually to provide equipment for job training in community colleges and area vocational schools is recommended.
4. Technology Transfer/Industrial Liaison. The Task Force recommends funding two programs authorized by 1986 S.B. 755:
  - a. Industry Liaison at \$400,000 in FY 1988 for basic offices, increasing to \$600,000 in subsequent fiscal years for expansion to other institutions.

- b. Kansas Industrial Extension Service at \$400,000 in FY 1988, increasing to \$500,000 in subsequent years.
  
5. State Data Bases. The Task Force recommends the establishment of a Kansas Technological Data Base that will provide users with a comprehensive inventory of research and development activity in Kansas. Minimum funding of \$75,000 in FY 1988 and FY 1989, with \$60,000 subsequently, or preferred funding of \$100,000 in FY 1988 and FY 1989, with \$75,000 subsequently, is recommended for the Technological Data Base. The Task Force also recommends funding a central statistical agency to collect and disseminate economic and social data. Funding of \$75,000 in FY 1988 and FY 1989, with \$60,000 subsequently, is recommended for the comprehensive Inventory of Kansas Economic and Social Data.
  
6. Small Business Development Centers. The Task Force recommends that the current level of state funding be increased by \$75,000 in FY 1988 and \$150,000 in FY 1989 and subsequent years at a minimum, with the preferred increases \$100,000 in FY 1988 and \$200,000 in FY 1989 and subsequent years.
  
7. Research Professorship Program. The Task Force recommends that the existing Regents' Distinguished Professor Program be expanded to fund research professorships selected for their linkage to economic development. The cost for five such professorships added in FY 1988 would be \$500,000 and then \$500,000 for each subsequent year in which five additional professorships are added.
  
8. Incubators. The Task Force recommends the establishment of a minimum pool of \$600,000 to be funded over three years (\$200,000 per year beginning in FY 1988) or a preferred pool of \$1,000,000 to be funded over three years (\$300,000 in FY 1988, \$400,000 in FY 1989, and \$300,000 in FY 1990) to allow universities to become involved in incubators if they so choose.
  
9. Management and Entrepreneurship Development. The Task Force recommends the following:
  - a. Support for new program improvements and other initiatives designed to enhance the quality of the state's Schools of Business that have or will be recommended to the Regents.
  
  - b. Funding support for program development in the universities designed to bring management and related (e.g., international) expertise into interaction with the Kansas business sector. Minimum funding of \$550,000 in FY 1988 and \$750,000 for subsequent years, or preferred funding of \$700,000 in FY 1988 and \$900,000 in subsequent years, is recommended.

10. The Task Force recommends the following additional items:
  - a. That Centers of Excellence activities in basic research, applied research, and technology transfer may overlap to some extent. Specific language to amend 1986 S.B. 754 was approved to effect this change.
  - b. That institutions associated with Centers of Excellence, the Research Matching Grants Program, or sponsored research financed from restricted fees be exempted from current bid laws if purchases are less than \$10,000.
  - c. That all funding recommended by the Task Force be appropriated to K-TEC, except in the case of Small Business Development Centers funding which should be appropriated to the Department of Commerce.

GG86-294/JE

**Report on the  
Governance of Postsecondary Education**

Prepared for the Task Force on Higher Education  
Legislative Commission on Economic Development

by

H. Edward Flentje

with the assistance of

Catherine Holdeman  
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Wichita State University

December 1986



For forty years, therefore, the Board [of Regents] and other agencies concerned with higher education in Kansas have been "studying" the problems of the State's universities and colleges. No fewer than nine major statewide reports have been prepared since 1922--some extremely comprehensive, as in 1960; some more limited, as in 1955 (municipal universities), 1955 (space utilization), and 1958 (extension services). Literally hundreds of recommendations have been made on how to improve higher education in Kansas or at least how to coordinate it better. But a reading of Kansas educational history leads to the conclusion that nothing much has happened as a result of these reports. The studies were made, the reports were accepted, the material was read, then it was filed. Higher education in Kansas continued to march on much as before.

"Kansas Plans for the Next Generation"  
Alvin C. Eurich, chairman  
November, 1962

## Summary of Findings

This report on the governance of postsecondary education in Kansas has been guided by two principal objectives: 1) to assess existing governance of postsecondary education in Kansas; and 2) to identify alternative forms of governance for postsecondary education which may be applicable to Kansas.

The deadlines for completing this report have required that this assessment of existing governance rely more heavily on existing information concerning governance than on the development and collection of new data. For this reason not all aspects of postsecondary governance are fully covered, and the report, therefore, is preliminary.

The major findings of this report are as follows:

### I. Postsecondary Education in Kansas

- comprises sixty-two postsecondary educational institutions including six state universities, one state-aided municipal university, nineteen private colleges and universities, nineteen public community colleges, one state technical institute, and sixteen area vocational schools (not including three bible colleges, a number of proprietary colleges, one of which offers a bachelors degree, and nine private colleges which offer degree programs in Kansas but are not located in Kansas).
- serves over 140,000 students each year (not including students at postsecondary vocational schools).
- offer degrees in forty fields and 369 subfields.
- awards over 14,000 degrees each year to students at the baccalau-  
reate, masters, and doctoral level.

- expends over \$940 million annually, of which an estimated \$560 million, or 60 percent comes from state and local tax revenues and tuition.
- generates revenues estimated at nearly \$1 billion annually from tuition, state, local, and federal governments, endowments, and other sources.
- ranks seventh in the nation (27 percent above the national average) in the number of full-time students in public colleges or universities relative to the number of high school graduates.
- ranks seventh in the nation (25 percent above the national average) in the number of full-time students in public colleges and university per capita.
- ranks fourteenth in the nation (21 percent above the national average) in the percentage of state and local tax revenues allocated to public colleges and universities.
- ranks thirty-seventh in the nation (10 percent below the national average) in the level of student tuition at public colleges and universities relative to personal disposable income.

**II. Changing Character of Postsecondary Education in Kansas, 1960 to the present**

- established in 1961 a program of state aid to community colleges and municipal universities.
- provided in 1963 for the transformation of the municipal University of Wichita into a state university under the Kansas Board of Regents.
- adopted the Kansas Vocational Training Act of 1963 which has led to the formation and financing of sixteen new area vocational schools.

- created the Kansas Technical Institute in 1965 as a state governed and financed school.
- adopted the Community Junior College Act of 1965 which led to the reorganization of existing two-year colleges and the formation of five new community colleges.
- lost two private colleges (College of Emporia and St. John's College) since 1960, a 10 percent decrease in the number of private colleges and universities.
- expanded enrollment by 90,000 students since 1960, an increase of 180 percent for the period. Of this total, the state universities and Washburn gained 50,000 students, an increase of 139 percent; community colleges enrolled an additional 37,000 students, a growth rate of 740 percent; and private colleges and universities lost 1,000 students, a decrease of 9 percent.
- increased revenues from \$127 million in 1965 to \$926 million in 1985, a jump of 629 percent.
- increased expenditures from \$125 million in 1966 to \$900 million in 1985, a growth of 630 percent.

### III. The Governance of Postsecondary Education in Kansas

- is diffused constitutionally between executive and legislative authorities at the state level. Current law divides authority for "supervision" of postsecondary education between two constitutional bodies, the State Board of Education and the Kansas Board of Regents. Another constitutional provision allows the Kansas legislature to provide for the "supervision" of municipal universities, independently of the State Board of Education or the Kansas Board of

Regents. The Kansas legislature and its committees through acts of authorization and appropriation are intimately involved in the governance of all segments of postsecondary education.

■ is fragmented and decentralized in the public sector among forty-three governing bodies and administrative structures, all of which have been created under legislative authorization. This fragmentation and decentralization may be found

1. in the creation of nineteen separately elected local governing bodies for the community colleges, which have been appropriated collectively \$262.9 million in state funds over the last twenty-five years.
2. in the assignment of administrative authority for postsecondary vocational education to sixteen local governing bodies, nine of which are local school boards, three of which are local community college boards, and four of which are locally initiated "composite" boards. Vocational programs offered through these local entities are paid for by 60 percent state funding. Further fragmentation may be found in the assignment of responsibility for vocational education to two state institutions under the control of the Kansas Board of Regents.
3. in delegation to six state university heads of administrative authority for personnel decisions, contracts for goods and services, legislative relations, budget development and execution, control of foundations, and many other such matters.
4. in the fragmentation of responsibility for governing Washburn University among five instrumentalities of the state including the

Washburn Board of Regents, the State Board of Education, the Kansas Board of Regents, the Kansas legislature, and the governor.

Fragmentation among executive agencies is reinforced by diffusion of authority for postsecondary education within the legislature. In the case of Washburn University of Topeka, for example, nine separate legislative committees have acted favorably on measures concerning the governance and finance of Washburn during the past twenty-five years. Principal committees recently involved in studying and coordinating postsecondary education include:

1. Ways and Means Committees - House and Senate;
2. Education Committees - House and Senate;
3. Legislative Educational Planning Committee;
4. Joint Building Committee;
5. Legislative Post Audit Committee; and
6. Various interim committees, for example, Special Committee on Washburn.

• provides no assignment of executive authority for functions critical to the overall governance and coordination of postsecondary education as a whole. These functions are:

1. executive authority for conducting master planning for postsecondary education as a whole;
2. executive authority for initiating a policy agenda for postsecondary education as a whole;
3. executive authority for maximizing the utilization of resources across postsecondary education as a whole;

Under existing governance no agency of the state has authority or responsibility to look at postsecondary education as a whole-- except of course for the governor and the legislature.

- provides for strong advocacy of separate institutional interests in postsecondary education and weak advocacy of a state interest in postsecondary education. The demands of the various segments of postsecondary education are being effectively articulated while the interests of the whole of postsecondary education are not. The mechanisms established to articulate a state interest in postsecondary education as a whole are weakened by virtue of insufficient staffing, limited or unclear authority, partial jurisdictions, or political constraints.

#### **IV. Decision Making Under Current Governance**

- is characterized by "muddling."
  1. With the state's interest in postsecondary education uncertain, purposes become vague, contradictory, and fluctuating. Priorities shift. Institutional scope and mission lack clarity or uniqueness. Master planning is largely nonexistent. These voids in statewide vision encourage increased competition for resources among institutions and segments in postsecondary education and fuel on-going battles over educational turf.
  2. In this continuing contest for augmented resources and authority, institutional interests drive decisions concerning the governance and financing of postsecondary education. In the absence of state guidance, the institutional demands of postsecondary education are forcefully advocated before the governor and the legislature.

These political arms of state have few means against which to test the merits of institutional proposals and within the limits of available resources most often respond favorably to them.

3. In the context of a void in statewide vision, unbridled institutional demands, and limited resources, state action concerning postsecondary education proceeds in small steps. Responses to demands for improvement are partial and often temporary. The status quo is preserved; budgets ooze forward year-to-year. Proposals calling for major change are deferred. Dramatic steps in any direction are rarely taken. Incrementalism characterizes decision making. Public policy concerning postsecondary education muddles forward.

## V. **Conclusions**

- A. The existing governance of postsecondary education in Kansas works but muddles. Major decisions are avoided or deferred. Policy change proceeds slowly in exceedingly small steps. Existing governance provides no one with the requisites of leadership to develop a strategic vision for postsecondary education in Kansas and to carry out that vision.
- B. To make major steps toward improvement, the Kansas legislature and the governor need help in governing postsecondary education in Kansas. This educational enterprise now comprises the work of sixty-two diverse institutions, expends nearly \$1 billion annually, 60 percent of which comes from the state's taxpayers and students, and touches over 140,000 Kansas residents each year.



Over the past twenty-five years, profound changes have occurred in the character of postsecondary education. Twenty-three new schools have been added, an increase of nearly 60 percent. Ninety thousand additional students are being served, an increase of 180 percent. Annual revenues have jumped by over \$800 million, an increase of over 600 percent.

In the face of these profound changes, however, how decisions are being made concerning postsecondary education has not been revised significantly in this period. The governance of postsecondary education in Kansas has not adapted well to the magnitude of the enterprise nor to its changing character. The state's interest in postsecondary education is not being well articulated. Functions critical to the future of postsecondary education are not being performed. No agency is assigned authority to work on maximizing the utilization of existing resources on a systemwide basis. Master planning is nonexistent. A policy agenda for postsecondary education, as an annual guide for decision making by the governor and the legislature, is not being established. To shape the future of postsecondary education in Kansas, both thoughtfully and compassionately, the governor and the legislature need help.

- B. The financial environment facing postsecondary education in Kansas for the next twenty-five years will be less friendly than has been the case for the last twenty-five years.

First, the economic future of Kansas is uncertain. Those industries which have underpinned the state's economy in the past are weak and on the decline. Revenues generated from growth in

the Kansas economy have fallen dramatically compared to past trends. The Kansas economy will not likely produce a major new infusion of resources for postsecondary education or for any other state purposes in the immediate future.

Second, the leading justification for expanding aid to postsecondary education in the past, that is, growth in the number of students, has nearly evaporated. The number of students served will be at best stabilizing or slightly on the decline in the immediate years ahead. The basis for augmenting funds to postsecondary education will have to be found in terms other than solely student bodies.

Third, demands on the state treasury from a variety of quarters will continue to challenge the proportion of state funds that postsecondary education is allotted. Although Kansas ranks in the top one-third among the states in the share of state and local tax funds dedicated to public colleges and universities, that share has fallen since 1965. Maintaining the current allocation will not be an easy task.

- D. The existing governing structure for postsecondary education could be revised in ways that contribute to maximizing the utilization of available resources, making postsecondary education more responsive to the social, cultural, and economic well being of Kansans, and improving accountability to the governor and the legislature.
- E. Should Kansas policy makers act to revise the governance of postsecondary education? Whether action should be taken at all,

and if so, what action should be taken, depends ultimately on the level of satisfaction or dissatisfaction with existing governance.

Has muddling on decisions been adequate for the \$1 billion enterprise of postsecondary education? Will muddling be adequate for the future? Should expectations for postsecondary education be high or modest?

Are policy makers satisfied that the utilization of resources available to postsecondary education has been maximized? Will existing structures be adequate to achieve maximum utilization of more limited resources in the future?

Are policy makers satisfied that postsecondary education has been responsive to the social, cultural, and economic well being of Kansans? Are existing structures adequate to respond to changing needs in the future?

Are the existing structures of governance sufficiently accountable to the public through the governor and the legislature? Will existing structures be adequate to assure public accountability in the future?

### **Recommendation**

The Task Force on Higher Education recommends that postsecondary education in Kansas be consolidated under the jurisdiction of the Kansas Board of Regents and that the statutory mission of the regents be defined as coordination of postsecondary education. This recommendation includes the following provisions:

1. The statutory mission of the Kansas Board of Regents would be redefined to include coordination of postsecondary education in addition to its constitutional powers and duties. The regents would be assigned specific statutory tasks as follows:
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- g. to report annually to the Legislature and the Governor on the progress made in carrying out these assignments.
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5. The Kansas Board of Regents would be authorized by statute to create a position of chief executive officer, in the form of a commissioner of higher education, and granted powers of appointment and removal over this officer. This officer's full-time occupation would be the execution of the regents' statutory assignments. The creation of such an office would require a delegation by the regents to this officer of recommending in the appointment of campus chief executives, in setting the regents' agenda, in reviewing academic programs and budget requests, in making representations before the Governor and the Legislature, in speaking on behalf of postsecondary education, among other matters.

## PART B

### HIGHER EDUCATION - PRIVATE SECTOR LINKAGES FOR ECONOMIC DEVELOPMENT

#### RATIONALE FOR HIGHER EDUCATION/INDUSTRY LINKAGES

The major push for cooperation between business and academia stems from the revolutionary shift from an industrial to an information economy. Knowledge now doubles every decade, transforming the marketplace and the workforce. As a result, our economy increasingly is built on knowledge.

This evolution necessitates that business access and utilize quickly new technological and managerial developments. The linkage between our higher education institutions and industry will facilitate the networking of information throughout our state economy. The success of this linkage depends upon tailoring this collaboration to fit the capabilities of our institutions with the needs of existing and potential Kansas businesses and industries.

#### SUMMARY OF REPORT

The following report from the Task Force on Higher Education is in two parts:

1. Overview of other state programs of higher education-business interaction to foster economic development.
2. Recommendations for specific action by the 1987 Kansas Legislature.

Our recommendations to the Commission deal with specific mechanisms and systems to enhance economic development by fostering a closer link between Kansas industry and higher education. In the ultimate, however, the most productive contribution that higher education can make to long run economic development is to undertake its basic mission of teaching and research at the highest quality level. It is evident that a large number of states have reiterated their basic funding commitment to higher education in recent years for this reason. As noted in the *Kansas Economic Development Study*, one of Kansas' few major strengths for building its economy lies in its excellent higher education system. We strongly urge that a commitment be made to insure this strength is maintained and strengthened.

## OVERVIEW OF PROGRAMS IN OTHER STATES

Economic development in other states has involved a multiplicity of activities, mechanisms and programs designed to tap the expertise in state universities in the state's economic development effort. These have included the following:

- 1) Centers of Excellence in Basic and Applied Research
- 2) Research Matching Grants
- 3) Industrial Liaison Offices
- 4) Technology Transfer
- 5) State Technological Database of Research & Development Activity
- 6) Incubators
- 7) Equipment Matching Grants
- 8) Selective Management Education & Business Development
- 9) Research Professorships
- 10) Research Parks

Following are brief summaries of five state's efforts in this arena in order to illustrate the nature, direction, magnitude, and array of programs.

### Arkansas

In 1983, the state legislature established the Arkansas Science and Technology Authority (illustrative of 2 and 3 from above list) with initial funding of \$250,000. The Authority was created to play a major role in the identification, development and application of advanced technologies for increased state economic growth. Its functions were broadened in the 1985 legislative session. The Authority's operating budget was increased to \$1,000,000 and three new programs were authorized and funded for an additional \$4,500,000. These programs were the Seed Capital Investment Fund (\$1.8 million), Business Incubator Program (\$1.9 million) and the Basic and Applied Research Grant Program (\$1.8 million) (representing 6 and 2 from above list).

Arkansas appropriated \$3.4 million in 1983 for institutional development funds to support economic development in the state (3, 4, and 8). An additional \$3.4 million was appropriated for each year of the 1985-87 biennium with a matching stipulation on this second round of funding. Examples of programs funded include technology transfer centers designed to provide businesses with assistance, economic assessments and special studies, and research for business development.

### Illinois

Through the State Board of Higher Education, Illinois provides funds for 48 technology centers at six universities and one technology institute



(example of 1 from aforementioned list). As illustrations, The Beckman Institute for Advanced Science and Technology received \$10 million in construction monies to match the \$40 million gift from Arnold O. Beckman. The Center for Supercomputing Applications will receive \$2.0 million for FY 87 matched with a total federal appropriation of \$40 million.

The Department of Commerce and Community Affairs (DCCA) funds the state's industry liaisons through its \$3 million (FY 87) commitment to sixteen Technology Commercialization Centers (3 and 4). This funding represents 60 percent of each Center's total operating budget with the balance provided by the institution and/or users. These Centers make faculties, researchers, and facilities available to industry and encourage collaboration on technical and management problems.

Two new university-associated research parks are being developed in the Chicago area to nurture new high technology companies (6 and 10). The Evanston/University Research Park received \$9.0 million from the state and the Chicago Technology Park received a \$4.0-5.0 million state commitment.

The State Board of Higher Education frequently requests monies for equipment deficiencies at its universities. For example, the University of Illinois at Urbana-Champaign received \$1.0 million in FY 86 for instructional equipment deficiencies (7).

The Illinois Resource Network (IRN) is a state-wide electronic directory of approximately 7000 university faculty members. FY 87 funding is \$230,000--\$150,000 from the Board of Higher Education's competitive Cooperation Act Grant Program and \$80,000 from a combination of DCCA funds and participant funds (5).

## Iowa

In 1983, Iowa created the Iowa High Technology Council. The purpose of the Council is to encourage the development of high technology industries and research in Iowa to further economic development. The Council was funded \$50,000 for operations, \$50,000 for the creation of a system to get new research developments into the hands of Iowans who could use them and \$2 million was targeted to fund projects that would provide help to Iowa's economy within the next few years. Two of the projects receiving funding were incubators at the University of Iowa and Iowa State University.

The Iowa Program for Innovation at the Iowa Center for Industrial Research Service (CIRAS) serves as the arm of the Iowa State University Extension Service that assists owners and managers of manufacturing and processing firms. CIRAS' six field representatives travel the entire state in their efforts to support Iowa's industry. In 1984-85, the field representatives made a total of 6,524 calls upon Iowa industry. Faculty became involved in projects to either lend expertise or to gain exposure to and knowledge of an industry's particular challenges. (3)

The Iowa Development Commission has the responsibility for the administration of three programs designed to foster economic development-- Iowa Product Development Commission, Business Incubator Center Program and the Economic and Research and Development Grants. The Iowa Product Development Commission is the state's source of seed capital. FY 87 funding is \$2.0 million both to cover administrative costs and for providing seed capital. The Business Incubator Center Program received \$450,000 (FY 87) for funding of incubators. There are presently three incubator centers in Iowa, one each at Iowa State University, University of Iowa and Des Moines Area Community College (6). The Economic and Research and Development Grants are designed to encourage research within Iowa. FY 86 funding was \$5 million which was increased to \$7.4 million for FY 87 (2). \$3.5 million of the FY 86 funding was used to establish seven endowed chairs. Each chair received \$500,000 from the state with an equivalent match made by each university (9). To date, \$4.75 million of the FY 87 funding has been committed to two Centers of Excellence (1)--\$3.75 million to expand Iowa State University's agricultural biotechnology program and \$1.0 million for Iowa State University's Microelectronics Research Center.

Both Iowa State University and the University of Iowa are in the process of initiating research parks with the support of private developers.

## Ohio

Ohio established the Thomas Edison Program in 1983 with the purpose of stimulating working partnerships between business and academia. Thus far, the legislature has committed a total of \$67.9 million to support the program. The program consists of three main components: the Edison Seed Development Fund, the Edison Technology Centers and the Edison Incubators.

The Edison Seed Development Fund matches state funds with those put up by the private sector to demonstrate the feasibility of new ideas for products, processes or systems. To date, this program has been budgeted \$7.8 million.

The Edison Technology Centers are located at universities and bring together corporate sponsors and university researchers to explore key areas of technological concern in manufacturing, agriculture and information processing. Seven Centers have been funded to date for a total of \$49.35 million (1).

Edison Incubators provide basic business services such as accounting, legal advice and secretarial help to support entrepreneurs in developing new technology-based companies. Six have been established to date for a total of \$1.615 million (6).

Two other programs within Ohio's Department of Economic Development which further information/technology transfer are the Ohio Technology Transfer Organization (OTTO) and the Technology Information Exchange-Innovative Network (TIE-IN). OTTO links four Ohio universities and 24

technical community colleges in a state-wide information networking system. This is accomplished through the placement of field agents in each of the institutions. OTTO is currently funded by the state at \$3.7 million per biennium (3 and 4). TIE-IN is a powerful database that links users throughout the state of Ohio. Information is available on patents, faculty research interests, venture opportunities, corporate R & D, etc. Initial funding of \$100,000 created the database (5).

In its 1983-85 state budget, Ohio supported nine eminent scholars under its new Eminent Scholars Program to be administered by the Ohio Board of Regents. These scholars serve to attract and retain outstanding faculty and students, bring new research grants and capability to Ohio's campuses and act as resource consultants for the state. State funds, matched dollar-for-dollar by institutional funds from private sources, create endowments of \$1 million each to fund distinguished professorships. The 1985-87 budget provides funding for nine additional eminent scholars (9). In order to stimulate new and expanded research efforts at its colleges and universities, Ohio established a Research Challenge Program also under the Regents. The 1985-87 budget for this program is \$28 million (2 and 8).

### Utah

In FY 86, the state of Utah appropriated \$2.415 million to fund Centers of Excellence. A minimum of a 2:1 match was required with a resulting match of \$16 million realized. Fourteen Centers were funded as well as seven planning grants (small dollar allocations to develop programs with Center potential). An additional \$1.0-1.5 million will be available for FY 87 (1).

The nationally recognized University of Utah Research Park was established in the late 1960's to provide a site for private research and development activities, especially those that involve interaction with the University. Though no state monies are appropriated for the Park, several academic University departments are housed there. Collaborative interdepartmental research at the University has produced such bioengineering marvels as the artificial heart and the Utah arm. These innovations were licensed to private firms for further development and production via the Technology Transfer Office within the Research Park (4, 6 and 10).

## RECOMMENDATIONS FOR SPECIFIC ACTION BY THE 1987 LEGISLATURE

The Task Force is making recommendations on the following:

1. Centers of Excellence
2. Research Matching Grant Program
3. Equipment Grant Program
4. Technology Transfer/Industrial Liaison
5. State Data Bases
6. Small Business Development Centers
7. Research Professorship Program
8. Incubators
9. Management and Entrepreneurship Development
10. Clean-up revisions to SB 755 and state purchasing provisions.

Funding for these recommendations should be administered by the newly created Kansas Technology Enterprise Corporation (KTEC). This will insure accountability over time and provide for a review point to facilitate the matching of program goals with state economic development goals. The exception to this funding mechanism will be those funds provided for the Small Business Development Centers (#6). This funding should be administered through the Kansas Department of Commerce.

### CENTERS OF EXCELLENCE

The Centers of Excellence program in Kansas is designed to expand the Kansas economy by enhancing academic programs which are at the leading edge of research and which have the potential to underpin future business development. The objective of this long term program is to build upon existing strengths in areas of key scientific and technological importance for Kansas.

Centers of Excellence characterize one of three general thrusts: Basic Research, Applied Research or Technology Transfer. Though emphasis is frequently placed on one area, it is important to recognize the continuum of movement from basic to applied research to technology transfer. Basic research is undertaken to broaden the knowledge base and understanding in a particular field while applied research focuses on resolving problems/opportunities encountered within the economic environment as they relate to a particular base of knowledge. Technology Transfer is the movement of this knowledge "in mass" to industry for its use.

For FY 87, \$172,000 has been appropriated for each of the current Centers at KU, KSU and WSU matched by \$86,000 in private sector contributions. The 1986 Legislature authorized the Kansas Technology Enterprise Corporation to designate and fund (with matching) Centers of Excellence for basic research, applied research and for technology transfer.

The majority of states have a program of this generic nature in place. The levels of funding range from multi-million mega Institutes (Illinois, Michigan, Oklahoma) to \$3-10 million Centers/Institutes (Iowa, Ohio, Pennsylvania) to mini-Centers in the under \$1 million category (Kansas, some Illinois Centers). In general, the programs seek to enhance existing strengths, but some also are designed to develop new strengths.

Given the new legislative mandate (Senate Bill 755, Section 6), the authorized role and functions of the new instrumentality K-TEC, and the Kansas context, the Task Force recommends the following to ensure a viable and productive program:

- 1) Endorses the concept of small or mini-Centers of sufficient number to tap an array of strengths at Kansas universities rather than focus on one or two major Institutes.
- 2) Establish the following priorities in funding levels and sequence:
  - a) Bring existing Centers, after appropriate review, to viable funding levels.
  - b) Provide start-up funding for the approved Center for Technology Transfer at PSU.
  - c) Establish new Centers, through the external review competitive process, with a somewhat equal emphasis on the basic and applied research funds.
- 3) Recognize that in the ultimate basic research drives applied research and technology transfer, but that with respect to basic research, the scope for matching funding is more limited and the payoff longer term. Therefore, provide for a modest core budget for basic research Centers that would be exempt from the matching provision.

The budget implications are as follows (these numbers represent NET INCREASES OVER FY 87):

	Millions			
	<u>FY 88</u>		<u>FY 89 and FY90</u>	
	<u>Minimum</u>	<u>Preferred</u>	<u>Minimum</u>	<u>Preferred</u>
Existing Centers (\$500,000-\$750,000 average)	\$1.0	\$1.75	\$1.0	\$1.75
Approved Center for Technology Transfer	.2	.25	.2	.25
New Centers (total 4: 2-FY 88, 2-FY 89)	<u>1.0</u>	<u>1.5</u>	<u>2.0</u>	<u>3.0</u>
TOTAL	\$2.2	\$3.5	\$3.2	\$5.0

## RESEARCH MATCHING GRANT PROGRAM

The Research Matching Grant Program is designed to make Kansas industry more competitive by stimulating the development of high-technology industry and technology transfer, and by encouraging university-industry collaboration and interaction in Kansas. The Kansas Advanced Technology Commission invests these funds as seed money for research projects that promise to create jobs. Industry's required contribution to the project of at least 60 percent of total cost ensures that the project is worthy from the industry's point of view. These provisions are maintained in Senate Bill 755, Section 7.

