MINUTES

LEGISLATIVE COMMISSION ON ECONOMIC DEVELOPMENT

December 15 and 16, 1986
Room 519-S -- Statehouse

Members Present

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

Members Absent

Senator Wint Winter, Jr., Vice-Chairman

Staff Present

Belden Daniels, Boston, Massachusetts, Consultant to the Commission
Chris Courtwright, Kansas Legislative Research Department
Julian Efird, Kansas Legislative Research Department
Raney Gilliland, Kansas Legislative Research Department
Tom Severn, Kansas Legislative Research Department
Paul West, Kansas Legislative Research Department
Gordon Self, Revisor of Statutes Office
Bruce Kinzey, Revisor of Statutes Office
Don Hayward, Revisor of Statutes Office

Others Present

Senator Fred Kerr
Anthony Redwood, Consultant
Charles Krider, Consultant
Dana Ferrell, Division of the Budget
David Barclay, Kansas Department of Economic Development
Bonnie Anthus, Kansas Department of Economic Development
Lee Peakes, Member of the Task Force on Capital Markets and Taxation

Others Present (Continued)

Charles Becker, Member of the Task Force on Capital Markets and Taxation
Chip Wheelen, Pete McGill and Associates

December 15, 1986
Morning Session

The Chairman called the meeting to order at 10:20 a.m., and introduced Senator Dave Kerr, Chairman of the Task Force on Capital Markets and Taxation, for presentation of their recommendations.

Overview of Task Force Recommendations

Senator Dave Kerr introduced the Capital Markets recommendations (Attachment No. 1) by discussing the continuance of business finance, from pure equity or ownership interests on the one hand, to the short-term debt usually used for working capital, on the other. The 1986 Session of the Legislature addressed several points along that spectrum, and the Task Force recommendations are intended to fill in some missing parts. The taxation recommendations were made recognizing that tax incentives have been found to be ineffective, but that the state's tax structure must be reasonably in line with that of its neighbors. The Task Force recommendations address these findings. Finally, the Task Force found that workers' compensation premiums were a rapidly increasing cost of business that seemed out of control and constituted a near-tax. Thus, the Task Force made recommendations to find a solution to these concerns, as well.

Capital Markets Recommendations

Research and Development. Senator Dave Kerr then addressed capital markets issues, starting with research and development. The Task Force recommendation for Kansas Technology Enterprise Corporation (KTEC) funding of $5.0 million for FY 1988 consisted of $4.5 million corresponding to the budget recommended by the Advanced Technology Commission, plus $.5 million for a Washington, D.C. office. He noted that Kansas has offices in Japan and in Europe, but not in Washington, D.C., and that federal research and development expenditures in Kansas have declined by 60 percent from FFY 1980-85.

Senator Kerr then discussed the recommendation that purchases at the Centers of Excellence should be exempted from state purchasing procedures. It was noted that long delays in purchasing of microcomputers and other equipment had been experienced.

Chairman Kerr then introduced Charlie Becker to address the venture capital and mezzanine finance recommendations. He supported the requirement that 60 percent of the investments of certified venture capital companies be in Kansas firms. The 40 percent permitted to be outside Kansas, he said, would permit those companies to spread their risk by investing in a broader range of companies, and can attract capital from venture capital companies located outside of Kansas by swapping deals with other firms. However, he noted a distinction in the case of Kansas Venture Capital, Inc. (KVCI), where the state investment dictates that all investments should be in Kansas firms. He addressed a need for tax-exempt investors to be able to transfer their tax credits for venture capital investments in order to take advantage of it.

The approximately $1.5 million available to the Kansas banks who invested in Kansas Development Credit Corporation could be withdrawn, he said, so that amount should be eligible for the credit and included within the $10 million requirement for the investment of the $10 million of idle funds. He also stressed that the SBIC license of KVCI is necessary for its success; therefore, the Secretary of Commerce should be allowed to interpret KVCI's statute in ways that do not jeopardize that license. He noted that most of the statutory requirements are more stringent than the SBIC requirements.

Mr. Becker then described the criteria for eligibility of local seed capital pools -- $250,000 private investment with at least $125,000 of federal grants or other local government resources. Also, the fund's operating and overhead expenses must be met by other sources than the qualifying minimum investments. He also supported the concept of an in-house data base for networking venture capital investments and sources.

He then briefly described the Campbell-Becker investment partnership which had been the first certified venture capital company. He noted that the limited partnership had been formed after 18 months of research and in response to a perceived need for venture capital. Investments began October 25, 1985, with a chosen focus on high technology enterprises. The investment philosophy is always to "get a piece" of equity participation. That equity of the venture capitalists is the entree for a network of advisors which is an important part of the relationship, but the original owners should always retain control of the company. The fund has five investments, all in Kansas companies, although one firm has a lab in Montana. He noted that his firm was setting up a new fund, and that "a prospectus exists."

He also described a spectrum of capital types, characterizing seed capital as for the development of a prototype (product), and venture capital as funding the setting up of the production process. He extended his thanks to Chairman Dave Kerr and Belden Daniels.

Lee Peakes then presented the Task Force recommendations on long-term finance. He stressed the importance of several recent developments in the industrial revenue bond (IRB) market. First, he noted that as a consequence of the Tax Reform Act, the tax-exempt bonds would be available only for manufacturing facilities. But there are other important developments as well. It is getting harder for banks to get deposits, so that market for the bonds is diminishing. Individuals are looking at new options which can compete with fixed maturity assets, and observed that among the traditional institutions there has been a flight to quality, and, to some extent, to size, as well, because larger issues offer better liquidity.

The centralized issuing authority was then supported as addressing these new developments. It was noted, however, that no evidence had been presented to suggest that any local units have been unable currently to get the financing they need. However, the League of Kansas Municipalities supported such an issuing authority (Attachment No. 2). Mr. Peakes expressed his gratitude for the opportunity to serve on the Task Force. He also praised the work of Chairman Kerr.

Chairman Kerr noted that working capital financing has been the traditional role of banks, although banks have also done some other kinds of financing (e.g., venture capital). The Task Force recommendations seek to ensure the continued availability of working capital. Branching, he said, already exists and is permitted -- for savings and loans. These branches constitute effective competition for banking deposits. A noted consequence is that banks increasingly are able to provide only working capital. A recent Kansas Bankers Association (KBA) survey showed support among bankers for branching (Attachment No. 3). However, the Task Force at this time recommended only intrastate branching. The question of interstate banking was recommended as the topic for another task force. He observed that the FDIC was getting much more active (Attachment No. 4).

A restrictive securities regulation may inhibit capital formation in Kansas. With respect to securities regulation, the Task Force recommendations do not propose to change the current merit review framework. Chairman Kerr briefly explained merit review as passing on the merits of a new issue, as contrasted with a blue sky type of regulation that seeks to ensure the truthfulness of the supporting claims and representations. He expressed support for the recommendations of the Security Commissioner's Advisory Committee to liberalize securities regulation and supported legislation to implement some of these recommendations. (Some of the recommendations can be implemented by regulation.)

The first recommendation is to remove from law the requirement that the potential to pay a 6 percent dividend be demonstrated prior to the release of escrowed insiders' stock. The Commissioner proposes to replace the statutory requirement with a three-option requirement in regulation that would release the stock upon: (1) the passage of time (three years); (2) the stock selling for 45 days at an elevated price; or (3) an alternative potential dividend requirement (6 percent after one year or 10 percent after two years).

The other recommendation is to remove the existing 15 percent cap on commissions. The Commissioner proposes to allow higher commissions for small issues or other circumstances when the Commissioner deems it appropriate.

The Task Force also recommends further study by the advisory committee of three topics. First, a nonseasoned issuer exemption from merit review for issues that are not yet traded on an exchange. Second, a sophisticated investor exemption, as has been enacted in Wisconsin and in federal law, to reduce the regulatory protection afforded sophisticated investors. Finally, it is recommended that exemptions for Kansas-based companies be studied. Possible areas of study by the advisory committee would include guidelines for complete exemptions or waivers of some of the filing requirements for Kansas firms.

Finally, it was noted that K.U. Law School Professor Fred Lovitch had been successful in having the state of Kansas included in an American Bar Association study to be done by the University of Michigan of the effect of merit review laws on capital formation. The Chairman expressed appreciation for Professor Lovitch's efforts in having Kansas included in that study. The Legislature should take note of the results of that study, he said. The Commission then recessed for lunch.

Afternoon Session

The Chairman called the meeting to order at 1:30 p.m. The next topic was export finance. Senator Kerr presented the Task Force's recommendation that the International Trade Institute develop a program which would permit the state to assist potential exporters in providing bid bonds. He noted that the U.S. does less than almost any developed country to assist exporters.

In response to a question, Senator Kerr explained Foreign International Sales Corporations (FISCs) which permit exporters to shelter 15/23 of the income generated by export sales from federal income taxes. The Task Force saw no need for the state to be involved in setting up FISCs since there was adequate incentive without state involvement in funding or establishing FISCs.

David Barclay then reported on KDED's progress on export finance -- how KDED can help small or medium-size businesses to get loans to assist them to do exports. KDED contracted with the National Association of State Development Agencies for consulting services on how to set up a Trade Division and specifically on how to establish an export program. They considered two options: (1) establish an export loan pool by issuing bonds; or (2) to use a loan guarantee program. Their recommendation is to use the loan guarantee program, because it is simpler to do and involves a reserve fund of about 25 percent of the amount guaranteed. Others (such as the ASLAN section of the Redwood-Krider report) offer the same kind of advice. The report containing the recommendation will be provided to the Commission and standing committees when available (scheduled for early January). In response to a member's question, Mr. Barclay said that legislation will be required to implement such a program and will be requested -- possibly in the 1987 Session.

Mr. Barclay also described a report on state loan guarantee programs for purposes other than export finance, and how they work. He agreed to make it available to the Commission (Attachment No. 5).

