

Approved 2/12/87
Date

MINUTES OF THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT

The meeting was called to order by Phil Kline at
Chairperson

3:30 a.m./p.m. on Monday, January 26, 1987 in room 423-S of the Capitol.

All members were present except:

Rep. Barkis

Committee staff present:

Jim Wilson
Lynn Holt
Molly Mulloy

Conferees appearing before the committee:

Raney Gilliland, Legislative Research Dept.
Julian Efird, "
Ben Barrett, "

Chairman Kline called the meeting to order and introduced Ms. Lynn Holt of the Legislative Research Department. Ms. Holt stated that the Legislative Commission on Kansas Economic Development, established pursuant to 1986 H.C.R. 5034, was charged with overseeing the implementation of the economic development initiatives and with conducting an in-depth analysis, through study task forces, of major areas of economic development requiring legislative action in the 1987 Session.

Four task forces, those of Agriculture, Business Training, Capital Markets and Taxation, and Higher Education were created by the Legislative Commission on Economic Development, with each task force being comprised of 13 individuals from the business and financial institutions and from the Legislature. The task forces submitted their reports, including policy and funding recommendations on January 14th. Five pieces of legislation derived from recommendations contained in the Commission's Final Report were referred to the House Economic Development Committee and one to the House Education Committee. Six have not appeared yet and nine have been referred to various Senate Committees.

Ms. Holt introduced the staff members who had worked with the Commission task forces and who would make presentations to the Committee today: Raney Gilliland, Julian Efird and Ben Barrett. A summary of recommendations excerpted from the Commission's Final Report (Attachment 1) was distributed to assist Committee members in following the staff presentations.

Raney Gilliland summarized the recommendations of the Agriculture Task Force which were categorized into six areas: (1) Food processing (2) Research (3) Marketing (4) Rural initiatives (5) Management or Governance and (6) Corporate Farming. He stated that food processing should be the state's first priority in terms of agriculture. He also noted that specific legislation is proposed to amend Kansas law to allow corporate farming facilities to purchase agricultural land. Raney pointed out that the Summary of Recommendations (page 8 of Attachment 1) is in priority order.

Next, Julian Efird discussed the recommendations of the Higher Education Task Force (page 14 of Attachment 1) which are also listed in priority order. He distributed a chart (Attachment 2) showing the proposed governance structure of postsecondary education in Kansas under a State Board of Regents and Commissioner of Higher Education, with two secondary boards. In response to a question from Rep. Chronister, Efird stated that the current Boards for Washburn, the community colleges and Wichita State University would remain intact. In discussing the fiscal impact of the recommendations in detail, Efird concluded that the total cost of recommendations sent by the Task Force to the Commission is \$12,825,000 for FY-88.

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT,

room 423 S, Statehouse, at 3:30 a.m./p.m. on Monday, January 26, 1987.

Lynn Holt distributed a list of expenditure recommendations from the Economic Development Commission Report for which fiscal notes are indeterminate (Attachment 3).

Ben Barrett was the final presenter, discussing the recommendations of the Task Force on Business Training (page 9 of Attachment 1). He stated that the recommendations were not listed in priority order. Barrett noted that there were three basic thrusts to the recommendations: (1) an effort to provide increased consumer-driven competition among program providers (2) to provide financial incentives directed toward targeted objectives and (3) to increase accountability of job-training programs. He said that the Redwood/Krider Report observed that although Kansas has a well educated and productive workforce, employers report they have great difficulty finding people with the specific skills they need. Therefore, the Task Force recommends that a custom training program be viewed as the cornerstone of its Business Training recommendations.

Barrett commented on the various recommendations and provided financial figures in detail on several of the recommendations. He commented that the last three recommendations were made to enhance legislative oversight and accountability of job training programs.

The meeting was adjourned at 4:45pm. The next meeting of the Committee will be on Tuesday, January 27, 1987, at 3:30pm.