Many states have this program, and it has been quite successful. Levels of funding vary significantly from state to state:

Arkansas	.90 million per year
Missouri	1.43 million
Iowa	5.00 million for fiscal 1986
Wisconsin	2.00 million for 1983-1985
Michigan	21.7 million
Texas	17.5 million

The objective of research matching grants is not to subsidize university-industry projects, but to leverage them and to establish a pattern of the university and industry working together. The Kansas program is quite small by comparison and needs to be somewhat larger to achieve the desired objectives. Thus the Task Force recommends that the present level of funding should be increased from \$610,000 to \$1 million.

## EQUIPMENT GRANT PROGRAM

The Kansas Board of Regents, in its recent *A Time for Renewal* emphasizes "the importance of maintaining a modern 'state-of-the-art' instructional equipment inventory to support the academic programs at the Regents universities," and describes the state of the instructional equipment as "inadequate and out-of-date." Similarly, reductions in the research capabilities of universities in high technology and scientific fields, they report, will seriously harm the state's efforts to train graduate students who can work with modern technology-driven industry. It notes that research instrumentation is crucial for the survival of a research base in the state. This report identifies an instructional equipment and research instrumentation deficiency of \$33 million.

As the *Kansas Economic Development Study* recommended, it is essential that Kansas maintain its education quality differential in order to support the quality of its labor force, one of its few comparative strengths for economic development.

Many states have realized the danger of allowing equipment to deteriorate and become out-of-date and have legislated programs to remedy this situation. For example, North Carolina has allocated \$1.6 million to four institutions for equipment in engineering and the sciences; Virginia has established a \$28.8 million equipment trust fund for higher education; and Pennsylvania has set aside \$3 million for an engineering school equipment grant matching program.

The Task Force recommends a program of equipment enhancement that would have a dual focus: a portion of the fund would be committed to equipment purchases for general research, and another portion would be earmarked for equipment that will upgrade research programs linked directly to economic development. The Task Force recommends a five-year program, because the need for new equipment is great and cannot be met in one year. Funding should be at a minimum level of \$2 million each year for five years with preferred funding at \$3 million each year for five years.

Further, the Task Force on Business Training is considering proposals for community colleges to become more involved in vocational/technical education. If such a proposal is accepted, a multi-year program to fund equipment for community colleges' new orientation will be necessary, e.g., a minimum of \$1.0 million a year for five years with an annual level of preferred funding of \$2.0 million.

#### TECHNOLOGY TRANSFER/INDUSTRIAL LIAISON

Technology transfer occurs when scientific, technological and other academic resources are applied to business opportunities leading to the commercialization or incorporation of a new product, process or idea into the economy. There are three types of technology transfer:

- 1) Industry assumes an active role by aggressively pursuing university help with some technological or management issue. Lines of communication into the university must facilitate this type of relationship.
- 2) The university structure affords an avenue wherein new products, processes or ideas may be reviewed for their commercial and patent potential. If deemed appropriate, the university seeks a link with the proper industry to commercialize this new university-developed knowledge.
- 3) Through an industrial extension service, field representatives "drop in" on state industries to market the available state resources that the firm may tap for solving technical and management problems. A complete networking system is usually facilitated by a central state database of research activities, patents, expertise, etc.

In order to facilitate these linkages, university and state officials would need to:

- 1) Articulate a policy clearly supporting greater business-university interactions and identify institutional policies, such as tenure guidelines, that discourage business outreach efforts by professors and departments. Value should be placed on achieving corporate resource efficiency and commercial success.
- 2) Address the issue of proprietary information as it relates to applied research.
- 3) Develop patent and licensing policies before entering into collaborations (Include the collection and disbursement of royalties).

Funding for a wide variety of such programs in other states ranges from \$800,000/year for CIRAS (Center for Industrial Research and Service) in Iowa to the \$30 million commitment by Virginia to their Center for Innovative Technology. CIRAS is the arm of the Iowa State University Extension Service that assists owners and managers of manufacturing and processing firms. Its' six field representatives travel throughout the state of Iowa in an effort to provide technical assistance to industry. Faculty become involved in projects to either lend expertise or to gain exposure to and knowledge of an industry's particular challenges. Ohio's OTTO program, housed within the Department of Development, links four Ohio universities and 24 technical community colleges in a state-wide information networking system. The OTTO philosophy is demand driven with each agent visiting their local industries asking questions such as "Can we do it better, faster?" "What technology do you need access to?" Ohio's commitment to this program for FY 87 was \$1.4 million. The state of Illinois appropriated \$3.0 million for FY 87 for the operation of its sixteen Technology Commercialization Centers. These Centers help to identify and support emerging Illinois businesses and individuals working on high technology projects. These Centers make faculties, researchers and facilities available and encourage collaboration on technical and management problems.

The following initiatives were reviewed by the Task Force as the potential main elements of a Kanss program of technology transfer and liaison:

- 1) Industry Liaison Offices and Network (KATC)

Industry Liaison offices to be located in the three major universities, then expanded to other institutions and networked throughout post secondary institutions in the state.

- 2) Kansas Industrial Extension Service

This initiative stresses the development of a partnership between the Colleges of Engineering and the Kansas Department of Commerce (and KTEC) in order to provide assistance to Kansas industry through outreach and provide continuing education opportunities. This consortium would be linked to the industry liaison networks



and its emphasis would be on engineering and technology. State funds will be complemented by funds from other sources. This consortium would be administered at KSU, and be subject to KTEC oversight and liaison.

The Task Force recommends:

- 1) Funding support for the creation of industrial liaison positions at our state universities with KTEC serving as the focal point for coordination and facilitation of the state-wide networking efforts. Our community colleges must be included in this network as the initial contact point for business/education interaction.  
(Budget: \$400,000 in FY 88; \$600,000 in FY 89)
- 2) Funding support for the establishment of a working partnership between our state engineering and scientific schools to facilitate the access of this specialized knowledge to Kansas business.  
(Budget: \$400,000 in FY 88; \$500,000 in FY 89)

#### STATE DATA BASES

The Task Force recommends the establishment of a Kansas technological data base that will provide users with a comprehensive inventory of research and development activity in Kansas. This data base will eliminate barriers to innovation by allowing entrepreneurs efficient access to relevant information and by minimizing redundant efforts.

Many states have a centralized technological data base, but Kansas does not. These programs vary widely from state to state in the type of data compiled, in accessibility, and in how much they are actually used.

This program could be modeled on Ohio's successful TIE-IN program, which is administered by the Ohio Department of Development and includes campus-specific inventories of resources, programs and expertise. It maintains the following information:

1. a file of U.S. patents assigned to entities within the state;
2. information on research and development capabilities of companies in the state;
3. descriptions of faculty expertise and training capabilities;
4. data on sponsored university grants;
5. listing of technical publications of authors in the state; and
6. a system for matching business with appropriate federal, state or local assistance programs.

The Ohio data base also includes information about venture opportunities, an area we propose to leave to other data base systems in the state.

Ohio's system costs about \$100,000 per year. This figure includes salary for six part-time staff members, computer time, and the costs of survey mailings needed for gathering the information. Ohio uses the state's mainframe computer, so the cost of this equipment is not included. This is a useful program that can be built up over time, providing a good return on a relatively small investment.

The Task Force recommends the following funding levels for a technological data base:

	<u>Minimum</u>	<u>Preferred</u>	
fiscal 1988	\$75,000	\$100,000	development phase
fiscal 1989	\$75,000	\$100,000	implementation phase
fiscal 1990	\$60,000	\$ 75,000	maintenance phase

Similarly the state of Kansas does not have a statistical agency that collects and disseminates economic and social data. There is no focal unit to serve the multiple demands for data needed by state agencies and local communities for economic development. Yet experience elsewhere suggests the need for three types of data bases, and probably a preference for these to be separate rather than consolidated.

1. technological data base (see above)
2. agency specific data bases e.g. KDED information and data system (see recommendation #33, *Kansas Economic Development Study*).
3. economic and social statistics for use by local governmental units, the private sector, research units, and various organizations.

The Institute for Public Policy and Business Research at the University of Kansas collects data in order to publish the *Kansas Statistical Abstract* and the *Kansas Business Review*, to undertake economic, social and policy analysis, and to provide a service to Kansas organizations in need of data for diverse purposes. This data base is extensive, but it is not integrated in any way and it is not in a form suitable to support economic development needs e.g., local community's marketing to attract industry.

The Task Force recommends the following funding levels for an economic and social statistics data base to support state and local economic development activities.

FY 88	\$ 75,000	development phase
FY 89	\$ 75,000	implementation phase
FY 90	\$ 60,000	maintenance phase

## SMALL BUSINESS DEVELOPMENT CENTERS

Small Business Development Centers provide free or low cost one-on-one business consulting, training, and research support for existing and potential small business owners and operators. Consulting includes feasibility studies, market research, analysis of new business ventures, development of business plans, financial analyses and development of personnel policies. Training programs can encompass business planning, financial management, and pre-business workshops. Small Business Development Centers also provide research to help the business owner with market, demographic, product, and competitor data. These services are provided by either the Center staff or private consultants hired by the Center. They are successful in increasing the probability of small business success through education and experienced advice.

The majority of funding for Kansas' Small Business Development Centers is received from the federal program with a match of these funds made by the institution housing the SBDC. The eight SBDCs within Kansas are located at seven universities and one community college. The State of Kansas made a \$250,000 appropriation to the SBDC program to help fund outreach initiatives in FY 87. As a result, these eight Centers have established ten associate centers in their efforts to service their regional area. Nine of these ten associate Centers involve a link with a community college. Additional funds to help support these associate centers are received from the institution housing the associate center as well as from the "main" SBDC's budget as needed.

Currently, forty-four states have SBDC programs with two-thirds of these receiving state funding. A 1985 study of 26 states, shows ten states committed more than \$250,000 to their SBDC program while seven states matched Kansas' commitment. Nine states appropriated fewer dollars than our state.

Given the progress made in outreach efforts, the Task Force recommends that the current level of annual state funding be increased to a minimum of \$325,000 for FY 88 and \$400,000 for FY 89 for the purpose of expanding the SBDC network in general and supporting community college and private college involvement in the SBDC program in particular. Preferred funding is \$350,000 (FY 88), \$450,000 (FY 89) and \$550,000 (FY 90). Funding for this program should be administered by the Department of Commerce.

## RESEARCH PROFESSORSHIP PROGRAM

As an integral part in the achievement of a university's primary goal of creating and passing on a knowledge base, Research Professorship Programs are designed to foster national eminence of selected outstanding academic programs through the appointment of scholar-leaders. This program, known by a variety of phrases from Eminent Scholars to Distinguished Professorships, provides an opportunity for strengthening the essential relationship between public higher education and the private sector for addressing cooperatively

some of a state's most critical needs and for stimulating a new thrust toward academic excellence. Such a thrust should focus on already outstanding academic endeavors which, with the leadership of a Research Professor would likely gain a national reputation and would enhance the research underpinning of business development.

In the state of Kansas, the Regents Distinguished Professor Program is currently funded at an annual level of \$125,000 to support five of these professorships. Each professorship receives a \$25,000 award for either salary supplement or OOE. The professorships are distributed at the three major universities--two at the University of Kansas, two at Kansas State University, and one at Wichita State University. These professorships were not selected for their linkage to economic development. Ohio's commitment of \$9.1 million (4-year period) provides funding to create eighteen \$1 million endowments consisting of 50 percent state dollars matched equally with dollars from the private sector. Of Iowa's \$5.0 million Economic and Research and Development Grant dollars, \$3.5 million were appropriated for the creation of seven endowed chairs. These endowments also consisted of \$500,000 each in state funds matched with \$500,000 of private funds.

The Task Force recommends that the existing Regents Distinguished Professor Program be expanded to fund research professorships selected for their linkage to economic development. Adopting the approach of funding salary supplements and associated support for faculty positions. The cost for 5 such professorships added in each of FY 88 and FY 89 would be \$500,000 and \$1 million respectively.

### INCUBATORS

Incubators act as funding catalysts in the formation of academic/business partnerships focusing on the special needs of newly formed, technology-driven small businesses. Through incubators, entrepreneurs receive an array of business services to improve their potential to be significant job-creators in and economic contributors to the state's future.

Incubators are frequently a joint venture between universities, industry and community developers. Ohio has committed \$1.615 to help fund operating expenses for six such partnerships at its universities. Incubator policies are established separately by each community with an average tenancy of two years. Three incubator programs exist in the state of Iowa; two at its research universities, and one at a community college. The Center at the University of Iowa is operated as an administrative arm of the University, housed on its Oakdale campus. This Center received \$100,000 in state monies for FY 87. The Center at Iowa State University, established in February 1986, is working now on obtaining state and private funding. The Incubator Center at Des Moines Area Community College reports to the Economic Development Department of the college even though it is a separate not-for-profit corporation. They, too, are attempting to obtain a portion of the \$450,000 state funds committed to incubators for FY 87.

The state of Kansas could make a commitment of funds which will allow its institutions to join partnerships to form incubators as part of the institution and community's economic development thrust. Funding should help with initial set-up costs through cash or in-kind contributions (i.e., use of a university building). Business tenants should be encouraged to link with University resources as applicable with each incubator eventually becoming self-sufficient through tenant fees.

Consequently, the Task Force recommends the establishment of a minimum pool of \$600,000 funded over 3 years (\$200,000 committed each year beginning with FY 88 and subject to review) to allow universities to become involved in incubators if they so choose. A pool of \$1.0 million funded over 3 years (\$300,000-FY 88; \$400,000-FY 89; and \$300,000 FY 90) is the recommended preferred funding level.

#### MANAGEMENT AND ENTREPRENEURSHIP DEVELOPMENT

University based outreach and development programs based on engineering and science (see Technology Transfer) are productive in that they shorten the time lag from knowledge development to application, and this is crucial in the global competitive environment of today's industrial world. But the deficiencies and shortcomings of firms in the modern competitive world are not only technological, but also managerial in nature. This is particularly true with respect to small- to medium-size firms, the backbone of the Kansas economy.

The *Kansas Economic Development Study* recommended (#13, p. 15, Executive Report) that the state "selectively enhance university programs in management and associated areas crucial to economic development."

As noted in that study, economic development is a long-term exercise. In order to make long-lasting and profound changes in the Kansas economy, future business managers must evolve from a cutting-edge curriculum. To become and remain competitive in the international market place, business schools and other academic units should place additional emphasis on areas such as small business management, international business, advanced production and operations management, and modern information systems. These management areas have been given emphasis in other states. If Kansas does not develop programs in these areas, the quality of management in Kansas will decline and Kansas's firms will not be competitive in world markets. Because the major business schools in the state are barely able to support basic quality education with current funding, the addition and enhancement of programs will require the funding of additional faculty and related operating expenses.

In essence, long-term economic progress will be enhanced (a) by a funding commitment to excellence in our Schools of Business and (b) by funding support for new thrusts in Business School curriculums.

In addition, ways have to be devised to bring the expertise of university management and related programs to bear on current business. The notion of outreach is equally relevant to the management as to the technological sphere. The capacity and infrastructure to develop this outreach and consultancy role could involve a variety of initiatives, of which the following are illustrative:

- i) Proposed Rural Business Development Institute at Kansas State University to utilize the knowledge base and expertise of that institution to support rural based economic development initiatives (\$200,000).
- ii) Proposed statewide program of services and activities linking international expertise in the Regents system to the support of Kansas industry now unavoidably competing in the global context (\$150,000) (Center for International Programs, University of Kansas).
- iii) Proposed outreach oriented Centers of Business Development in our Schools of Business, analogous to or based upon the nationally recognized Center for Entrepreneurship at Wichita State University and the newly established Bicknell Center for Entrepreneurship at Pittsburg State University.

The Task Force recommends as follows:

1. Support for new program improvements and other initiatives designed to enhance the quality of the state's Schools of Business that have or will be recommended by the Regents.
2. Funding support for program development (following the illustrations in i), ii), and iii) above) in the universities designed to bring management and related (e.g., international) expertise into interaction with the Kansas business sector. (\$550,000 for FY 88, \$750,000 for FY 89).

#### "CLEAN-UP" PROPOSALS FOR LEGISLATIVE CONSIDERATION

Following are the recommended amendments to SB 755 (Section 6). These changes afford recognition that basic research, applied research or technology transfer activities may overlap to some extent, and should be perceived as definitional in nature.

#### Sec. 6

(b) Centers of excellence for basic research will primarily undertake ongoing basic research with a particular focus that will have long-run potential for commercial development....

(1) 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 applied research, technology transfer, technical assistance or training except as it is incidental to the basic research intended to be benefitted by this section.

(2) The corporation may use the Kansas technology enterprise basic research fund to carry out the purposes of this act by awarding funds to establish new centers of excellence for basic research or to increase funding to such already established centers of excellence so long as those centers are determined to be (only) primarily carrying out basic research and to meet the standards of excellence required by this act....

REPEAT FOR SEC. 6 (c) AND (d) RE APPLIED RESEARCH AND TECHNOLOGY TRANSFER.

### STATE PURCHASING PROVISIONS

The Task Force discussed the impact of current state purchasing provisions on higher education/business interaction. A consensus was reached that the current limitation of \$2,000 for equipment acquisition be increased to \$10,000 in the following three situations.

- 1) Centers of Excellence purchases,
- 2) Purchases under the Research Matching Grant Program, and
- 3) Purchases from sponsored research funds.

Report of the Task Force on Higher Education  
to the Legislative Commission on Kansas Economic Development

Fiscal Implications Over Fiscal Year 1987 Budget  
(Millions of Dollars)

Program Name	Purpose	FY 88	FY 89	FY 90
Centers of Excellence	Expansion of economic development by enhancing academic programs which are at the leading edge of research and which have the potential to underpin future business development.	\$2.2	\$3.2	\$3.2 minimum
		(\$3.5)	(\$5.0)	(\$5.0) (preferred)
Research Matching Grants	Stimulate high technology development and cultivate a greater degree of business/university/interaction in general.	\$.39	\$.39	\$.39
Equipment Grant Program	Remedy present deficiencies in research equipment at our state universities.	\$2.0 (\$3.0)	\$2.0 (\$3.0)	\$2.0 minimum (\$3.0) (preferred)
-Community College Job Training Equipment Funds	Provide appropriate equipment for job training efforts	\$1.0 (\$2.0)	\$1.0 (\$2.0)	\$1.0 minimum (\$2.0) (preferred)
Industrial Liaison	Facilitate the transfer of scientific, technological and other academic knowledge to industry.	\$.4	\$.6	\$.6
Kansas Industrial Extension Service	Development of a partnership between the Kansas Colleges of Engineering and the Department of Commerce to provide engineering and scientific outreach services	\$.4	\$.5	\$.5
State Data Bases Technological Data Base	Provide users with a comprehensive inventory of research and development activity in Kansas	\$.075 (\$ .1)	\$.075 (\$ .1)	\$.06 minimum (\$ .075) (preferred)



Fiscal Implications Over Fiscal Year 1987 Budget  
(Millions of Dollars)

Program Name	Purpose	FY 88	FY 89	FY 90
Economic & Social Statistics Data Base	Provide users with a comprehensive inventory of Kansas social and economic data.	\$ .075	\$ .075	\$ .06
Extension of Small Business Development Centers	Provide free or low cost one-on-one business consulting training and research support for small business owners and operators.	\$.075 (\$ .1)	\$.15 (\$ .2)	\$.15 minimum (\$ .3) (preferred)
Research Professorship Program	Foster national eminence of selected outstanding academic programs important to economic development.	\$.5	\$1.0	\$1.0
Incubators	Funding catalyst in the formation of academic/business partnerships focusing on the special needs of newly formed technology-driven small businesses.	\$.2 (\$ .3)	\$.2 (\$ .4)	\$.2 minimum (\$ .3) (preferred)
Management and Entrepreneurship Development	Creation or extension of research and outreach programs for enhancing areas crucial to economic development.	\$.55 (\$ .7)	\$.75 (\$ .9)	\$.75 minimum (\$ .9) (preferred)
Total Net Increase from FY 87 Appropriations		\$7.865 (\$11.465)	\$9.815 (\$14.165)	\$9.785 minimum (\$14.125) (preferred)

Attachment 2

REPORT OF THE TASK FORCE ON BUSINESS TRAINING  
OF THE  
LEGISLATIVE COMMISSION ON ECONOMIC DEVELOPMENT

Publication No. DD86-269

December 1, 1986

Leg. Comm. on Economic Dev.  
Dec. 2, 1986  
Attachment 2

**TASK FORCE ON BUSINESS TRAINING**

<u>Legislators</u>	<u>Non-Legislators</u>
Sen. Alicia Salisbury, Chairperson	Buddy Baker, Midland Brake (Iola)
Rep. Denise Apt, Vice-Chairperson	Fred P. Braun, Jr., Zephyr Products, Inc. (Leavenworth)
Sen. Leroy Hayden	Gary Clark, University of Kansas (Lawrence)
Sen. Ben Vidricksen	Richard Corwin, Famous Companies (Topeka)
Rep. Rick Bowden	Ron Hoover, United Rubber Workers of America, Local 207 (Topeka)
Rep. Dorothy Nichols	John Moore, Cessna Aircraft Company (Wichita)
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## EXECUTIVE SUMMARY

Lamentably, Kansas has been slow to recognize that its beleaguered economy is not experiencing a cyclical downturn from which recovery can soon be expected; rather, the state is facing a major restructuring which carries with it no guarantees of future well-being. General aviation will not return to employment levels of the last decade, employment in production agriculture will continue its long-term decline, and recovery of the oil and gas industry cannot be predicted with any certainty. Kansas leaders must now come to terms with the requirements and uncertainties of restructuring the economy. There is no other alternative if we wish to achieve a revitalized, growth-oriented business climate.

Within the last year the Legislature has taken a series of steps designed to spur economic development. One called for the creation of this Task Force and charged it generally with assessing the publicly supported job training system. Continued state level attention to economic development issues must have a high profile for the next several years. Education has been recognized as perhaps Kansas' most important development tool. We must use it to our best advantage in making the job training system a cornerstone of our economic development strategy. The need for this emphasis becomes crystal clear when it is recognized that:

1. The states cannot continue to rely mainly on federal funding to support their job training efforts. These funds are dwindling and they come with too many restrictions as to how they may be used to serve as a reliable and responsive resource to meet the varied training needs of businesses. It is not that the restrictions are bad; indeed, they are not. The funds are targeted to genuinely needy populations. The point is that the states must develop alternative funding sources if they

are to meet the demands of business for customized training. State funds and partnerships for this purpose appear to be the wave of the future.

2. Most economic growth in Kansas can be expected to be generated from within the state, not by attracting manufacturing plants from outside or by attracting new branch plants. In order to nurture these ventures, we must do as well as, or better than, other states in developing a flexible and responsive job training system that will deliver the critical skills requisite to survival and growth. In this respect, we must recognize and compensate for the fact that many of these enterprises could not, by themselves, afford to provide the skills needed for survival.
3. In our efforts to attract businesses to the state and to encourage those located in Kansas to remain and to grow here, we face fierce competition from other states in the area of job training. We have no choice but to offer attractive employee training packages if we are to remain competitive. This will require the commitment of substantial state funds and development of partnership arrangements. Businesses are keenly aware of the extent to which their own survival depends on the training and quality of their workforce.

We face significant, but surmountable, obstacles in the development of a better job training system. For instance:

1. There are inherent barriers in the job training system which obstruct rapid and effective response to the job training

needs of businesses; furthermore, the goals of this system are not clearly articulated. The result is a system that cannot address the needs or utilize resources as efficiently as it should. Our resources are limited; we cannot afford to use them unwisely.

2. The design of the job training system does not allow it to adequately respond to the consumers, i.e., the students, and to the needs of employers. Nor is the system subject to meaningful accountability standards. As a result, the system is not sufficiently attuned to the employment needs and opportunities in a rapidly changing employment environment. If we are to be able competitors, we must do better.

Thus, the Task Force has gone about its duties with a keen understanding of the importance to economic development and to the well-being of the people of the state's commitment to the human capital component of the state's economic development policy.

The work of the Task Force was conducted through a series of two-day meetings in each of the months of July through October and one day in November. During this time the Task Force endeavored to develop an in-depth understanding of the present job training system, to receive input in the form of suggestions and recommendations for improving the system from as many interested parties as possible, and to evaluate the analysis and recommendations of two consultants whose services were retained on behalf of the Task Force.

The report of the Task Force is designed to respond to the several charges assigned to it. It includes a description of the major components of the job training system, identifies important issues and concerns pertaining thereto, and sets forth a far ranging set of



conclusions and recommendations, several of which can be characterized as bold new initiatives. So that the reader may be able to easily review the full range of proposals that were presented to the Task Force, our report includes the papers submitted to it by two consultants and a summary of the recommendations of conferees who appeared before the Task Force.

Generally, it will be observed that our work product is a practical set of recommendations which, we believe, can and should be implemented in the near term. We are confident that these recommendations will address many of the deficits which render the present system less effective than it should be. We have included a recommendation with respect to governance of the job training system. Adoption of that principle would lead to better planning and coordination of program activities, but it is not critical to the success of the improvements we are proposing.

The Task Force attaches a substantial amount of faith to the virtues of utilizing responsible competition and incentives to achieve desired objectives. This philosophical approach underpins many of our recommendations. We believe that the responsiveness we are seeking in order to address our job training problems can best be achieved in this way. The alternative approach, dictated imposed through bureaucratic channels, would miss the mark because they are not sufficiently sensitive to the changing requirements of the market place. Our proposal especially emphasizes the capacity to respond quickly to the customized training needs of business; it also features a consumer driven approach to accountability of the job training system.

The Task Force submits the following recommendations:

1. The community colleges and all public vocational training institutions, including the Kansas Technical Institute, should be

supervised by an appointed independent and separate policy board.

2. A strong commitment of the Task Force is for creation of a customized training program. The program should provide training to meet the needs of new employers in Kansas and of those who are increasing their work force in Kansas at no cost to them. It also should provide for retraining of employees of Kansas employers on a shared cost basis when such retraining is to prepare present employees for new technology applications or to otherwise prevent displacement of such employees. The source of funding for this program should be determined by the Legislature. In this respect, JTPA and federal vocational education funds should be used, to the extent possible, to supplement state funding for this program. (A somewhat similar program in California captures a portion of the unemployment insurance taxes paid by employers as the principal funding source and is one option that could be considered.)
3. A program should be enacted to provide financial awards to public educational institutions that provide vocational and technical training for exemplary performance in training and placing handicapped or disadvantaged persons in employment.

The annual appropriation for this program should be \$150,000, with five awards, one each for up to \$50,000, \$40,000, \$30,000, \$20,000, and \$10,000, to be outside of the institution's budget and used for any purpose it determines. The competition among institutions in pursuit of these awards should be exempt from any service area limitations. The program should be administered by the State Council for Employment and Training.

4. A program should be enacted to provide financial awards to public educational institutions that provide vocational and technical training for exemplary performance in job creation, entrepreneurship, and job upgrading in rural areas of Kansas. The annual appropriation for this program should be \$150,000, with five awards, one each of up to \$50,000, \$40,000, \$30,000, \$20,000, and \$10,000, to be outside of the institution's budget and used for any purpose it determines. The competition among institutions in pursuit of these awards should be exempt from any service area limitations. The program should be administered by the Kansas Department of Commerce. Also, greater emphasis should be placed on the option of unemployed persons becoming entrepreneurs. Job service offices and JTPA administrators should devote greater attention to this objective.

5. The multiple for funding community college vocational programs (1.5 generally, and 2.0 for Cowley County and Pratt) should be fixed at 2.0 for all such institutions. This will provide greater incentive for community colleges to emphasize vocational education.
  
6. It is imperative that the Legislature fund capital outlay programs for the acquisition by purchase or lease of instructional equipment by vocational schools and community colleges. Therefore, the vocational school capital outlay aid program (K.S.A. 72-4440, et seq., as amended) should be expanded to include community colleges. The Task Force recommends that \$2.0 million be provided for this program in FY 1988 and thereafter. This program should be competitive. Also, the state pool of instructional equipment program (K.S.A. 72-4444, et seq.) should be funded. The Task Force recommends that a minimum of \$250,000 be provided for this program in FY 1988.
  
7. A Kansas Training Information Program (K-TIP) should be implemented. This program will contribute to a consumer oriented performance driven job training system by providing to consumers information on placement and earnings rates of each job

training program. This information would include the community college and other postsecondary vocational training programs, as well as the programs of proprietary schools that opt to participate. The information should be prepared and disseminated by the State Board of Education.

8. The state policymaking board for community colleges and vocational schools should increase the accountability for job training programs under its jurisdiction. Initially, the board should consider enrollment, placement, and earnings criteria as means of evaluating programs for continued support. The board should work closely with the House and Senate education committees in a continuing dialogue on the development of meaningful performance criteria for these programs.
9. The House and Senate education committees and the Legislative Educational Planning Committee should engage in regular review of the operation and performance of the major job training programs. This practice should become "institutionalized."
10. The approval procedures and standards for training programs of community colleges and vocational schools that result in the award of a certificate, credit hours, or a degree should be reviewed by community college and

vocational school representatives to identify any barriers to rapid and effective responses in meeting the training needs of business and industry. These persons should recommend changes to reduce or eliminate such barriers while still maintaining the integrity of the courses or programs. This activity should be conducted under the auspices of the State Board of Education. The report of this review, together with any recommendations requiring legislation for implementation, should be submitted to the House and Senate education committees on or before January 15, 1987.