Chairman Kerr then introduced Shelby Smith who then presented the Task Force recommendations on taxation. He lauded the high level of discussion and the low level of parochialism. He stressed the comparative disadvantage that Kansas faces in corporation income tax comparisons with Missouri. However, the Task Force chose to recommend as a higher priority that the sales tax exemption on manufacturing machinery and equipment be made statewide.

Although the Task Force recognized that tax incentives tend to be ineffective ways of promoting economic growth; nevertheless, it is important to be regionally competitive. Each of the recommendations has as a goal being regionally competitive.

Chuck Krider addressed the benefit-cost study of the job expansion credit. He observed that the basic credit is nearly justified but that the larger credit for jobs within enterprise zones has much larger cost and little additional benefit. He concluded that if a state is to have a credit it should be at a low amount per job.

Chairman Kerr then discussed the Task Force recommendation on Worker's Compensation. The Task Force recommends that a new task force be appointed immediately, to consist of a relatively small number of members, with no paid representatives of labor or industry or their attorneys, but people with strong incentives to solve the problems. The task force would be appointed immediately and would report back within the Session.

The Chairman noted two minority reports on the taxation and banking recommendations, and concluded his report.

Senator Feleciano distributed copies of a recent NCSL report comparing the states on workers' compensation law (Attachment No. 6).

The Commission then considered the recommendations to be made in its report with respect to KTEC funding for centers of excellence. Tony Redwood presented a comparison of recommendations of the task forces (Attachment No. 7). Representative Barkis moved, seconded by Senator Salisbury, that the recommendation of the Higher Education Task Force be adopted at the preferred funding level. Motion carried.

The Commission then discussed the seed capital recommendation. Belden Daniels stated that the models in other states suggest that every state dollar will be matched by 4-7 private dollars. Representative Mainey made a motion to recommend funding of $1.0 million, seconded by Senator Dave Kerr. Motion carried.

The recommendation for other KTEC funding items was considered next. Senator Dave Kerr suggested a total of $0.8 million, with detailed items as follows:

Washington, D.C. Office	$0.2 million
Small Business Innovation Research	0.3 million
Memberships, Etc.	0.3 million

It was moved by Senator Dave Kerr, seconded by Representative Kline, that these amounts be adopted. Motion carried.

The Commission then discussed bidding requirements. Senator Dave Kerr moved to exempt expenditures of centers of excellence from state bidding procedures up to a $10,000 limit for projects funded entirely with state moneys and without limit when state funds are matched at least 1-1 by other funds. Representative Heinemann seconded. The motion carried, with Senator Feleciano voting "No" and Senator Johnston present and passing.

Senator Dave Kerr moved to adopt recommendations (1) and (2) under research and seed capital. (Reference p. 1 of Attachment 1). Seconded by Representative Heinemann. Motion carried.

Venture Capital. The Commission then discussed the recommendations of the Task Force on Capital Markets and Taxation with respect to venture capital. Senator Salisbury moved, seconded by Senator Johnston, to require that 100 percent of the investments of Kansas Venture Capital, Inc., (KVCI) be made in Kansas firms. Motion carried.

Senator Salisbury moved, seconded by Senator Dave Kerr, that credits for investments in qualified venture capital companies be made transferable so that all investors, not just those that are taxable, could take advantage of the credits. (See p. 1 of Attachment 1). Motion carried.

Representative Mainey moved that the local seed capital recommendation be adopted. Seconded by Representative Kline. Motion carried. The recommendation for an in-house venture capital network within KDED was next discussed. Belden Daniels said that setting up the network will cost less than the $30,000 that he recommended earlier on behalf of the Task Force. Without objection, the recommendation was adopted.

Long-Term Capital Financing. Senator Johnston moved, seconded by Representative Barkis, to adopt the recommendation of the Task Force. Senator Salisbury made a substitute motion that the draft legislation should exclude municipal general obligation bonds. The substitute motion was seconded by Representative Kline. The substitute motion carried.

Working Capital. Representative Heinemann made a motion that the working capital section of the Task Force report be approved. Senator Dave Kerr seconded, and the motion carried, with Senator Feleciano present and passing.

The Commission then discussed the appointment of a Task Force on Interstate Banking. Senator Dave Kerr moved, with second by Representative Heinemann, that the Task Force recommendation be adopted. The motion carried.

Securities Regulation. Following discussion of the Task Force recommendation, Senator Dave Kerr moved that the two recommended facilitating bills be recommended. Representative Heinemann seconded, and the motion carried. The recommendations to the Advisory Committee were approved without objection. It was noted that no action was required with respect to the merit review study.

Export Finance. The Task Force recommendations regarding export finance were adopted without objection.

Taxation

Sales Tax Exemption. The Commission then discussed the sales tax exemption for manufacturers' machinery and equipment. Representative Heinemann moved to phase in the exemption over a four-year period, 1 percent per year. Senator Kerr seconded, and the motion carried, with Representative

Barkis and Senators Johnston and Feleciano voting "no." Without objection, the corporation income tax recommendations also were adopted. (See p. 3, Attachment No. 1).

Workers' Compensation. After extensive discussion, the Commission deferred decisions on workers' compensation until the next day.

KTEC Funding

In order that Dr. Redwood would not need to return on Tuesday, the Commission then considered the last remaining item of KTEC funding. Dr. Redwood then discussed additional Regents Research Professorships to enhance the capacity for research leadership at the Regents institutions. Under the existing program, $25,000 supplements are made to the professor's salary, although a portion of that amount can be used for additional equipment or other purposes.

Dr. Redwood explained that the proposed additional professorships would be treated similarly -- divided between additional salary and equipment, etc. The Task Force recommendation was to phase-in the program by adding five new professorships in each of the first two years. Dr. Redwood noted that the $100,000 for each professorship was intended as an average figure and that some would cost less and some would cost more, depending, among other things, on the cost of necessary research equipment. Therefore, the $500,000 was intended as a pool from which the research professorships could be awarded. Funding would be through KTEC, so there would be annual reporting as to the research activities.

In response to a question, Dr. Redwood clarified that a total of ten professorships was envisioned, to be phased in over the first two years. The Commission then discussed the term for which these awards would be made. Dr. Redwood noted that ordinarily distinguished rank is a lifetime appointment, and that all of the professorships would go to tenured faculty. Nevertheless, a review process is included in the proposal. The Commission then discussed whether the professorships should be subject to review. Upon the request of Senator Feleciano, the Chairman postponed decisions on this matter until the following day.

The Chairman adjourned the meeting until 9:00 a.m. the next morning.

December 16, 1986
Morning Session

The Chairman called the meeting to order at 9:20 a.m. Copies of a Wall Street Journal article were distributed (Attachment No. 8). The article concerned business failure, and showed that Kansas had the second highest business failure rate in the nation (Colorado ranked first).

The Chairman then said that the Commission probably does have the authority to appoint another task force, with the ratification of the Legislative Coordinating Council (LCC). Also, sufficient funds could be made available by KDED to pay the expenses of the task force. Action on appointment of the task force was postponed until later in the day. The Chairman expressed the hope that the task force could be appointed and begin its work very early in January.

The Chairman then introduced Representative David Heinemann, Chairman of the Task Force on Agriculture, to present their report (Attachment No. 9). The Task Force has six priority recommendations and a number of other issues that need continuing attention.

Senator Fred Kerr, Task Force Vice-Chairman, also addressed the Commission. He commended Chairman Heinemann for his work. He stressed the degree of public contact that the Task Force had in preparing its report. Noting the growth in the food industry, he observed that Kansas is ideally located and that the chances of success in this area were good.

The Commission then turned to consideration of the Task Force recommendations. Representative Heinemann moved, seconded by Senator Dave Kerr, to adopt Recommendation 1. After discussion, the motion was withdrawn. Representative Barkis moved to restate 1(b) and then adding additional money to facilitate a study for the food processing center described in 1(a). Once the information is obtained on who the food processors are and whether they are using Kansas products, then another study should be conducted to determine whether or not Kansas should establish a food processing center and if so, what kind. Motion carried.

It was suggested by Representative Barkis that Kansas should pursue food processing industries in general and cite the cookie and cracker industries as examples.

Research. On the motion of Representative Heinemann, seconded by Representative Kline, the Commission adopted Recommendation 2 relating to research. The motion carried.

Marketing. Recommendation 3 includes $80,000 for two additional positions for enhanced marketing operations. On the motion of Representative Heinemann and the second by Senator Salisbury, Recommendation 3 was adopted. Motion carried.

Rural Initiatives. The Commission next discussed the Task Force recommendation on rural initiatives, and what agency is to administer the programs. Senator Feleciano moved, seconded by Representative Barkis, to adopt Recommendation 4, but with the rural development program to be administered by the Department of Commerce. Motion carried, 4-3.

Management. The Commission next considered Recommendation 5A of the Task Force, establishing an interdisciplinarian team to create better cooperation among the Regents institutions. It was determined that the Board of Regents was meeting later in the week to finalize role and scope documents for each institution. The Chairman expressed the hope that the greater cooperation which is the objective of this recommendation would be the result of that role and scope study.

The Commission then discussed several ongoing studies with the objective of improving coordination of higher education. The studies and organizations mentioned included the following: the Regents; the Legislative Educational Planning Commission; the Higher Education Task Force; and the Business Training Task Force. A proposed interim study was dropped by the LCC because the Regents study had begun.

Representative Mainey discussed coordination in the area of basic and applied research. He said that there was a high degree of coordination and cooperation but that nobody knew about it except the professors involved.

Representative Heinemann moved that the Board of Regents establish an interdisciplinary team for the coordination of agriculture research. Seconded by Senator Johnston. Motion carried.

Without objection, staff was instructed to include the concepts in Recommendations 5(a) and 5(b) in the Commission's report.

Representative Heinemann moved, seconded by Senator Salisbury, to request a bill draft to implement Recommendation 6. Motion carried.

The Commission then considered the remaining recommendations. There was discussion of the ethyl alcohol recommendation. It was noted that the recommendation was for further research into its economic viability, but the Task Force does not advocate further tax breaks for alcohol. Without objection, the remaining recommendations were approved.