Date: 1/26

Q U E S T R E G I S T E R

H O U S E

Committee on Economic Development

<u>NAME</u>	<u>ORGANIZATION</u>	<u>ADDRESS</u>
Ed Schauf	Southwestern Bell ^{Collector} Mobil	Topeka
Leroy Jones	Brotherhood of Locomotive Engineers	Overland Park
Arko Swenson	Board of Agriculture	Topeka
Jack Bancroft	State Rep 11th - Ottawa	
John Myers	Scientific Games	Topeka
Rich McKee	Kansas Dental Assoc	Topeka
Cliff Campbell	KS House	
Mark Lath	ASK	Topeka
Doug Betty	KACEH / DHR	Topeka
Chuck Stones	KS Bankers Assoc.	Topeka
Kevin Davis	League of Ks. Municip.	Topeka
RON SCHNEIDER	KS. RURAL CENTER	TOPEKA
DON COOPER	CONG. JIM SLATTERY	Topeka
Ron Christanson	KS Dept. of Commerce	Topeka
BUD GRANT	KCCI	"
Susan Muffy	Budget	Topeka
Willow Leonard	Comm. Ks. Farm Org.	Topeka

Three of the four Task Forces recommended that various economic development programs be funded through the Kansas Technology Enterprise Corporation (KTEC). Since a number of these recommendations overlapped, the Commission's final decisions on KTEC funding recommendations are presented in Table 1.

TABLE 1

KTEC Funding

(Dollar Amounts in Thousands)

Item	FY 1988 Comm. Rec.	FY 1987 Funding	Net Fiscal Note
Centers of Excellence	\$ 4,000	\$ 517	\$ 3,483
Research Matching Grants	1,000	610	390
Seed Capital	1,000	0	1,000
Washington Office	200	0	200
Liaison/Extension	800	0	800
KTEC Operations	300	210	90
Databases	175	0	175
Research Equipment	3,000	0	3,000
Vocational Equipment	2,000	0	2,000
Small Business Innovation			
Research Matching Grants	300	150	150
Incubators	300	0	300
Business Development	700	0	700
Research Professorships	500	0	500
TOTAL	<u>\$ 14,275</u>	<u>\$ 1,487</u>	<u>\$ 12,788</u>

The Commission recommendations for which there are fiscal notes for FY 1988 for new expenditures total \$15.60 million. Of this amount, \$12.79 million would be for KTEC funding increases over FY 1987. The Commission tax recommendations would decrease FY 1988 SGF receipts by an additional \$4.0 million. The net fiscal note for FY 1988 is therefore \$19.60 million. However, the Commission also made a number of recommendations for which no specific fiscal notes now exist.

HH86-304.int/CC

SUMMARY OF RECOMMENDATIONS

AGRICULTURE

- That a study be conducted to gather information regarding the current status of the food-processing industry in Kansas. (Fiscal note: \$22,000.)
- That a study be conducted to determine whether Kansas should establish a food-processing center. (Fiscal note: \$22,000.)
- That the Marketing Division of the State Board of Agriculture communicate with industries likely to have a competitive advantage in Kansas, including the cookie and cracker industries.
- That research be undertaken in the areas of diversification of agriculture, value-added production, and technical assistance and market development in extension. (Fiscal note: \$1.0 million.)
- That Kansas closely monitor consumer trends in health foods, convenience foods, precooked foods, and microwaveable foods.
- That state universities provide better market analysis research to Kansas businesses and individuals. (Fiscal note indeterminate.)
- That market development programs be modified and targeted more closely to changing conditions and individual market opportunities. (Fiscal note: \$80,000.)
- That a Rural Initiatives Program be established within the Department of Commerce to provide services, assistance, and information directly to rural communities, similar to the type of support provided to farmers by the FACTS program. (Fiscal note: \$430,000.)
- That the resources and talents of public agencies and institutions be merged to promote successful rural economic development and a closer working relationship with local governments and the private sector.
- That the Kansas Board of Regents establish an interdisciplinary team from Regents' institutions and use the state's financial resources to encourage cooperation among higher educational institutions with respect to agricultural research. (Fiscal note indeterminate.)
- That the corporate farming law be amended to allow confined swine and poultry facilities to purchase agricultural land.