11. Through its five regional offices, the Department of Commerce should act as a source of information for business and industry on available training programs. In this way the Department would provide information on training programs throughout the state and would market training through its existing industry program.

## CHAPTER 1

### THE SETTING

The Task Force on Business Training was created by the Legislative Commission on Economic Development pursuant to 1986 H.B. 3122 (L. 1986, Ch. 194). That legislation directed the Commission, for the purpose of conducting an in-depth analysis of major areas of economic development requiring legislative action in the 1987 Session, to appoint advisory committees and task forces as were deemed necessary. According to the law, one task force was to address the appropriateness of the state's business training and employment development programs to meet the rapidly changing needs of the Kansas economy and to carry out 1986 economic development initiatives. Early in July, the appointments to the Task Force on Business Training were announced. Task forces created pursuant to H.B. 3122 were to be composed of seven to 13 members representing the business community, financial institutions, institutions under the control of the State Board of Regents, and the Legislature. A majority of the members of each task force were to be representative of the business and financial communities. The Task Force on Business Training, one of four task forces appointed, was composed of 13 members. All task forces were to complete their work and make their reports, including policy and funding recommendations, to the Commission on or before December 1.

The charge to the Task Force on Business Training is set forth below.

1. Develop a coordinated, directed, and responsive human resources strategy with respect to the state's training and retraining programs that would:

- a. adapt the federally-funded and state-controlled JTPA program to primarily serve the state's economic development needs;
  - b. expand the Kansas Industrial Training program to serve as a flexible and responsive tool for economic development; and
  - c. integrate other programs that impact the state labor market.
  
2. Address the functioning of the vocational education system, embracing public vocational school 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;
  - f. linkages to university-college technology transfer programs; and



g. location of vocational education  
in the state education  
structure.

3. Propose new initiatives for 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.

The charge was designed to incorporate the objectives of two initiatives. It responded to recommendations 43 through 46 of the 1986 report entitled Kansas Economic Development Study: Findings, Strategy, and Recommendations, Institute for Public Policy and Business Research, University of Kansas, more commonly referred to as the Redwood/Krider report. In addition, the Task Force received a \$15,000 grant from the National Conference of State Legislatures and Office of Educational Research and Improvement (U.S. Department of Education) to review various aspects of the Kansas vocational education delivery system.

In the limited time available, the Task Force endeavored to satisfy both the broad review and narrowly-focused directives. Two-day meetings were held in each of the months of July through October and one day in November to complete the assignment. Hearings were conducted in August and September in order to augment background information that had been provided to the Task Force and to solicit ideas and suggestions from the parties directly involved with the organization, governance, and delivery of services. Consultant services were obtained to assist the Task Force by addressing several specific issues contained in the charge. The consultants were Dr. Roger J. Vaughan, Roger Vaughan Associates, and Dr. Charles Krider,

Director of Business Research, Institute for Public Policy and Business Research, University of Kansas. (Their reports are included as appendixes to this report.) Also contributing to the Task Force efforts was a report of the Legislative Division of Post Audit that focused on the coordination and administration of the Job Training Partnership Act (JTPA), Kansas Industrial Training Program (KIT), and Work Incentive Program (WIN).

## CHAPTER 2

### THE PRESENT SYSTEM: AN OVERVIEW

The present system of vocational education and job training under public sponsorship in Kansas consists principally of programs operated by area vocational and area vocational-technical schools, community colleges, school districts, Kansas Technical Institute, Pittsburg State University, and Washburn University of Topeka. JTPA and KIT are publicly sponsored programs that support job training, principally by purchasing education services from existing institutions or supporting on-the-job training. The main features of this system are addressed in this report.

The Kansas State Board of Education and the State Board of Regents discharge much of the state's interest in supervision and approval of publicly sponsored vocational offerings. The vast majority of job training programs are offered by institutions which have their own "local" governing boards. The delivery system features both secondary and postsecondary enrollments, an unplanned geographical distribution of institutions, and a complex array of financing mechanisms. This system has evolved; it is not the result of any statewide master plan. It is largely the product of local initiatives, rooted in the philosophy of local funding and local control. From both the standpoint of funding and provision of service, the state's interest in this system has increased substantially during the last two decades.

## CHAPTER 3

### GOVERNANCE

#### The Institutional Programs

The following is a description of how institutional vocational education programs are governed.

School Districts. There are 303 school districts which offer grades kindergarten through 12. These districts are governed by seven-member locally elected boards of education. They are subject to supervision by the State Board of Education. Many school districts offer vocational courses. Most do not involve state or federal categorical aid; they are offered as a matter of local choice. Such courses or programs are exempt from the State Board of Education approval process, unless they are to receive federal vocational education funds. Generally, school district vocational education programs are exploratory rather than preparatory in nature, unless they are associated with an area vocational or area vocational-technical school.

Area Vocational and Area Vocational-Technical Schools. There are 11 area vocational schools and five area vocational-technical schools. The area vocational schools are governed and operated by a school district board (nine schools) or a community college board (two schools). The five area vocational-technical schools are specifically identified in the law. The governing body of these schools is called the board of control. It is constituted by agreement of the boards that participate in the operation of the school. Most of the participating boards are school districts, but some are community colleges. The membership of the governing board of these schools may change from time to time. The Legislature has placed a moratorium on the

establishment of any new area vocational or area vocational-technical schools.

Area vocational and area vocational-technical schools are subject to supervision by the State Board of Education. The State Board has authority to establish standards for all vocational education courses and programs in any school subject to its supervision. The law directs the State Board to exercise general supervision over all vocational courses and programs.

Community Colleges. There are 19 public community colleges. These schools are organized under laws which contain provisions for creation of community colleges and for their approval by the State Board of Education. However, there is presently a statutory moratorium on the establishment of community colleges.

The mission of the community colleges is multifaceted. They maintain the traditional two-year transfer-type of academic programs, but they also perform other services, one of which includes vocational education programming. Two community colleges operate area vocational schools. All of the community colleges are to varying degrees involved in the delivery of vocational education programs. The community colleges are governed by locally elected six-member boards of trustees. They are subject to State Board of Education supervision. They are subjected to the loss of state aid for failure to comply with statutory requirements or with the State Board's rules and regulations.

Kansas Technical Institute (KTI). KTI is subject to the control and supervision of the State Board of Regents. There is no local governance mechanism for this institution. The statutes limit KTI to providing technical education, which is defined as vocational or technical education designed to prepare individuals as technicians in recognized fields. At the present time,

KTI has six departments of instruction. All programs of study at KTI are two-year associate of technology degree programs or certificate programs.

Pittsburg State University (PSU). PSU is one of the six state universities; it is subject to the control of the State Board of Regents. The School of Technology and Applied Science at PSU includes four departments. Within them, the school offers a variety of degree programs, including some resulting in the award of an associate, bachelors, masters, specialist, or doctors degree. In addition, a vocational technical institute provides training in 11 vocational and technical programs.

Washburn University. Washburn University of Topeka, a municipal university, is governed by a nine-member board of regents. Four members are appointed by the Topeka city governing body, three are appointed by the Governor, one member is a member of the State Board of Regents selected by that Board, and one member is the mayor of Topeka. Subject to certain limitations, the Washburn regents have authority to determine educational programs to be offered, including vocational education. Any program in vocational education offered for the purpose of granting an associate degree must be approved by the State Board of Education.

### The Issue

The issue of governance in vocational education, like that of governance in postsecondary education generally, must necessarily be a focal point of an examination of how the delivery of the education service may be improved.

The Task Force has reviewed the principal recommendations of a number of study groups that have in one way or another addressed organization and governance in vocational education. According to the testimony, from 1970-1985, some 20 studies were undertaken, six of

which resulted in specific proposals for actions that should be taken to improve postsecondary education. None of these recommendations has been implemented. This track record is mentioned only for the purposes of illustrating the difficulty in government, absent some crises situation, of overhauling an entrenched system.

The most recent attention to the governance issue by a blue ribbon group was that of the Special Commission on a Public Agenda for Kansas. That Commission was created pursuant to 1985 H.C.R. 5023; its report was issued in June of this year. The Commission endeavored to identify some of the more important issues in Kansas and to articulate policy options that might be considered in addressing these issues; it did not adopt any policy positions. One of six general areas addressed was educational governance and finance. With respect to postsecondary education (exclusive of the state universities), the governance options identified and the supposed consequences of choosing the option were:

1. The present governance configuration could remain unchanged. This option would leave the postsecondary tier unintegrated. This maximizes area and local involvement in governance. Current ambiguities regarding technical education and vocational education would continue.
2. A State Board of Postsecondary Education could be created. This board would be appointed as determined by the Legislature. It would be headed by an appointed director or other chief executive officer and it would coordinate community colleges, vocational schools, and technical institutes. At the minimum, the new board would establish standards; coordinate curriculum, degrees and programs; and oversee state funding in accord with legislative guidelines. This option would allow for integration of postsecondary

education, clarify relationships with secondary schools in vocational education, and facilitate offerings of both vocational and technical education in a more coherent pattern. This option combines vocational school offerings with those of community colleges to assure coordinated programs and curricula at the postsecondary level.

With respect to higher education (university level), as well as all other post high school education, two governance options were identified:

1. The status quo could be maintained.
2. A Higher Education Coordinating Board could be created. It would address the pressing coordination problem. The Coordinating Board would have planning duties and program responsibilities, as well as performing a coordinating function. The first assignment of the board would be to develop a master plan for higher education and, if a State Board of Postsecondary Education were adopted, the Coordinating Board would develop a master plan for adoption by the State Board of Postsecondary Education.

One of the charges to the Task Force on Business Training was to consider the issue of governance in vocational education. Another task force appointed by the Legislative Commission on Economic Development, the Task Force on Higher Education, reviewed the issue of governance in all of postsecondary education. Due to the deadlines applicable to the two task forces, it was not possible for us to evaluate the product of the Task Force on Higher Education prior to the completion of our work.



There is no doubt that governance is a matter of high concern in this state. As this issue pertains to vocational education, it is a fact that there is no single agency in Kansas which governs delivery of public vocational education programs. Job training is not the exclusive domain of any one type of institution. The distribution of vocational training programs throughout the state is not based on any state plan.

The Task Force believes that a different state level governance plan would facilitate resolution of some of the major planning, coordination, and administrative problems of the present employment training system.

## CHAPTER 4

### STATE FUNDING MECHANISMS: LOCAL JOB TRAINING INSTITUTIONS

#### The State Funding Mechanisms

A review of the existing state funding mechanisms for financing vocational education programs of local job training institutions makes it abundantly clear that no single objective for job training programs has been articulated.

School Districts. Job training programs provided by school districts generally are funded the same as the general education program, based on the priorities school districts establish for this purpose. School district job specific training programs, not associated with a public vocational school, are few in number.

Area Vocational and Area Vocational-Technical Schools. Area vocational and area vocational-technical schools may be viewed as single purpose institutions. Their mission is to provide job specific training. These institutions rely on state and federal aid programs, payments by school districts on behalf of secondary students, student tuition for postsecondary students, and local resources for their support.

In FY 1985, nearly 60 percent (\$16.7 million) of the \$28.5 million expended for the public vocational schools' operating expenditures was from state aid. Two state aid programs provide funds for vocational school operating purposes. These programs are applicable to 14 vocational schools -- all except those in Pratt and Cowley counties which receive aid on a basis similar to community colleges (as described below). One aid program distributes funds in accord with a formula prescribed by the State Board of Education. For FY

1987, this formula, as it relates to secondary students, is "need based", i.e., driven by enrollment and measures of need: local ability to pay (assessed valuation per pupil), percentage of low income families, and unemployment rate. For postsecondary students, the formula is enrollment driven. For FY 1987, the State General Fund appropriation for this program is \$7.1 million. The second state aid program, postsecondary aid for vocational education, is prescribed by statute. This program distributes aid to schools on the basis of postsecondary student enrollments, computed at 85 percent of the local cost per instructional hour of vocational students. (Student tuition charged is equal to 15 percent of the local cost per instructional hour.) The FY 1987 State General Fund appropriation for this program is \$12.0 million. The local cost per enrollment hour is determined separately for each institution by subtracting area vocational-technical school program aid and capital outlay aid from the operating budget and dividing the result by the total number of enrollment hours.

The area vocational-technical school aid program was developed in response to requirements of the federal vocational education law which subsequently was replaced by the Carl Perkins Vocational Education Act of 1984. Consequently, the federal requirements that prompted the development of this type of formula are no longer applicable. The State Board of Education has broad discretion in determining the formula for the distribution of these funds. The postsecondary aid program grew out of the desire to remove from school districts the burden of paying to vocational schools the costs of adult residents of the district who were enrolled in a vocational school. Originally, the state paid 100 percent of the cost per enrollment hour for postsecondary students. Now, state aid pays 85 percent of the cost and the student is charged tuition equal to the remaining 15 percent. An effect of the application of these two programs is that aid for postsecondary enrollments increases or decreases inversely to changes in distributions of area vocational-technical school aid to

an institution. This negates, somewhat, the effects of the portion of the aid distribution program that is need-based. The greater the proportion of postsecondary enrollment, the more the school's postsecondary aid entitlement is affected by changes in the other aid program.

There is also a vocational education capital outlay aid program. Funds appropriated for it are distributed to schools on the basis of priorities determined by the State Board of Education. There is no appropriation for this program in FY 1987.

Community Colleges. These institutions rely mostly on property taxes, state aid, and student tuition for their support.

State aid to community colleges is linked to credit hours of enrollment. The current rate of credit hour state aid is \$26.25. In order to recognize the higher cost of providing vocational programs, the rate of credit hour state aid for approved vocational enrollments is 1.5 times that for academic enrollments (\$39.375). There are two exceptions to this pattern. The law provides that community colleges which operate area vocational schools will receive credit hour state aid at a multiple of 2.0 times that for academic courses. Cowley County and Pratt Community Colleges operate area vocational schools and receive credit hour state aid based on the 2.0 multiple -- \$52.50 in FY 1987. These multiples, when established, were the result of political considerations; they were not based on program cost analysis data. The conventional wisdom is that vocational courses are more expensive than academic courses. The credit hour aid differential translates this "consensus" into the aid distribution formula. It is somewhat remarkable that there has been no attempt in recent years to verify the accuracy of these weights based on an analysis of actual costs.

Outdistrict state aid is paid to a community college on behalf of Kansas resident students who enroll in a

community college but who live outside the community college district. The current rate of outdistrict state aid is \$23.00. Payment of this aid is subject to a limitation of 64 hours from a postsecondary institution (72 hours for students enrolled in terminal type nursing courses or freshman-sophomore level preengineering courses). Effective on January 1, 1988, the 64/72 hour cap is removed for approved vocational program enrollments. In addition to outdistrict state aid, the county of residence of the outdistrict student pays the community college outdistrict tuition at the \$23.00 rate. An exception is that there is no outdistrict tuition charged when the student resides in a community college district different from the one attended and the program in which the student is enrolled also is available in the home district. This exception also applies for residents of Topeka (who live in the Washburn University district).

The present outdistrict tuition and outdistrict state aid program was adopted in 1973. It replaced a program of outdistrict tuition paid by counties which was based upon each institution's average maintenance and operating costs, less certain deductions. Presently, the rates of outdistrict state aid and outdistrict tuition are determined by the Legislature. There are no identifiable cost or performance standards used in determining the level of this aid.

The 1986 Legislature enacted a new general state aid program for community colleges. Funds appropriated for this program are distributed by the State Board of Education to each community college based on its full-time equivalent enrollment and the ratio of the community college district's adjusted valuation per student to the median adjusted valuation per student of all community college districts. Any general state aid appropriated for this program is distributed inversely to the adjusted valuation per student of the community college district.

State aid appropriations for community colleges for FY 1987 totaled \$27.1 million -- \$20.8 million for credit hour state aid (of which \$9.3 million is for vocational enrollments), \$5.8 million for outdistrict state aid (\$1.9 million, vocational) and \$0.5 million for general state aid. In FY 1985, state aid accounted for about 51 percent of community college vocational education expenditures.

Washburn University. Washburn University of Topeka operates about 20 approved vocational programs. Washburn receives credit hour state aid at the rate of \$26.25 for Kansas resident undergraduate enrollments in its programs. (The rate is \$25.00 per hour for graduate enrollments and \$39.375 for law school enrollments.) There is no vocational education differential. In addition, Washburn receives outdistrict state aid (and outdistrict tuition paid by counties and townships in Shawnee County) on the same basis as the community colleges -- \$23.00 per credit hour, subject to a 64/72 hour maximum. Unlike the community colleges, Washburn is not scheduled for a removal of this aid in 1988 for approved vocational enrollments. Washburn has been receiving credit hour aid since 1962; it has been receiving outdistrict state aid (and outdistrict tuition), modeled on the community college program, each year beginning in FY 1983.

For FY 1987, \$4.3 million has been appropriated for state aid to Washburn -- \$3.6 million for credit hour state aid and \$0.7 million for outdistrict state aid. (Of this amount, approximately \$326,000 is for vocational enrollment.) For FY 1985, state aid was estimated to comprise approximately one-third of the costs of Washburn's vocational programs. These aid programs are neither cost nor performance related; rather, the level of aid has been linked to political decisions about the level of aid to be provided to community colleges.

## The Issue

The central issue in the operation of public programs is whether funds are being used efficiently to meet program objectives. Inasmuch as there are no generally accepted and clearly articulated systemwide state goals for the job training programs, this question may not be fully addressed. The Redwood/Krider report tells us that our job training programs do not respond as effectively as they should to changing industry needs for skilled employees. In other words, the skills of the labor force must better match the demands of employers.

A comprehensive analysis of funding mechanisms in view of the basic objectives of the job training system could lead to a more rational means of relating funding to statewide program objectives. This type of analysis would require a considerable dedication of time and effort and should include participation of the education establishment, the legislative and executive branches, and the private sector. It is safe to speculate that the recommendations resulting from such an analysis would be controversial and, absent the infusion of large sums of state funds, difficult to implement. The Task Force would support such an undertaking; however, our primary concern is that the current weakened state of the Kansas economy requires proposals for change which can be quickly implemented and which will make the job training system more responsive to the immediate needs of employers. It is this latter concern to which the Task Force funding proposals are directed.

## CHAPTER 5

### NONINSTITUTIONAL JOB TRAINING PROGRAMS

#### The Programs

In addition to the publicly sponsored institutional training programs, there also are some publicly sponsored client oriented noninstitutional training programs. The three main programs are the Job Training Partnership Act (JTPA), the Kansas Industrial Training program (KIT), and the Work Incentive program (WIN). The Kansas Department of Human Resources, State Board of Education, Department of Commerce,\* Department on Aging, and Department on Social and Rehabilitation Services are the principal state agencies involved with the three programs. Most of the funding for the programs is federal, but both KIT and WIN depend upon partial financing from the State General Fund. Because federal funding is used and there are certain restrictions on how the federal funds may be spent, clients must meet certain eligibility requirements for JTPA and WIN. Although KIT uses some federal vocational education funds, it is primarily a state program and has greater flexibility in terms of clients it can serve.

JTPA. JTPA is the largest of the three programs in terms of clients served. For the FY 1987 period, JTPA plans to serve 3,088 participants in adult programs and 2,449 participants in youth programs. The Department of Human Resources is the state agency responsible for management of JTPA. Funding for this program is to be

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\* Beginning in 1987, the Department of Economic Development is renamed the Department of Commerce. For the sake of consistency, this report refers throughout to the Department of Commerce.



directed toward preparing youth and unskilled adults for entry into the labor force. There also is some emphasis on training of displaced workers. However, the funding for this purpose has been declining rather significantly. JTPA funding for FY 1987 totals \$9.5 million. Clients are identified as those who are either economically disadvantaged or who face serious barriers to employment and need training in order to obtain productive employment.

State government is given both oversight and coordination responsibilities for JTPA, which operates primarily through locally based program delivery systems called service delivery areas (SDAs). In JTPA, the private sector shares responsibility with local government in shaping the local JTPA program. JTPA implementation in Kansas began when the Governor designated five SDAs to operate local JTPA activities. Two local organizations -- a Local Elected Official Board (LEO) and a Private Industry Council (PIC) -- oversee the operations of each SDA. At the state level, the Kansas Council on Employment and Training serves as the public/private advisory body which oversees the operation of JTPA. The Department of Human Resources coordinates all state-level JTPA activities and has an oversight role in the operations of the SDAs. The Department directly administers local JTPA services under agreements with all five SDAs.

KIT. KIT is administered by the Department of Commerce as a component of the state's incentive package to attract new industry and to encourage existing industries to expand in Kansas. For FY 1987, state funding for KIT is \$500,000. The program is designed to provide workers with skills needed by new or expanding industries. During FY 1986, approximately 825 jobs were addressed by KIT training. The State Department of Education assists in designing the training activities for industry and provides federal vocational education funding to augment State General Fund financing for most of the projects.

WIN. The WIN FY 1987 program objectives indicate 2,200 clients will be placed in jobs during the period. WIN assists recipients of Aid to Families with Dependent Children (AFDC) in training and finding suitable work in order for them to become self-sufficient. The WIN program is jointly administered by the Departments of Human Resources and Social and Rehabilitation Services. Because of reductions in federal funding, project locations have been consolidated into three areas -- Kansas City, Topeka, and Wichita. The Department of Human Resources provides employment and training activities, while the Department of Social and Rehabilitation Services provides child care, medical services, counseling, and family planning. Federal funds under WIN require a 10 percent state match. Funding for this program in FY 1987 totals \$1.9 million.

#### Coordination of Job Training Activities

Federal JTPA statutes require the state to develop a two-year plan for delivering services and coordinating activities related to job training. For the two-year period of July 1, 1986, through June 30, 1988, the Governor's Coordination and Special Services Plan provides guidelines for employment, training, education, economic development, and other resources in order to achieve state economic and employment goals. The Governor's Coordination Plan provides a list of objectives and a means of integrating the services provided by various state agencies which are concerned with job training activities. In addition, the Plan is supposed to guide the local SDAs in designing their job training activities.

#### The Issue

Redwood/Krider Report. To address the employment needs of firms, the Redwood/Krider report emphasizes the need for a coordinated human resources strategy

involving all of the public job training programs that focus on economic development. The report states that the major policy goal of JTPA should be to promote economic development. This could be accomplished by providing jobs in new and expanding industries where prospects for job retention and advancement are best. The overall goal is a coordinated job training program to provide customized training in the skills and occupations that employers designate. Another recommendation is that KIT be expanded and coordinated with other training programs. Several steps have been taken to implement the Redwood/Krider recommendations concerning these programs:

1. A job training liaison position has been established in the Department of Commerce to provide better coordination with JTPA, KIT, and vocational education.
2. An effort is being made to provide a heavier weighting for a job creation standard in the JTPA performance standards for incentive grants.
3. A task force (the Task Force on Business Training) has been created and has reviewed the vocational education system with the objective of making recommendations designed to insure responsiveness to the changing needs of firms for skilled employees.
4. Coordination of KIT with other programs has expanded the capacity of KIT to respond to industry needs.

Job Training Programs -- Performance Audit. Task Force concerns relating to the job training system and to recommendations contained in the Redwood/Krider report include whether the job training programs are being efficiently administered and coordinated, how well

job training programs are preparing trainees to enter the work force, and whether JTPA is being administered in accordance with federal requirements. A performance audit concerning these and other questions, conducted by the Legislative Division of Post Audit, was completed in September. The auditors determined that there is a considerable degree of coordination among KIT, WIN, and JTPA. Concerns were expressed about the absence of statutory guidelines for operation of the KIT program, the adverse effects on the WIN program of federal funding reductions, and the quality of some of the JTPA data reviewed. With respect to follow-up of trainees, it was noted that for KIT trainees no such data are collected, WIN has no training funds so its clients are referred to other programs, and JTPA follow-up is limited to a 13-week period. JTPA provides mostly on the job training programs for clerical, sales, and service occupations. Generally, the programs have met or exceeded their own performance measures. The auditors did not have time to review individual case files to determine whether JTPA trainees are securing jobs in the occupations for which they were trained. (The Legislative Educational Planning Committee has since requested a study of this issue.) It was determined that JTPA is being administered in accord with the federal law.

Job Training Program Directions. Those responsible for administering the job training programs are to be commended for their efforts to respond quickly and effectively to the recently articulated economic development initiatives. The Task Force is proposing additional initiatives that should build on these efforts and better contribute to meeting certain targeted needs, such as:

1. customized training;
2. training and employment of severely handicapped and disadvantaged persons; and
3. job creation in rural areas.

## CHAPTER 6

### ACCOUNTABILITY OF VOCATIONAL PROGRAMS

#### Accountability Devices

Over the years, the State Board of Education has worked at holding accountable for their performance vocational programs operated by vocational schools and community colleges. In order to qualify for state funding, a new vocational program must first be approved by the State Board of Education. Key considerations in this process are supply and demand information for the region and the availability of similar programs in the region.

For each program that is authorized, a technical advisory committee must be established. The purpose of these advisory committees is to ensure the need for the program and to keep training components relevant so that trainees will acquire the current skills that employers need.

The State Board of Education utilizes a 70 percent placement standard as the measure of determining whether programs will continue in good standing. Programs may be disapproved for state support based upon an inadequate placement record.

This system attempts to limit the growth of programs to those of demonstrable need, to keep them relevant to employer training requirements, and to discontinue those that prove unproductive. Many programs are flourishing under this system and are making valuable contributions in meeting Kansas employment and economic development needs.

Under JTPA, accountability for the main program (Title IIA) is based on service delivery areas (SDAs),

and performance is measured against seven federal performance standards and some additional state determined performance measures. The performance measures are linked to the adult employment rate, adult cost per entered employment, average adult wage at placement, welfare entered employment rate, youth entered employment rate, youth positive termination rate, and youth cost per positive termination. Additional state performance standards are earnings increase, earnings gain per dollar expended, percent female participants, percent minority participants, and job placement in new or expanding industry. Generally, the extent to which the SDAs meet the performance standards has a bearing on the amount of additional "incentive" funds that the SDA earns. If SDA performance deficiencies occur, a corrective action plan may be required. Continued performance deficiencies could result in reorganization of the SDA.

As noted in the previous chapter, under the KIT program there is no follow-up to determine how many people actually are trained and how successful they are in obtaining or keeping jobs on completion of their training. The WIN program has no funds for training and consequently refers clients to other job training programs.

### The Issue

The main concern of the Task Force is whether existing program accountability devices adequately serve the public's expectations for oversight of the expenditure of its funds and whether accountability standards are consistent with business training and economic development goals.

Some questions and observations about the current system are in order.

1. There is neither a single master plan for the distribution of vocational training programs throughout the state based on

labor market analysis nor, in the alternative, is there freedom for competing institutions to serve needs throughout the state based upon market forces.

2. There is a question whether the State Board of Education controls with respect to disapproval of programs that do not meet accountability standards are, in fact, effective. The Task Force received little evidence to support a conclusion that the State Board is making effective use of this quality control mechanism.
3. There may be an obstacle in the program approval and accountability process which relates to practical considerations regarding funding. For example, are decisions concerning approval of a proposed program influenced inordinately by the impact such approval will have on the funding of other programs or institutions, or is the decision based solely on the apparent need at that time and place for the proposed program?
4. There is a perception that the vocational program advisory councils, while sound in theory, often are relatively inactive and ineffective. Up to date training is a critical need. A question raised is whether changes are needed to sharpen the responsiveness of programs to current employment needs.
5. There is concern about whether JTPA placement activities sufficiently emphasize employment in well-paying jobs with prospects for future advancement or whether there are an inordinate number of placements in low-paying dead end jobs.

6. Some persons believe that job training programs are not placing enough emphasis on identifying, training, and finding employment for the most severely disadvantaged persons in society.
7. It would appear that the job training system accountability devices do not adequately recognize entrepreneurship as a means of addressing the employment issue.

The state agencies having an interest in job training are not satisfied with the present accountability system. This is reflected in the work that has been undertaken by them to develop a more sophisticated, consumer oriented accountability system. The Task Force supports the accountability concepts which the agencies currently are exploring; in fact, a portion of our recommendations build upon these concepts.