The Commission then returned to consideration of Regents Distinguished Professorships. Senator Feleciano moved that the Commission recommend funding of $500,000 in the first year for ten Regents Professorships, with an additional $500,000 in the second year. Seconded by Representative Kline. It was clarified that the recommendation was to provide funding of $1 million in the third and succeeding years. Following discussion, the motion was amended, with approval of second, that the funding be for a minimum of ten professorships. It was also clarified that the awards were not to be permanent, with KTEC administering the awards so as to assure a strong ratio of benefits to cost. Motion carried.

The Commission then discussed the Task Force on Workman's Compensation. Chairman Kerr reviewed the problems which the Task Force had heard. It was suggested by the Chairman that the Task Force consist of seven members, to be appointed as follows:

two by the President of the Senate;
two by the Speaker of the House;
one by the Minority Leader of each Chamber; and
one jointly by the Minority Leaders

It was suggested that the Task Force be paid expenses and nonlegislative *per diem* and have the authority to hire an outside consultant, with the approval of the Commission Chairman and the Secretary of Commerce. Support was expressed for the qualifications suggested -- that there be no paid representatives of business or labor. It was moved by Representative Kline and seconded by Representative Heinemann that the Task Force be created. Motion carried.

There being no additions or corrections to the minutes of the meeting of December 2, they were approved as distributed.

Chairman Braden commended Task Force Chairmen Kerr and Heinemann on an outstanding job. He observed that the Vice-Chairman and Task Force members had done a yeoman's job under a tough time schedule. He thanked the staff for their work, and adjourned the meeting.

Prepared by Tom Severn

Approved by Committee on:

January 14, 1987
(Date)

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ATTACHMENT 1

REPORT OF THE TASK FORCE ON CAPITAL MARKETS AND TAXATION

OF THE

LEGISLATIVE COMMISSION ON ECONOMIC DEVELOPMENT

December 1, 1986

Attachment 1

TASK FORCE ON CAPITAL MARKETS AND TAXATION

Legislators	Non-Legislators
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 (KVCI) 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 KVCI 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) KVCI investments be structured as equity or unsecured subordinated debt with warrants convertible to equity; (4) the $1.5 million already invested in KVCI 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 KVCI 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 KVCI'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., (KVCI). The 60 percent instate-40 percent out-of-state investment provision essential to the success of private Kansas venture capital companies also applies to KVCI. However, because of its element of public funding and its special charge, KVCI 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 KVCI. Current law establishes certification guidelines for Kansas venture capital companies which are not fully appropriate for KVCI. 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 KVCI investments in current law are ambiguous, and are not fully explicit in terms of KVCI's risk capital investments, function or SBIC status.

Recommendations. The Task Force recommends that:

1. KVCI's investments be made solely instate.

2. KVCI'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 KVCI 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 KVCI 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 KVCI's investment standards are of a higher order that those set by SBIC regulations, they must not jeopardize KVCI's SBIC license. In case of an apparent conflict between SBIC guidelines and KVCI's statute, the Secretary of the Kansas Department of Commerce should be given authority to interpret KVCI'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 venture capital companies

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 KVCI with an in-house venture capital network to organize Kansas' informal venture capital. This program will be housed in and operated by KVCI. Although KVCI 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 KVCI. Funding such a program entails buying into existing, inexpensive technology and know-how to create a powerful information tool within KVCI. 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

	Kansas	Missouri	Oklahoma	Colorado	Nebraska
Corporation Income Tax					
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[1]	No	No	No
UDITPA	Yes	No[2]	Yes	Yes	Yes
Credits --					
Job. Exp.	Yes	Yes	No	No	No
Investment	Yes	Yes	Yes	No	No
Relative Collections[3]	$ 65.17	$ 31.93	$ 31.66	$ 31.46	$ 30.49
Sales and Use Taxes					
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 in unwise.

Representative Joan Adam

EE86-273/CC

ATTACHMENT 2

UMBRELLA BOND PROGRAMS

Notes by E.A. Mosher, Executive Director, League of Kansas Municipalities

Remarks to Task Force on Capitol Markets--
Legislative Commission on Economic Development

October 16, 1986

1. League Convention-Adopted Policy Statement:

   "E-2. **State Bond Agency**. Capital fund shortages, alternative investment opportunities and other factors are reducing the traditional local bank market for smaller municipal issues, and such non-rated issues are difficult to sell on the national market. Further, the legal and procedural costs of issuing bonds are substantial. We recommend an interim legislative study of the feasibility of establishing a Kansas municipal bond bank or other agency through which local units are given the option of pooling their smaller general obligation bond and note issues into a nationally rated and marketed issue."

   a. Experience in other states.

   b. Smaller cities, smaller issues in changing market conditions.

   c. Increasingly complex and costly.

2. Amount of Kansas Local Bonds

   a. Treasurer's report, June 30, 1985: $4.962 billion, of which $1.730 billion were "revenue bonds" and $1.597 billion were "industrial revenue." Excluding these and no-fund warrants and temporary notes, the outstanding total was about $1.5 billion.

   b. Last 12 months: Treasurer registered bonds totaling $889,192,527 in October 1985 to September 1986. Includes refunding bonds, last November, of $283.7 million for Wichita and the Johnson County water district.

   c. Smaller issues. In 1985, treasurer registered 74 issues of less than $250,000, totaling $7,299,585: 41 of less than $100,000, 33 in $100-$250,000 range.

3. Proposed Lease Pool Bond Program, Summer 1986

   a. 3½ year projections, 1986-1989, lease-purchase only:

	Equipment	Improvements	Total
178 Cities	$20,198,312	$134,103,113	$154,301,425
29 Counties	5,718,000	13,245,650	18,963,650
TOTAL	$25,916,312	$147,348,763	$173,265,075

   b. Sample non-reporting: Cities--Emporia, Hays, Kansas City, Prairie Village, (Wichita--$950,000); Counties--Douglas, Johnson, Sedgwick, Shawnee, Wyandotte.

4. Infrastructure Needs, KDED Report

   a. State highways: $4.5 to $8.9 billion next 19 years, with $3.06 billion available at present funding levels.

Attachment 2

b. Local roads: $478 million in critical projects next 5 years, with $60 million available.

c. Bridges: $1.2 to $2.1 billion needed, $75 million available in 1984.

d. Water: $178 million in critical projects next 5 years; most funded.

e. Sewerage systems: $400 to $800 million in needed projects; capital outlay now $30 to $35 million per year.

f. Storm drainage: 1982 EPA needs survey--$1.043 billion; KDHE--substantially less.

g. Conclusion:

"Although the information is incomplete for a total estimate of infrastructure need, over the next five to ten years, compiled data alone indicate a need of at least $8 to $13.5 billion for Kansas highways, streets, roads, bridges, water systems, sewerage systems, dams, storm drainage systems, airports and rail lines. An estimate of funding shortfalls for these needs is in a range of $3.5 to $7.5 billion."

5. State "Private Purpose" Tax Exempt Bond Cap

a. State bond cap amount: 1986--about $362 million; 1987--$250 million; 1988--$150 million.

b. New cap coverage: Small Issue IDBs (manufacturing only); tax increment financing, multi-family, low-income rental housing and single-family mortgage revenue bonds; traditional municipal bonds that become "private activity" bonds (over 10% benefit to a business or over 5% for a nongovernmental use); others.

c. Policy issue: State preemption of statewide cap amount for state "private activity" purposes, at expense of local issues.

6. Conclusion

a. State bond programs concept needs to be seriously explored, in the face of public infrastructure needs, changing demand and market conditions, and predictable higher issuance costs.

b. Enabling legislation appears appropriate, with actual issues dependent on a finding of public need based on legislative standards.

ATTACHMENT 3

KANSAS BANKERS ASSN.
707 MERCHANTS NTL. BLDG.
913/232-3444 TOPEKA, KS 66612

Please return to the KBA office at the address listed above by Nov. 19

Please check your response for each question. Answer each question as though it is the ONLY alternative available. Measure each of the four options against the present law.

3. Do you favor or oppose state-wide branching through acquisition with no newly-chartered branches authorized?

__________ Favor __________ Oppose

3. Do you favor or oppose state-wide branching through acquisition with no newly-chartered branches authorized?

SIZE GROUPS	TOTAL	FAVOR	%	OPPOSE	%	NO REPLY
Below $10 million	104	45	43%	59	57%	
$11 thru $25 million	143	80	56%	62	43%	1
$26 thru $50 million	107	65	61%	41	38%	1
$51 thru $100 million	54	36	67%	16	30%	2
Over $100 million	32	26	81%	5	16%	1
TOTAL RESPONSE	440	252	57%	183	42%	5

Attachment 3

ATTACHMENT 4

FDIC WILL TURN TO PUBLIC ACCOUNTING FIRMS TO BOOST EXAM FORCE, SEIDMAN ANNOUNCES

The Federal Deposit Insurance Corp., striving to deal with the growing number of failed and problem banks, will bolster its examination force by contracting with public accounting firms to work alongside agency bank examiners, Chairman L. William Seidman announced Nov. 20.

Speaking to the American Institute of Certified Public Accountants, Seidman revealed that the FDIC is planning to launch a pilot program whereby public accounting firms could lease their staffs to the FDIC. Under the program, auditors would work with bank examiners under the supervision of an FDIC "examiner-in-charge," Seidman explained.

Likely sites for the pilot program include the Dallas, Kansas City, Memphis, and Atlanta regions, where the FDIC is farthest behind in examinations. There is often as much as 48 months between exams in these economically troubled regions, and this would be "too long in the best of circumstances," Seidman said.

If the pilot succeeds, the program will be expanded promptly, Seidman said. "We would expect to deal with a substantial number of CPA firms."

The FDIC hired about 360 examiners in 1985, is adding 400 more in 1986, and plans to hire another 600 in 1987, if budgetary restraints permit, Seidman said. However, he explained, "while our additional new personnel will help, they cannot meet our immediate needs. Qualified, experienced examiners are not readily available in the marketplace. We need assistance now."

