

Approved \_\_\_\_\_  
Date

MINUTES OF THE Senate COMMITTEE ON Assessment and Taxation

The meeting was called to order by Senator Fred A. Kerr at  
Chairperson

11:00 a.m./~~p.m.~~ on February 2, 1987 in room 519-S of the Capitol.

All members were present except:

Senator Robert Frey

Committee staff present:

Tom Severn, Research  
Chris Courtwright, Research  
Don Hayward, Revisor's Office  
Sue Pettet, Secretary to the Committee

Conferees appearing before the committee:

Tom Severn, Research  
Senator Winter  
Pat Thompson, Reno Co. Chamber of Commerce  
Mark Burghart, Kansas Dept. of Revenue Legal Services  
Dave Barclay, Department of Commerce

Chairman Kerr called the meeting to order and said that the agenda would be to hold hearings on Senate Bills 69 and 68 and to consider possible amendments.

Senate Bill 69

Tom Severn of the Research Department gave a brief overview explaining S.B. 69.

Senator Winter testified in support of S.B. 69. He explained that he was appearing on behalf of the Economic Development Commission and wanted it clear that this bill is recommended by that commission. He urged favorable action on S.B. 69 and also S.B. 68.

Pat Thompson testified in support of S.B. 69. (Attachment 1) He stated that he was present on behalf of Reno County Chamber of Commerce, Reno County Development Council, and Quest, Inc.

He stated that the formation of a seed capital pool to support local economic development projects is a critical part of any long term economic development program. The efforts of the Joint Economic Development Commission is appreciated and supported by the Reno County Chamber. He stated that an intense public and private effort has been made in Hutchinson and Reno County to support needed job creation and economic development programs.

Mr. Thompson stated that S.B. 69 would be very helpful in the efforts of Reno Co. and Hutchinson to attract local investors. However, he felt that additional consideration and possible change should be given to the following parts of the bill:

1. Because of the high risk and uncertain availability, he questioned the matching requirements using public funds. Since seed capital is usually considered to be start-up capital, this type of venture capital investment carries high risk. He questioned whether public funds should be used for this purpose and said that the Federal grants might be impossible to qualify for. He suggested consideration of allowing the seed capital pools to be totally private funds.
2. Mr. Thompson asked for consideration of the certification process. He noted that any proposed local seed capital pool should be reviewed and approved by a City or County Commission before such a pool could be certified and before investors received tax credit. He encouraged "due-dilligence" to be performed prior to certification.
3. He questioned the size requirement of local seed capital pools. He said raising \$250,000 in high risk investments is going to be difficult, especially in smaller communities.

CONTINUATION SHEET

MINUTES OF THE Senate COMMITTEE ON Assessment and Taxation,  
room 519-S, Statehouse, at 11:00 a.m./~~p.m.~~ on February 2, 1987.

Mr. Thompson answered several questions. He thought that the \$250,000 limit should be lowered significantly.

Mark Burghart stated that the Department of Revenue has no position on the merits of the bill itself but that they are concerned with the "carry-back" provisions. He stated that the Department would like to see an allowance of a larger provision of the credit for the first year and then allow a credit to be carried forward. He said that carry-back's are very difficult to administer. He said that consideration could be given to raising the first year allowance of the credit to 50% or even 100%. He suggested the same provisions for the venture capital tax credit.

Dave Barclay gave short testimony reinforcing statements by Mark Burghart.

Senate Bill 68

Tom Severn explained S.B. 68 to the committee. He stated that this bill concerns research and development credits. He explained that the bill was introduced as a technical clean-up bill so that the intent of the 1986 legislation in this area could be carried out.

Dave Barclay gave short testimony concerning S.B. 68. He stated that if the \$250,000 amount would be lowered, there would most certainly be more activity, which is the preference of the Department.

Mark Burghart suggested that the carry-back factor be eliminated.

Committee Discussion on Senate Bill 69

Senator Burke moved that a conceptual amendment be made to S.B. 69 which speaks to "certification by the Department of Commerce." Senator Mulich seconded. Motion carried. Staff will bring language back to the committee to carry out this conceptual amendment.