## CHAPTER 7

### SECONDARY LEVEL VOCATIONAL EDUCATION

#### Vocational Education in Secondary Schools

There has been continuous debate about the most appropriate role for vocational education at the secondary school level. Critical analysis of this issue intensified as a result of the publication in 1983 of A Nation at Risk (National Commission on Excellence in Education) and as a result of the 1984 revision of the federal vocational education legislation, which moved abruptly away from continuous support for entrenched vocational programs. Until recently, the major effort has been to keep vocational education responsive to employment needs and to help reduce the dropout rate among high school students. This latter objective has contributed to a view of vocational education as safe harbor for poor achievers.

With its emphasis on ensuring that every student master basic academic skills, A Nation at Risk, in effect, endorsed requiring that students spend more time in their secondary school curriculum in academic subjects. Especially emphasized were mathematics, science, computer science, social studies, and foreign language. Fine arts and vocational education were treated as complementing what was described in that report as the "new basics." This report was the source of great concern among vocational educators for fear that this focus of emphasis would squeeze them out of the secondary school environment. Many youth would thus be denied the opportunity for training that would enhance their employability upon completion of their high school experience. This is thought by some to be particularly harmful to many noncollege-bound youth.

### Applied Academic Programs

A concept which now is receiving much attention in secondary vocational education circles is that of applied learning. For example, a course in applied science recently has been developed which is designed to convey to students an understanding of concepts or theoretical knowledge through the use of specific "hands on" applications. This approach recognizes that there are many students who, though quite intelligent, simply do not learn well by the more traditional theory/application process. This current effort reorders the learning process by teaching principles during the course of practicing applications in which the principles are used.

This approach to learning might successfully convey to students the principles of science, mathematics, or English which are compatible with (or, perhaps, precisely the same as) those expected to be learned in the more traditional academic courses. The development of such courses is accompanied by some significant problems that must be addressed in the education community. Among these are: whether such courses, in effect, duplicate courses already being offered and, if so, whether they can then be justified; whether they can be substituted for other courses in meeting academic requirements for high school graduation; whether the instructor in such courses can hold vocational certification or whether traditional subject and field certification requirements will apply; what the dispersion of such courses across the state should be; and whether such courses satisfy any job specific training responsibilities that the secondary schools might be viewed as having. These are important issues that the education community has not yet resolved.

## The Issue

The main questions being raised pertaining to secondary level vocational education are:

1. Should job specific vocational training be focused exclusively on postsecondary students and students who otherwise have met school district high school graduation requirements?
2. Should the newly developed applied academic programs be approved as alternative means of satisfying the state-imposed subject matter graduation requirements?

The state of New York has emerged as the leader in rethinking the role of vocational education as it relates to elementary and secondary education. The state has completed a lengthy and expensive process which involved identifying generic skills common to several of the traditional program areas and packaging them into more general courses. Through this process, it was discovered that only a small percentage of the skill requirements in the various program areas were unique to the area. As a consequence, a curriculum has been developed which has been introduced at the junior high level and which is built upon at the secondary level. This curriculum focuses on development of transferable generic skills. There is no job specific training option until grade 12. New York utilizes a mandated state curriculum throughout its school system which enables it to implement substantive changes in educational application more extensively than would otherwise occur.

Where does Kansas stand with respect to the new thinking in the field of vocational education? Testimony provided by the State Board of Education indicated that vocational education at the secondary level needs to be better defined and held more accountable. The emphasis now given to job specific vocational education

at the secondary level basically is determined by local school boards. The State Board of Education and its staff have been working with the applied skills concept, to the point of cooperating in a pilot testing program. The staff is aware of the New York initiative and is providing information about it to any interested party.

At this time, the State Board does not have a policy position which reflects a rethinking of the role and nature of vocational education in the secondary school system. The State Board has reported that it soon will be reviewing the role, scope, and mission of vocational education. This is expected to produce policy statements concerning secondary vocational education. We cannot emphasize too strongly the importance that should be assigned to this task. It appears that a revolution is at hand which has great potential for enhancing the educational opportunities this state provides for its children as it relates to skills education. Kansas should not be left at the starting gate in this area.

Unfortunately, the Task Force has not had the time to devote to these issues to enable it to develop specific recommendations. The Task Force is pleased to know that thoughtful and concerned members of the education community have begun the process of attempting to forge a sense of direction in this area. Their perseverance is essential.

## CHAPTER 8

### CONCLUSIONS AND RECOMMENDATIONS

#### Overview

The Kansas job training system represents a portion of our state's investment in human capital. As we ponder our economic development strategy, no part of it equals the importance of our investment in human capital.

We have come to recognize that our traditional areas of strength -- production agriculture, general aviation, and oil and gas -- can no longer be relied upon to lead the way to economic vitality. We must diversify, we must innovate, and we must be willing to take risks.

Redwood/Krider notes that one of Kansas' few comparative advantages is the quality of the work force. Relative to the work forces in other states, the Kansas work force is well educated, has a good work ethic, and is highly productive. An obstacle to making this advantage work as effectively as it might for the state's benefit is that we do not always have the skills immediately available that a firm wants or needs. This is one of the several issues the Task Force recommendations address.

Our vision must be clear. We must embrace the view that the best way to prepare for a healthy future is to invest wisely in human capital. In The Wealth of States (Vaughan, Pollard and Dyer, 1984), the authors state:

The major source of growth in all states is the rate of improvement in the education and skills of the work force. Development depends on the rate at which we accumulate human capital.

A further observation is that educational attainments determine not only the rate of development but the incidence of poverty as well.

The Kansas job training system has served remarkably well in view of the limitations under which it operates, but it does not meet the state's economic development needs as well as it should. The governance, funding, coordination, and accountability structures to which the system presently responds were designed to carry out a variety of purposes. It is small wonder that the system contains deficiencies when viewed principally from a job training economic development perspective.

#### Underlying Principles

The main goal of the Task Force has been to produce a set of practical recommendations which can be implemented and which will make a difference with respect to the shortcomings of our job training system. We have achieved that goal. We have followed a human capital perspective that has included a vision of the needs of both employers and individuals who compose the labor market. The philosophy upon which most of the Task Force's recommendations are based emphasizes improvements through:

- improved state level governance structure for job training programs;
- increased consumer driven competition among program providers;
- financial incentives directed toward specific targeted objectives;
- enhanced accountability of the core job training programs; and
- greater legislative oversight of the job training system.

The Task Force believes that the job training system, just as is the case with the larger economy, can be more effectively influenced by marketplace forces, i.e., competition based upon consumer preference and economic incentives, than by rigid dictates imposed through bureaucratic channels. This belief has guided the development of our recommendations.

### Recommendations

#### Recommendation 1

The community colleges and all public vocational training institutions, including the Kansas Technical Institute, should be supervised by an appointed independent and separate policy board.

The Task Force believes that it will be necessary to amend the Kansas Constitution in order to make it possible for the Legislature to establish such a board, to prescribe how its members will be appointed, and to enumerate its powers and duties.

Most of the publicly sponsored job training programs are provided by the community colleges and the public vocational schools. Under the present governance system, the oversight of these institutions and the Kansas Technical Institute really can be viewed as adjunct duties to the main concerns that occupy the time of their respective governing boards. An effective and responsive job training system is essential to the success of the state's economic development program. Placing the main job training institutions under a single governing board which has as its principal duty the development of the

most effective job training system possible would give the system the prominent position in state government that it badly needs.

#### Recommendation 2

A strong commitment of the Task Force is for creation of a customized training program. The program should provide training to meet the needs of new employers in Kansas and of those who are increasing their work force in Kansas at no cost to them. It also should provide for retraining of employees of Kansas employers on a shared cost basis when such retraining is to prepare present employees for new technology applications or to otherwise prevent displacement of such employees. The source of funding for this program should be determined by the Legislature. In this respect, JTPA and federal vocational education funds should be used, to the extent possible, to supplement state funding for this program. (A somewhat similar program in California captures a portion of the unemployment insurance taxes paid by employers as the principal funding source and is one option that could be considered.)

The Task Force views this program as the centerpiece of its proposals for dealing with the customized training issue. It addresses perhaps the most critical and pressing of all of the state's human capital economic development needs. As such, it would appear highly appropriate



to utilize gaming revenues devoted to economic development purposes as a source of funding for this program.

As we envision this program, funds would be awarded to employers, groups of employers, or training agencies for job linked training. Training activities which would qualify for funding would be for employment in new jobs in Kansas and for upgrading and changing the skills of existing employees for new technology applications or to otherwise prevent displacement due to skills obsolescence. Our view is that the program would pay only for training of persons who actually are employed by the contracting firm. Training provided pursuant to this program should be free of cost to the employer in instances where new jobs are being created in Kansas and on a shared cost basis when skills of Kansas employees are being upgraded for purposes of career advancement or to prevent loss of employment due to technological or product changes in the firm.

This program would provide customized training to business and industry based on their specific needs. There would be great flexibility in the selection of training providers. Because the program would fully compensate the training costs, it would no longer be necessary for institutions such as community colleges or vocational schools to package services so as to produce credit hour state aid or state vocational program aid in order to fund the program. This feature removes a major barrier these institutions now face in attempting to develop customized business training programs.

This is a bold and exciting proposal. Without any doubt, it represents an extremely cost-effective means of investing in human capital -- perhaps the most cost-effective that can be devised. It is doubtful that our training dollars can be spent any more wisely than for this proposed program. In this area, we must be willing to spend whatever is required to accomplish our objective. To do less is like finding the most gifted athlete and then handicapping the athlete so that victory cannot be achieved. Such behavior makes no sense.

Likewise, it makes no sense to develop an effective custom training program and then to render it ineffective. It is impossible to project exactly what the funding requirement for the program will be. In FY 1986, for example, the state development agency in selected states reported these amounts of state funds available for manpower training: Ohio, \$11.0 million; Indiana, \$10.0 million; Tennessee, \$1.9 million; Utah, \$1.1 million; and Virginia, \$1.4 million. Recently, Missouri has assembled a \$6.0 million training package. In California, \$55.0 million is provided annually for this purpose.

### Recommendation 3

A program should be enacted to provide financial awards to public educational institutions that provide vocational and technical training for exemplary performance in training and placing handicapped or disadvantaged persons in employment. The annual appropriation for this program should be \$150,000, with five awards, one each for up to \$50,000, \$40,000, \$30,000, \$20,000, and \$10,000, to be outside of the institution's budget and used for any purpose it determines. The competition among institutions in pursuit of these awards should be exempt from any service area limitations. The program should be administered by the State Council for Employment and Training.

An initiative which focuses on providing jobs also may be viewed as helping realize the goal of reducing dependence of persons on public maintenance. Programs already exist which are designed to seek out the unemployed and to help them overcome barriers in securing

employment. One concern that has been expressed about these programs is that "creaming" may occur as program administrators seek to achieve their program performance standards. In other words, the concern is that those most difficult to employ are passed over in favor of serving those with more employment skills. This program uses incentives to encourage job training institutions to seek out, train, and place in employment handicapped or disadvantaged persons (or both) who face the greatest barriers to employment. These are the persons who are most likely to slip through the cracks of existing programs and thus, the least likely to be presented with an opportunity to reach their potential. It is our expectation that these awards will be made on the basis of an evaluation of program quality, i.e., effectiveness in serving the most difficult to place and obtaining for them jobs with potential for career development, and not simply on quantity, i.e., the number of people served and placed. In the unlikely event that the programs which compete for these awards are not sufficiently meritorious, the number and amounts of awards could be reduced. Most of the institutions that will vie for these awards are flexible, innovative, and responsive. We believe such institutions are appropriate to carry out this initiative. Expressed in terms of human capital, we believe this program will produce a very high return relative to the investment made.

#### Recommendation 4

A program should be enacted to provide financial awards to public educational institutions that provide vocational and technical training for exemplary performance in job creation, entrepreneurship, and job upgrading in rural areas of Kansas. The annual appropriation for this program should be \$150,000, with five awards, one each of up to \$50,000, \$40,000, \$30,000, \$20,000, and \$10,000, to be outside of

the institution's budget and used for any purpose it determines. The competition among institutions in pursuit of these awards should be exempt from any service area limitations. The program should be administered by the Kansas Department of Commerce. Also, greater emphasis should be placed on the option of unemployed persons becoming entrepreneurs. Job service offices and JTPA administrators should devote greater attention to this objective.

The Task Force recommends creation of an incentive program, similar in structure and funding to that described in Recommendation 3 (above), for exemplary performance in contributing to job creation, entrepreneurship, and job upgrading in rural areas of Kansas. This program should be administered by the Department of Commerce. The Task Force well understands that the current economic malaise is exacting a very heavy toll on many rural communities, and, further, that there is no apparent relief of this condition in sight. However, it is exactly such circumstances that often give birth to creative ventures. There is no single answer to revitalizing rural communities, but small successes sprinkled throughout the state point in the right direction. The Task Force's proposed program is a modest but important contribution designed to stimulate creation of jobs in rural areas. As was noted with respect to Recommendation 3, the Task Force believes that such an incentive program will produce results the value of which will far exceed program expenditures. It should be tried.

More specifically, with respect to entrepreneurship, the Task Force recognizes that creating a stimulating climate for such activities is an important part of any state's economic development program. It helps diversify the economy and give it vitality; it also may lead to direct and spin-off employment growth. Kansas has a

network of small business development centers which provide services to entrepreneurs at no cost and without regard to the economic condition of the client. In accord with a state goal of reducing dependency, a great victory is achieved when a dependent person becomes self-sufficient -- even greater if the person who formerly was dependent begins providing employment for others. The potential for entrepreneurship among dependent persons should not be underestimated. Anecdotal information suggests that many times unemployed persons are willing to take risks pursuing ideas that they were too cautious to pursue when they were employed.

The Task Force recommends that the state's job service offices place greater emphasis on the entrepreneurship option for its clients. The Secretary of Human Resources should evaluate the options available under JTPA to reduce or eliminate barriers and to encourage entrepreneurship among disadvantaged persons, youth, and displaced workers.

#### Recommendation 5

The multiple for funding community college vocational programs (1.5 generally, and 2.0 for Cowley County and Pratt) should be fixed at 2.0 for all such institutions. This will provide greater incentive for community colleges to emphasize vocational education.

One of the thrusts of testimony submitted to the Task Force was that the job training system should be reshaped so that community colleges become the lead institutions for providing postsecondary job training. The Task Force has not adopted a specific stance on this issue, but it has endorsed a change in governance of community colleges and postsecondary vocational training institutions and has proposed various incentives and program

accountability initiatives that focus greater attention on the very important vocational education role of the community colleges. In that spirit, this recommendation may be viewed as an incentive to affect the nature of the community college as an educational institution. The proposed 2.0 multiple would provide additional state aid for 17 of the community colleges. (Cowley County and Pratt now receive such aid based on a 2.0 multiple.) The estimated FY 1988 cost of implementing this recommendation is \$3.1 million. This additional funding should induce those institutions to give greater attention to their job training role. The importance attached to this incentive in future years may be determined directly by the Legislature, depending on the multiples it determines appropriate to assign to this aid program. State gaming revenues earmarked for economic development should be considered for funding of this recommendation.

#### Recommendation 6

It is imperative that the Legislature fund capital outlay programs for the acquisition by purchase or lease of instructional equipment by vocational schools and community colleges. Therefore, the vocational school capital outlay aid program (K.S.A. 72-4440, et seq., as amended) should be expanded to include community colleges. The Task Force recommends that \$2.0 million be provided for this program in FY 1988 and thereafter. This program should be competitive. Also, the state pool of instructional equipment program (K.S.A. 72-4444, et seq.) should be funded. The Task Force recommends that a minimum of \$250,000 be provided for this program in FY 1988.

A pressing need of public vocational training programs is equipment that is relevant to applications compatible with systems found in business and industry. Too often, the schools have available to them too little equipment or equipment that is largely antiquated. Funds that can be allocated for equipment are scarce, forcing many programs to operate below the desired standard.

The Task Force urges a greater state commitment to an upgraded equipment program, including expansion of the present program to include community colleges and funding for the state pool of instructional equipment program. The 1985 Legislature appropriated \$1.5 million in FY 1986 aid for vocational school instructional equipment. Any amounts awarded to institutions had to be matched dollar for dollar from nonstate sources. The 1986 Legislature provided no FY 1987 funding for this program. That action has sent the wrong message to the schools and to the business community. The Task Force's proposal of \$2.0 million for this program would return it to the level of funding in each of FYs 1978-1980, the first three years of the existing program. We must recognize that the lack of an adequate investment in equipment can be a severe impediment to being more competitive in business training. The state commitment to providing adequate equipment for vocational training programs should be renewed and expanded.

The state pool of instructional equipment program was enacted in 1985, but has never yet been funded. It is time to implement this program.

The Task Force believes state gaming revenues earmarked for economic development should be considered as a source of funding these recommendations.

Recommendation 7

A Kansas Training Information Program (K-TIP) should be implemented. This program will contribute to a consumer oriented performance driven job training system providing to consumers information on placement and earnings rates of each job training program. This information would include the community college and other postsecondary vocational training programs, as well as the programs of proprietary schools that opt to participate. The information should be prepared and disseminated by the State Board of Education.

Kansas should establish a program to calculate and disseminate the placement rates and average earnings of the graduates of each vocational postsecondary training program and the training programs of proprietary schools that opt to participate. This information should be prepared annually, published, and disseminated to high school graduates and others having an interest in such training.

This is a relatively simple proposal, but its potential for impacting the job training system is profound. The purpose of creating such a system is to put valuable program performance data in the hands of the consumers. Now, consumers are better informed when they purchase an iron, an auto, or a coffee pot than when they select a training program which will help prepare them to earn a livelihood. Consumers will have the opportunity to cast their votes by means of program selection decisions for those programs that have the best track record. Under such a system, we believe that, over time, the nature of the job training programs will change as the schools try to meet consumer demands. In other words, the system



will become consumer oriented and performance driven. The consumers will determine the "shape" of institutions. There will be an enormous incentive to provide programs that meet students' demands and the key to program survival will be performance. In their efforts to provide these programs, we believe that the institutions will find it in their interest to be intensely attuned to the training needs of firms which will be providing employment to those who complete the program.

The Task Force proposes that implementing and administering this program be assigned to the State Board of Education. That agency presently has oversight and regulatory authority over most of the public and private institutions that would be affected by this program and should be in the best position to operate it in the most economical fashion. An advisory group will be needed to resolve difficulties that will be encountered in implementing this program. This program should be implemented in FY 1988. A preliminary cost estimate for it is \$14,500. Maintenance costs would be approximately \$10,000 annually.

#### Recommendation 8

The state policymaking board for community colleges and vocational schools should increase the accountability for job training programs under its jurisdiction. Initially, the board should consider enrollment, placement, and earnings criteria as means of evaluating programs for continued support. The board should work closely with the House and Senate education committees in a continuing dialogue on the development of meaningful performance criteria for these programs.

There should be greater accountability based on performance of the vocational programs presently under the jurisdiction of the State Board of Education. The Legislature should play an active oversight role in this area. Therefore, the Task Force recommends that the State Board of Education be directed to develop an annual accountability plan for job training programs under its jurisdiction. This plan should incorporate performance standards as the means for determining when programs are to be discontinued. Performance should be measured by enrollment, placement, and wage level criteria. The Task Force recognizes that there is a placement based standard now, but the fact that it is so rarely imposed suggests that it is more form than substance. The performance standards should recognize that some concessions will be needed for new programs and that a brief, probationary status for ongoing programs should be included. Each year the job training program performance criteria, statistical data on program performance at each institution, instances of program disapproval or assignment of probationary status, and outline of responses to legislative concerns previously expressed should be reviewed by the standing committees on education. Legislation should be enacted to implement this recommendation.

Recommendation 9

The House and Senate education committees and the Legislative Educational Planning Committee should engage in regular review of the operation and performance of the major job training programs. This practice should become "institutionalized."

In the past, legislative oversight of the job training system has been sporadic at best. The state's future economic vitality is on the line. A characteristic of the job training environment is constant change. State

policymakers need to do a better job than in the past of keeping abreast of developments and identifying and resolving problems affecting the job training system.

Recommendation 10

The approval procedures and standards for training programs of community colleges and vocational schools that result in the award of a certificate, credit hours, or a degree should be reviewed by community college and vocational school representatives to identify any barriers to rapid and effective responses in meeting the training needs of business and industry and to recommend changes to reduce or eliminate these barriers while still maintaining the integrity of the courses or programs. This activity should be conducted under the auspices of the State Board of Education. The report of this review, together with any recommendations requiring legislation for implementation, should be submitted to the House and Senate education committees on or before January 15, 1987.

A common theme expressed to the Task Force during its deliberations was that there are barriers that community colleges and vocational schools encounter when they are trying to design programs to meet the specific training needs of business and industry. Many times, to secure the needed funding, it is crucial that the programs be approvable for payment of credit hour and outdistrict state aid for community college enrollment or vocational

program/postsecondary aid for vocational schools. This can prove to be a difficult and time-consuming process with no assurance of success.

In order to address this issue, we are recommending that a task force be convened to identify the specific barriers and to submit recommendations for removing them. The task force should be composed of representatives of the community colleges and vocational schools. We were assured by representatives of these types of institutions that such a task can be undertaken and completed in short order. Thus, we are recommending that the report and recommendations be submitted early in the 1987 Session for review by the House and Senate education committees. (Our Recommendations 2 and 10 should result in vast improvements in the ability of the training institutions to respond in a timely and efficient manner to the specific training needs of business and industry.)

#### Recommendation 11

Through its five regional offices, the Department of Commerce should act as a source of information for business and industry on available training programs. In this way the Department would provide information on training programs throughout the state and would market training through its existing industry program.

This will assist the Department of Commerce in expanding its role by coordinating access to the state's business training system for all interested firms. More centralized information about training options available in Kansas will complement the Department's other economic development activities.

### A Final Note

A ubiquitous and vexing problem for any job training system is that of keeping the training provided current with the changing needs of business and industry. A question that arises is the extent to which training programs should be linked to the development and application of new technology. For the job training system, the key would appear to be an effective communication system between the job training establishment and the business sector. In order to use its resources wisely, the job training system must train for jobs that already exist or that are certain to soon be available. The role of the job training system must, therefore, be reactive. It must respond as quickly and efficiently as possible to real needs that actually exist, and it must not gamble its resources in an attempt to anticipate needs in advance of job creation.

We believe that, within limitations, the Kansas job training institutions are working hard at being responsive to the needs of business. We believe further that several of our recommendations would promote competition and responsiveness of institutions to training needs. Included among these are the customized training program, the consumer driven accountability program, the greater emphasis from the state administration perspective on program accountability, and the removal of barriers in packaging training programs. This is perhaps the best means of keeping vocational training current with the skills requirements of businesses.

## MINORITY REPORT

Kansas Technical Institute is the State Technical Institute under the control and supervision of the Kansas Board of Regents. The institution has prospered during the past ten years while under the Board of Regents, having previously been governed by the Board of Education.

The Institute, because of the professional orientation of its programs, enjoys the collegial relationship it shares with its sister institutions. All programs are designed using the criteria and guidelines of the Technology Accreditation Commission of the Accreditation Board for Engineering and Technology for which four of the programs, as deemed appropriate, are accredited. These criteria dictate curricula that include a general education component and faculty requirements that include a masters degree in the engineering discipline. The programs are also designed for upward mobility of the graduate including viable articulation for transferability to a baccalaureate program.

Being the state technical institute, Kansas Tech has the entire state of Kansas in its mission, thus, is not regionally oriented such as the community colleges and area vocational-technical colleges. Kansas Tech has initiated the offering of programs in Wichita, programs designed to meet the technical personnel needs of industry. These programs are offered in cooperation with Wichita State University, who will offer the general education courses and Kansas Tech the technical courses.

Considering the usual funding pattern for community colleges and area vocational-technical institutions being on the average 53 percent community based, placing the statewide mission of Kansas Tech on the local Salina community would be an unfair burden.

Within the past ten years, there have been a couple of situations concerning Kansas Tech that have created great concern among prospective students and their

families because of their unsettling nature. Ten years ago, legislation was drafted that would have eliminated Kansas Technical Institute. Fortunately, the local legislators and the Salina community worked through that issue together such that the proposed legislation was defeated. Within the past two years, Kansas Tech weathered a proposal wherein the Institute would be merged with the College of Engineering at Kansas State University. Again, the local legislators and Salina community worked together to show that such a proposal would not serve the interests of the Kansas citizenry. It is the belief of the Kansas Tech administration that such issues have a negative effect on enrollment.

Kansas Tech has a very unique mission in the state of Kansas for which there is a demonstrable need, a mission that fits very well under the control and supervision of the Kansas Board of Regents, and a mission that is not in concert with either the community college system nor the area vocational-technical institutions.

It is for these reasons that Kansas Tech should remain under the control and supervision of the Kansas Board of Regents and, therefore, should not be included in the recommendation of a third board of education for the community colleges and area vocational-technical institutions.

I do support the remaining recommendations in the report.

Respectfully submitted,

Sen. Ben Vidricksen

**REPORT OF THE TASK FORCE ON CAPITAL  
MARKETS AND TAXATION**

**OF THE**

**LEGISLATIVE COMMISSION ON ECONOMIC DEVELOPMENT**

December 1, 1986



**TASK FORCE ON CAPITAL MARKETS  
AND TAXATION**

<u>Legislators</u>	<u>Non-Legislators</u>
Sen. Dave Kerr, Chairman	Charles Becker
Rep. Clyde Graeber, Vice-Chairman	Ben Craig
Sen. Paul "Bud" Burke	Nancy Hiebert
Sen. Frank Gaines	Lee Peakes
Rep. Clint Acheson	Daryl Schuster
Rep. Joan Adam	Shelby Smith
	Montie Taylor

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## SUMMARY OF RECOMMENDATIONS

### Capital Markets

#### Research and Seed Capital Financing

- That the Kansas Technology Enterprise Corporation (KTEC) be appropriated \$5 million for FY 1987, with the expectation that this amount will increase in future years.
- That projects of universities and other institutions funded by KTEC should not be subject to state purchasing laws.

And also that: (1) a taxpayer investing in a research-and-development partnership that does not expend all funds in the year of investment be eligible for a prorated tax credit; and, (2) a taxpayer disposing of an interest in a research-and-development partnership prior to expenditure of funds by the partnership effectively transfers the tax credit to the partner holding the interest at the time funds are expended.

#### Venture Capital and Mezzanine Financing

- That 100 percent of Kansas Venture Capital, Inc.'s (KVC) investments be restricted to Kansas, but that the 60-40 provision for private Kansas venture capital companies be retained.
- That the venture capital tax credit be truly universal, available to every for-profit, nonprofit, public, private, in-state, out-of-state, incorporated or unincorporated entity investing in Kansas venture capital company stock.
- That private investments in local seed capital pools be eligible for a 25 percent tax credit if the local pools meet certain criteria.
- That KVC be complemented with an in-house venture capital network, initially funded through the Department of Commerce.

And also that: (1) an investor borrowing funds to purchase Kansas venture company stock be eligible for a tax credit on the full investment amount; (2) absent decertification, a taxpayer disposing of a portion of his investment would not lose a portion of the credit through recapture; (3) KVC investments be structured as equity or unsecured subordinated debt with warrants convertible to equity; (4) the \$1.5 million already invested in KVC be reinvested, classified as new investment, be made eligible for the tax credit, and be credited toward the \$10 million requirement; (5) the state invest in KVC preferred stock after the full \$10 million has been raised; (6) the ceiling of \$10 million investment eligible for the tax credit remain unchanged for FY 1987; (7) the Secretary of Commerce be

allowed to interpret KVCII's statute in ways which would not jeopardize the SBIC license, while still preserving the legislative intent; (8) any firm located within Kansas should qualify as a Kansas business for purposes of the tax credit; and (9) local pools play a certain role within the statewide risk capital system and be accountable to the state for the use of the tax credit.

#### Long-Term Capital Financing

- That a multipurpose statewide bond issuing authority be established to meet long-term debt needs in the state. The authority should be established as an instrumentality of the state, but separate from the Department of Commerce and other state agencies, subject to clearly established accountability and cost and benefit measures of performance.

#### Working Capital Financing

- That intrastate branch banking by acquisition be allowed.
- That a Task Force on Interstate Banking be formed to study the effect of interstate banking in other states and make recommendations which are in the best interests of the state's users of capital.

#### Securities Regulation

- That the Commission endorse the Industry Advisory Committee's recommendations that require legislative action. The first recommendation calls for the repeal of the statute requiring shares be held in escrow until the potential exists to pay 6 percent dividends. The escrow requirement would then be established by regulation, allowing escrow to be released after certain criteria are met. The second recommendation calls for replacing the statute placing a 15 percent commissions-and-expense ceiling on all issues with a statute allowing the Securities Commissioner discretion to waive the ceiling for small issues.
- That the Industry Advisory Committee continue to study proposals to liberalize securities regulation within the existing merit review system.

And also that the Commission and the 1987 Legislature consider a forthcoming study of the impact of securities regulation on the flow of capital in Kansas.