In response to a question, Seidman said that the agency wants to insure that CPA firms of all sizes can compete for staff leasing contracts with the FDIC. Selection of firms will be handled at the regional level, he added.

Attachment 4

ATTACHMENT 5

STATE LOAN

GUARANTEE PROGRAM

Prepared by: Bonnie Anthis
Policy Analysis & Research Unit
David Barclay, Deputy Secretary
Kansas Department of Commerce
September 16, 1986

Attachment 5

STATE LOAN GUARANTEE PROGRAMS

The Purpose of the State Loan Guarantee Programs

The purpose of loan guarantee programs is to encourage financial institutions to make business loans that they otherwise would not have made. A state loan guarantee is a form of insurance to lenders and acts as a substitute for equity. If a loan guaranteed by the state defaults, the lender is guaranteed payment. This additional security encourages greater lending activity to a state's businesses. Because a state's appropriation need only be the difference between the guarantee and the collateral value at liquidation, such programs are considered an extremely cost efficient method for leveraging private capital to achieve state development objectives. Direct state loan programs would achieve the same objectives, but are considered much less efficient because they require a dollar for dollar commitment of state funds for the loans provided.

Basic Features of a State Loan Guarantee Program

Twelve states currently have loan guarantee programs. They are not all active. The attached chart lists the states and the basic features of each program. Although the designs are similar, each program is somewhat different. The state guarantees range from 35-98% of a loan up to a specific maximum amount. Generally small business and industry are the recipients. Some programs target specific areas or groups. Minnesota, for example, guarantees loans for products which reduce reliance on traditional fuels or provides alternate sources of energy. Maine targets veterans in one of its guarantee programs.

State loan guarantee programs are initially capitalized with state funds. The guarantee fund grows because a fee or premium is charged for the guarantee. Some states collect the premium in a loan loss reserve fund where more guarantees can be written as the fund grows and as loans are paid off. Other states use the fees for administration of the programs. States may also charge an application fee and/or a commitment fee. If well-managed, the program should become self-sustaining through user fees.

The maximum length of the guarantee varies from state to state. They range from a seven year maximum guarantee in California to a guarantee for the life of the loan from the Maryland Industrial Development Financing Authority. The length of the loan may be for longer than the guarantee. The interest rate is negotiated between the borrower and the lender and in most states is not at a reduced rate.

The application for a state guarantee is generally made when lending institutions recommend a borrower to the state for a guarantee. However, in California, loan authorities may help a business with a viable business plan locate a lender willing to provide financing.

The Benefits of a Loan Guarantee Program to States

Loan guarantee programs are low risk. ASLAN's research has shown that even at a relatively high 22% default rate, this program is still the most cost-efficient financial assistance. The rate can be as high as 40% before loan guarantees are no longer a cost-effective instrument of finance.[1]

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1. ASLAN, Innovation in Economic Development, Lessons from the States, p. 2-9.

Several states indicated that their guarantee program has been effective at creating jobs. The Maine Small Business and Veteran Loan Guarantee Programs created 61 jobs and 105 jobs were retained (excluding construction related and other jobs that result from this economic activity.)[2] In Connecticut, where only four projects were funded, 428 jobs were created or retained.[3] This represented about $3.3 million in financing.

Unique Loan Guarantee Programs

Maine's SMART BOND program is a unique twist on guarantee programs. The Finance Authority of Maine (FAME) will guarantee a loan up to 90% and then purchase the insured portion upon completion of construction or upon acquisition of the machinery or equipment. FAME then groups the purchased portion of the loan with other loans to form a pool of guaranteed loans. That pool is then sold to private investors. Like other guarantee programs, the projects financed must provide public or economic benefit to the state of Maine. An important distinction between the SMART BOND program and other loan guarantees is that for the SMART BOND program the borrower must be able to obtain commercial credit without FAME insurance. The purpose of this guarantee is to provide credit enhancement, that is, improving the rate and terms at which businesses borrow over those they can obtain from local financial institutions. This purpose, as opposed to the traditional credit access, is becoming increasingly important.

California's loan guarantee program is also unique. They provide short term loan guarantees on term loans with a maximum maturity of only 7 years. They believe this enables them to reach more borrowers and increase the program's earnings. Another feature of the California program is that women and minorities are encouraged to participate. An outreach program is designed to assist these companies. Maryland's Small Business Development Financing Authority also targets minority and women-owned businesses. Although not yet implemented, Louisiana's small business loan guarantee program will reserve a portion of funds for minority and women-owned businesses.

Indiana offers an extended guarantee program to borrowers on a case by case basis. When the Indiana Employment Development Commission approves its maximum $2 million guarantee, it may recommend an additional guarantee of not more than $8 million to the Indiana Board of Depositories. Extended guarantees are for projects with major employment consequences for the state and are not routinely available simply because a guarantee request exceeds $2 million.

The Success of Loan Guarantee Programs

Not all state loan guarantee programs are active. Connecticut, New Hampshire and Vermont all indicated little or no use of their programs because of the availability of industrial development revenue bond financing at a much lower interest rate. However, with the upcoming federal tax changes for IRB financing, these states felt that their guarantee programs would become increasingly important.

The loss rate for most of the states contacted ranged from zero to nine percent. Maine was the only state outside this range. Its commercial loan insurance program had a 25% loss rate due to five large problem projects. (Since 1983 under FAME management, the loss rate is less than one percent.) Missouri's

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2 Finance Authority of Maine, 1985 Annual Report, p. 5.

3 Connecticut Development Authority, Annual Report 1985, p. 14.

program, which has been active about one year, has had no defaults.

Three states -- Indiana, Mississippi, and New Jersey -- have self-sustaining programs. The Indiana Employment Development Commission is able at this time to issue guarantees up to eight times the balance in the Industrial Development Project Guarantee Fund. (The fund is currently at $8.5 million). New Jersey attributes the success of its program partly to the fact that a loan may be for longer than its guarantees. A business with a fifteen year loan may only need insurance in its most difficult early years, so the guarantee is limited to eight years. In that way more private financing can be leveraged.

State Guarantees Versus Federal Guarantees

State loan guarantee programs are similar to the federal SBA loan guarantee program. Most of the states did indicate some distinctions. The total length and amount of financing were the most common differences. For example, California, which offers only short term guarantees, encourages borrowers to get longer term guarantees from SBA when needed. Several states offer guarantees well over the $500,000 SBA limit. The state guarantee criteria also tends to be a little more lenient than SBA would allow.

Overall, states do not view their programs as a duplication or in competition with SBA. States believe their loan guarantees simply make a larger capital pool available for business. In Federal Fiscal Year 1986 approximately $32 million was available for SBA loan guarantees in the Wichita district. $33 million was allocated for the Kansas City district. The Federal government is required by law to set aside 15% of loans guaranteed to cover defaults. So if $100 million in federal loan guarantees are made, $15 million is set aside. The actual default rate is less than five percent. In Kansas the rate is less than three percent.

Loan Guarantee Approval Criteria

Indiana identified several criteria which they consider in granting loan guarantees.[4] These are typical considerations for most state loan guarantee programs:

1. The consequences of the proposed financing for state employment.

2. The number of jobs created or retained by the proposed financing.

3. The likelihood that the borrower would obtain reasonable financing without the guarantee.

4. The adequacy of collateral and other security provided by the borrower.

5. The borrowers' capacity to repay the loan.

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4 Indiana Employment Development Commission, "Indiana Guaranty Programs."

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	ACTIVE	MAXIMUM GUARANTEE	MAXIMUM LOAN SIZE	MAXIMUM LENGTH OF LOAN GUARANTEE	FEE	PROGRAM TARGETS	ADMINISTRATOR	UNIQUE FEATURES
CALIFORNIA	Yes	90%	$350,000	7 years	1 1/2% of guaranteed portion	Small business & farming enterprises	Dept. of Commerce (Office of Small Business) oversees	-short term loans -encourage women and minorities
CONNECTICUT	Somewhat	-real estate: 98% of 90% loan -machinery & equipment: 98% of 80% loan	-real estate: $10,000,000 -machinery & equipment: $5,000,000	-real estate: 25 years -machinery & equipment: 10 years	-real estate: 1/2% yr. on outstanding principal -machinery & equipment: 1% yr. on outstanding principal	Manufacturing and industry	Connecticut Devel. Authority	
INDIANA	Yes	-real estate: 90% -equip.: 75% -working capital: 80%	$2,000,000 - $500,000	20 years - 18 months	1%-2% yr. on outstanding guaranteed portion	Fixed Asset Guarantee for Industrial Devel. Projects -Gov't or export contract capital requirements	Indiana Employment Development Comm.	-extended guarantee program -guarantees also available for leases, industrial revenue bonds, or letters of credit
LOUISIANA	1) Jan., '87 2) Yes	1) 75% 2) 90%	1) $500,000 2) No limit	1) n/a 2) 20 years	1) 1% of guaranteed portion 2) 1% of guaranteed portion	1) Small or medium sized business 2) Versatile agricultural uses	1) Louisiana Small Business Devel. Corp. 2) Louisiana Dept. of Agriculture	1)reserve funds for women and minorities

	ACTIVE	MAXIMUM GUARANTEE	MAXIMUM LOAN SIZE	MAXIMUM LENGTH OF LOAN GUARANTEE	FEE	PROGRAM TARGETS	ADMINISTRATOR	UNIQUE FEATURES
MAINE	Yes	a) small business-85% b) Veterans - 85% c) Comm. loan insurance-90%	a) $500,000 b) $600,000 c) $7,000,000	a&b) related to life of asset c)-real est.: 25 yrs. -mach. & equip.: 10 yrs.	a&b) 1% of total principal at time of origination & 1% / yr. on outstanding balance thereafter. c) 1 1/4% yr. on outstanding insured balance	a) Small Business b) Veteran's Small Business c) Commercial loan insurance for mfg. & industry	Finance Authority of Maine (FAME)	- SMART BOND (1/2% fee)
MARYLAND	Yes Yes	80% 80%	$1,000,000 $ 500,000	Life of loan 10 Years	1/2% yr. on outstanding insured balance 3/4% yr. on outstanding insured balance	Commerce & Industry Small Business & Minorities	Maryland Industrial Devel. Financing Authority Maryland Small Business Devel. Financing Auth.	- No fee in high unemployment areas - Maximum interest is prime plus one percent - Surety bond guarantee program
MINNESOTA	Not very	90%	$2,000,000	Matched to life of asset	No Fee	Energy Loan Guarantees	Minnesota Div. of Economic Development	
MISSISSIPPI	Yes	75%	$ 200,000	10 years	1/2% / yr. on guarteed portion	Small Business	Mississippi Dept. of Economic Devel.	
MISSOURI	Yes	90%	$400,000	15 years	2% of guarantee at closing point 1/2% / yr. of declining balance	All state business	Missouri Dept. of Economic Development	