BUSINESS TRAINING

- That customized training programs be established to meet the needs of new and expanding Kansas employers who are increasing their work force in Kansas, and for retraining present employees for new technology applications or to otherwise prevent displacement of such employees. These programs should be available at no cost or on a shared-cost basis to employers expanding the work force in Kansas, and on a shared-cost basis to employers engaged in retraining. (Fiscal note indeterminate.)
- That a program be created to provide financial awards to public educational institutions that provide vocational and technical training for exemplary performance in training and placing handicapped or disadvantaged persons in employment. (Fiscal note: \$150,000.)
- That a program be created to provide financial awards to public educational institutions that provide vocational and technical training for exemplary performance in job creation, entrepreneurship, and job upgrading in rural areas of Kansas. (Fiscal note: \$150,000.)
- That the multiple for funding community college vocational programs be increased from 1.5 to 2.0 in equal increments over the next five fiscal years. (Final fiscal note: \$3.1 million; FY 1988 fiscal note: \$620,000.)
- That the area vocational school capital outlay program be expanded to include community colleges. This program should be administered through KTEC. (Fiscal note: \$2.0 million.) Also, that the state pool of instructional equipment program be funded for FY 1988. (Fiscal note: \$250,000.)
- That a Kansas Training Information Program (K-TIP) be implemented to provide placement and earning rates for job training programs of community colleges and other postsecondary vocational training programs. (Fiscal note: \$14,500.)
- That the state policymaking board for community colleges and vocational schools increase the accountability for job training programs under its jurisdiction.
- That the House and Senate Education and Economic Development Committees and the Legislative Educational Planning Committee engage in regular review of the operation and performance of the major job training programs.
- That community college and vocational school representatives review approval procedures and standards for training programs to identify any barriers to rapid and effective responses in meeting the training needs of business and industry. This review, conducted under the auspices of the State Board of Education, should conclude with a report to the House and Senate Education and Economic Development Committees on or before January 15, 1987.

- That the Department of Commerce, through its five regional offices, should act as a source of information for business and industry on available training programs.

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CAPITAL MARKETS AND TAXATION

Capital Markets

- That 100 percent of Kansas Venture Capital, Inc.'s (KVC) investments be restricted to Kansas, but that the 60-40 provision for private Kansas venture capital companies be retained.
- That the venture capital tax credit be truly universal, available to every for-profit, nonprofit, public, private, in-state, out-of-state, incorporated or unincorporated entity investing in Kansas venture capital company stock.
- That private investments in local seed capital pools be eligible for a 25 percent tax credit if the local pools meet certain criteria.
- That KVC be complemented with an in-house venture capital network, initially funded through the Department of Commerce. (Fiscal note: \$20,000.)

And also that: (1) an investor borrowing funds to purchase Kansas venture company stock be eligible for a tax credit on the full investment amount; (2) absent decertification, a taxpayer disposing of a portion of his investment would not lose a portion of the credit through recapture; (3) KVC investments be structured as equity or unsecured subordinated debt with warrants convertible to equity; (4) the \$1.5 million already invested in KVC be reinvested, classified as new investment, and be credited toward the \$10 million requirement; (5) the state invest in KVC preferred stock after the full \$10 million has been raised; (6) the ceiling of \$10 million investment eligible for the tax credit remain unchanged for FY 1987; (7) the Secretary of Commerce be allowed to interpret KVC'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; (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; (10) 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, (11) 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.

- 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. Although empowered to issue bonds for state purposes, the agency would not be empowered to package local, municipal general-obligation bonds unless

statutory language could be arrived at which would be acceptable to local municipalities and their Kansas investment bankers and bond counsel. (Fiscal note indeterminate.)

- 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. (Fiscal note indeterminate.)
- That the Legislature enact the Kansas Security Commissioner's 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.
- That the 1987 Legislature consider a forthcoming study of the impact of securities regulation on the flow of capital in Kansas.
- 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. Also that the Department of Commerce use the Trade Division to manage other cost-effective loan-guarantee programs to enhance export finance. (Fiscal note indeterminate.)