### Export Finance

- That the International Trade Institute draft guidelines for a program wherein the state might guarantee portions of bid bonds posted by Kansas exporters, and that the Department of Commerce, using the guidelines drafted by the International Trade Institute, draw up implementation plans for the bid-bond guarantee program.

### Taxation

#### Enterprise Zones

- That the sales and use tax exemption for manufacturing machinery and equipment be expanded beyond enterprise zones to the entire state, and that the enterprise zones' enhancement of job expansion and investment credits, determined to be not cost-effective, be repealed. State General Fund receipts would decrease by an estimated \$9-16 million if these charges were enacted.

#### Corporation Income

- That the Department of Revenue study how Missouri's use of a single-factor apportionment formula affects the business location decisions along the Kansas-Missouri border and make recommendations to the Legislature about how Kansas can encourage more corporations to locate here.
- That the Legislature consider reductions in corporation income tax rates that would make Kansas more competitive with other states.

#### Workers' Compensation Premiums

- That a special task force be established to study all aspects of the Workers' Compensation system and its administration in Kansas. Because of the growing pressures on the system, recommendations would be made to the standing Committees on Economic Development during the 1987 Session.

## INTRODUCTION

The Task Force on Capital Markets and Taxation was charged to evaluate the appropriateness of Kansas capital markets and tax structure to the rapidly changing needs of the Kansas economy, to undertake a benefit-cost analysis of Kansas tax incentives, and to review the adequacy and structure of the Kansas risk capital system.

The Task Force held five two-day meetings and received testimony from major interest groups as well as several individual firms affected by the financial and tax structure. Dr. Charles Krider was commissioned to conduct the benefit/cost analysis, and Belden Daniels was retained as consultant on capital markets issues. In response to its charge, the Task Force submits the following report.

## CAPITAL MARKETS

### RESEARCH AND SEED CAPITAL FINANCING

#### Kansas Technology Enterprise Corporation

##### Tools and Sources of Funds

Status. For FY 1987, the Kansas Legislature funded the state's three Centers of Excellence with \$518,020. On January 12, 1987, the Kansas Technology Enterprise Corporation (KTEC) will replace the Kansas Advanced Technology Commission as the only research and development and seed financing vehicle within the state.

As a prerequisite for funding those tools, S.B. 755 established that KTEC's president "prepare a business plan . . . [that includes] corporate analysis of funding levels of similar programs in other states, and the threshold funding levels." KTEC's Board will not be in place until after KTEC comes into legal existence on January 12, 1987. The 90-120 day time required for a thorough presidential search means that there will be no KTEC President hired in time to fulfill this statutory obligation unless the present Director of the Kansas Advanced Technology Commission is asked to assist the KTEC Board in this matter on an interim basis.

Recommendations. The Task Force voted to fulfill S.B. 755's statutory requirement to "prepare a report showing how and at what level other states fund the programs provided for under the act . . . [and] recommend an appropriate funding level for Kansas which will make these programs nationally competitive with those of other states."

Models. Examples of funding the states for the functions to be performed by KTEC would include the following:

##### Centers of Excellence

In FY 1985-86, the Ben Franklin Centers in Pennsylvania were funded by \$21.3 million in state appropriations and \$80.9 million in matching sources from its members. The private sector pledged \$53.8 million.

Since 1983, Ohio's legislature has appropriated \$67.9 million for its Thomas Alva Edison Program.

In 1984, Oklahoma appropriated \$30 million for the Centers of Excellence at Oklahoma State University and the University of Oklahoma, or \$15 million for each.

### Applied Research Matching Grants

The Arkansas Science and Technology Authority (ASTA) was funded with \$1.8 million in state appropriations for the 1985-87 biennium. Every dollar invested has drawn \$4-7 in private and federal funds. The Oklahoma Science and Technology Advisory Council was funded with \$3 million in state appropriations for FY 1986-87.

### Pure Research Matching Grants

ASTA's pure research program shares \$1.8 million in state appropriations with its applied research program.

### Technology Seed Financing

Ben Franklin's seed program was funded with \$3 million in state appropriations for FY 1985-86 and was matched by \$9 million from private sources.

ASTA's Seed Capital Investment Program was put in place with approximately \$3 million in state appropriations for the 1985-87 biennium.

The Capital Markets Task Force is aware of the constraints set by the recent \$93 million cut in the state budget. It is also aware that KTEC is to be funded out of lottery receipts. However, to fulfill the statutory requirement of funding KTEC at a nationally competitive level, the Task Force recommends an initial appropriation for KTEC of \$5 million for FY 1987 with the expectation that this amount will increase in future years.

### Legal Structure

Status. KTEC's implementing statute subjects projects of universities, and other institutions funded by the corporation, to state purchasing laws. Participation of universities and private sector firms in KTEC's programs is endangered if they are constrained by the delays that appear to be inherent in state purchasing procedures. This is particularly true since private funds pay for at least half of the projects.

The statute should also recognize that pure scientific research will at times involve some applied research activity, and that applied research and development will sometimes necessitate pure research.

Recommendations. The Task Force recommends that:

1. KTEC, Center of Excellence, and entities funded by KTEC not be subject to state purchasing laws or laws and regulations pertaining to travel.



2. Acknowledge that Basic Research, Applied Research and Technology Transfer functions may overlap.

### The Research and Development Tax-Credit

#### Legal Structure

Status. Although the research and development tax-credit will not be in effect until FY 1988, it is important to clarify how the Act applies to a number of particular situations. When the Research and Development Tax Credit Bill was being developed in the spring of 1986, the focus was on research and development investments by large corporations. There is, however, another important use for the tax-credit in terms of the Kansas economy. It pertains research and development investments by small firms and venture capital partnerships.

Recommendations The Task Force recommends the following changes:

1. When a taxpayer invests in a R&D partnership which does not expend all the funds in the year of investment, the credit should be prorated based upon the taxpayer's share of the funds actually expended by the partnership during the taxable year.
2. When a taxpayer disposes of an interest in a partnership prior to expenditure of the funds by the partnership, the credit should be received by the partner holding the interest in the partnership at the time the funds are expended.

### **VENTURE CAPITAL AND MEZZANINE FINANCING**

Much confusion has been generated by the Kansas Venture Capital Company Act (the Act). It is important to understand that this initiative is designed to address three different market imperfections with three different needs and three different goals. It is therefore necessary to rewrite the Act so there are clear rules that applies to its three different kinds of functions.

The Act's three goals are:

1. to stimulate the formation of Kansas' private venture capital industry to finance the state's Information Age businesses;
2. to meet the risk capital needs -- from venture to capital mezzanine finance -- of Kansas firms which are not being met by the state's financial institutions;
3. to meet the seed capital needs of firms located within Kansas' smaller, rural communities.

## The Tax Credit and Kansas Venture Capital Companies

### Need and Mission.

Status. The tax credit's first function is to encourage the formation of a Kansas venture capital industry which will finance Information Age businesses. The typical investor in this industry expects a 40 to 60 percent compound return on equity investments over five to seven years.

Recommendation. The Act shall be amended to separate this first need from the others and to establish specific rules for the use of the 25 percent tax credit by Kansas' private sector venture capital companies.

### Tools and Sources of Funds

Status. The Kansas Venture Capital Company Act is ambiguous in distinguishing between the investment provisions for Kansas private venture capital companies and Kansas Venture Capital, Inc., (KVC). The 60 percent in-state-40 percent out-of-state investment provision essential to the success of private Kansas venture capital companies also applies to KVC. However, because of its element of public funding and its special charge, KVC should be required to invest 100 percent of its resources within Kansas.

Recommendation. The Task Force recommends retaining the 60-40 provision for private Kansas venture capital companies in order to maximize the number of venture capital investments within the state. The Task Force's recommendation is backed by four compelling reasons:

1. The provision will allow Kansas venture capital companies to import more capital into the state by forming joint-ventures with leading national and international venture capitalists.
2. Natural market areas extend beyond political boundaries. Economic activity in Kansas City, Missouri, is intertwined with economic activity in many Kansas cities and towns. Similarly, the natural economic market of St. Francis spills over the Nebraska and Colorado borders. Investments in Kansas City, Missouri start-ups are as likely to benefit Kansans as they are to benefit Missouri residents.
3. The entire history and nature of the venture capital industry does not allow capital to stray more than 200 miles from its source of origin.
4. The private venture capital industry in Kansas will be much more successful if it can spread risk to ensure its return. The rule that investors cling most avidly to is "don't put all your eggs in one basket." In order to secure reasonable rates of return at reasonable levels of risk for investors, venture capital

companies need to diversify their portfolios. The 60-40 provision allows them to do so.

Second Recommendation. The Task Force recommends ensuring that the tax credit is truly universal -- available to every for-profit, not-for-profit, public, private, in-state, out-of-state, incorporated, unincorporated entity investing in Kansas venture capital company stock. If the entity has no Kansas income tax liability, it should be allowed to sell its credit to Kansas taxpayers.

- Denver, Kansas City, St. Louis, Minneapolis, and Dallas are all venture capital centers that surround Kansas. They may all wish to invest as a Kansas venture capital partner, but have no incentive to do so.
- Not-for-profit corporations in Kansas such as the Kansas University Endowment Association, the Wesley Medical Endowment Foundation and the Kansas Public Employees Retirement System (KPERs) may want to invest in Kansas venture capital companies.

Third Recommendation. The Task Force recommends that an investor who borrows funds to purchase stock in a Kansas venture capital company be entitled to a tax credit on the full investment amount. The lender and borrower should be free to work out the details of the repayment agreement of the loan among themselves. The venture capital company should assign the full amount of the investment to the individual investor to the Secretary of the Department of Commerce.

Fourth Recommendation. The Task Force recommends that, absent decertification, if a taxpayer disposes of a portion of the investment, no portion of the credit would be recaptured. Only in case of decertification would the tax credit be recaptured. In that case, the original investor who benefited from the tax credit should be responsible for repayment.

### The Tax Credit and Kansas Venture Capital, Inc.

#### Need and Mission

Status. The Kansas Statewide Risk Capital Act (1986 S.B. 756), is designed to address inefficiencies within Kansas' risk capital markets and seeks to meet a range of financing needs -- from seed to venture to mezzanine capital. The Kansas Statewide Risk Capital Act recognizes Kansas Venture Capital, Inc. to address these needs. KVCi's average return on investments will be lower than that of private venture capital companies -- around 15 percent, based on the experience of successful risk-capital mechanisms such as the Massachusetts Business Development Corporation (MBDC), the Massachusetts Capital Resource Company (MCRC), and others.

Recommendation. Separate, unambiguous guidelines should be established to govern the tax credits for investment in KVCII. Current law establishes certification guidelines for Kansas venture capital companies which are not fully appropriate for KVCII. While some of those guidelines are universal targeting mechanisms; others are regulatory measures specifically designed for organizations which only structure equity investments.

#### Tools and Sources of Funds

Status. Guidelines for KVCII investments in current law are ambiguous, and are not fully explicit in terms of KVCII's risk capital investments, function or SBIC status.

Recommendations. The Task Force recommends that:

1. KVCII's investments be made solely instate.
2. KVCII's investments be required to be structured as equity or as unsecured subordinated debt with warrants convertible to equity.
3. All of the \$1.5 million already invested in KVCII that is reinvested should be classified as new investments eligible for the tax credit and credited towards the \$10 million requirement.
4. The state invest in KVCII preferred stock only after the full \$10 million has been raised.
5. The ceiling of \$10 million investment eligible for the tax credit remain unchanged for FY 1987. The Task Force recognizes that if there is an oversubscription on the original \$10 million, it should be honored. After FY 1987, and after the initial \$10 million has been raised, the ceiling is subject to review and should be negotiable upon availability of additional, unused tax credit.
6. While KVCII's investment standards are of a higher order than those set by SBIC regulations, they must not jeopardize KVCII's SBIC license. In case of an apparent conflict between SBIC guidelines and KVCII's statute, the Secretary of the Kansas Department of Commerce should be given authority to interpret KVCII's statute in ways which do not jeopardize the SBIC license at the same time that the Legislative intent of SB 756 is maintained.
7. Any firm located within Kansas should qualify as a "Kansas business" under the tax credit bill, regardless of the owner's residence.

## The Local Community Seed Capital Fund

### Need and Mission

Status. Seed capital is virtually nonexistent in Kansas' smaller, rural communities. At the moment, neither KTEC nor the Kansas Venture capital Company Act address local seed capital needs. KTEC's seed capital fund is designed to address risks tied to technological development. It does not address risks tied to the size, sector or location of small town firms. The 25 percent tax credit is targeted to pools of \$1.5 million or larger, amounts too large for any small town to raise.

Recommendations. It is necessary to encourage Kansas' communities to build seed capital funds which will invest in local start-ups.

### Tools and Sources of Funds

Status. No mechanism exists within Kansas which encourages local communities to pool private resources for investments in the area.

Recommendation. The Task Force recommends allowing private investments in local seed capital pools to be eligible for the 25 percent tax credit within the current total limitation of \$24 million eligible for the credit if, and only if: (1) there are minimum private investments of \$250,000 into a given pool; (2) private investments are matched in kind at a ratio of 1:2 by federal community development grants, or other local government sources; (3) 100 percent of the pool's administration and operating overhead expansion be covered by sources other than the \$250,000 private and \$125,000 public minimum in-kind matching investments.

### Legal and Management Structure

Recommendations. Encourage regional pool groupings.

In 1984, the town of North Greenbush, New York, with population at 11,000, established the North Greenbush Venture Capital Fund. Since then, the fund has created over 400 jobs in that town. Originally capitalized with \$750,000 from HUD, the fund has grown to \$1.5 million. The North Greenbush Fund leverages its investments at a ratio of 1:6. The town's Industrial Development Agency (IDA) assumes primary day-to-day responsibility for implementing the program and conducts initial screening of applications. Detailed investment analysis is delegated to outside venture capital firms on a contractual basis.

### Accountability, Cost and Benefit Measures, and Marketing

Recommendation. Local pools should play a role within the risk capital system equivalent to that of Certified Development Companies and Small Business Development Centers in Kansas. They should be accountable to the

state for the use of the tax-credit as provided for CDCs and SBDCs under the risk-capital system act.

### The Kansas Venture Capital Network

#### Need and Mission

Status. No mechanism exists within Kansas to organize its sizeable informal capital sector. Research shows that last year, business start-ups were financed by \$2.5 billion from organized venture capital sources and \$5.1 billion from the informal sector. This informal financial sector is made up of wealthy individuals, and the family and friends of entrepreneurs. In Kansas, the investment potential of this sector is unrecognized. Prior to 1986, the firm of when Campbell and Becker was formed, there was no formal venture capital in Kansas, although there is a long history of informal Kansas venture capital in Wichita, and many other cities and towns.

Recommendation. The Task Force recommends complementing KVCII with an in-house venture capital network to organize Kansas' informal venture capital. This program will be housed in and operated by KVCII. Although KVCII will cover operating costs, the Network's up-front, start-up costs will be provided separately by the state.

Models. New England's Venture Capital Network (VCN) was established in 1984 with \$30,000. It operates solely as a clearinghouse of information for investors and entrepreneurs. In less than six months, VCN had 91 investors and 40 entrepreneurs in its data base. These figures have grown at a monthly rate of 12 percent. As of November, 1984, VCN had sent out 1,237 entrepreneur profiles to investors, of which 51 resulted in direct introductions. Due to its service fees and low overhead, VCN will become self-sufficient within the next three years.

The city of Shreveport, Louisiana, is currently operating a similar network. Start-up costs for the program were close to \$4,000 and annual maintenance costs amount to approximately \$1,000. Although the greater size of Kansas' informal risk capital sector will involve higher start-up and maintenance costs, Shreveport does illustrate the low overhead costs of operating such a program.

#### Tools, Sources of Funds, Legal Structure, and Management

Status. Such a valuable tool has low overhead, steady funding from service fees, and small management requirements.

Recommendation. The Task Force recommends that the Kansas Venture Capital Network be funded through the Department of Commerce and implemented into KVCII. Funding such a program entails buying into existing, inexpensive technology and know-how to create a powerful information tool within KVCII. The software can be purchased through the University of New Hampshire.

## LONG-TERM CAPITAL FINANCING

### Statewide Multipurpose Bond Issuing Authority

#### Need and Mission

Status. Structural changes in global capital and real goods markets have had a strong impact on the availability of long-term capital within Kansas. While Kansas municipalities have historically enjoyed low issuing costs and underwritings tailored to their needs, other pressing long-term capital requirements in Kansas are being circumvented by changes which are here to stay. These changes will also have a long-term profound impact on the cost and availability of public works finance for municipalities.

Historically, banks have supplied the capital necessary to finance long-term economic activities in their states. In exchange, they were allowed to take advantage of sizeable, and practically unrestricted, Federal tax exemption. In 1986, the supply of long-term capital has shifted. Banks no longer attract the amount of deposits that can support long-term financings, and that traditionally benefited from the coveted Federal tax exemption. Increasingly, the fastest-growing sources of institutional funds are held by tax-exempt institutions who do not benefit from Federal tax exemption. Today, 50 percent of all bond issues are traded through New York; and Tokyo's highly-concentrated capital markets are growing two and a half times faster than New York.

The Federal cap on tax-exempt bond issues is unlikely to be large enough to finance all the projects that Kansas needs to undertake on any given year if it is to fulfill its economic development objectives. Moreover, the Kansas Economic Development Study expressed concern about the sharp fall in state expenditures on capital improvement and pointed out that "a continuation of inadequate funding for public infrastructure will impair the state's economic development efforts." In the face of Federal and state budget cuts, it is essential to find alternative ways of financing these long-term development activities as low-cost, taxable options.

Federal law now limits the use of Federal tax exemption for a number of economic activities. Small businesses and farms, the heart of Kansas' economy, no longer have a way of financing their restructuring or expansion activities.

The mandatory shift is towards deregulated markets -- taxables. Kansas has no mechanism in place to draw long-term debt from where it now lies -- the New York, London markets -- and wherever it may lie five years from now.

Recommendation. The Task Force recommends establishing a mechanism to secure long-term debt financing for local communities, small farms, and small firms in Kansas by competing in constantly changing, global, deregulated markets.

### Tools and Sources of Funds

Status. The changes discussed above have left important Kansas economic agents with few tools to attract long-term capital to finance their activities.

Recommendation. The Task Force recommends establishing a state-of-the-art, statewide, taxable, tax-exempt multipurpose bond issuing agency to meet the long term debt needs in the state by keeping up with and taking advantage of structural changes in global capital markets. The agency's basic design should follow that of successful models such as the Arkansas Development Finance Authority and the Massachusetts Investment Finance Authority, but should also go beyond them to incorporate powerful information tools. The agency should have total flexibility to structure its deals and should carry its own insurance to secure high bond ratings. Its issuing activities will be fully financially self-sufficient.

Models. In just 18 months, the \$1.5 billion Arkansas Development Finance Authority (ADFA) has become the largest importer of capital and the largest financial institution in historically capital-short Arkansas. It has generated \$130 million of public infrastructure financing which would have otherwise remained unavailable. It financed \$30 million of university plant and equipment improvements for which there was no instate funding available. Recently, ADFA converted and refinanced hundreds of millions of dollars of the state's troubled FmHA loans into taxable options, and is now doing the same for small business loans.

The three lowest bidders in a 1986 Boston City letter of credit offering were Japanese banks. The Sanwa Bank bid nine basis points, while the Bank of New England, the Bank of Boston and a New York bank bid 22.5, 26, and 62, respectively.

The Massachusetts Industrial Finance Authority (MIFA) finances 50 percent of the state's industrial development. In conjunction with the Netherlands Radobank, MIFA finances \$50 million of the state's smallest business loans.

### Legal and Management Structure

Status. In the face of explosive global capital market structural changes, Kansas is not equipped to import the development capital individual firms and farms need into the state. The system denies small individual demanders of long-term debt the benefits of pooled economies of scale and access to low-cost financing.

Recommendation. The Task Force recommends establishing a single multipurpose statewide taxable, tax-exempt bond issuing authority as an instrumentality of the state but separate from the Department of Commerce or any other state agencies. Like KTEC, the Authority should be managed by a private sector-like, performance-driven Board and staff, responsible to the Governor and Kansas, Inc. for carrying out its public purpose. The Authority



must be able to react to global economic changes with Wall Street's ease and speed.

## WORKING CAPITAL FINANCING

The Commission charged the Task Force to make bold recommendations. In no area of the Task Force's analysis and recommendations has the need for boldness been more clear than in the regulation of intrastate and interstate banking.

### Intrastate Banking Regulation

#### Need and Mission

Status. Kansas bank statutes and regulations restricting intrastate banking limit the ability of Kansas banks to attract capital into the state and meet the rapidly changing needs of the Kansas economy.

Banks live on the spread between the cost of money and the income from loans and investments. The median size of Kansas' 616 banks is \$17 million. For 1985, 168 banks had less than \$10 million in deposits and an aggregate negative net income of \$2.6 million. There are 353 one-bank towns in Kansas. Current statutes make it very difficult for local banks to generate enough loan and deposit activity to cover overhead and be profitable.

The FDIC is the single largest bank in Oklahoma. Kansas must avoid what Oklahoma has confirmed: failed banks and the FDIC destroy businesses. In Lacrosse, Kansas, many Main Street businesses failed when the town's two banks fell into FDIC's pick-and-choose hands. Presently, there are 167 problem banks in Kansas. Bank failures appear to follow demographics.

Of the top five deposit institutions in Kansas, four are Savings and Loans (S&Ls). Of the top ten, eight are. These S&Ls do not attend to Kansas' commercial and agricultural needs. Federal S&Ls, however, hold an unfair advantage: their statute makes no reference to the subject of branching and they are therefore free to engage in intrastate banking. The First National Bank of Manhattan, Kansas, recently spent \$100,000 in legal fees in order to convert into a S&L.

Successful banks, such as the MidAmerica Bank in Roeland Park, are currently landlocked because they lack the legal ability to expand beyond their city location, to their natural market area. On the other side of the coin, a successful agribusiness in western Kansas recently called on dozens of state banks for a \$7 million expansion loan. The banks were unable to carry the loan and the business turned to out-of-state bankers.

Kansas Banking Law restricts the tools available for: (1) successful banks to bail out troubled ones before they fall into the hands of the FDIC; (2) successful small town banks to expand services beyond their local area to their natural market area; (3) the banking industry to finance development throughout the state.

Recommendation. The Task Force recommends allowing intrastate banking through statewide branching by acquisition only. (This excludes existing de novo branches already approved.) The Task Force's recommendation does not change the current limits on bank asset concentration, which continue to protect small community banks from any unfair competition.

### Task Force on Interstate Banking Regulation

#### Need and Mission

Status. Kansas' regulated banks are at a disadvantage against regional banks and nonbank banks. Within the limits of Federal regulation, many banks are positioning themselves throughout the nation. Thirty-seven states representing over 96 percent of U.S. bank assets have already passed interstate compact agreement legislation. Kansas banks are being "done unto" by global capital market forces and by federal regulations which do not allow banks to compete. Moreover, Kansas can easily be done unto by its neighboring states which become aggressive in their capital market policies, such as Oklahoma.

Models. States with regional reciprocal interstate banking statutes include Alabama, Connecticut, District of Columbia, Florida, Georgia, Idaho, Illinois, Indiana, Kentucky, Louisiana, Maine, Massachusetts, Michigan, Nevada, New York, North Carolina, Ohio, Oklahoma, Pennsylvania, Rhode Island, South Carolina, Tennessee, Utah, Virginia, and Washington.

Recommendation. The Task Force recommends forming a Task Force on Interstate Banking to study the effect of interstate banking in other states and to make recommendations which are in the best interest of the state's users of capital.

The Task Force should report its findings and recommendations to the House, Senate and Joint Committees on Economic Development. The Interstate Banking Task Force should be composed of the highest quality people available; people who will look critically at the problems facing Kansas banks on one hand, and the problems facing borrowers on the other; people who will bring positive, aggressive solutions to those problems; have a statewide and a global vision; be highly regarded by their peers as leaders, but should not be formal representatives or paid professionals of interest groups or trade organizations.

## REGULATION OF SECURITIES IN KANSAS

The Task Force on Capital Markets on Taxation believes strongly that securities regulation should be considered as an integral part of Kansas' economic development strategy for several reasons. State securities laws and regulations often send a signal to outside investors about the attractiveness of investing in that state. Also, careful liberalization of Kansas securities regulations within the existing merit review system can increase the flow of capital into Kansas and increase access of Kansas businesses to global capital markets.

The Industry Advisory Committee has done an outstanding job in making recommendations to carefully modify some of the more restrictive regulations. The Task Force supports the recommendations that still require some form of legislative action, and asks that the Commission recommend these changes to the 1987 Session:

- Repeal the existing statute requiring shares to be held in escrow until the potential exists to pay 6 percent dividends. The escrow requirement would then be established by regulation, releasing escrow after (1) three years from the date of the close of the offering; (2) the securities have traded for 125 percent of the offering price for 45 consecutive days; or (3) if the company is able to pay a 6 percent dividend after one year or a 10 percent dividend after two.
- Replace the statute placing a 15 percent commissions and expense ceiling on all issues with a statute allowing the Commissioner discretion to waive the ceiling for small (less than \$3 million) issues.

The Task Force also recommends that the Industry Advisory Committee continue to study proposals to liberalize securities regulation and increase the flow of capital into and within Kansas. Some of the new proposals the Advisory Committee should consider are:

- Establishing a nonseasoned issuer exemption and an issuer registration exemption by filing, similar to those in place in Wisconsin since April.
- Establishing a "sophisticated investor" exemption, where a certain level of net worth would be assumed to obviate the need for strict merit review.
- Establishing an exemption for Kansas issuers. Less stringent requirements for Kansas-based businesses could make the state more attractive to relocating companies and outside investors, as well as enhancing the ability of current Kansas firms to market securities.

The Task Force also recommends that the Commission and the 1987 Legislature consider the forthcoming ABA study, now expanded to include Kansas, of the impact of securities regulation on the flow of capital.

### THE STATE'S ROLE IN EXPORT FINANCE

One of the major problems facing small- and medium-sized Kansas corporations that export their products is the requirement that bid bonds be posted in virtually every competitive bidding situation. Bid bonds are payable only when the bidder is awarded the contract and refuses to accept it or cannot post a performance guarantee. These bid bonds, often in the form of letters of credit, are usually between 2 and 10 percent of the bid amount, depending on the conditions of the bid.

Many Kansas exporters can have several bids outstanding, not all of which will be successful. A problem arises because banks issuing letters of credit for the bid bonds must count the outstanding liability against companies' credit lines. Some companies with more than one bid outstanding can therefore be precluded from bidding on projects well within their capability of fulfilling.

The Task Force believes that Kansas is missing out on a significant amount of business that could be flowing into the state if these exporters were able to post additional bonds. The state could promote economic development by establishing a program similar to Canada's, where the Canadian Commercial Corporation helps Canadian exporters post bid bonds.

The recommendation of the Task Force, therefore, is that Professor Ray Coleman of the International Trade Institute, in conjunction with Kansas exporters, draft guidelines for a program that could be administered by the Department of Commerce, where the state could guarantee a certain portion of export bid bonds, assuming the exporters met certain qualification criteria. Such a program could minimize the exposure of banks and effectively increase a firm's line of credit. The Department of Commerce should then draw up plans to implement such a program and make a report to the Standing Committees on Economic Development during the 1987 Legislative Session. The Task Force believes strongly that a state bid-bond guarantee program would promote economic development by making Kansas exporters more competitive.

The Task Force also considered recommendations that Kansas set up state-sponsored foreign sales corporations (FSCs), capable of sheltering up to 15/23 of the export-generated income of 25 companies. However, after hearing testimony from a variety of export-finance conferees, the Task Force concludes that there is adequate incentive in the private sector for exporters to form FSC umbrellas without the state's involvement.

TAXATION

TAXATION AND TAX STRUCTURE IN KANSAS

After hearing testimony from a variety of businesses and business-location conferees, the Capital Markets and Taxation Task Force has concluded that Kansas' tax structure and tax incentives should be viewed as an integral part of any successful economic development program. The ability of the state to appear competitive in its tax structure can send an important signal to outside firms and affect expansion plans of current Kansas businesses. Despite hearing testimony that most tax incentives are not cost-effective, the Task Force believes that Kansas should take steps to remove burdensome tax features and assure that the tax structure remains regionally competitive.

Some corporations recently have chosen not to locate in Kansas after analyzing the tax structure of bordering states. The Task Force believes that this problem has arisen in part because of several features of Kansas' corporation income tax that make the effective rate significantly higher than any of its neighbors' effective rates, especially for large and very profitable corporations.