	ACTIVE	MAXIMUM GUARANTEE	MAXIMUM LOAN SIZE	MAXIMUM LENGTH OF LOAN GUARANTEE	FEE	PROGRAM TARGETS	ADMINISTRATOR	UNIQUE FEATURES
NEW HAMPSHIRE	Not past 10 yrs.	-mfg. fac.: 50% -mach. & equip.: 35%	-mfg. fac.: $5,000,00 -mach. & equip.: $600,000	-mfg. fac.: 25 yrs. -mach. & equip.: 10 yrs.	1% / yr on outstanding insured blanace	Industry & Railroads	New Hampshire Industrial Development Authority	
NEW JERSEY	Yes	90%	-working capital: $600,000 -conventional loans: $1,000,000	10 years	1/2% of initial guarantee times the number of yrs of loan guarantee	Mfg., distribution, wholesale, retail, and job intensive companies	New Jersey Economic Develop. Authority	-some targetting to distressed areas
VERMONT	Not past 3-4 yrs.	90%	$10,000,000	-25 yrs if secured w/property -10 yrs if secured by mach. & equip.	1% on 1st $100,000; 1/2% on amount over that	Industrial prospects	Vermont Industrial Development Authority	

ATTACHMENT 6

STATE LEGISLATIVE REPORT

ISSUES IN WORKERS' COMPENSATION 1985

by

Brenda Trolin

Legislative Information Services

Volume 10, No. 9 October, 1985

An Information Service of the National Conference of State Legislatures

1125 17th Street, Suite 1500, Denver, Colorado 80202. Earl S. Mackey, Executive Director

Attachment 6

STATE LEGISLATIVE REPORT

"1984 Elections: Key Points and Analysis"
(Vol. 9, No. 7) — November, 1984

"Coverage of Legislative Employees by State Employment Discrimination Statutes" (Vol. 9, No. 8) — December, 1984

"Discrimination Caselaw--Congressional Employees"
(Vol. 9, No. 9) — December, 1984

"State Hazardous Materials Policy: Issues Raised by the Bhopal Incident" (Vol. 10, No. 1) — January, 1985

"Political Action Committees"
(Vol. 9, No. 2) — January, 1985

"State Approaches to Targeting Education for Economic Growth: What Works? What Doesn't?
(Vol. 10, No. 2) — February, 1985

"Farm Credit Policy: State Legislative Approaches"
(Vol. 10, No. 3) — February, 1985

"New Federal Hazardous Waste Management Requirements for State Programs"
(Vol. 10, No. 4) — March, 1985

"<u>Garcia v. San Antonio Metropolitan Transit Authority</u>: What it Means for the States"
(Vol. 10, No. 5) — March, 1985

"State Involuntary Commitment Laws: Beyond Deinstitutionalization"
(Vol. 10, No. 6) — August, 1985

"How Do You Know If Your State's Job Training Programs Work?"
(Vol. 10, No. 7) — September, 1985

"Approaches to Legislative Evaluation of Education Reform and Success"
(Vol. 10, No. 8) — September, 1985

"Issues in Workers' Compensation 1985"
(Vol. 10, No. 9) — October, 1985

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ISSUES IN WORKERS' COMPENSATION
1985

Workers' compensation has been the subject of important legislative activity in the last ten years and continues to be a topic of serious study in state legislatures. In 1985, for example, 49 state legislatures considered over 1,000 workers' compensation bills. As of July 1, 144 of these bills were enacted, addressing issues such as coverage, benefits and rehabilitation services.[1] Current legislative debate centers on appropriate funding mechanisms, rising insurance rates, occupational diseases, benefit levels and the effectiveness of rehabilitation programs. The dilemma facing legislatures is the need to protect the victims of work-related accidents and disease without overburdening employers with high insurance rates to pay for this protection. Given the complexities of the issues involved, the task of enacting legislation which strikes a proper balance between safeguarding employees' rights and promoting the economic interests of a state's employers is not an easy one.

During the last six months, the National Conference of State Legislatures' State Government Issues and Organization Committee has conducted hearings in Lexington, Kentucky and Seattle, Washington. The panel in Kentucky was comprised of John Lewis, an attorney specializing in workers' compensation; Senator Ed O'Daniel, Chairman of the Kentucky Senate Judiciary Committee; Commissioner Steve Keefe, Minnesota Department of Labor and Industry; Jim Ellenburger, insurance specialist; and Keith Bateman, Alliance of American Insurers. The Washington panel included Lewis; Keefe; Chuck Helget, staff coordinator of the Washington Joint Select Committee on Workers' Compensation; and William P. Molmen, vice president of the American Insurance Association. The purpose of this State Legislative Report is to highlight the issues discussed by both panels and inform legislators and their staff of recommendations made by these individuals.

HISTORICAL PERSPECTIVE

The workers' compensation insurance system originally evolved as a "no fault" system to protect the employer from liability arising from common-law negligence suits and to protect the employee by providing immediate financial and medical assistance.

Today nearly 90 per cent of American workers are covered under either federal or state legislation. Standards and benefits for injured workers vary among the 50 states. The Analysis of Workers' Compensation Laws, 1985, published by the U.S. Chamber of Commerce, identifies six general objectives underlying all workers' compensation legislation:

- To provide immediate and sufficient income to work-accident victims and their families.
- To provide a remedy other than personal injury suits.
- To protect the solvency of public assistance programs and private charities which would have to support uncompensated individuals.
- To reduce legal fees and avoid the time-consuming legal process.

- To encourage maximum employer interest in safety and rehabilitation through an appropriate experience-rating mechanism.
- To promote open study of causes of accidents which would be difficult if court cases were pending.[2]

STRUCTURE OF WORKERS' COMPENSATION INSURANCE

The management of injury reports and claims, types of injuries compensated, determination of benefit awards, and general rules and regulations vary from state to state. However, legislative concern over workers' compensation centers on the administrative structure, claims procedures, benefits and funding mechanisms.

Workers' compensation insurance programs are administered either by a state department, an appointed board of commissioners, or a state court which rules on the initial and appellate decisions on claims.

The efficiency of the claims management procedures is critical to a sound workers' compensation program (see Appendix A). It assures the worker's right to prompt payment of compensation in legitimate claims and protects the employer's rights by providing early and thorough investigations and rulings in questionable cases.

Because timeliness and accuracy are essential to the system, the initial processing of claims can greatly enhance or impede the system. One example of a highly specialized system is New York State's system which processes 180,000 cases each year (see Appendix B).[3]

Workers' compensation insurance provides medical, cash, and rehabilitation benefits to injured workers and death benefits to the spouse and children of a fatally injured worker. All states require physical rehabilitation, and 43 states have provisions for vocational rehabilitation.[4]

Depending upon state laws, an employer may obtain workers' compensation coverage from private insurance carriers, state funds, or through self-insurance.

Where state funds are established, the employer tax is transferred to the state fund and used to finance the workers' compensation benefits. State funds are either exclusive or competitive. An exclusive state fund system does not permit private carriers to provide coverage for workers' compensation cases; competitive funds compete with private carriers for employers' business.

Special funds have evolved to supplement the normal funding mechanism or to provide an independent source of money to deal with specialized problems relating to workers' compensation cases. All 50 states and the federal government have established at least one type of special fund.[5] Rising costs of workers' compensation programs have resulted in the establishment of special funds in ten states since 1983.[6]

Special funds can be used to encourage the hiring or reemployment of handicapped workers, as well as to guarantee payment of benefits to workers whose employers had no coverage, had inadequate coverage or became insolvent. Special funds recently have been used to provide money for rehabilitation services and to provide benefits for workers who suffer from long-latent occupational disease cases. Lloyd W. Larson and John F. Burton, Jr., authors of the study "Special Funds in Workers' Compensation," submitted in 1981 to the Employment Standards Administration of the U.S. Department of Labor, have identified 13 special funds currently in use (see Appendix C).

CURRENT ISSUES

Because workers' compensation insurance programs have been in existence for a number of years, state legislatures may need to reevaluate their current system by first reevaluating the public policy goals underlying it. Answering the question "What is the system intended to do?" is critical to the development of a cohesive, fair and equitable program. By clearly establishing or reestablishing the goals and objectives of the system, the legislature will establish a point of reference to use as each section of the workers' compensation insurance program is studied. Answers to basic questions such as "Is the system intended to provide income loss replacement or is it intended to provide restitution to the injured worker?" will impact the decision-making process throughout the review of the system and provide the framework necessary for the development of consistent policy.

Experts cite the need, once policy is established, for continuing legislative oversight to ensure that new legislation is in line with established policy. The nature of the system is such that change is an integral factor and must be dealt with in a timely and consistent manner to preclude the eruption of crises. Legislative oversight has the added benefit of allowing legislators and staff to develop expertise and to gain experience in managing this complex issue.

Litigation. Workers' compensation insurance was created in order to reduce the litigation arising from employee liability suits against employers. Experts cite the existence of high litigation rates as an indication of an inefficient, unjust system. Some experts attribute the excess litigation to a misunderstanding of the system by those involved; the lack of objective guidelines to determine settlements; litigation of non-issues which are capable of being settled through administrative procedures; and a general lack of communication between the parties. According to Lewis, "excess litigation arises in systems in which the law is written or administered in such a way that people need to litigate in order to get their proper benefits or when the worker feels that benefits have unjustly been denied."