Senator Burke asked if this change would have to be made in the statutes, or could it be done by regulation. Mr. Barclay responded that he thought they could do it with regulation.

Senator Hayden made the motion to accept the minutes of the January 29 meeting. Senator Montgomery seconded. Motion carried.

Meeting adjourned.



Senate Committee on Assessment and Taxation

Re: Senate Bill SB 69

Kansas income tax credits for investments in local seed capital pools

Presentation on behalf of Reno County Chamber of Commerce, Reno County Economic Development Council, and Quest, Inc.

BY: James C. "Pat" Thompson, Jr., Chairman, Reno County Chamber of Commerce Seed Capital Task Force Team

Ladies and Gentlemen,

The formation of a seed capital pool to support local economic development projects is a most critical part of any comprehensive, long term economic development program. The efforts of the Joint Economic Development Commission to recognize this necessity is appreciated, and entirely supported by the Reno County Chamber.

Over the past few years an intense public and private effort has been made in Hutchinson and Reno County to support needed job creation and economic development programs. We have found that it takes a strong sense of commitment-and cooperation-between the public and private sectors to take sound ideas and turn them into reality. As such, we believe we can offer several practical suggestions to the Committee concerning SB 69.

The formation of "Quest, Inc." in late 1986 was the culmination of a specific drive on the part of the Chamber and the City of Hutchinson to establish a Business and Technology Center--an "incubator" for new businesses and entrepreneurs. Quest, Inc. is a not-for-profit corporation that will direct the affairs of the BTC, including the acquisition and remodeling of an adequate building, selecting a BTC manager, and setting up the process for evaluating applicants who want to use space in the BTC. Quest, Inc. has signed a consulting agreement with Control Data, Inc., which has licensed more than 30 similar incubators around the United States.

Funds for this project came from a special sales tax approved in 1986. The City Commission then heard requests from citizens, including the Chamber's request for funding for the BTC, for specific economic development projects. More than \$ 330,000 was granted Quest, Inc. for 1987 to begin the BTC project, including \$ 125,000 to be paid to Control Data, Inc. to license and assist Quest, Inc. and the BTC. Of this \$ 125,000 consulting fee, \$ 25,000 is specifically directed toward the development of a seed capital fund to provide capital to start-up and new businesses in the BTC. In Control Data's opinion, without this source of capital the BTC concept cannot be successful.

Given the experiences we have had concerning the development of the economic development programs in Hutchinson and Reno County, and particularly those associated with the formation of a seed capital fund to support the BTC in Hutchinson, the tax incentives reflected in SB 69 will be very helpful in our efforts to attract local investors. We do believe that consideration should be given to the following:

1. Matching requirements for private and public funds

There are two issues to this requirement: risk, and availability

Seed capital is usually considered to be "start up" capital. This type of venture capital investment carries an exceedingly high risk. It may not be prudent to invest public funds, whether from federal or local sources, at such risk.

Federal grants to be used for seed capital funding may be impossible to qualify for. To use Reno County and Hutchinson as an example, a substantial amount of local tax dollars are already committed to economic development projects. Our determination was that private funds were more appropriate for seed capital, in that the investments will be made in for-profit businesses. The City and County's role should be directed at providing an improved infrastructure.

2. Certification process

The Chamber and members of the Economic Development Task Force went through an intensive and exhaustive examination before a decision was made to form Quest, Inc., begin the BTC project, and form a seed capital pool. This public review allowed for a good understanding of the goals of this project, and how it "fit" within the overall policies of the City and County.

We believe that any proposed local seed capital pool should be reviewed and approved by a City or County Commission before such a pool can be certified, and investors receive tax credits. This will allow a certain level of due diligence to be performed prior to certification, and perhaps reduce the review requirements by the Department of Commerce.

3. Appropriate size of local seed capital pools.

Raising \$ 250,000 or more in high risk investments is going to be difficult even in Reno County. Smaller communities may not be able to reach this minimum level, and thus will not have the proposed tax incentive available to help them start a smaller fund.

There are also a number of security law questions that are of concern, particularly in the preparation of appropriate risk disclosure documents.

Respectfully Submitted,

Reno County Chamber of Commerce, Reno County Economic Development Council, and Quest, Inc.