- Kansas' 6.75 percent rate for all corporations with KAGI of \$25,000 or more does not compare favorably with the 5 percent across-the-board rate in Missouri, Oklahoma, and Colorado.
- Of the 43 states with corporation income taxes, Kansas is one of 37 states that does not allow federal taxes paid as a deduction. Missouri is one of six states with corporation income taxes that does allow that deduction. This deduction lowers Missouri's effective rate under current law to 2.7 percent.
- Kansas and all of its neighboring states have adopted UDITPA, the Uniform Division of Income for Taxation Purposes Act. Three factors -- sales, payroll, and property -- are equally weighted when apportioning the amount of a corporation's income attributed to Kansas. Missouri, however, allows corporations the option of computing liability either under UDITPA or under a single-factor (sales) formula.

These distinctions in the states' corporation income taxes have combined to lead some publicly-held corporations, unable to justify payment of Kansas taxes, to locate in neighboring states, especially Missouri.

Another area in which Kansas compares unfavorably is that it charges sales tax on manufacturing machinery and equipment. Such equipment has been subject to a refund of the sales tax when located within an enterprise zone. However, the value of the refund was diminished by the time lag between initial payment of the tax and receipt of the refund. Occasionally, this delay has proven to be a burden for some corporations. Beginning January 1, 1987,

such equipment installed within an enterprise zone will be exempt from sales taxes.

Table 1, below, compares some tax features of Kansas and neighboring states with respect to the characteristics mentioned above.

TABLE 1

Selected Tax Features for Kansas  
and Neighboring States

	<u>Kansas</u>	<u>Missouri</u>	<u>Oklahoma</u>	<u>Colorado</u>	<u>Nebraska</u>
<u>Corporation Income Tax</u>					
Rates -- Maximum	6.75%	5.00%	5.00%	5.00%	6.65%
Rates -- Minimum	4.50%	5.00%	5.00%	5.00%	4.75%
Fed. Tax Deductible	No	Yes <sup>1</sup>	No	No	No
UDITPA	Yes	No <sup>2</sup>	Yes	Yes	Yes
Credits --					
Job. Exp.	Yes	Yes	No	No	No
Investment	Yes	Yes	Yes	No	No
Relative Collections <sup>3</sup>	\$ 65.17	\$ 31.93	\$ 31.66	\$ 31.46	\$ 30.49
<u>Sales and Use Taxes</u>					
Rate	4.000%	4.225%	3.250%	3.000%	3.500%
Local Taxes	Yes	Yes	Yes	Yes	Yes
Exemptions --					
Manufacturing Mach.	No	Yes	Yes	No	No
Enterprise Zones	Yes	No	Yes	No	No

Notes:

- 1) This deduction lowers Missouri's effective rate under current law to 2.7 percent.
- 2) Missouri, although it has adopted UDITPA, allows the option of using only the sales factor.
- 3) FY 1985 collections per capita.

Source: Commerce Clearing House, State Tax Guide, 2d. Ed.

In order to make Kansas more competitive with surrounding states, the Task Force believes that it is essential that all tax incentives be as cost-effective as possible for the state and local governments. The Task Force,

therefore, asks the Commission to make the following recommendations to the 1987 Legislature:

- Extend the sales and use tax exemption for manufacturing machinery and equipment to the entire state. The exemption currently exists only within enterprise zones. The Department of Revenue has estimated that this would cause a \$12-18 million reduction in State General Fund receipts. The Task Force recommends that the exemption be funded in part by repealing the enterprise zones' enhancement of job expansion and investment credits, determined to be not cost effective by Task Force consultant, Charles Krider. The Department has estimated that receipts would increase by \$2-3 million in response to such legislation. Thus, the combined cost of the two elements of this recommendation would be \$9-16 million.
- The Task Force believes that Missouri's allowing the single-factor apportionment option presents a serious problem for Kansas and that jobs have been lost because of it. While Kansas should not immediately abandon UDITPA, the Department of Revenue should study the business-location situation along the Kansas-Missouri border and make recommendations to the Legislature about how Kansas can respond.
- The Legislature should consider appropriate reductions in corporation income tax rates to make Kansas more competitive with neighboring states.

The Task Force also studied a number of other proposed tax changes that could enhance economic development in Kansas, including exempting the interest from general obligation bonds from the state income tax, adopting a single-factor apportionment option, and restoring corporate federal deductibility. However, given the realities of the state's fiscal situation, the Task Force is not recommending these changes at this time.

The Task Force wishes to place the highest priority possible on extension of the sales and use tax exemption for manufacturing machinery and equipment to the entire state. The Task Force believes that this change would significantly improve the perception of the Kansas business climate. Economic activity would increase as a result of more manufacturing activity in Kansas. It is therefore imperative, particularly given the current economic situation, that this economic development initiative be enacted.

Adoption of these recommendations is also needed to stop an apparent trend of corporations choosing to locate elsewhere. A more competitive tax structure, coupled with an aggressive marketing strategy by the Department of Commerce to convince outside firms of the numerous advantages of locating in Kansas, can reverse the trend and serve as a crucial tool in Kansas' economic development strategy.

## WORKERS' COMPENSATION IN KANSAS

The amount of workers' compensation premiums paid by Kansas employers, as measured by direct premiums earned, increased by 21.9 percent for calendar year 1985 over 1984. Payment of the premiums effectively constitutes a "tax" on Kansas businesses, and the annually increasing rates therefore are disincentives for economic development.

The Capital Markets and Taxation Task Force has concluded that there are a number of problems with the workers' compensation system in Kansas that need to be addressed by the 1987 Legislature.

The system literally has become swamped in recent years, with over 5,000 pending claims, representing a 48 percent increase since 1984, now facing the seven administrative law judges. Labor, industry, the Division of Workers' Compensation, and the legal profession proposed a wide variety of possible solutions to the backlog, including the following:

- increasing the number of administration law judges;
- redefining existing geographic areas of jurisdiction;
- empowering the Director to mandate venue for certain cases;
- making any additional judges "roving";
- increasing judges' pay to reduce turnover; and
- finding ways to relieve backlog beyond increasing the number of judges.

Repetitive use injuries, including carpal tunnel syndrome, represent a significant part of the recent flood of claims. The Task Force believes that the way these injuries are now treated represents one of the most obvious inequities in the system, with maximum awards often being issued to claimants who have sustained only minimal loss of overall function. A number of recommendations again were offered by conferees.

- Amending the definition of disability to incorporate the capability of the injured worker to retain and perform all kinds of employment, not just employment of the same type and character.
- Adding a specific definition of repetitive use injuries to the functional disability schedule.
- Creating a specific legislative limitation on carpal tunnel awards.

The static statutory cap on liability for partial and total disability, in place since 1974, has combined with steadily increasing maximum weekly benefits to create another inequity in the system. Injured workers qualifying



for the maximum weekly benefit can run up against the caps long before the term of payment provided for in K.S.A. 44-510e(a). The recommendation of one conferee would increase the present caps, \$75,000 for partial disability and \$100,000 for total disability, to compensate for the increased cost of living since 1974.

There is also a lack of incentive for both labor and industry to engage in good faith vocational rehabilitation, according to conferees. The Task Force believes that substantial steps need to be taken to encourage both parties to undertake rehabilitation, through changes initiated by the Director, the Legislature, or both.

Since overall rates have increased by 10 and 9 percent in 1985 and 1986 respectively, the question of how rates are established in Kansas came under some scrutiny. Various options may need to be explored in the future, including giving the Insurance Commissioner additional authority to assure that the rates, including the medical cost trend factors, accurately reflect Kansas experience, and the authority to mandate premium rollbacks.

These are just a few of the numerous workers' compensation issues that need to be addressed. Of the \$116 million paid out in FY 1986, a significant portion may have ended up in the hands of those not deserving it rather than in the hands of those being under-compensated.

Besides the existing inequities within the system, the avalanche of claims and steadily increasing premiums represent a serious threat to economic development in Kansas. Due to the broader charges of the Task Force, however, a decision has been made not to make specific recommendations regarding workers' compensation, but to recommend instead that

- A special task force be established to study all aspects of the system and its administration in Kansas. The task force should consist of 5-9 members, with no lobbyists, presidents of trade organizations, paid professional representatives of interest groups, consultants, or lawyers with significant workers' compensation practices. Because it is critical that significant progress be made toward resolving the workers' compensation issues during the next session, the Governor-elect and leadership should appoint the task force in early December. The task force should hold hearings throughout December, January, and February, before reporting back to the standing Committees on Economic Development in early March.

## MINORITY REPORT ON BANKING RECOMMENDATIONS

Discussion and consideration of several major concepts were considered by the Task Force for the expansion of Kansas capital markets. The final version of this group's report was based on extensive plans designed by Mr. Belden Daniels, consultant, Counsel for Community Development, Inc., Cambridge, Massachusetts.

While many of Mr. Daniels' ideas can be adapted to the Kansas economic climate, the results of any of our decisions, should they be adapted by the Legislature, remain to be discovered in a future time. We seriously question whether some are workable for solutions, because we have no real frame of reference from which to compare.

Mr. Daniels' recommendations are based on his findings from other states. But each state is somewhat unique in its makeup and its citizenry. The success of a "center of excellence" in one area does not guarantee that one will work in another, no matter how similar the areas. Creating liberalized monopolies in the banking industry does not assure level capital flow to every area of need.

It is with the banking recommendations that we particularly question the relevance to economic development. The Task Force did not spend a lot of time in discussion of the pros or cons to such a "trendy" move, and therefore we feel we were particularly unqualified to recommend any bank structure changes. It would seem that the vote was taken based on the opinions of our own personal sentiment and not in consideration of those who will be affected -- business, industry, communities, and the small borrower.

Two years ago, multibanking proponents assured the Legislature that what the Kansas economy needed was MBHCs. If multibanks were allowed in Kansas, we were told capital would flow into the state, capital would be shared in areas of need, and at one point, we heard multibanking could even create capital. At the very least MBHCs would be a boon to both rural and urban economies.

We do not believe branch banking or interstate banking is any more the answer to our economic woes now than multibanking was then.

While there were many strategic arguments put forth by those Task Force members in favor of intrastate and interstate banking, we are still not convinced of their benefits to the public. If you are looking to increase capital, liberalizing the banking law to allow statewide branches by acquisition does not create capital.

However, branch banking can lead to a more centralized control over the flow of capital within the state. Likewise, interstate banking can produce an outward flow into the real money center of the nation.

Although some factual evidence was produced to emphasize the depressed plight of Kansas banks, little if any was produced to show that either intrastate banking or interstate banking could correct the economic slump we as a state are experiencing.

As we look to both Nebraska and Oklahoma, both suffering agricultural and energy depression, their more liberalized banking structure laws do not appear to have produced anything beneficial to economic development.

In fact, the only reason Texas and Oklahoma bankers consented to interstate banking at all, we believe, was because they had banks too big to buy and too big to fail. It was a dilemma as to whether to let your largest financial institution be bought by another large bank, albeit out-of-state ownership, or be purchased by the government. Most believe purchase by out-of-state ownership was the most palatable of two distasteful choices.

Because of the time constraints placed on the Task Force, we never had an opportunity to hear from the opponents of change in bank structure recommendations with the exception of one 15-minute segment.

We did not have the benefit of statistics from surrounding states that could be used as economic development barometers as they relate to a need for a change in bank structure laws -- educational statistics, literacy comparisons, unemployment rates, number of jobs, specific instances of industries or firms leaving the state or not coming to the state because of bank structure, and much additional information that we believe is absolutely necessary to make an intelligent decision on a subject of this magnitude.

Therefore, we cannot agree with our colleagues that interstate banking or expanded intrastate banking is any kind of a solution for our depressed economy. It has not been shown to me that any benefits derived by the banking industry will offset any detriments incurred by the public.

Senator Frank Gaines

Representative Joan Adam

## MINORITY REPORT ON TAXATION RECOMMENDATIONS

In early November, revised revenue estimates showed that the state could receive \$93 million less than had been forecast earlier. This downturn in the state's already gloomy economy reflects the stagnation or depression in which many Kansas businesses and individuals find themselves.

The estimating group's forecast for the future does not look much brighter. The state's unemployment rate is projected to be up in both fiscal year 1987 and 1988. Kansans' personal income growth -- 3.6 percent -- will be the lowest since 1969. Given this gloomy situation, I believe the Task Force's endorsement of a corporate tax decrease is inappropriate.

I concur with many of the Task Force's conclusions and agree that the state must take an active role in stimulating the economy of the state. However, I believe any tax change must meet two tests: will it be effective and is it fair? I believe a change in the corporate tax fails both tests.

Little or no data were presented to the Committee that showed a clear cause and effect link between this tax decrease and a reinvigorated economy, or in an increased number of jobs. The "evidence" was largely anecdotal. Other testimony suggested that individual income tax rates are a critical locational factor, while others said a state's transportation network or its educational system were the crucial determinants. In short, there seemed little hard evidence that this change would bring about the desired results.

The proposed change also seems less than fair. Last year, the Legislature enacted a one-cent sales tax that falls most heavily on low- and moderate-income taxpayers, as virtually all of their disposable income is subject to the tax. Although some of the impacts of federal tax reform are unclear, it is estimated that it will increase Kansans' individual tax liability by 22 percent. Low-income Kansans with KAGI between zero and \$15,000 will see an average 8 percent increase in their tax liability, and middle-income Kansans with KAGI between \$15,000 and \$50,000 will see an increase in the range of 8 to 13 percent. At the same time, the increase in Kansas corporate tax liability is expected to be negligible.

Recently, Governor-Elect Hayden responded to the state's fiscal crisis by cutting all state spending by 3.8 percent. A corporate tax change would cost the state anywhere from \$31 to \$35 million, which presumably would either mean deeper cuts or an increased tax burden on other Kansans. Given the state's present situation, I believe the proposed corporate tax decrease is unwise.

Representative Joan Adam

Attachment 4

# Oregon considers overseas sale

## Treasurer hopes to flee tax reform by issuing abroad

By ANDY OAKLEY

SALEM, Ore. — Treasurer Bill Rutherford, fleeing what he views as an onerous tax reform bill, has proposed selling bonds overseas as part of a major economic program for Oregon.

"Build Oregon," which the treasurer will submit to the Legislature in January, would finance museums, libraries, health-care facilities, student loans, infrastructure improvements around the state, and business loans.

Oregon's treasurer said tax reform — which would eliminate the tax-exempt status of some state bonds — prompted him to look outside the United States to finance the Oregon programs. Oregon is home of tax reform architect Sen. Bob Packwood, who pushed the bill through conference committee.

"I learned that we could sell state

revenue bonds in dollars or in foreign currency, at favorable interest rates, free of interference by a greedy federal government," Mr. Rutherford said in a speech Sept. 5.

"Not only would tapping international financial markets position us ahead of the mine field laid by the federal government," he said, "it would permit us to operate our own program and use the proceeds as we think best for Oregon."

Build Oregon would be self-supporting. The state would be a sponsor only. No state revenue would be at stake in the bond program, Mr. Rutherford told *City & State*.

The treasurer's office has not estimated the size of the financing program or how large the overseas portion would be, he said.

Under Build Oregon, an Oregon Export Development Fund would be set up to make short-term loans to export businesses.

The first U.S. governmental agency known to venture into the Euromarket was the Alaska Housing Finance Corp., which sold debt totaling \$100 million in early 1984. Alaskan officials predict the agency saved about 40 basis points by selling debt overseas.

Several investment bankers have cautiously hinted that overseas debt sales might be the financing mode of the future for state and local governments.

Earlier this year, Treasurer Richard B. Dixon of Los Angeles County considered selling \$100 million in tax-anticipation notes in Japan, with a followup sale in Europe.

The county, however, has no such plans for fiscal 1987, a spokesman for the county said. She added that Mr. Dixon's research was prompted by tax reform.

*Continued on page 51*

*Continued from page 3*

Treasurer Bill Cole of Mississippi also has talked with investment bankers about the possibility of selling debt in Europe.

"For states it's a new concept, and Oregon is no exception," Mr. Rutherford told *City & State*.

"I personally believe it will be the way financing is handled in the future — that international will be a market that's widely used," the treasurer said.

The largest dollars in the treasurer's proposal — BUILD, or Bring Us Industry and Local Development — will be used to lend money to Oregon businesses that wish to expand and to firms that would consider relocating there.

According to a program outline, BUILD funding will use a variety of sophisticated financial techniques, which could include domestic and foreign debt offerings, domestic and European commercial paper programs, interest-rate and currency swaps, and credit enhancements. Funds could be raised on a tax-exempt or taxable basis as market conditions and federal legislation dictate.

Overseas debt would also be issued for the other three segments of Build Oregon: Financing Oregon College and University Students, or FOCUS; Local Infrastructure Financing Trust, or LIFT; and Health and Education Loan Program, or HELP.

Mr. Rutherford expects to appoint a citizens' advisory committee to review Build Oregon and recommend improvements.

Leg. Comm. on Economic Dev.  
Dec. 2, 1986  
Attachment 4

# Illinois testing taxable bonds in a big way

By ANDY OAKLEY

Illinois and two of its municipalities are diving into the taxable market, selling \$100 million in bonds in three months.

Between mid-June and mid-September, Illinois — though certainly not the only state — might have been the most active state in the taxable bond market.

A taxable sale for the "Build Illinois" program was the largest — \$40 million for loans to the private sector. The taxable bonds accompanied an \$80 million issue of tax-exempt revenue bonds on July 25.

In deals unrelated to Build Illinois, two Illinois finance agencies are testing the taxable market.

The Illinois Development Finance Authority — which sold almost \$300 million in tax-exempt industrial development bonds in 1985 — is the most recent entrant to the taxable market. The authority plans to sell at least \$10 million in short-term commercial paper by the end of September.

To help make up for tax reform's crackdown on industrial development bonds for private use, the authority will pool the proceeds for loans to small businesses.

In June, the Illinois Export Development Authority sold \$15 million in taxable notes to make loans to smaller exporting companies (*City & State*, June 1986). Bonds to help companies in the export and import markets do not qualify as tax-exempt, authority officials said.

The trend in Illinois doesn't stop with state agencies.

This month, Community Colleges District No. 508 of Chicago will be one of the first issuers in the nation to take competitive bids on a taxable municipal bond deal. In July, officials in Lansing, Ill., went taxable on a \$7.1 million tax-increment financing.

Some taxable deals in Illinois, as elsewhere, were marketed to avoid problems that were expected to arise from provisions of tax reform.

If tax reform passes, shutting the door on some financings by local governments, the taxable market will become more attractive.

The Weekly Credit Monitor of Salomon Brothers Inc. called the Build Illinois' entry into the taxable market "a sign of things to come" in Illinois and in the nation.

That might not be the case, said Robert L. Mandeville, director of the Illinois Bureau of the Budget. The conference committee bill, he said, is not restrictive enough to push the state government into the taxable market.

The \$1.3 billion Build Illinois program, which funds capital projects across the state, sold taxable debt only because the money will be used for so-called "consumer loans," to help Illinois firms expand operations or help others move to the state. "It had nothing to do with current tax reform," the budget director said. "Federal law limits the amount of 'consumer loans' financed tax-exempt bonds."

Under the 5% limit, "If you sell \$100 million in bonds for Build Illinois, as we did last year, you can use only \$5 million of that for consumer loans," he said.

Since Gov. James R. Thompson's program called for \$40 million in consumer loans for fiscal 1986 and 1987, the state took the taxable route, Mr. Mandeville said.

Illinois has no immediate plans to return to taxable bonds, but tax reform is expected to have a greater effect on independent authorities.

"Those folks will be curtailed, but to what extent, we don't know," Mr. Mandeville said. ■

Attachment 5

Leg. Comm. on Economic Dev.  
Dec. 2, 1986  
Attachment 5

# The Missouri Advantage™

June 30, 1986

Mr. R.D. Gullickson  
President  
Sunflower Bolt & Nut Company Inc.  
P.O. Box 757  
Olathe, KS 66062

Dear Mr. Gullickson:

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Sincerely,

Gary Sage, Project Manager  
Dept. of Economic Development  
Suite 100, 700 East 8th Street  
Kansas City, MO 64106

Enclosures

Leg. Comm. on Economic Dev.  
Dec. 2, 1986  
Attachment 6

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Attachment 7

REPORT OF THE TASK FORCE ON AGRICULTURE  
OF THE  
LEGISLATIVE COMMISSION ON ECONOMIC DEVELOPEMNT

December 1, 1986

Leg. Comm. on Economic Dev.  
Dec. 2, 1986  
Attachment 7



TASK FORCE ON AGRICULTURE

Legislators

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Chairperson

Senator Fred Kerr  
Vice-Chairperson

Senator Merrill Werts

Senator Jerry Karr

Representative Bill Bryant

Representative Don Rezac

Private Sector Members

Gary Gilbert, Gilbert Grain  
(Clay Center)

Dale Rodman, Excel Corporation  
(Wichita)

Eugene Beachner, Beachner Seed Co.  
(St. Paul)

Wayne Hagerman, Farmer  
(Larned)

John Davis, Fidelity Bank  
(Garden City)

Dana Jackson, The Land Institute  
(Salina)

Richard Basore, Farmer  
(Bentley)

## ECONOMIC DEVELOPMENT TASK FORCE ON AGRICULTURE

### Report to the Legislative Commission on Kansas Economic Development

The charge to the Economic Development Task Force on Agriculture was 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.

#### BACKGROUND

Since the Economic Development Task Force on Agriculture was comprised of nonlegislative as well as legislative members, an effort was made to review various activities that related to the charge to the Task Force currently being addressed.

To begin its deliberations, the Task Force heard from Dr. Charles Krider who reviewed the report called "Kansas Economic Development Study: Findings, Strategy, and Recommendations" (sometimes referred to as the Redwood-Krider Report). Besides the recommendation that this Task Force be created and the charges to it be studied by the Task Force, Dr. Krider also reviewed the general recommendations of the Redwood-Krider Report. Those recommendations included: (1) do not resist the general economic trends; (2) do not emphasize recruitment of out-of-state businesses; (3) do not emphasize "tax break" strategies since they are not that important in business location decisions; (4) encourage entrepreneurs to expand existing firms to develop new ones; (5) invest in the state's infrastructure; (6) emphasize businesses with an agricultural base; and (7) concentrate on producing smaller, lighter, and higher valued products. In addition, one of the basic findings contained in the Redwood-Krider Report, but not discussed with the Task Force, was that:

The central focus of any state economic development policy must be the modernization and expansion of the state's economic base. The Kansas economic base comprises those industries, particularly wheat, beef, food and meat processing, oil and gas, and aviation, in which we have a comparative advantage and around which we have developed clusters of suppliers, institutions, skills, knowledge, and infrastructure. It is not feasible to countenance an abandonment of this base and the development of a substitute economy based on artificial comparative advantage; it would be too expensive and it would leave Kansas too vulnerable to do so. Hence the traditional

sectors will remain the foundation of the state economy and must serve as the gateways or conduits through which new products and new processes emerge.

Continuing with its review, the Task Force heard from David Barclay of the Kansas Department of Economic Development. Mr. Barclay reviewed the legislative initiatives enacted by the 1986 Kansas Legislature and their degree of implementation.

Since the charge to the Task Force involved alternative crops, value-added processing, and marketing, the Task Force early in its deliberations heard from individuals currently active in those pursuits at the state level. The Task Force heard from Eldon Fastrup of the Marketing Division of the State Board of Agriculture and Jamie Schwartz, Secretary of the Kansas Department of Economic Development, as to the activities of those two agencies in marketing. The Task Force heard from Dr. Walt Woods and Dr. Kurt Feltner of the College of Agriculture at Kansas State University, with regard to the work currently being done on alternative crops and value-added processing at the University. Later in its deliberations, the Task Force heard about the marketing efforts of the International Grains Program, the International Livestock and Meat Program, and the International Trade Institute. These conferees were heard not only to inform the Task Force as to the current activities in areas of the charge, but to assess the potential for enhancement or redirection of efforts. Specific recommendations made for enhancement or changes by conferee is attached as Appendix I of this report. The information contained in Appendix I was used as the basis for the recommendations made by the Economic Development Task Force on Agriculture.

## DELIBERATIONS

During its first meeting, the Task Force decided to hear from as many agribusiness firms in the state as it could. These firms would be those which add value to raw agricultural commodities. In hearing from those businesses, the Task Force hoped to learn the advantages and disadvantages of doing business in the state of Kansas as well as to hear recommendations for improvement of the business climate. However, not all of the recommendations of the Task Force came from the suggestions of conferees. Rather, many of the recommendations were formulated through discussions of advantages and disadvantages as well as a result of open discussions with conferees. The Task Force made a conscious decision not to hear from farm organizations, permitting more time for individuals from agribusinesses.

The Task Force also heard from many members of academia, particularly from Kansas State University and from Wichita State University and the University of Kansas. After the first meeting, the Task Force requested that representatives of the State Board of Agriculture, the Kansas Department of Economic Development, and Kansas State University be present at all subsequent meetings, believing that it would be helpful for these entities to better

understand any recommendations made affecting any one of the group. These representatives were called upon numerous times to add comments or to clarify for the Task Force the role they play or have played in a particular area.

The following summarizes the comments of the participating conferees. The summaries are included in this report in an effort to give the reader as much background as possible to the recommendations of the Task Force made to the Economic Development Commission.

Dr. Walt Woods, Kansas State University. Dr. Woods presented testimony concerning the Kansas Agricultural Experiment Station. He reviewed sources of funding for the average agricultural experiment station. He pointed out that research is heavily influenced by input from individual Kansans. He discussed adding value of certain Kansas agricultural products such as flour and red meat. He said that the success of diversification and value-added programs may require developing new technology and extending technology to producers and businesses. He asked for additional funds for the Agricultural Experiment Station for operation and maintenance.

Eldon Fastrup, State Board of Agriculture. Mr. Fastrup reviewed the state's participation in food exhibition shows. He said that the Board's Marketing Division needs assistance in marketing analysis, both domestic and international. He favored incentives for existing business.

Further, Mr. Fastrup reviewed the current domestic marketing programs of the Division and summarized the future plans and goals of the Division. These include plans and programs to:

1. provide technical assistance to develop value-added processing and marketing strategies for distribution;
2. assist producer groups and local marketing agencies in organizing, selling, and bargaining efforts;
3. expand and enhance the "From the Land of Kansas" trademark program;
4. provide information to processors about Kansas suppliers and facilitate contacts and sales between the groups;
5. expand activities to promote value-added products through domestic shows and exhibits;
6. accumulate data to support feasibility appraisals of product processing and marketing facilities;
7. provide for preparation, printing, and distribution of high-quality buyers guides, supplier lists, and promotional materials; and
8. support assistance in securing favorable transportation rates and services.

Charles "Jamie" Schwartz, Secretary, Kansas Department of Economic Development. Mr. Schwartz said that KDED has been active in Kansas and overseas in promoting Kansas products. KDED's main focus has been to provide service to companies producing manufactured products.

Mr. Schwartz said that KDED does not promote agricultural commodities. He pointed out that KDED has opened an office in Japan and, in one case, arranged contacts for a person seeking markets and opportunities there. Other international efforts include establishing missions in China and attempts to recruit a British firm to establish a feedlot and breeding facility for hogs in Kansas.

Roy Poage, Dekalb Swine Breeders Company. Mr. Poage used a slide presentation to explain his company's swine breeding operation. Mr. Poage said that he foresees an increase in pork consumption. It was pointed out that Kansas was "number 3" in losing hog operations. He noted that the labor laws of Kansas were too liberal and have caused him legal problems. He favored input from private industry for determination of research projects.

Bernie Hansen, Flint Hills Food, Inc., Alma, Kansas. Mr. Hansen described his meat processing business to the members of the Task Force. He favored state help for existing small businesses. He mentioned problems with cities, particularly with utilities. He also said that liability insurance was a problem. He noted problems which he encountered with unemployment compensation and explained that it takes twice as long to settle unemployment claims in Kansas than in any other state.

Frank Ross, Ross Industries, Wichita, Kansas. Mr. Ross presented a point of view from an agribusiness processor for value added products. He noted that agribusiness would be helped by further research and development in:

1. grain classification standards;
2. providing safe chemicals or other methods for fertilizers, weed control, and pest control;
3. plant genetics; and
4. diversified use of farm land.

He favored deregulation of the intra-state motor carrier industry. Also, he opposed compacts entered into with other states to fix market prices for grain. Finally, he opposed using taxes or tax incentives to cause business to make otherwise uneconomic decisions.

Dr. Lowell Satterlee, Pennsylvania State University. Dr. Satterlee used a slide presentation to explain how the Nebraska Food Processing Center got started. He said that the purpose of the Center was to strengthen and expand new businesses and to improve food products. He also said the Center wanted to attract new industries and expand domestic and international markets. He told the Task Force that bankers are a vital link in the food processing industry. He said Kansas should study food processing operations as part of its deliberations.

Milton David, President of Development, Planning, and Research Associates, (DPRA), Manhattan, Kansas. Mr. David stressed the marketing aspects of agricultural products or alternative crops. He explained DPRA services and pointed out that they do policy analysis, planning and feasibility studies, financial evaluations, and market analysis in the United States and overseas. He favored establishing an interdisciplinary team from various Regents' institutions.