The problem of excess litigation is a serious one, not only because it results in higher administrative costs, but also because it results in smaller settlements for the injured worker. The delays in payment of benefits for long periods of time due to litigation also create a situation in which the injured worker may have no source of income for years. Instead of encouraging the worker to recover quickly and return to the workplace, the litigation process encourages, indeed requires, the continuing disability of the worker until the case is settled, according to Keefe. In the final analysis, everyone would benefit from prompt resolution of the case.

Occupational Disease Claims. During 1983-84, 15 states enacted legislation related to occupational disease.[6] Claims based on occupational diseases are increasing and difficult to assess for a variety of reasons. As Worrall and Appel, editors of Workers' Compensation Benefits: Adequacy, Equity, and Efficiency, point out, "These claims are controverted because of a lack of knowledge of the etiology of disease and the role that work plays in the process, an inability to distinguish between fraudulent and legitimate claims, and the effects of lack of knowledge on the expected value of claims."[5] Claims based on exposure to asbestos and black lung disease are just two examples of the increasingly important area of long latency illnesses. Specific issues of concern to legislatures include:

- Length of the statute of limitations on long latency diseases.
- Expanded coverage for such claims.
- Necessity to create special funds to handle claims arising years after initial exposure, and the solvency of such funds.
- Definition of compensable injury.
- Policy decisions related to the shift of the burden of liability from the employer to the special fund.

Vocational Rehabilitation Programs. Testimony provided during the hearings highlighted legislative concerns over whether or not vocational rehabilitation programs should be mandatory and what the objectives of the programs should be. A key point in the discussion centered on public policy objectives of the program. Should the objective of the program be to ensure the injured worker's return to work (employment), or should the objective of the program be to ensure that the worker is able to work (employable)?

Regardless of whether the program is mandatory or discretionary, experts agree that tight administrative controls are essential to its success. Several recommendations were made to strengthen the program. These include the following:

- Early identification of who will benefit and timely referral for appropriate treatment.
- The use of objective criteria in establishing who will benefit from rehabilitation (type of injury, age, education, etc.).
- Referral of injured workers to counselors who have established a creditable performance record (performance referral).
- Employer incentives to support rehabilitation efforts.
- Employer incentives to re-hire or find a new position for the worker and incentives for the employee to accept work.
- Prohibition of lump sum settlements.

The importance of early contact with the injured worker and close monitoring of the rehabilitation process is critical to successful implementation of the program. Without these elements of effective management, the program can be extremely costly and unproductive.

Elements of a Well-Administered System. While one state may have special needs that another state does not, there are certain mechanisms which will strengthen any system, including a clear statement of public policy objectives, enhanced program administration, return to work incentives, and program oversight.

Statement of Public Policy Objectives. Panelists recognized the need for reaffirmation of the idea that the system should be controlled by employers and employees working for their benefit. Too often, a system is excessively influenced by special interest groups to the detriment of both employer and employee. Reassertion of the proper priorities (employer, employee interest), as well as emphasis on medical and vocational rehabilitation and de-emphasis on the legal process, would encourage the creation of a fair and equitable system.

Enhanced Program Administration. There are three considerations in strengthening program administration: increased funding, increased authority and improved data processing.

Lewis contends that increased funding is necessary in order to hire sufficient personnel to assure that the system reacts promptly and efficiently in the management of claims. By spending money on personnel, states will see long-term savings through prompt settlement of claims, more effective rehabilitation programs, and less litigation.

Increased administrative authority could include the power to impose fines on employers for failure to make prompt payment of claims, institution of tighter control of entry into the litigation process, mandatory mediation in specified cases, and the establishment of objective guidelines for use in the analysis of a claim. Finally, an important goal of increased administrative authority would be stringent monitoring of where the money is going. If the bulk of expenditures is not used in payment of valid claims, then an assessment of the system is necessary.

The last consideration in enhanced program administration is an effective data processing system to ensure prompt payment of claims and to facilitate the collection and analysis of data on a regular basis so that the system's effectiveness can be closely monitored. Reliable statistical data can be the basis for developing objective standards to formulate disability schedules.

Twenty-seven states currently administer their workers' compensation programs with on-line computers. Automating the administration of the program benefits states by:

- Monitoring individual cases and providing for easily accessed information on current case status.
- Tracking the workload of the administrative agency.
- Monitoring the promptness of insurers' benefit payments to claimants, thus easing the difficulty states have in enforcing prompt benefit payments.
- Providing the agency commissioner or director with accurate information on how claims are being managed.

Return to Work Incentives. According to Minnesota Commissioner Keefe, studies conducted in Minnesota between 1979 and 1982 found that the longer an injured worker waits to receive insurance benefits, the longer it takes to get that worker well. A study recently completed by the Washington State Legislature concurs in this theory.

There is a decisive link between early intervention in a case by the insurer and medical and rehabilitation professionals, and a worker's prompt return to work. Workers' compensation and rehabilitation professionals confirm the negative effect that delayed or denied benefits have on the attitude of the injured worker. If a workers' compensation system is structured in a way that requires a worker to prove the existence of an injury over an extended period of time in order to be compensated, then the worker develops a mental attitude which discourages recovery once compensation is paid, according to Keefe. Keefe also points out that medical studies conducted in the area of athletic injuries show that the faster an individual returns to activity, even limited activity, the more rapid and complete the recovery.

Oversight of the Program. Due to the complexity of the workers' compensation system, experts recommend continued oversight to avoid serious problems. Thirty-nine states have addressed this issue by establishing at least one ongoing workers' compensation advisory committee or study commission. Members of these commissions are appointed by the governor, by the legislature, by an executive agency director, an industrial commission, or the state bar association, either exclusively or in combination.

The existence of permanent advisory councils creates a body with expertise and experience and a long-range view of the system. Advisory councils are beneficial to the states in several ways. They make recommendations for both statutory and administrative changes. They gather representatives from major employer and employee groups to encourage a cooperative and non-adversarial relationship between groups. They provide a forum for an open exchange of opinions, concerns and priorities. And, finally, they allow representatives from employee and employer groups, the insurance industry, and medical and legal professions to compromise on controversial issues within an organized framework of representation.

CONCLUSION

Workers' compensation programs exist in all 50 states. The cost of these programs continues to rise. In 1972, the total spent for workers' compensation programs was $5.8 billion. In 1982, the cost was $22.5 billion.[5] With increasing expenditures and debate over issues such as coverage, benefits and rehabilitation services, state legislatures will be required to closely monitor their systems. This State Legislative Report provides information on several aspects of an immense subject. Additional information and a bibliography can be obtained by contacting Brenda Trolin, NCSL, workers' compensation staff person.

REFERENCES

1) LaVerne C. Tinsley, State Standards Adviser, Division of State Workers' Compensation Programs, Office of State Liaison and Legislative Analysis, Employment Standards Administration, U.S. Department of Labor.

2) Analysis of Workers' Compensation Laws, 1985. U.S. Chamber of Commerce. p. vii.

3) Rita Israel, Director of Research and Statistics, New York State Workers' Compensation Board.

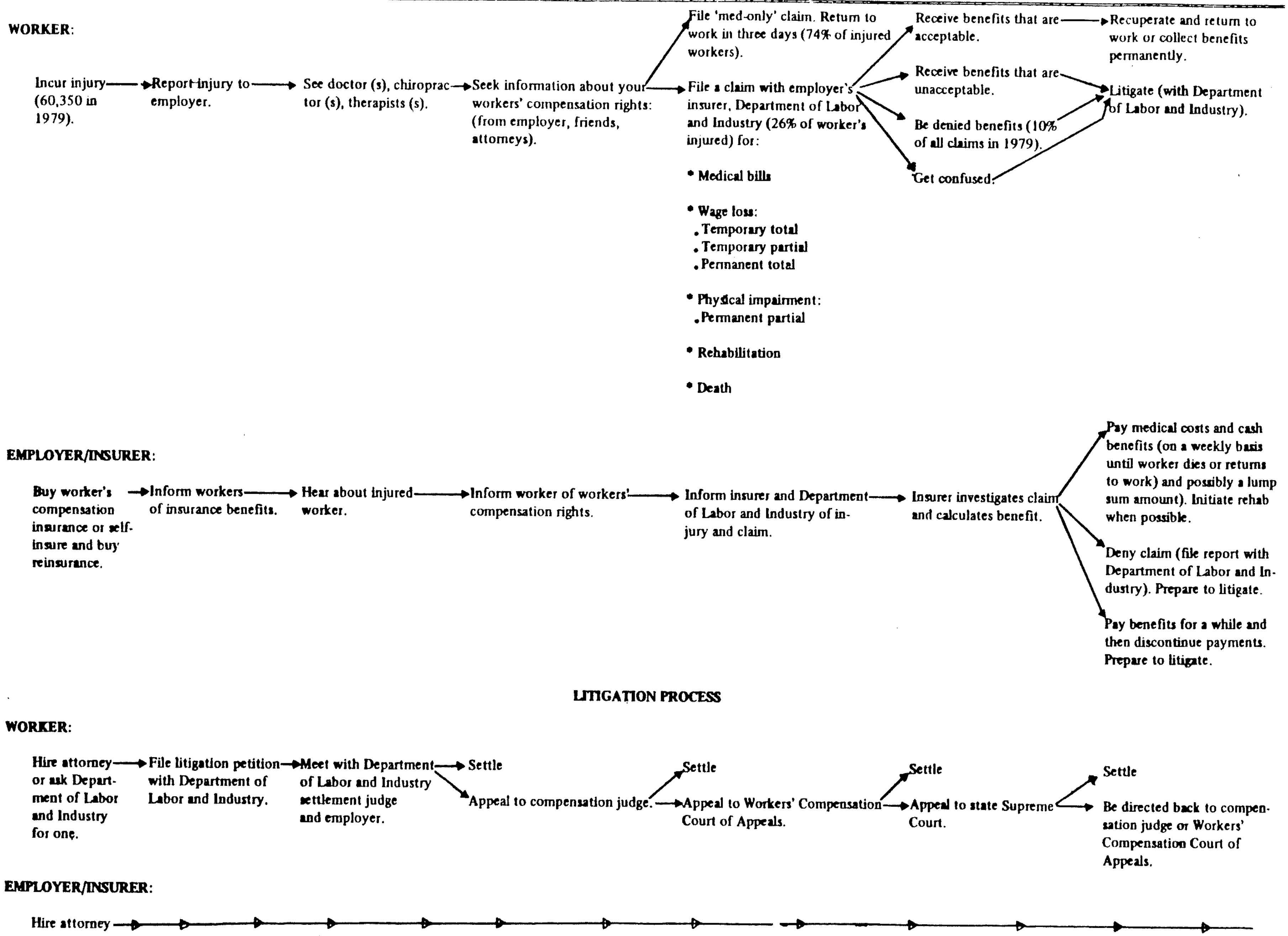
4) State Workers' Compensation Laws. Division of State Workers' Compensation Programs, Office of State Liaison and Legislative Analysis, Employment Standards Administration, U.S. Department of Labor. Table 15.

