

Approved 1-22-87
Date

MINUTES OF THE SENATE COMMITTEE ON ECONOMIC DEVELOPMENT

The meeting was called to order by Senator Wint Winter, Jr. at
Chairperson

12:35 a.m./p.m. on January 15, 1987 in room 123-S of the Capitol.

All members were present except: Senator Vidricksen - Excused

Committee staff present:

Lynne Holt, Research	Chris Courtwright, Research
Ramon Powers, Research	Raney Gilliland, Research
Ben Barrett, Research	Paul West, Research
Julian Efird, Research	Arden Ensley, Revisor of Statutes
Tom Severn, Research	Grace Cooper, Secretary to the Committee

Conferees appearing before the committee:

Senator Winter called the meeting to order at 12:35 p.m. and welcomed all those present to the first meeting of the Economic Development Committee. The Committee will meet regularly in Room 123-S unless the Ways and Means Committee needs the room. In that event, the Economic Development Committee will meet in Room 529-S.

Senator Winter stated that there is a tradition of remarkable bi-partisan cooperation in the Legislature regarding economic development issues. He stressed that the Committee must continue to focus on the common interest, as the bottom line is decision making that ensures an improved job environment in the State of Kansas.

Lynne Holt, Legislative Research Department, introduced a summary report issued by the Legislative Commission on Kansas Economic Development, reviewed and approved by the Commission on January 14. Corrections are now being made to the report and the final report will be distributed early next week.

A list of recommendations made by the Economic Development Commission Task Force was distributed to the Committee. (Attachment I) Lynne Holt pointed out that there is a fairly substantial list of items for which fiscal notes have yet to be determined, and in some cases cannot be determined until certain policies are decided.

Those who staffed the various task forces gave presentations in the following order: Ben Barrett, Business Training Task Force; Julian Efird, Higher Education Task Force; and Tom Severn, Capital Markets and Taxation Task Force. Raney Gilliland will present the Agricultural Task Force report at the next Committee meeting.

Senator Winter announced that the next meeting of the Committee will be a Joint Meeting with the House Economic Development Committee.

The meeting was adjourned by the Chairman at 1.35 p.m..

Guest List

Senate Economic Development Committee
1-15-86

Ted Blankenship Kansas Business News, Wichita

Kevin Arnel

Lynn Van Alst KLSI

Nerla Hye KACC

Topeka

John Parks KDDR

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Mary Brasher Pittsburg State University

Pittsburg

Dary Decker -ASK
OK

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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)

<u>Item</u>	<u>FY 1988 Comm. Rec.</u>	<u>FY 1987 Funding</u>	<u>Net Fiscal Note</u>
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.

*Eco. Dev. 1-15-87
attachment #1*

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.

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.

- 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 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. (Fiscal note indeterminate.)

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 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.)

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.