Wilson Hulme, Frito-Lay, Inc., Topeka, Kansas. Mr. Hulme said that Frito-Lay's experience in Kansas has been very good. He explained that the first feature they look for is a good rail system and highway access. The Corporation also looks at the work force, the quality of life in the community, and utility rates. Mr. Hulme favored the following incentives:

1. state sponsored training;
2. "One-Stop-Permitting," i.e., a centralized office to handle all environmental questions prior to design of a new plant; and
3. site improvement funding, i.e., state assistance in rural areas in funding waste water treatment facilities, water system improvements, railroad crossing, and other services.

Mr. Hulme said that the Kansas Enterprise Zone legislation was a major incentive in locating the plant in Topeka.

Dr. Al Adams, Kansas Poultry Association, Manhattan, Kansas. Dr. Adams described the Association and the advantages and disadvantages for the expansion of poultry industry in Kansas were discussed. These advantages included the availability of a high quality work force, a favorable climate, a nearness to the supply of major feed ingredients, and a lesser danger of disease due to low poultry populations. Disadvantages included the distance to major markets or population centers, lack of financing or interest of financial institutions to financing poultry operations, lack of processing facilities, and a general negative attitude toward the poultry industry.

Herman Simon and Dick Wilhelm, Gaines Foods Inc., Topeka, Kansas. Mr. Simon said Gaines located in Kansas for essentially three reasons:

1. to be close to their raw material source;
2. to be at a transportation hub with good rail and highway service; and
3. because they believed the community, the educational level, and skills and attitude of the work force they hoped to attract were compatible with their needs.

Mr. Wilhelm mentioned what he considered positive legislative actions passed by the Kansas Legislature, such as parimutuel betting, liquor-by-the-drink, and the lottery, as steps in the right direction.

Dr. Marc Johnson, Department of Agricultural Economics, Kansas State University. Dr. Johnson described the initiative undertaken in North Carolina among state government, universities, and industry with the purpose of economic development for North Carolina. He said that the Research Triangle Park Model is an example of how government, universities, and industries can work together to attract industry and enhance economic development of a region. The North Carolina example, he said should first, encourage us to explore how the strengths of separate institutions can be jointed together to achieve an environment suitable to new industry; second, the example demonstrates the success of selecting a particular type of development (research) and charting a well-defined path to achieve growth in a particular sector; and third, the example shows the importance of university resource contributions to a base for industrial development.

Dr. Jarvin Emerson, Kansas State University. Dr. Emerson presented testimony concerning various economic models. These models describe such indicators as income and employment, and serve as a basis for economic forecasting. They also help to identify business development potentials and aid in tax analysis. He recommended that high-tech development and agriculture be considered together. He also favored cooperation between universities.

Darrell Weigel, Dillons Companies, Inc.. Mr. Weigel discussed the amount of various products Dillons purchases in Kansas. He said Dillons does not use Kansas pork products due to factors such as quality and price. He noted that there were opportunities for expansion in the produce area. He said that their out-of-state transportation costs are expensive. He favored closer contact between producers and retailers. He also favored keeping up with consumer trends such as health foods, convenience foods, precooked foods, and microwavable foods.

Dr. Charles Deyoe, Director, International Grains Program, Kansas State University. Dr. Deyoe discussed the activities of the Program. The International Grains Program offers short courses in milling; the U.S. grain marketing system; feed manufacturing; mill management; and grain grading, storage, and handling. He favored additional resources in terms of equipment, additional space to conduct such training courses, and additional research to develop information that addresses specific problems such as the quality of grain.

Dr. Jim Coffman, Dean, School of Veterinary Medicine, Kansas State University. Dr. Coffman reviewed a cow herd survey conducted in northwest Kansas. The study concluded that annual costs to maintain a cow is approximately \$257. A 10 percent improvement in the calf crop would decrease the cost per calf by about \$25. This is a cash savings of \$37.50. He said that having 84 percent of calves born in the first 20 days of calving could save an additional \$31 million. These examples were cited to indicate some of the results of research moneys being spent at the Veterinary School.

Dr. Ray Coleman, International Trade Institute, Kansas State University. Dr. Coleman described various services provided by the Institute. The Institute's primary purpose is to facilitate international trade in Kansas.

Dr. Mark Lapping, Dean, School of Agriculture and Design, Kansas State University. Dr. Lapping stated that nearly one-half of rural nonfarm businesses are in trouble. He favored investment in the state's human resources. He suggested that: policymakers exercise caution in the deregulation of various industries; more television or satellite information be provided to rural areas; the state engage in planning; policymakers be more aware that the market does not always reflect the choices that really should be made; additional funds are needed to work with small resources; and Kansas needs to emphasize its favorable attributes such as the midwestern work ethic.

Dr. William Eberle, Assistant Director of Extension for Community Development, Kansas State University. Dr. Eberle discussed community economic development programs. He said that these programs are based on a "growth from within" approach to creating new economic opportunity. A cornerstone of the program is the retention and expansion of existing firms. The overall goal of the program effort is rural economic revitalization.

Dr. Jon Wefald, President, Kansas State University. Dr. Wefald advocated creating jobs within the state. He favored generating jobs in self-sustaining areas such as the food and fiber industry. He stated that Kansas has the potential of becoming the major food processing state. He recommended closer collaboration among Regents' institutions. He also suggested that Extension Service be made more applicable to outreach for small business and community development. He said that people with ideas need a forum to get started. Dr. Wefald noted that faculty salaries need to remain competitive with other states.

George Jones, Norand Corporation, Division of Pioneer Hybrids. Mr. Jones said the state should build on its strengths and organize programs to identify countries where Kansas State can attract students to form the basis of milling industry. He also suggested reviewing railroad rates as they pertain to the milling industry; organizing and conducting state-sponsored seminars; and attracting cookie and cracker industries to Kansas.

Dr. Don Kropf and Dr. Curtis Kastner, Department of Animal Science and Industry, Kansas State University. These two professors discussed the red meat research program at the University. Research in improving red meat began in the mid-1970s. The program now places its emphasis on the improvement of the marketing of red meat. Earlier work focused on the production of red meat (beef). Sharing information with the red meat industry will help solve problems such as blood spots and pork curing problems. Dr. Kastner discussed vacuum packaging in which almost all of the air is removed from the meat package. This process is intended to increase the shelf-life of red meat by three to four times. Additional work is needed in the areas of iridescence in cooked beef and with problems associated with the color in cooked fresh and frozen beef. Additional research is anticipated in chill technology and value-added red meat products.

Mr. Jack McKee, President, Key Milling, Clay Center. Mr. McKee discussed the operation of his company, including the potential impact of marketing presentations. He noted that the market for eggs exists in the northern part of the state. He favored increasing the production base of eggs. He also said that there appears to be the opportunity for about 100 to 150 farm families to participate in the increased production of eggs.



Dennis Baker, Extension Advisory Council, Kansas State University, Anthony, Kansas. Mr. Baker traced the advancement of agriculture with education, industry, and other key components. He said that the Extension needs a new image. He advocated more work in urban areas; more funding at the state level; efficiencies and establishment of priorities; and weeding out unnecessary personnel.

Don Morrisson, Manager, By-Products Trading, Krohn and Company, New York, New York. Mr. Morrisson suggested the possibility of creating a free trade zone. He said that there needs to be more work done with a new kind of alfalfa that retains its color and nutritional value when sun dried. Finally, he added that the educational system in the state was as good as any in the nation.

Gary Gilbert, Gilbert Grain, Clay Center, Kansas. Mr. Gilbert reviewed the fundamentals of grain cleaning and the implication of quality enhancement and value-added. Mr. Gilbert favored the development of minimal grain quality standards for purposes of blending. He noted that country elevators and terminals need minimal acceptable limits at receiving.

Bill Morand, Collingwood Grain. Mr. Morand observed that the general economic growth of the nation is occurring on the coasts. He indicated a need to research any new ideas for economic growth before they are actually started. He illustrated this by the study his firm had done on beginning a new oil seed processing facility. He suggested that the state develop an enthusiasm for growth industries and new idea development. Also, he cautioned that the state should not get carried away with the thought of capturing a larger than reasonable share of any one market. Mr. Morand indicated that there was no easy cure for these times. In conclusion, Mr. Morand said whatever we do it has to be marketed and managed well.

Dr. Fran Jabara, Wichita State University. Dr. Jabara expressed concerns with the following: (1) the U.S. is no longer the technological leader of the world; (2) U.S. productivity is the lowest in all industrialized countries; (3) U.S. savings is inadequate; (4) the lack of knowledge of the private enterprise system; and (5) the lack of knowledge of profit. Dr. Jabara indicated that more research priorities needed to be put in the area of alternative crops, although he did acknowledge that work needs to continue on traditional crops as well.

Kris Roberts, Deutsch Treat, Inc. Mr. Roberts suggested the following items that the state could participate in and be helpful to the company: (1) shelf life testing; (2) product analysis breakdown; (3) market research; (4) securing additional capital; (5) information on additional government programs that could be beneficial to them; and (6) how promotion might be accomplished for a Kansas food product.

Derek Park, PMS Foods, Inc. Mr. Park cited two priorities on which the state could work: (1) state facilitated programs that would result in low-interest financing; and (2) the negative perception of the quality of life in Kansas (which results in making it difficult to hire quality talent from out of state). Mr. Park also indicated that the utility rates in Wichita and Kansas City were a disadvantage in doing business in those areas.

Jack Reeve, Reeve Cattle Company. Mr. Reeve discussed the advantages of having an ethanol facility in conjunction with his feedlot near Garden City. Mr. Reeve suggested that Kansas needs new uses for agricultural products and a long-term federal agricultural program. Mr. Reeve also explained the research being conducted at the University of Illinois that has shown that the burning of ethanol with high sulfur coal precipitates most of the sulfur out, thus reducing pollution.

Sam Brownback, Secretary, Kansas State Board of Agriculture. Mr. Brownback proposed a new program similar to the FACTS program that would reach out to communities and businesses for economic development. The program would be headed by a Director of Rural Initiatives. Potentially, there could also be established a Policy Issue Analysis section. Mr. Brownback outlined the following concerns and objectives:

1. need for coordination/consolidation of activities associated with economic development;
2. need for provision of assistance to financially-distressed rural communities and agribusinesses at a similar intensity as provided to farmers through FACTS;
3. need to build on what Kansas has for the future;
4. need the ability to analytically assess the status of rural Kansas and agriculture; and
5. need to provide concerted effort toward issue identification and service delivery.

Charles Kuenzi and Jim Sheik, Bern Extrusion, Inc. Mr. Kuenzi and Mr. Sheik discussed the dog food enterprise they are both associated with in Bern. Their two primary suggestions were to enhance the highway to Bern from Highway 75 and to help other communities in seeking information about securing financing to build new industries. They also indicated that Nebraska was much more helpful in providing this kind of information.

Mr. Kuenzi indicated that without the local bank's cooperation, this facility would never have been built. Mr. Sheik pointed out that this is the primary reason locally-owned banks are important to have in Kansas.

Gerald Lasater, Midwest Grain Products, Inc.. Mr. Lasater, after describing for the Task Force the products and processing of his firm, indicated two factors that make the business possible and profitable: (1) research; and (2) sales and service. He said that the research done at Kansas State University has been of great help to Midwest Grain Products. He also said food shows are important in that they get the Company's products before the right people. Mr. Lasater also suggested there was a role for proprietary research to be done at state universities.

Dr. Abner Womack, University of Missouri. Dr. Womack suggested that it was necessary for the state of Kansas to be able to model its farm economy so it can make reasonable policy choices on the state level. Dr. Womack continued by explaining the implications for agriculture for the future.

## RECOMMENDATIONS

The Economic Development Task Force on Agriculture wishes to express to the Economic Development Commission the commitment it has for the continued economic development of the agricultural base of the state.

Time and time again, those appearing before the Task Force expressed the need to develop those aspects where Kansas has a comparative advantage. This, most assuredly, is in the area of agriculture. It is clear that the approaches to economic development in Kansas must be uniquely suited to our state in order for it to maintain those comparative advantages.

Even though much of the economic development discussion on the state level has not dealt specifically with agriculture, the Task Force believes it is necessary to bring this aspect to the forefront of the state's initiatives. The members of the Task Force recognize the many and beneficial initiatives that the state has undertaken to foster economic development. The Task Force believes that the state can be a catalyst in economic development, but that private enterprise will remain as the major ingredient for successful economic development. However, the Task Force believes that little attempt has been made to date to specifically address the role of the state with businesses and industries related to agriculture, including food processing. This lack of attention has been demonstrated by both the Legislature and its economic development consultants.

As a result of this lack of previous focus, the Task Force on Agriculture had a most difficult task, since it has no base from which to begin, nor a professional economic development consultant with any special expertise in agricultural economic development.

Even with these points aforementioned, the Task Force on Agriculture has developed a priority list of initiatives which it believes, if acted upon, will enhance economic development of the state's most important industry -- agriculture.

The Task Force heard from dozens of conferees and considered over two hundred recommendations given to it during its deliberations. Obviously, some of these recommendations have a cost associated with them. Others may be implemented with little or no cost.

With the tremendous number of recommendations given to it, the Task Force had to prioritize those it thought to be most important. The following outlines those recommendations which the Task Force on Agriculture wishes the Commission to recommend for legislative action. Following the major recommendations is a discussion of the secondary recommendations which the Task Force makes for further consideration at some time in the future. The Task Force also wishes to make it clear to the Commission that not all of the needs for encouraging economic development in agriculture are contained in its priority list and that if economic development initiatives continue to be considered that those individuals concerned with agriculture be given the opportunity to continue to search for appropriate facilitators of agricultural economic development.

The Task Force believes that Kansas' strength is in agriculture. This resource will continue to exist as long as it is properly managed. As long as the state is as strong as it is in agriculture, jobs should be created through industries which coordinate and work in tandem with agriculture. The most obvious of these are additional jobs in the food and fiber industries. These will be self-sustaining because of the consistency of our agricultural base to produce.

Therefore, the Task Force believes that agriculture can serve as the base for growth. However, there is a need to examine marketing, processing, and alternative crops that generate jobs of a self-sustaining nature in the food and fiber industries.

Simultaneous to work being done on alternative crops, producers must be assured that there are markets and ultimately processing facilities for the alternative crops grown. Continued efforts need to take place for marketing and processing of the state's major crops such as wheat and beef, while at the same time developing alternative crops.

#### Food Processing

1. Food processing endeavors should be our first priority. These are the enterprises that can multiply those local agricultural dollars to the benefit of the whole state.

The Legislature must direct additional funding into food processing research at its state universities. This research must have the ability to be applied by Kansas businesses. Developing the technology and having the results applied in another state or nation will not broaden the economic base in Kansas. These operations would apply to any agricultural business and not just food processing.

- a. A Nebraska food processing center continues to be successful. Perhaps Kansas can learn from the Nebraska Food Processing Center and should consider the adoption of some version for itself.

The state of Kansas should consider the establishment of a food processing center. This could be established with the use of seed money from economic development money or the use of State General Fund moneys. The center could be given direction and focus through legislation. The Task Force also learned Oklahoma was developing such a center and believes whatever Kansas establishes should be complementary to these two centers and not duplicative.

- b. Kansas needs to identify food processors and whether or not they need research and development work done for them. Once these food processors are identified by the Marketing Division of the Kansas State Board of Agriculture, it should encourage all the food processors of the state to develop a new association similar to the Nebraska Food Industry Association.

In terms of priority order, the Legislature must first fund a study to determine who and where the food processors are in this state. No effort will be successful unless the state knows the location and business endeavors of each of its food processing businesses. Once these businesses are located then contact can be made and research and development work can begin with their operation in mind. Once identification takes place then an association can be organized to help direct research at its universities. After this the state should consider funding a food processing center. The cost to begin these endeavors is estimated to be \$22,000.

- c. The cookie and cracker industries are examples of industries which need to be encouraged in the state. There is a need to contact more industry people about the possibilities in Kansas.

The Task Force recognizes that one possible segment of the food industry that Kansas might have a competitive advantage is that of the cookie and cracker industries. The Task Force recommends that the Marketing Division of the State Board of Agriculture study this feasibility and begin communications with these industries.

### Research

2. Research emphasis is needed in the areas of: (a) Diversification of Agriculture; (b) Value Added Research; and (c) Technical Assistance and Market Development in Extension.

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

Research to provide answers to voids in technology must be funded. The purpose of the research would be to provide information that an economic

analysis team requires, and to provide data required to determine the competitive potential for new enterprises in the Kansas agricultural economy. Grant applications would be solicited throughout the Kansas Agricultural Experiment Station. One example of the type of research needed is that which would benefit the productive capabilities of the Kansas cowherds and feedlot cattle. However, to do this, enhanced funding at the Veterinary School at Kansas State would be necessary.

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

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

The Task Force recommends \$1 million to fund these three research areas.

- a. Kansas must monitor consumer trends such as those in health foods, convenience foods, precooked foods, and microwavable foods.

The Task Force recommends that consumer trends and preferences should be an important aspect of any food processing research. This recommendation fits well into the general recommendation that research not only include production agriculture, but marketing and processing as well. It also fits well into the recommendation of additional food processing (value-added processing) research. If consumers do not accept the product, then it cannot be marketed. Research funds to determine consumer preferences and trends should be continued and expanded, as well as accessing available information from other sources.

For example, research for consumer needs or desires may include the following:

- a. research on shelf life testing for products;
- b. research on exact product analysis in terms of percentages of protein, calories, and fats, etc.; and

- c. market research which may include a systematic review of competition, a taste test and questionnaire to a targeted audience.

These specific recommendations were offered by a representative from a small food processing firm as some of the research in which their firm could use assistance. The Task Force recommends that a mechanism be developed to aid smaller firms such as this one in conducting specific research for consumer interests.

- b. Kansas businesses and individuals need better market analysis research done by its state universities.

One of the goals of officials of the universities should be to enhance the cooperative effort between them and the businessmen of the state. With a more cooperative effort taking place, perhaps more market analysis of products being produced and market analysis of new products will help make businesses that lack expertise in this area more economically viable. The Legislature should consider funding of market analysis research for Kansas agribusinesses that lack the means to do the research in-house.

### Marketing

3. Kansas needs to modify market development programs from a general approach to one targeted to changing conditions and individual market opportunities. Specifically, the Task Force recommends enhancement of marketing efforts in the following areas:
  - a. Provide technical assistance to develop value added processing and marketing strategies for distribution.
  - b. Assist producer groups and local marketing agencies in organizing, selling, and bargaining efforts.
  - c. Accumulate data to support feasibility appraisals of product processing and marketing facilities.
  - d. Support assistance in securing favorable transportation rates and services.
  - e. Sponsorship of Kansas booths or displays at prominent food industry shows (i.e., National Food Processors Show, National Packaging Show), or have a food processors show of its own.
  - f. Kansas needs to work more with foreign purchasers on better adjusting our products for their use.

The Task Force recommends that market analysis needs to be conducted so that marketing efforts can be more specific. Additional resources may be

necessary to conduct the market analysis as well as to enhance the overall efforts of the state in marketing its agricultural or value-added agricultural products. Obviously, a part of this market analysis is an awareness of consumer tastes, preference, and trends.

The Task Force recommends that preferences of products destined for export be determined from foreign purchasers. Whether or not the state of Kansas can adjust the product is less important than knowing exactly what foreign purchasers prefer to see in their purchases.

The Task Force recommends that the above listed services be added to the responsibilities of the Marketing Division of the Kansas State Board of Agriculture. The Task Force believes these additional services will have a positive impact upon the marketing efforts of the state. The cost of implementing a, b, c, and d will be approximately \$80,000.

Several conferees noted to the Task Force the importance of attending and participating in food industry shows. The state may have a sufficient track record in these efforts to begin a system whereby participants should bear a portion of the cost. The Task Force recommends that efforts be made to pay a portion of the costs from Kansas food show participants. The Task Force suggests a modest fee and a percent of any subsequent sale resulting from the food show.

The Task Force agreed that it is critical that there be one agency in charge of the state's agricultural marketing efforts, and concluded that agricultural marketing efforts should be coordinated by the Marketing Division of the State Board of Agriculture.

#### Rural Initiatives

4. The Task Force recommends that the Legislature establish a Division of Rural Initiatives within the Board of Agriculture. As a part of the Division there needs to be established a section on Rural Development within the Division. The Farmers Assistance Counseling and Training Program (FACTS) program would then become a part of the Division of Rural Initiatives.

The Task Force believes that a Division of Rural Initiatives is worthy of consideration by the Legislature. The Division would contain the current FACTS program and the Rural Development section. The Rural Development section would provide services, assistance, and information directly to rural communities. The section on rural development would be created to provide for rural communities the same type of assistance available by FACTS to farmers. This function would establish a single point of contact for rural communities seeking assistance in economic stabilization, growth, and quality of life preservation.

It was suggested to the Task Force that the Division be staffed by eight FTE positions and funded through State General Revenue appropriations. The positions necessary for implementation of this program include: (1) Rural Development Program Director; Planner; Research Analyst; (2) Special



Project/Field Specialists; and (3) clerical personnel. The rural development program would be able to provide a wide array of services to rural communities. Such services include direct assistance or referral in the areas of: (a) administrative/fiscal management; (b) additional/alternative resources of revenue; (c) provision for human needs; (d) expansion of economy (i.e., cottage industry); (e) jobs creation/enhancement; and (f) community awareness/involvement. Total cost for establishing the Division and creating the Rural Development section under the above outline would be approximately \$430,000.

Much of this assistance would be provided through referral to other provider entities -- private, state, or federal. However, once assistance is requested by a rural community, the entire realm of available assistance will be reviewed and progress of delivery will be maintained and facilitated. In most cases, the assistance to the communities will be conducted on a personal basis within the community. Infusion of new ideas and cross-application of community successes will be the cornerstone upon which the program will operate.

### Management

5. Successful rural economic development will require the merger of the resources and talents of public agencies and institutions working closely with local governments and the private sector. Additional resources may be needed to work with existing small businesses in rural Kansas.

The Economic Development Task Force on Agriculture strongly endorses the concept that there needs to be a revamping of organizational structure so that business, industry, academic, community leaders, and state agencies all have a voice in rural economic development. The Task Force recognizes this problem, but has had difficulty in determining the recommendation or recommendations to accomplish the goal. The Task Force believes that the agricultural sector could set the example by broadening its scope, particularly through the Extension Service to more effectively address the needs of all of rural Kansas which includes agriculture. The Task Force also believes that Kansas State University can be the example for cooperative efforts between various sectors of academia. This effort needs to be demonstrated between the various disciplines within the University.

The Task Force recommends that the Cooperative Extension Service through its offices in each rural county identify the small businesses existing in that county. Concurrently, the Task Force recommends that the Cooperative Extension Service develop a continuing education seminar on the various services that the state and others can provide to small businesses which all county extension personnel would be required to attend. Subsequent to the identification of small businesses and orientation of personnel, seminars could begin at the county level.

The Task Force urges that the Small Business Development Centers work with the Cooperative Extension Service.

The Task Force most importantly recommends that the Legislature clearly place responsibility and authority through appropriations and other legislation when mandating the management of the resources and talents of public agencies working among themselves with local units of government and with the private sector. It also charges the Governor to maintain interagency discipline for responsibility, authority, and cooperation among state agencies in carrying out legislative mandates.

- a. The Governor should establish an interdisciplinary team from the Regents' institutions and use the state's financial resources to force cooperation among the Regents' institutions.

This interdisciplinary team would evaluate the future of agriculture in Kansas. In order to reach the goals that may be established, a list of needs will result. Some of these are already known, more will emerge over time. It is important that the agricultural research needs be jointly worked on by various individuals particularly when expertise exists at another Regents' institution. Legislation should be introduced to require the Regents' institutions to formulate a review of ongoing research to determine which resources from which institution might work on the identified research. The interdisciplinary team should also have the benefit of the input of private industry into the proper research.

During the hearings of the Economic Development Task Force on Agriculture, several conferees commented on the lack of cooperation of expertise in a particular area among the Regents' institutions. The Task Force has not determined a specific means by which joint efforts of Regents' institutions can be fostered. One recommendation the Task Force does see as a possibility is to use financial resources to foster these cooperative efforts. The Task Force recommends legislation be introduced to study the possible means to force more cooperative efforts among Regents' institutions.

- b. There is a need for a coordinated effort to provide more information to rural areas through satellite capabilities and other electronic media.

The federal government recently provided Kansas State University \$6 million over the next two years to develop satellite up-link capabilities. The Legislature should closely examine this program to determine what cost savings could be realized, if any, from this new federal money. If state money is relieved then this might be used for additional economic development in rural areas.

#### Corporate Farming

6. Kansas needs to amend its corporate farming law to allow confined swine and poultry facilities to purchase agricultural land.

In 1983, a bill was introduced to expand the Kansas Corporate Farming Law by permitting a corporation to own or lease agricultural land for the purpose of operating a swine confinement facility. This bill did not receive legislative approval. The bill was introduced in the expectation that its approval would attract more hog numbers to the state. Since 1980, hog numbers in Kansas have declined by 32 percent and the number of hog operations have declined by 42 percent. The Task Force heard testimony that Kansas is ideally located for pork production, the result of which should be the fostering of hog processing facilities. This needs to be expanded to apply to the poultry industry as well. Legislation should be introduced to exempt corporately-owned swine confinement and poultry facilities from the prohibition of owning or leasing agricultural land.

### SECONDARY RECOMMENDATIONS

The secondary recommendations of the Task Force on Agriculture are discussed below. The Task Force mentions these for topics of future consideration. These recommendations are not in order of priority.

First, the Task Force believes that a close working relationship needs to be established between the financing industry and the agriculturally-related value-added processing industry. This is essential because the final and most important link for the success of any small business is acquiring its financing. Several conferees mentioned that perhaps individuals in lending institutions were not familiar with the food processing industry or with certain types of agricultural enterprises that are not prominent in Kansas.

Secondly, the Task Force believes that economic development issues for agriculture also include rural support services. Production agriculture is only one aspect of the total need for rural areas. Certain businesses, such as suppliers and transporters, are somewhat dependent upon production agriculture. However, all of these rural enterprises have a need for rural support services such as roads, railroads, schools, and hospitals.

Third, the Task Force recommends that efforts be made between the Legislature, the universities, industry, state agencies, and others that may have an interest to chart a course when planning for the future of rural Kansas. The planning efforts should include specific goals and the identification of specific problems that the various segments of state government can work on in a cooperative manner.

Fourth, the potential economic possibilities of ethanol should be monitored to determine if enhancement of production could be beneficial to the state. The reason for this continuing interest in ethanol comes from the large amount of grain produced in the state and the large numbers of cattle on feed. The Task Force does not advocate tax breaks for ethanol; however, it does recommend consideration of continued research on its economic viability. In addition, the Task Force heard that research is being conducted on the burning of ethanol with high sulfur coal. In the University of Illinois laboratories, this combination when burned together significantly reduced the pollution that occurs when burning only high sulfur coal. If additional research is needed,

perhaps Kansas could become involved in some portion of the required research since it has a significant amount of high sulfur coal deposits.

Fifth, Kansas should promote and expand the International Grains Program (IGP) and the regulation of the Grain Science Department at Kansas State University. The International Grains Program has been formally operated since 1978. During that time, hundreds of individuals from numerous foreign countries have taken short courses through IGP. The Task Force believes Kansas should have an organized program to identify countries where KSU can attract students to form the basis of milling industries in foreign countries. The Legislature should require IGP to identify those countries with the most potential for future grain sales and offer students from those countries additional opportunities through IGP. At the same time, the Task Force believes individuals should promote the selling of U.S. flour instead of the coarse grain so that more value can be added before it leaves Kansas and the United States.

Sixth, the Task Force on Agriculture believes the Legislature should examine the possibility of creating an "Applied Research Center" or a "Biotechnology Center," where there would be an opportunity for an interdisciplinary combination of expertise in the latest technologies as they may be applied to agriculture.

The Economic Development Task Force on Agriculture heard from several conferees that were interested in an interdisciplinary approach to the problems of agriculture and agribusiness. This approach not only involves the production aspects of a particular commodity, but simultaneously developing a market and processing opportunities for its final use. Thus, the need for an interdisciplinary approach to agriculture. The Kansas Legislature should pass legislation which creates an Applied Research Center where an interdisciplinary approach would be required to be taken to various agricultural problems. This Center could be located on the campus of Kansas State University, with the capability of using expertise from business, architecture, engineering, or human ecology, as well as agriculture.

Seventh, the Task Force believes that the state needs to continue high technology developments that are food and agriculturally related. As part of this, the Task Force believes that there is a need to formulate an agricultural research and development strategy. Agricultural research must be done with production, marketing, and processing being simultaneously considered. Alternative crop research cannot be only production oriented. It must consider marketing and processing in order to be worthwhile research. In fact, more resources may need to be expended on marketing and processing than on production research and development.