5) John D. Worrall and David Appel, ed. Workers' Compensation Benefits: Adequacy, Equity and Efficiency. pp. 150-151; p. 11; p. 1.

6) CSG Book of the States 1984-1985. p. 490.

Appendix A

THE CLAIMS PROCESS FOR WORKERS AND EMPLOYERS



Source: Minnesota Workers' Compensation Study (1982) - Steve Keefe, Chairman

APPENDIX B

New York State Workers' Compensation Program

The Claims Service Division is composed of a mail unit, index unit, coverage unit, new case unit, and a statistical unit. The Mail Unit sorts and classifies incoming mail and determines whether there are existing files on incoming claims. The Index Unit assures proper processing through identification of existing case numbers on incoming documents. New cases are referred to the Coverage Unit to determine which insurance carrier is responsible for the claim. The Coverage Unit also identifies the relevant data for input into the computer system. Statistical tabulations prepared by the Statistical Unit are issued on a monthly and biannual basis.

The important task of determining the validity of claims is handled by the Investigation Division. Investigation procedures can be as simple as telephone interviews or as detailed as casework involving interviews with policyholders, claimants, witnesses, co-workers, police or fire officials and doctors. The collection of relevant data may assure the proper disposition of a claim, resulting in avoidance of needless litigation and limiting liability.

The Medical Division conducts medical reviews of cases involving questions of the severity of a claimant's conditions or extent of disability or necessity and frequency of treatment for the claimant. These in-house physicians are assisted in special cases by a panel of outside consultants.

The Hearings Division is comprised of hearing representatives who represent the State Fund in hearings before the Workers' Compensation Board. Cases may involve a disagreement over the amount of compensation being paid, or a disagreement on a permanent damage claim. Hearings before the board resemble court proceedings, but do not necessarily mean winning or losing but rather establishing the fairness of the liability award.

APPENDIX C

Special Funds Currently in Use

This section is from Chapter 7, "Special Funds in Workers' Compensation", pages 121-122, Lloyd F. Larson and John F. Burton, Jr., of Workers' Compensation Benefits: Adequacy, Equity, and Efficiency, John D. Worrall and David Appel, Editors (ILR Press, New York State School of Industrial and Labor Relations, Cornell University, 1985). It is reprinted with their permission.

The principal types of special funds may be classified as follows:

1. Second- or subsequent-injury funds--to remove the perceived disincentive to the hiring or reemployment of handicapped workers (54 funds).

2. Benefit payment guarantee funds--to ensure that benefits due are actually paid even if the employer is not insured (21 funds), or if the insurer (44 funds) or self-insurer (11 funds) becomes insolvent.

3. Benefit adjustment funds for long-term beneficiaries--to keep compensation benefits at least partly updated in long-term disability and survivorship cases so as to minimize the erosion brought about by rising living costs (18 funds).

4. Rehabilitation funds--to help provide funding of rehabilitation services and thereby restore injured workers to productive and gainful employment (17 funds).

5. Funds for continuation of payments in long-term cases--to pay cash benefits (4 funds) or medical benefits (4 funds) in long-term disability or death cases while limiting the liability of the individual employer to a fixed, maximum amount.

6. Occupational disease funds--to provide compensation to workers disabled by chronic diseases resulting from the employment, especially in long-latency cases where the responsible employer is difficult or impossible to locate or identify (7 funds).

In addition to the above, which are found in a considerable number of states, the following miscellaneous funds have been established in only a few jurisdictions:

1. Reopened cases funds--to make it possible to reopen old cases without requiring the individual carrier or employer to defend against claims where proof may be difficult to secure.

2. State funds for public employees--to centralize financing of claims against state and local government employers.

3. Reimbursement funds--to reimburse employers for payments if it later develops that the claims were not valid.

4. Funds providing additional health benefits for children--to increase the amount of benefits made to dependent surviving children.

5. Independent medical examination funds--to pay for independent medical examination of claimants in certain contested cases.

6. Funds providing legal assistance to claimants--to provide information and assistance to claimants about the act and claims procedures.

7. Catastrophe funds--to provide for limitation of employer liability in cases where several employees of the same employer are killed or permanently and totally disabled in one accident.

National Conference
of State Legislatures
1125 17th Street, Suite 1500
Denver, Colorado 80202

STATE LEGISLATIVE REPORT

KTEC

FY88

ITEM	TFHE	TFCF		L. COM APPROVED
C. of EXCELLENCE	4.0 (2.7 MIN)	1.5		
RES. MATCHING GRANTS	1.0	1.0	5.0	1.0
SEED CAPITAL		1.0		
WASH. OFFICE		.5		
LIAISON/EXTENSION	.8	.4 .3		.8
MEMBERSHIPS MTDI, SCSC	0.1			.175
DATA BASES	0.075			
EQUIP UN/COLLEGE	3.0			3.0
CC/AVTS	2.0			2.0
SBIR *		.3		
INCUBATORS	0.3			0.3
BUS. DEV.	0.7			0.7

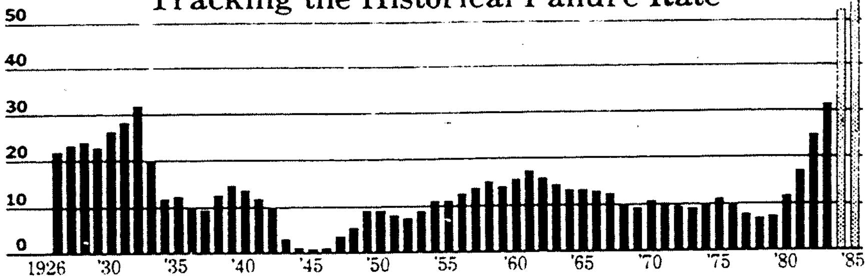
* Current .15

Attachment 7

ATTACHMENT 8

By the Numbers

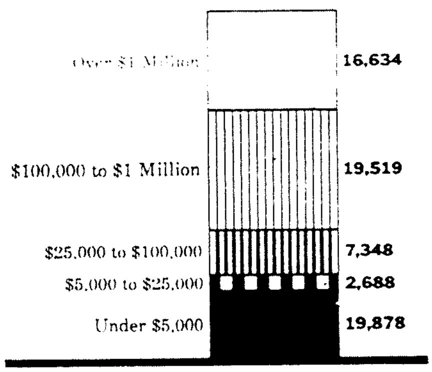
Tracking the Historical Failure Rate



NOTE: Failures per 10,000 concerns; 1984 and 1985 aren't directly comparable to prior years

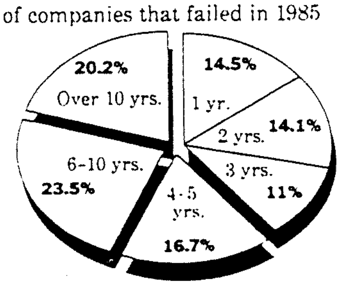
Liability Size

A breakdown by size of the 57,067 companies that failed last year



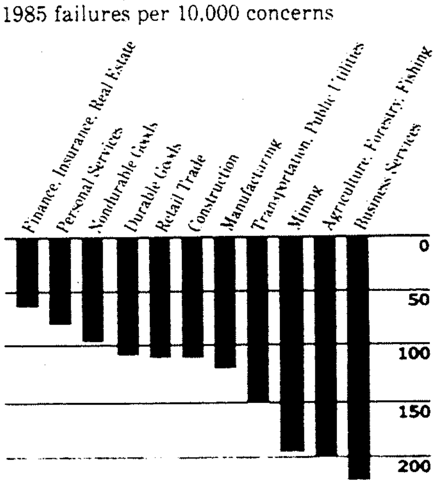
Years in Business

Age of companies that failed in 1985



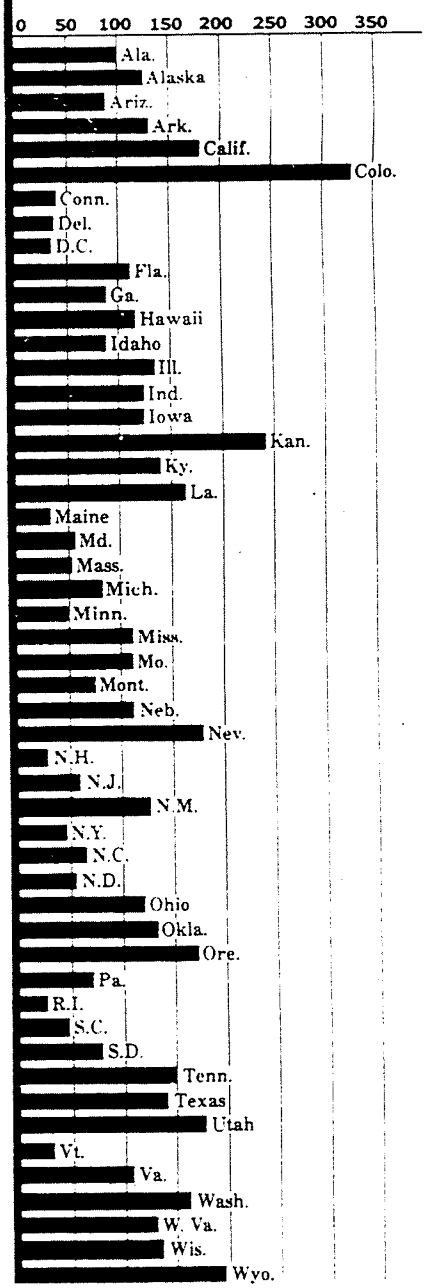
Industry Breakdown

1985 failures per 10,000 concerns



State-by-State

1985 failure per 10,000 concerns



Source: Dun & Bradstreet Corp.

