

Approved 2-18-87
Date

MINUTES OF THE Senate COMMITTEE ON Economic Development

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

12:35 ~~xxx~~/p.m. on Wednesday, February 11, 1987 in room 123-S of the Capitol.

All members were present except: Senator N. Daniels who was excused.

Committee staff present: Lynne Holt - Legislative Research Department
Arden Ensley - Revisor of Statutes
Grace Cooper - Secretary to the Committee

Conferees appearing before the committee:

Ernie Mosher - League of Kansas Municipalities
Steve Randle - Vice Pres., Steifel-Nicolaus, Inc.
Larry McKown - Sr. Vice Pres., First Securities Corp.
Ron Ott - Pres., J. O. Davidson Co.
Ray Reed - First Securities Co.
L. Premer - Sirloin Stockade International
Jack Ranson - Pres., Ranson & Co.

Chairman Winter called the meeting to order at 12:35 p.m. The first order of business concerned a Bill drafted by Arden Ensley in response to a group of businessmen forming a Private Venture Capital firm in Hutchinson. The Bill addresses problems concerned with tax credits that were raised in a previous Committee Hearing. Senator Salisbury moved and Senator D. Kerr seconded a motion that this draft be accepted. The motion passed. (ATTACHMENT I)

Senator D. Kerr gave an overview of SB 73, reconstructing the continuum of capital needs of companies from inception until they become mature public companies:

1. Research and development funds.
2. Seed capital.
3. Venture capital.
4. Mezzanine finance (mixture of debt and equity).
5. Working capital furnished by banking institutions.
6. Long-term money (traditionally bonds).

SB 73 is an important piece in the continuum to growing companies. States have turned to a centralized, multi-purpose bond authority. They rely on a pooling concept for two principle reasons: to spread the cost of issuance over several different users, thereby lowering the cost of issuance to any one user; purchasing, in some cases, credit enhancements that wouldn't be readily available in a single issue. SB 73 is patterned after Arkansas legislation. It will be useful to: small businesses; exporters; a means for reaching into the marketplace for infrastructure money; the option of blind pooling as a means of obtaining long-term, fixed rate capital. (ATTACHMENT II). The Bill, as currently written, is imperfect and needs amending; nonetheless, this is legislation that Kansas needs.

E. A. Mosher, speaking for the League of Kansas Municipalities, appeared in general support of SB 73 (ATTACHMENT III). The League feels it is an extremely broad Bill and needs amending to secure the stated objectives.

LeWayne Premer, Sirloin Stockade International, submitted his remarks and those of his brother, Gale Premer, President of the company (ATTACHMENT IV), supporting SB 73. They feel that Kansas needs a bond pool for businesses which are too big for the SBA and too small for public bonds or stock offerings.

CONTINUATION SHEET

MINUTES OF THE Senate COMMITTEE ON Economic Development,
room 123-S, Statehouse, at 12:35 ~~am~~/p.m. on Wednesday, February 11, 1987

Jack Ranson, President of Ranson & Co., spoke extemporaneously and will submit a written document to the Committee. He expressed general support for SB 73 with one exception. Areas needing the Committee's scrutiny include: (1) The authority would be a defacto State housing finance agency; (2) The Bill creates a debt obligation authority that has not existed either at the local or state level in the area of advance funding of cash flow deficits at the local political sub-division level. They feel that wherever possible, financing should be done at the level of government that is closest to the constituency to get the job done, and that the case has not been made that an authority of this nature needs to be created to become an "on-behalf-of" issuer for local political sub-divisions. He supports an amendment clarifying language in the Bill.

Senator D. Kerr referred to suggested amendments which had been distributed to the Committee (ATTACHMENT V) and asked Ranson to explain more fully the complexity of sharing local revenues. Ranson explained that when you have two entities receiving revenues, the question of priority of claims arises in contractual sharing of local revenue sources, whether they are utility revenues, or sales tax revenues, or ad valorem tax revenues.

Senator Karr asked what problems Kansas would face if this Bill is not passed. Ranson replied that, if this is the "wave of the future" and Kansas did not pass the Bill this session but waits for several years to do so, the time lapse would be detrimental. He said this is not the only initiative that will be suggested to this Legislature, or to future Legislatures, for bringing capital into Kansas, but that this Bill is a reasonably thought out approach that has precedence in other states.