Also, the Task Force believes there is a need to review how proprietary research is conducted for smaller businesses at Regents' institutions. The Task Force recommends that the Legislature study the guidelines used by the Regents' institutions for the decision to conduct proprietary research. In its review of the guidelines, the Task Force recommends that the needs of small, newly-formed businesses in Kansas be given some sort of priority.

Lastly, the Task Force recommends that the state do as much as it can in addressing the problems of railroad rates through the Interstate Commerce Commission. The Task Force heard that changes in railroad rates have made it

more economical to ship wheat that has not been processed. The Legislature should determine how these rates have effected the economic advantage or disadvantage to milling wheat in Kansas and attempt to make it an advantage to mill wheat in Kansas.

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# APPENDIX I

## JULY 31 AND AUGUST 1 MEETING

Dr. Charles Krider, University of Kansas

<u>Advantages</u>	<u>Disadvantages</u>	<u>Recommendations</u>
1. An educated work force.		1. Do not resist the general economic trends.
2. A favorable work ethic.		2. Do not emphasize recruiting out-of-state businesses.
3. Reasonable energy costs.		3. Do not emphasize "tax break" strategies they do not work in business location decisions.
4. Reasonable wages.		4. Encourage entrepreneurs to expand existing firms and develop new firms.
5. Productive workers.		5. Invest in the state infrastructure.
6. A favorable tax structure.		6. Emphasize business with an agricultural base.
7. A good transportation system.		7. Concentrate on producing smaller, lighter, and higher valued products.

Eldon Fastrup, Division of Marketing, State Board of Agriculture

1. The Marketing Division has been nationally recognized for its leadership in developing export markets.	1. The Division does not have the expertise in production economics, agronomics, or processing feasibility.	1. Need to modify market development programs from a general approach to one targeted to changing conditions and individual market opportunities.
		2. Kansas businesses and individuals need better market analysis research done by Kansas State University.

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Advantages

2. An active international marketing program.
3. Kansas has valuable product information and specific contact sources for Kansas organizations and companies interested in the export market.
4. PRIDE OF KANSAS domestic marketing program promotes Kansas farm products. Also has sponsored National Agriculture Day.
5. FROM THE LAND OF KANSAS trademark program continues to grow.
6. Kansas is developing an aggressive marketing plan to promote strawberries.
7. Kansas has a program to promote wheat foods.
8. Kansas has a good market service program to identify potential marketing projects and targets.
9. Kansas' Corn, Grain, and Sorghum Commissions actively promote these products.

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Disadvantages

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Recommendations

Dr. Walt Woods and Dr. Kurt Feltner, Kansas State University

<u>Advantages</u>	<u>Disadvantages</u>	<u>Recommendations</u>
1. Kansas is recognized as having the agricultural base necessary for adding value and diversification.		1. Work more with foreign purchasers on better adjusting our products for their use. 2. A partnership concept of strong university and industry cooperation must be encouraged and developed. 3. Increased funding for the Agricultural Experiment Stations is needed especially in operating and maintenance funds. 4. The system in place at Kansas State University as represented by the Agricultural Experiment Station and the Cooperative Extension Service should be accessed when questions are related to agriculture. 5. The Agricultural Experiment Station and the Cooperative Extension Service should be identified for leadership roles in future initiatives where research and technology transfer are related to agriculture. 6. The Agricultural Experiment Station and the Cooperative Extension Service should maintain its policy of seeking advisory committee and lay leader input as an excellent method for helping to establish future direction for agricultural research programs.

Charles "Jamie" Schwartz, Kansas Department of Economic Development

1. KDED promotes Kansas products in Kansas and overseas.	1. Do not promote agricultural products enough.	1. Continue to expand market development activities with a new International Trade Division (Trade Development Division).
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Roy Poage, DeKalb, Swine Breeder Company

<u>Advantages</u>	<u>Disadvantages</u>	<u>Recommendations</u>
1. Mr. Poage foresees an increase in pork consumption.	1. Kansas is losing its number of hog operations.	1. Favors input from private industry for determination of research projects.
2. Workers tend to "grow" to like Kansas.		2. Expand Kansas corporate farming law.

AUGUST 25 AND 26 MEETING

Bernie Hansen, Flint Hills Food, Inc., Alma, Kansas

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| 1. Small businesses often cite problems with utilities as a major concern. | 1. Expand information services to processors of the state through the Extension Service. |
| 2. Liability insurance costs are a problem.                                |  |
| 3. Problems have been encountered with worker's compensation claims.       |  |

Frank Ross, Ross Industries, Wichita, Kansas

Advantages

1. Agricultural research has been well directed.

Disadvantages

1. The predominance of wheat and beef limits the state's ability to cope with cyclical swings in supply and demand.

Recommendations

1. Grow smaller crops and raise fewer animals.
2. Agribusiness can be helped by further research and development in:
  - a. grain classification standards;
  - b. providing safe chemicals or other methods for fertilizers, weed control, and pest control techniques;
  - c. plant genetics; and
  - d. diversified use of Kansas farmland.
3. Deregulate the motor carrier industry.
4. State should oppose compacts entered into with other states to fix prices for grain.
5. State should oppose using taxes or tax incentives to cause business to make otherwise uneconomic decisions.

Milton David, Development, Planning and Research Associates (DPRA), Manhattan, Kansas

<u>Advantages</u>	<u>Disadvantages</u>	<u>Recommendations</u>
<ol style="list-style-type: none"><li>1. Kansas has the natural resource endowments and technical know-how to produce a number (100 at least) of other crops such as sunflower, safflower, amaranth, and vegetables, including potatoes.</li><li>2. Kansas soybean processing is highly developed within the state.</li></ol>	<ol style="list-style-type: none"><li>1. Restriction to production of alternative crops because of the lack of available market outlets.</li><li>2. Kansas wheat tends to be milled outside of the state.</li></ol>	<ol style="list-style-type: none"><li>1. State should establish an interdisciplinary team from Regents' institutions.</li><li>2. Kansas should pursue avenues that feature the state's natural competitive advantages and modify those institutional factors hindering competitive advantage.</li><li>3. Kansas must compete with other regions (leakages from region are often significant).</li><li>4. Approaches to economic development in Kansas must be different than those for national economic development.</li><li>5. Research and development efforts for alternative crops must be done with production, marketing and processing being simultaneously considered.  Interdisciplinary research is imperative.</li><li>6. Lagging sectors should be identified and possibilities of expansion in these areas examined.</li><li>7. Kansas has not followed the processing stream, for example has historically exported its hides, because it does not have a tanning industry.</li><li>8. Alternative, affordable toxic waste treatment processes or alternative production processes need to be developed for the tanning industry.</li><li>9. International marketing takes modern communications, computers and information management systems make it possible to collect and disseminate current marketing information to industry in a timely manner.</li></ol>

Mr. David (continued)

<u>Advantages</u>	<u>Disadvantages</u>	<u>Recommendations</u>
		10. Assistance to local firms to overcome language, culture, and customs problems. This includes salesmanship.
		11. Formulate an agricultural research and development strategy.
		12. Interdisciplinary university communication must improve.
		13. Marketing and processing information needs to be disseminated better.

Wilson Huime, Frito-Lay, Inc., Topeka, Kansas

1. Good rail and highway system.		1. State should establish a state-sponsored training program.
2. Good work force.		2. State should establish a "one-stop-permitting" system, whereby one office handles all environmental questions prior to the design of a new plant.
3. State has a good quality of life.		
4. Reasonable utility rates.		
5. Kansas Enterprise Zone legislation is a major incentive in location decision.		3. State should engage in site improvement funding whereby the state provides assistance in rural areas in funding waste water treatment facilities, water system improvement, railroad crossings.

Dr. Al Adams, Kansas Poultry Association, Manhattan, Kansas

<u>Advantages</u>	<u>Disadvantages</u>	<u>Recommendations</u>
1. High quality of work force.	1. Distance of major markets or population centers.	
2. A favorable climate.	2. Lack of financing or interest of financial institutions in financing poultry operations.	
3. Nearness to the supply of major feed ingredients.	3. Lack of processing facilities.	
4. A lesser danger of disease due to low poultry population.	4. A general negative attitude toward the poultry industry.	

Herman Simon/Dick Wilhelm, Gaines Food, Inc., Topeka, Kansas

1. Close to raw material source.		1. State should influence through its Congressmen a merger between Santa Fe and Southern Pacific.
2. Near a transportation hub with good rail and highway service.		2. Positive national television coverage of events in Kansas. Developing events of national caliber such as a golf tournament, an event at one of the reservoirs/lakes, etc.
3. Community, educational levels, and attitude of work force are compatible with business needs.		3. Signs along interstate highways advertising our state parks, lakes, and Kansas industry.
4. Legislative action on parimutuel betting, liquor-by-the drink, lottery.		

Mr. Simon (continued)

<u>Advantages</u>	<u>Disadvantages</u>	<u>Recommendations</u>
		<ol style="list-style-type: none"><li>4. Signs or an explanation on the toll ticket describing why there is a toll on interstate highways (I-35, I-70). Use the toll ticket for advertising Kansas.</li><li>5. Maintain major airline service to major Kansas cities.</li><li>6. Support a strong educational system</li><li>7. Tax incentives, enterprise zone concepts, etc., should be continued.</li><li>8. Assure fair treatment of business and industrial energy costs by the State Corporation Commission.</li><li>9. Continue support of state parks, historic sites, Fish and Game Commission, museums, etc.</li><li>10. Assure that regulations, taxes, etc., for people transferring into Kansas are competitive with other states. The procedures to register out-of-state cars, obtaining teaching licenses, etc., should be reviewed to encourage and support people moving to Kansas.</li><li>11. Convention centers and/or the proposed Clinton Lake resort would help draw people into Kansas and provide good exposure.</li><li>12. Technology courses, lectures, short (2-3 day) seminars through the state universities could also help provide exposure.</li><li>13. Sponsor a Kansas booth display at prominent food industry shows (i.e., National Food Processors Show, National Packaging Show, etc.), or have a food/processors show of its own.</li></ol>

Dr. Lowell Satterlee, Pennsylvania State University

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Advantages

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Disadvantages

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Recommendations

1. Ship out too much raw agricultural commodities.

1. Nebraska food processing center is successful. Perhaps Kansas can learn from the Nebraska Center and could adopt some version for ourselves.
2. Business and academia should work together more closely.
3. Kansas should promote and expand the International Grains Program and the reputation of the Grain Science Department at Kansas State University.
4. More cooperation should exist between universities, Governor's Office, and Legislature.
5. Identify food processors and whether or not they need research and development work done for them.
6. A close working relationship with the financing industry needs to be established because it is the final and most important link for the success of small business.
7. Marketing Division of the Kansas State Board of Agriculture should pull together all the food processors of the state to develop a new association similar to the Nebraska Food Industry Association.

SEPTEMBER 25-26 MEETING

Dr. Marc Johnson, Head, Agricultural Economics Department, Kansas State University

Advantages

Disadvantages

Recommendations

1. Strengths of state's institutions should be melded to achieve a dynamic environment attractive to new industry.
2. The state needs to select a particular type of development (research) and chart a well-defined path to achieve growth in a particular sector.
3. The example of North Carolina shows the importance of university resources contributions to a base for industrial development.
4. Biotechnology Center is a possible area of focus.
5. Agriculture can serve as the base for growth. However, there is a need to look at marketing, processing, and alternative crops. Should not look at wheat and beef alone.
6. The Task Force could encourage universities to work together for economic development.

Dr. Jarvin Emerson, Kansas State University

1. Current study will show areas for potential development opportunities.

1. Ability to cooperate with Kansas University has deteriorated over the last six months.

1. Determine if there are links in additional value-added processing or if the industry is mature and additional linkages are not possible.
2. Pursue high technology development that are food and agriculturally related.
3. Use financial resources to force cooperation between universities.



Darrell Weigel and Leroy Weber, Dillons Companies, Inc.

<u>Advantages</u>	<u>Disadvantages</u>	<u>Recommendations</u>
<ol style="list-style-type: none"><li>1. Dillons promotes Kansas products such as bakery flour, bread flour, milk, popcorn, bird seed, eggs, pet food, beef, salt, and plant flowers.</li><li>2. Kansas is closer to many of their stores and transportation costs would be more reasonable.</li></ol>	<ol style="list-style-type: none"><li>1. Dillons does not use Kansas pork products due to such factors as quality, price, and supply.</li><li>2. Volume of lamb is not sufficient in Kansas to meet demand in Dillon's stores.</li></ol>	<ol style="list-style-type: none"><li>1. Favors closer contact between producers and retailers.</li><li>2. Advocates monitoring consumer trends such as health foods, convenience foods, precooked foods, and microwavable foods.</li><li>3. Contact with universities has beneficial aspects.</li></ol>

Dr. Charles Deyoe, Director, International Grains Program, Kansas State University

1. The International Grain Program offers short courses in milling, U.S. grain marketing systems, feed manufacturing, mill management, grain grading, storage, and handling.
  2. Potential for matching support from the federal government through the language in the 1985 Farm Bill.
1. Favors additional resources for the following:
    - a. fellowships;
    - b. additional faculty participation in IGP;
    - c. new equipment;
    - d. research develop information addressing specific issues (i.e., quality of grain); and
    - e. space needs for IGP.

Dr. Ray Coleman, International Trade Institute, Kansas State University

<u>Advantages</u>	<u>Disadvantages</u>	<u>Recommendations</u>
<p>1. The ITI maintains an ongoing database on Kansas firms participating in international businesses, including those involved in export, import, services, manufacturing overseas, and other international activities.</p>		<p>1. Differentiation of products originating in Kansas:</p> <ul style="list-style-type: none"><li>a. through commodity differentiation, research, and development; and</li><li>b. through processing/value-added and marketing.</li></ul> <p>2. Assessment of value-added chain and ways to increase links in state:</p> <ul style="list-style-type: none"><li>a. retention of commodity processing in state; and</li><li>b. import of complementary components when advantageous.</li></ul> <p>3. Benefit segmentation for foreign investors:</p> <ul style="list-style-type: none"><li>a. identification of factors sought by foreign companies investing in the U.S.; and</li><li>b. targeting of specific foreign countries/companies as potential investors in Kansas.</li></ul> <p>4. Implementation of this strategy requires identification of value-added in the state and currently created out of state for components originating in Kansas. Subject to sufficient research personnel, this research could naturally be conducted within the International Trade Institute.</p>

Dr. Jim Coffman, Dean, School of Veterinary Medicine, Kansas State University

<u>Advantages</u>	<u>Disadvantages</u>	<u>Recommendations</u>
1. Current data has revealed that research work at the Veterinary School and Animal Science Department has increased efficiencies for cow herds and feedlots in the state.		1. The state should emphasize those areas that have the most economic benefit (need to identify high priority areas). 2. The state must have a tracking system to determine what economic gain was realized for the expenditure that was made.

Dr. Mark Lapping, Dean, School of Architecture and Design, Kansas State University

1. Small rural businesses create jobs essential to rural incomes.	1. Nearly one-half of rural nonfarm businesses are in financial trouble, probably as a result of the down-turn in agriculture and oil and gas.	1. Economic development issues for agriculture should also include rural support services, such as suppliers and transporters. 2. Fundamentally the best investments are in human resources. 3. Deregulation of industries is not always in the best interests of rural Kansans. 4. Understand what investments need to be made in hospitals and schools. 5. More satellite and TV information to rural areas. 6. Need to remove fear of planning; need to have more technical planning. 7. The market does not always reflect the choice that really should be made.
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Dr. Lapping (continued)

<u>Advantages</u>	<u>Disadvantages</u>	<u>Recommendations</u>
		<ol style="list-style-type: none"><li>8. Resources are needed to work with existing small businesses in rural Kansas.</li><li>9. Need to promote Kansas and the midwestern work ethic.</li></ol>

Dr. Jon Wefald, President, Kansas State University

<u>Advantages</u>	<u>Disadvantages</u>	<u>Recommendations</u>
<ol style="list-style-type: none"><li>1. Kansas can be the major food processing state in the Union.</li></ol>	<ol style="list-style-type: none"><li>1. Faculty salaries.</li></ol>	<ol style="list-style-type: none"><li>1. Need to generate jobs of self-sustaining nature in food and fiber industry.</li><li>2. Suggested that universities work closely with industry.</li><li>3. Regents' institutions need to collaborate efforts more closely.</li><li>4. Examine the possibility of using the Extension Service as an outreach to small businesses and community development.</li><li>5. Examine the possibility of creating an "Applied Research Center" where there is an interdisciplinary combination of experts available in the areas of agriculture, business, architecture, human ecology, and others.</li><li>6. Food processing endeavors should be our first priority.</li></ol>

Mr. George Jones, Norand Corporation, A Division of Pioneer Hybrids

<u>Advantages</u>	<u>Disadvantages</u>	<u>Recommendations</u>
1. Kansas has been able to attract the American Institute of Baking to Manhattan.	1. Some states are trying to take over teaching and research of milling.	1. Talk to merchandisers of grain about the possibilities of making Kansas more competitive. 2. Kansas should trade on its strengths. 3. Kansas should have an organized program to identify countries where K-State can attract students to form the basis of the milling industry. 4. Need to address the problems of railroad rates through the Interstate Commerce Commission, which has resulted in Kansas losing some of the milling industry. 5. Need to have state-sponsored milling and baking seminars. 6. Kansas needs to attempt to attract the cookie and cracker industries to Kansas. There is a need to contact more of these industry people about the possibilities in Kansas.

Dr. Don Kropf and Dr. Curtis Kastner, Department of Animal Science and Industry, Kansas State University

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| 1. Need for additional facilities at the University (now being addressed by addition and renovation). | 1. Need additional work in the following areas:<br>a. iridescence in cooked beef;<br>b. warmed-over flavor problems in beef.<br>c. restructured beef;<br>d. chill technology; and<br>e. vacuum packaging to increase shelf life. |
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Mr. Jack McKee, President, Key Milling, Clay Center

<u>Advantages</u>	<u>Disadvantages</u>	<u>Recommendations</u>
1. Kansas has plenty of grain which may have value-added to it by the production of eggs.	1. With regard to capital formation, bankers in Kansas do not understand the chicken or egg business. 2. Key Milling now brings in eggs from other states such as Wisconsin. 3. No assurance that market for eggs or need for additional laying or pullet houses will be there in the future.	1. Need to have approximately 100 laying houses with 35,000-bird capacity to fulfill demand by Key Milling. State perhaps to see that interested producers succeed in the endeavor. 2. Need to have approximately 35 pullet houses with a 40,000-chick growing capacity.

Mr. Dennis Baker, Extension Advisory Council, Anthony

1. Extension needs a new image, a new focus, and a new direction.	1. New directions for the Extension Service may include: a. more work in urban areas; b. more funding at state level; c. need for added efficiency and establishment of priorities; d. need to find and exclude unneeded personnel; and e. need for extension consolidation.
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Dr. William Eberle, Assistant Director of Extension for Community Development, Kansas State University

<u>Advantages</u>	<u>Disadvantages</u>	<u>Recommendations</u>
<p>1. It is known that there are only five real strategies for economic development. They are:</p> <ul style="list-style-type: none"><li>a. expand existing firms;</li><li>b. create new jobs;</li><li>c. bring in outside firms;</li><li>d. improve local linkages; and</li><li>e. capture outside dollars.</li></ul>	<ul style="list-style-type: none"><li>1. Long-term pressures on rural areas have taken a toll on Kansas communities.</li><li>2. Cannot separate agricultural economy from rural economy in general.</li><li>3. Economic resources are leaking from local economics.</li></ul>	<ul style="list-style-type: none"><li>1. Need to identify problems, identify strengths.</li><li>2. Need to use analytical tools to determine potentials for success.</li><li>3. No community should rely upon a single strategy.</li><li>4. While communities in Kansas must diversify their economies, they must recognize that the base is generally agriculture and its related businesses and industries.</li><li>5. Continued emphasis must be placed on uncovering new agriculturally-related enterprises that can multiply those local agricultural dollars.</li><li>6. Need to retain existing businesses.</li><li>7. Successful rural economic development will require the merger of the resources and talents of public agencies and institutions working closely with local governments and the private sector.</li><li>8. Continue development of analytical decision making aids to help both community leaders and business owner/managers take development actions with the greatest chances of success.</li></ul>

Mr. Don Morrisson, Krohn and Company, New York, New York

Advantages

Disadvantages

Recommendations

1. Create a Free Trade Zone.
2. Alfalfa varietal research to retain color and nutritive value.

October 16-17 Meeting

Bill Morand, Collingwood Grain

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|---|--|---|
| <ol style="list-style-type: none"><li>1. Research is being used and developed with cell cultures which will shorten research time for the release of new and improved crop varieties.</li><li>2. Biotechnology is leading the way to improved use of chemicals, culture, vaccines, disease control, animal hormones, genetics, and embryo transplant.</li></ol> | <ol style="list-style-type: none"><li>1. Economic difficulties because of condition of oil and gas and agriculture.</li><li>2. Kansas is suffering because of the effects of over supply of grain.</li></ol> | <ol style="list-style-type: none"><li>1. New ideas that seem acceptable be researched to determine if the idea is workable.</li><li>2. State of Kansas must have enthusiasm for growth industries and new idea development.</li></ol> |
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Mr. Morand (continued)

<u>Advantages</u>	<u>Disadvantages</u>	<u>Recommendations</u>
		3. The state must not get carried away with thoughts of capturing a larger-than-reasonable share of any one market.
		4. Need to grow using fixed assets and promoting new opportunity without excessive debt.
		5. Public support of practices such as the use of electronics and biotechnology in agriculture will be beneficial.
		6. New concepts for marketing improved produce must be developed to fund ongoing research.
		7. Kansas must grow using its solid base.
		8. Suggests that research should be directed toward the area of saving energy and its relation to agriculture.

Dr. Fran Jabara, Wichita State University

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|--|--|
| 1. The U.S. is no longer the technological leader of the United States.                                    | 1. Need to work on overproduction problem.   |
| 2. Rate of productivity growth in the U.S. is the lowest of all the industrialized countries of the world. | 2. Need to work on the problem of the lack of sales. Selling is most important -- the only purpose of a business is to create and maintain a customer. |
|  | 3. Agriculture needs to get more political.  |

Dr. Jabara (continued)

<u>Advantages</u>	<u>Disadvantages</u>	<u>Recommendations</u>
	3. Savings rate is pitifully low.	4. State needs to get involved in relocation and retraining of people that had been involved in agriculture.
	4. Lack of knowledge of private enterprise system.	5. State research needs to be more involved in alternative crops.
	5. Lack of knowledge of profit.	6. Better communication needs to exist between state resources such as KSU and WSU. A mechanism to accomplish this should be developed.
		7. University endowments need to invest a portion of their resources in Kansas business.

Kris Roberts, Deutsch Treat, Inc.

1. Research is needed to conduct shelf life testing for their product.
2. Research is needed to determine exact product analysis in terms of percentages of protein, calories, and fats, etc.
3. Market research by one of the universities containing a systematic review of competition, a taste test and questionnaire to a targeted audience.

Mr. Roberts (continued)

Advantages

Disadvantages

Recommendations

4. Favors the formation of the Kansas Venture Capital Corporation or any other private venture capital organizations in Kansas.
5. Need to have a source for what other government programs can do for them.
6. Need to have information source on how the import/export business is done as well as a list of qualified and confirmed exporters into other countries.
7. State-sponsored support for the promotion of Kansas food products.

Derek Park, PMS Foods, Inc.

1. Capital has been a problem.
  2. Need more food processors and small manufacturers in the state.
  3. Utility rates in Wichita.
1. Elimination of sales tax for research and development equipment.
  2. State-sponsored financing programs.
  3. Need for improvement of perception of quality of life in Kansas so that young talent will be willing to live here.
  4. Need for personal contact with new or existing businesses through a small business ombudsman.
  5. Perhaps need to review how proprietary research is conducted for smaller business at Regents' institutions.

Jack Reeve, Reeve Cattle Company

- Advantages
1. Ethanol production will increase grain prices.
  2. Ethanol will increase jobs in rural Kansas.
  3. Ethanol will replace depleted resources.
  4. Ethanol usage in cars will reduce air pollution.

- Disadvantages

- Recommendations
1. Kansas should be a larger producer of ethanol.
  2. Kansas should pass legislation similar to that in other states which encourages ethanol production.
  3. Research needs to be conducted on the burning of ethanol with high sulfur coal which has under certain conditions reduced air pollution.
  4. Kansas should pass tax credits for the production of ethanol.

Eldon Fastrup, Kansas State Board of Agriculture

1. Provide technical assistance to develop value added processing and marketing strategies for distribution.
2. Assist producer groups and local marketing agencies in organizing, selling, and bargaining efforts.
3. Expand and enhance the "From the Land of Kansas" trademark program.

Mr. Fastrup (continued)

<u>Advantages</u>	<u>Disadvantages</u>	<u>Recommendations</u>
		<ol style="list-style-type: none"><li>4. Provide information to processors about Kansas suppliers and facilitate contacts and sales between the groups.</li><li>5. Expand activities to promote value added products through domestic shows and exhibits.</li><li>6. Accumulate data to support feasibility appraisals of product processing and marketing facilities.</li><li>7. Provide for preparation, printing, and distribution of high-quality buyers guides, supplier lists, and promotional materials.</li><li>8. Support assistance in securing favorable transportation rates and services.</li></ol>

Sam Brownback, Kansas State Board of Agriculture

1. Establish a Division of Rural Initiatives.
2. Establish a section on Rural Development within the Division of Rural Initiatives.
3. Establish a section on Policy Issue Analysis within the Division of Rural Initiatives.
4. Attach the Farmers Assistance Counseling and Training Program (FACTS) to the Division of Rural Initiatives.
5. Finance agricultural statistics package, including information regarding: farm finance, agribusiness finance, and land values.

Charles Kuenzi and Jim Sheik, Bern Extrusion

<u>Advantages</u>	<u>Disadvantages</u>	<u>Recommendations</u>
1. Local ownership of financial institution.	1. Lack of knowledge of state agencies or programs that could have been of benefit to starting the business.	1. Better road system; specifically from Bern to U.S. Highway 75.
	2. Started another company in Nebraska because that state offered services to beginning companies.	2. Need for information about financing opportunities to be made available to all small communities.
	3. Small towns do not know how to communicate with state government and its resources.	3. A training program for new employees would have been helpful.
		4. Perhaps thought should be given to legislation that would provide tax credits to lending institutions for writing down interest to small, new businesses.
		5. KSU needs to make first contact with potential services.

Gerald Lasater, Midwest Grain Products, Inc.

1. Energy is cheaper in Kansas.	1. More availability of proprietary research at universities.
2. Close to the major wheat production areas.	2. State could be of assistance to smaller companies, because smaller companies are unaware of the services available to them.
3. Close to the major milo production areas.	

Abner Womack, University of Missouri

Advantages

Disadvantages

Recommendations

1. There is a need for Kansas to collect more farm financial data. Monitoring the state of the farm economy is necessary in order for the state to establish policy. Kansas needs to have the capability to model its farm economy so it can make other policy decisions.
2. There is constantly a need to assess the impact of the 1985 Farm Bill on a particular state.

Walt Woods, Dean of Agriculture

1. Identify a range of probable national and international economic scenarios that will impact U.S. and Kansas agriculture for 1990, 1995, and 2000.
2. Given a range of probable economic scenarios from (1), estimate for each scenario by year to 1990 and for 1995 and 2000 the expected output of major U.S. crop and livestock enterprises with related economic data such as farm price levels, producer incomes, consumers prices, and government expenditures.

Mr. Woods (continued)

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Advantages

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Disadvantages

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Recommendations

3. Determine from (2) the Kansas expected share of the U.S. national output of major crops and livestock enterprises under each scenario identified in (1).
4. Determine the impact of the output projections of Kansas crops and livestock from (3) on the Kansas agribusiness sector and firms.
5. Determine relevant economic data from (3) and (4) that is crucial for education, training, and capital investments in Kansas agriculture and agribusiness.
6. Compute the multiplier effects on other sectors of the Kansas economy of the primary agriculture and agribusiness linkage effects determined under the analytical scenarios specified in (1).
7. Extend research findings by appropriate communication techniques to all Kansans concerned about the future of Kansas agriculture and agribusiness. Provide guidelines for improved decisions concerning current and future investments of all types in primary agriculture and the agribusiness sector of the state.
8. Identify gaps in technology or information required by decision makers to achieve output potentials identified in (3) and (4). Suggest research for removing the above gaps.



Mr. Woods (continued)

<u>Advantages</u>	<u>Disadvantages</u>	<u>Recommendations</u>
		9. Diversification of Agriculture Products -- \$393,940 annually for three years.
		10. Research in Diversification of Agriculture -- \$450,000 annually for three years.
		11. Value Added Research -- \$342,000 annually for three years.
		12. Technical Assistance and Market Development in Extension -- \$207,370 annually for three years.

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