Attachment 8

ATTACHMENT 9

REPORT OF THE TASK FORCE ON AGRICULTURE

OF THE

LEGISLATIVE COMMISSION ON ECONOMIC DEVELOPEMNT

December 1, 1986

Attachment 9

TASK FORCE ON AGRICULTURE

Legislators

Representative David Heinemann
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 in 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. <u>Kansas must monitor consumer trends such as those in health foods, convenience foods, precooked foods, and microwavable foods.</u>

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.

<u>Rural Initiatives</u>

4. <u>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.</u>

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. <u>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.</u>

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. <u>There is a need for a coordinated effort to provide more information to rural areas through satellite capabilities and other electronic media.</u>

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.

<u>Corporate Farming</u>

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

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 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

Advantages	Disadvantages	Recommendations
		1. Do not resist the general economic trends.
1. An educated work force.		
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

Advantages	Disadvantages	Recommendations
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, agranomics, 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.

Advantages	Disadvantages	Recommendations
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.		

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

Advantages	Disadvantages	Recommendations
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).

Roy Poage, DeKalb, Swine Breeder Company

Advantages	Disadvantages	Recommendations
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

Advantages	Disadvantages	Recommendations
	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

Advantages

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.

2. Kansas soybean processing is highly developed within the state.

Disadvantages

1. Restriction to production of alternative crops because of the lack of available market outlets.

2. Kansas wheat tends to be milled outside of the state.

Recommendations

1. State should establish an interdisciplinary team from Regents' institutions.

2. Kansas should pursue avenues that feature the state's natural competitive advantages and modify those institutional factors hindering competitive advantage.

3. Kansas must compete with other regions (leakages from region are often significant).

4. Approaches to economic development in Kansas must be different than those for national economic development.

5. Research and development efforts for alternative crops must be done with production, marketing and processing being simultaneously considered.

   Interdisciplinary research is imperative.

6. Lagging sectors should be identified and possibilities of expansion in these areas examined.

7. Kansas has not followed the processing stream, for example has historically exported its hides, because it does not have a tanning industry.

8. Alternative, affordable toxic waste treatment processes or alternative production processes need to be developed for the tanning industry.

9. International marketing takes modern communications, computers and information management systems make it possible to collec and disseminate current marketing information t industry in a timely manner.

Mr. David (continued)

Advantages	Disadvantages	Recommendations
		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 Hulme, Frito-Lay, Inc., Topeka, Kansas

Advantages	Disadvantages	Recommendations
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.		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.
4. Reasonable utility rates.		
5. Kansas Enterprise Zone legislation is a major incentive in location decision.		

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

Advantages	Disadvantages	Recommendations
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

Advantages	Disadvantages	Recommendations
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)

Advantages	Disadvantages	Recommendations
		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.
		5. Maintain major airline service to major Kansas cities.
		6. Support a strong educational system
		7. Tax incentives, enterprise zone concepts, etc., should be continued.
		8. Assure fair treatment of business and industrial energy costs by the State Corporation Commission.
		9. Continue support of state parks, historic sites, Fish and Game Commission, museums, etc.
		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.
		11. Convention centers and/or the proposed Clinton Lake resort would help draw people into Kansas and provide good exposure.
		12. Technology courses, lectures, short (2-3 day) seminars through the state universities could also help provide exposure.
		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.

Dr. Lowell Satterlee, Pennsylvania State University

Advantages	Disadvantages	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

Advantages	Disadvantages	Recommendations
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 cooperatic between universities.

Darrell Weigel and Leroy Weber, Dillons Companies, Inc.

Advantages	Disadvantages	Recommendations
1. Dillons promotes Kansas products such as bakery flour, bread flour, milk, popcorn, bird seed, eggs, pet food, beef, salt, and plant flowers. 2. Kansas is closer to many of their stores and transportation costs would be more reasonable.	1. Dillons does not use Kansas pork products due to such factors as quality, price, and supply. 2. Volume of lamb is not sufficient in Kansas to meet demand in Dillon's stores.	1. Favors closer contact between producers and retailers. 2. Advocates monitoring consumer trends such as health foods, convenience foods, precooked foods, and microwavable foods. 3. Contact with universities has beneficial aspects.

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

Advantages	Disadvantages	Recommendations
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

Advantages	Disadvantages	Recommendations
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.		1. Differentiation of products originating in Kansas: a. through commodity differentiation, research, and development; and b. through processing/value-added and marketing. 2. Assessment of value-added chain and ways to increase links in state: a. retention of commodity processing in state; and b. import of complementary components when advantageous. 3. Benefit segmentation for foreign investors: a. identification of factors sought by foreign companies investing in the U.S.; and b. targeting of specific foreign countries/companies as potential investors in Kansas. 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.

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

Advantages	Disadvantages	Recommendations
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

Advantages	Disadvantages	Recommendations
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.

Dr. Lapping (continued)

Advantages	Disadvantages	Recommendations
		8. Resources are needed to work with existing small businesses in rural Kansas.
		9. Need to promote Kansas and the midwestern work ethic.

Dr. Jon Wefald, President, Kansas State University

Advantages	Disadvantages	Recommendations
1. Kansas can be the major food processing state in the Union.	1. Faculty salaries.	1. Need to generate jobs of self-sustaining nature in food and fiber industry.
		2. Suggested that universities work closely with industry.
		3. Regents' institutions need to collaborate efforts more closely.
		4. Examine the possibility of using the Extension Service as an outreach to small businesses and community development.
		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.
		6. Food processing endeavors should be our first priority.

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

Advantages	Disadvantages	Recommendations
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

Advantages	Disadvantages	Recommendations
	1. Need for additional facilities at the University (now being addressed by addition and renovation).	1. Need additional work in the following areas: a. iridescence in cooked beef; b. warmed-over flavor problems in beef. c. restructured beef; d. chill technology; and e. vacuum packaging to increase shelf life.

Mr. Jack McKee, President, Key Milling, Clay Center

Advantages	Disadvantages	Recommendations
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.	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. Key Milling now brings in eggs from other states such as Wisconsin.	2. Need to have approximately 35 pullet houses with a 40,000-chick growing capacity.
	3. No assurance that market for eggs or need for additional laying or pullet houses will be there in the future.	

Mr. Dennis Baker, Extension Advisory Council, Anthony

Advantages	Disadvantages	Recommendations
	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.

Dr. William Eberle, Assistant Director of Extension for Community Development, Kansas State University

Advantages

1. It is known that there are only five real strategies for economic development. They are:

    a. expand existing firms;

    b. create new jobs;

    c. bring in outside firms;

    d. improve local linkages; and

    e. capture outside dollars.

Disadvantages

1. Long-term pressures on rural areas have taken a toll on Kansas communities.

2. Cannot separate agricultural economy from rural economy in general.

3. Economic resources are leaking from local economics.

Recommendations

1. Need to identify problems, identify strengths.

2. Need to use analytical tools to determine potentials for success.

3. No community should rely upon a single strategy.

4. While communities in Kansas must diversify their economies, they must recognize that the base is generally agriculture and its related businesses and industries.

5. Continued emphasis must be placed on uncovering new agriculturally-related enterprises that can multiply those local agricultural dollars.

6. Need to retain existing businesses.

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.

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.

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

Advantages	Disadvantages	Recommendations
1. Research is being used and developed with cell cultures which will shorten research time for the release of new and improved crop varieties.	1. Economic difficulties because of condition of oil and gas and agriculture.	1. New ideas that seem acceptable be researched to determine if the idea is workable.
2. Biotechnology is leading the way to improved use of chemicals, culture, vaccines, disease control, animal hormones, genetics, and embryo transplant.	2. Kansas is suffering because of the effects of over supply of grain.	2. State of Kansas must have enthusiasm for growth industries and new idea development.

Mr. Morand (continued)

Advantages	Disadvantages	Recommendations
		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	
	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)

Advantages	Disadvantages	Recommendations
	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.

Advantages	Disadvantages	Recommendations
		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.

Advantages	Disadvantages	Recommendations
	1. Capital has been a problem.	1. Elimination of sales tax for research and development equipment.
	2. Need more food processors and small manufacturers in the state.	2. State-sponsored financing programs.
	3. Utility rates in Wichita.	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	Disadvantages	Recommendations
1. Ethanol production will increase grain prices.		1. Kansas should be a larger producer of ethanol.
2. Ethanol will increase jobs in rural Kansas.		2. Kansas should pass legislation similar to that in other states which encourages ethanol production.
3. Ethanol will replace depleted resources.		3. Research needs to be conducted on the burning of ethanol with high sulfur coal which has under certain conditions reduced air pollution.
4. Ethanol usage in cars will reduce air pollution.		4. Kansas should pass tax credits for the production of ethanol.

Eldon Fastrup, Kansas State Board of Agriculture

Advantages	Disadvantages	Recommendations
		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)

Advantages	Disadvantages	Recommendations
		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.
		8. Support assistance in securing favorable transportation rates and services.

Sam Brownback, Kansas State Board of Agriculture

Advantages	Disadvantages	Recommendations
		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

Advantages	Disadvantages	Recommendations
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.

Advantages	Disadvantages	Recommendations
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

Advantages	Disadvantages	Recommendations
		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)

Advantages	Disadvantages	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)

Advantages	Disadvantages	Recommendations
		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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