Taxation

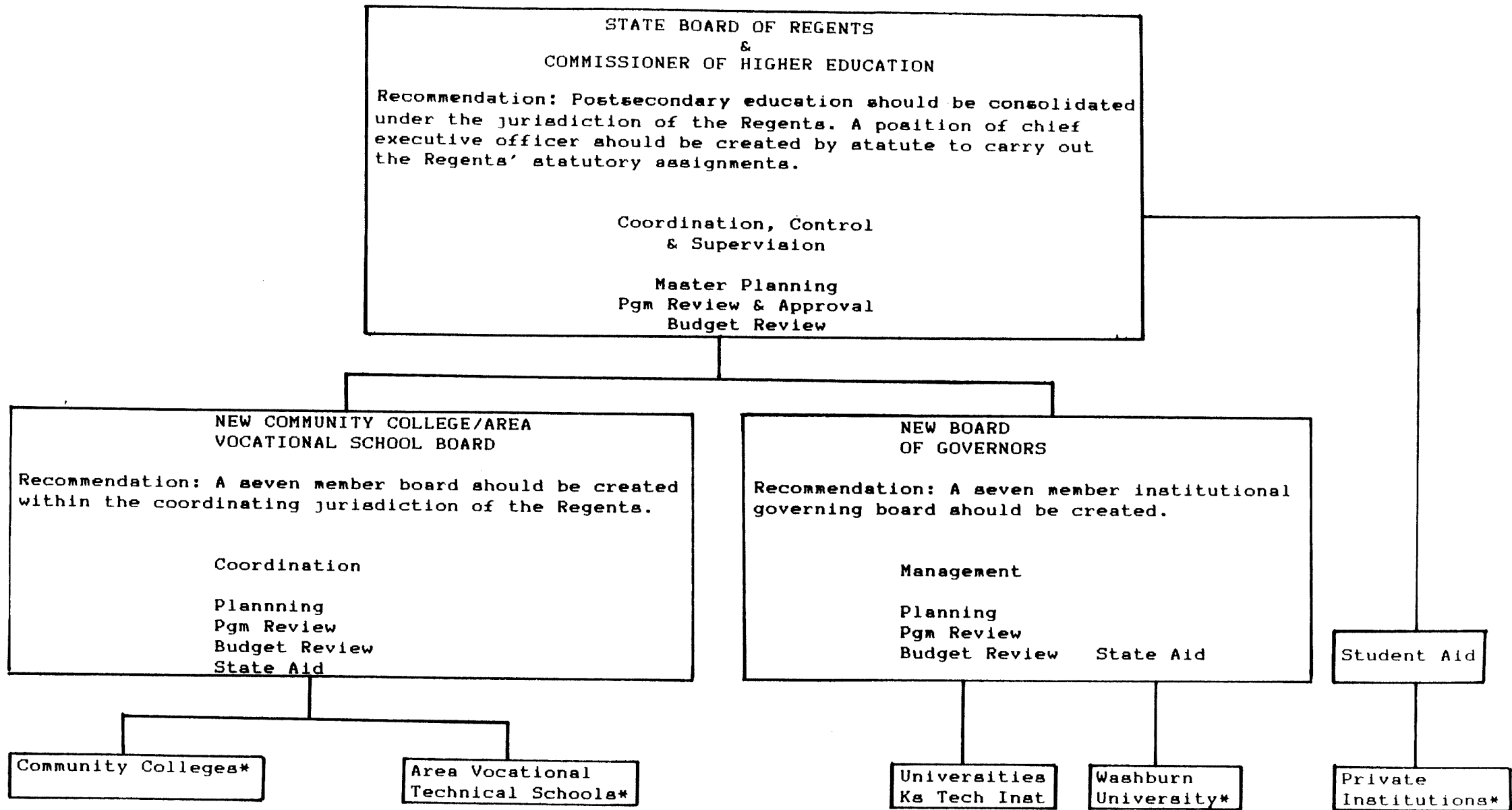
- That the sales and use tax exemption for manufacturing machinery and equipment be expanded beyond enterprise zones to the entire state over the next four fiscal years, and that the enterprise zones' enhancement of job expansion and investment credits, determined to be not cost-effective, be repealed. (Final fiscal note: \$14.5 million; FY 1988 fiscal note: \$4.0 million.)
- 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. (Fiscal note indeterminate.)

- That the Legislature consider reductions in corporation income tax rates that would make Kansas more competitive with other states. (Fiscal note indeterminate.)
- That a special task force be established to study all aspects of the Worker's 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. (Fiscal note indeterminate.)

HIGHER EDUCATION

- That the statutory mission of the Kansas Board of Regents be redefined to include coordination of all postsecondary education, in addition to the performance of its constitutional powers and duties.
- That a Board of Community Colleges and Vocational Educational be created within the coordinating jurisdiction of the Regents. The new board's powers would parallel, but be subject to, those of the Kansas Board of Regents.
- That the Kansas Board of Regents also be assigned authority for coordination of Washburn University within postsecondary education, while leaving the Washburn Board of Regents intact.
- That an institutional governing board be provided for the state universities, Kansas Technical Institute, and Washburn University.
- That the Kansas Board of Regents be authorized by statute to create a position of chief executive officer, in the form of a Commissioner of Higher Education, and be granted powers of appointment and removal over this officer.
- That 1986 S.B. 755 be amended to recognize that Centers of Excellence activities in basic research, applied research, and technology transfer may overlap.
- That Small Business Development Centers be funded through the Department of Commerce at \$350,000 for FY 1988.
- That a program of initiatives designed to enhance closer linkages and interaction between Kansas industry and higher education be implemented, comprising the following elements. Funding would be through KTEC, at the levels indicated in Table I.
 - (1) Centers of Excellence
 - (2) Research Matching Grant Program
 - (3) Equipment Grant Program
 - (4) Technology Transfer/Industrial Liason
 - (5) State Data Basis
 - (6) Research Professorship Program
 - (7) Incubator Development for Small Businesses
 - (8) Management and Entrepreneurship Development
- That KTEC, entities and activities funded by KTEC, and sponsored research funding from any source, shall not be subject to state purchasing laws or state laws and regulations pertaining to travel.

LEGISLATIVE COMMISSION ON ECONOMIC DEVELOPMENT RECOMMENDATION FOR GOVERNANCE



*Local Governing Boards to be maintained.

LEGISLATIVE ECONOMIC DEVELOPMENT COMMITTEES

Fiscal Notes Indeterminate for the Following
Expenditure Recommendations from Report of the Legislative
Commission on Economic Development

1. (Agriculture) Additional funding for food processing research at state universities in Kansas (p. 15).
2. (Agriculture) Establishing contacts with cookie and cracker industries to interest them in locating in Kansas (p. 16).
3. (Agriculture) Monitoring of consumer trends and health foods, precooked foods, and microwaveable foods (p. 17).
4. (Agriculture) Funding of market analysis research for Kansas agribusinesses that are unable to do the research in-house (p. 18).
5. (Agriculture) Sponsorship of Kansas booths or displays at prominent food shows; it is recommended that efforts should be made to recoup a portion of such costs (p. 18; p. 19).
6. (Agriculture) Cooperation with foreign purchasers to better adjust Kansas products to foreign use (p. 18).
7. (Agriculture) Establishment of an interdisciplinary team from Regents' institutions to evaluate the future of agriculture in Kansas (p. 20).
8. (Agriculture) Coordination of effort to provide more information to rural areas through satellite capabilities and other electronic media (p. 21).
9. (Business Training) Creation of a customized training program (p. 42).
10. (Capital Markets) Establishment of a multipurpose statewide bond issuing authority (p. 59).
11. (Banking) Formation of a Task Force on Interstate Banking to study the effect of interstate banking on other states (p. 62).
12. (Export) Drafting of guidelines for a state bid-bond guarantee program; development of such plans; and actual cost to state of the program (p. 64).
13. (Taxation) Funding of a study by the Department of Revenue on the business location decisions resulting from use by Missouri of the single-factor apportionment option (p. 68).
14. (Taxation) Funding of a study by the special task force on all aspects of the Workers' Compensation system and its administration in Kansas (p. 70).

15. (Higher Education) Funding of the proposed reorganization of governance of postsecondary education, including funding of the position of Commissioner of Higher Education (pp. 77-79).
16. (Higher Education) Determination of a modest core budget for basic research centers that would be exempt from the matching provision (p. 82).

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