Larry McKown, Exec. Vice President of First Securities Co., Wichita, appeared as an opponent of SB 73 (ATTACHMENT VI). His major concern is that the Bill takes away the ability of local governments to govern themselves regarding capital improvements in their communities. Senator Winter agreed that the Bill is complex, but he sees nothing in the Bill that is mandatory with respect to local governments. McKowan is also concerned that the Bill may be in violation of Kansas Statutes or the Tax Reform Act of 1986.

Ray T. Reed, First Securities Co., testified as an opponent of the concept of the Bill, excluding the concepts incorporated for industrial development. He feels that municipal improvements should not be permissive without the people's approval. The segregation of the authority of this Bill should be for industrial purposes, eliminating anything for municipal public official purposes. Senator Winter requested that Mr. Reed put together a short capsule of his comments and submit them to the Committee.

Steve Randle with Stifel, Nicolaus & Co., Wichita, was opposed to points in SB 73 (ATTACHMENT VII). He feels the Bill is entirely too broad and would support the Bill if the Agency's power was reduced.

Ron Ott, J. O. Davidson & Assoc., Wichita, testified that the Bill encompasses almost every conceivable type of capital improvement, and that public purpose projects should be separated from private purpose projects. Statutes are on the books to aid those public projects. If the Bill was limited to private purpose financing, he would be able to support it. (ATTACHMENT VIII).

Senator Winter requested that everyone who testified today, and those who will testify tomorrow, take a copy of the amendments.

There being no further business, Chairman Winter adjourned the meeting at 1:45 p.m.

GUEST LIST

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NAME	REPRESENTING
<i>H. C. Pitts</i>	<i>League of Municipalities</i>
HAROLD C. PITTS	WCOA
<i>Jim Janner</i>	Kansas League of Savings
<i>Karen McClain</i>	KS. Assoc of REALTORS
<i>Lynn Van Alst</i>	KLSI
<i>Steve Rendell</i>	Glefel Nicolau & Co. - Wichita
<i>Ronald Ott</i>	J. O. Davidson & Associates, Inc. - Wichita
<i>Perry D. McKeown</i>	First Securities Company of Kansas, Inc.
<i>Ray T. Reed, Jr.</i>	First Securities Co - Wichita, KS Wichita, KS
<i>George Barber</i>	TIAA & KS Lodging
<i>Charles Nicolay</i>	KOM/CSAK
<i>Mary E. Turkington</i>	KANSAS Motor Carriers Assn - Topeka
<i>Tom Whitaker</i>	KS Motor Carriers Assn - Topeka
<i>LES BLEVINS JR.</i>	LAWRENCE
<i>LeWayne A. Premier</i>	Singer Stockade 201 - Hatch, KS
<i>Jenny Dudley</i>	KS Bd. of Agric. - Topeka
<i>MARY CARSON</i>	Office of Attorney General - Topeka
<i>DONALD E. JENSEN</i>	HINCE, EVERHART, ELKOURI & JENSEN, WICHITA, KS
<i>ALLEN BELL</i>	OFFICE OF SECY OF ADMIN.
<i>Bob Kelly</i>	KS Independent Colleges - Topeka
<i>Jim Ruff</i>	KU - Topeka
<i>Mark E. Full</i>	ASK - Topeka
<i>Susan Seltson</i>	Office of St. Treas.
<i>Steve Hirsch</i>	Office of St. Treasurer - Topeka

SENATE BILL NO. _____

By Committee on Economic Development

AN ACT amending the Kansas venture capital company act; concerning income tax credits for investments in certified Kansas venture capital companies; amending K.S.A. 1986 Supp. 74-8303, 74-8304 and 74-8306 and repealing the existing sections.

Be it enacted by the Legislature of the State of Kansas:

Section 1. K.S.A. 1986 Supp. 74-8303 is hereby amended to read as follows: 74-8303. For the purposes of this act, the following terms shall have the meanings provided herein, unless the context clearly indicates otherwise:

(a) "Department" means the department of commerce; i

(b) "equity" means all forms of equity such as common stock, preferred stock with or without voting rights and without regard to seniority of equity position, forms of subordinate or convertible debt, or both, with warrants or other means of equity conversion attached, or any other means of financing which meet generally accepted national standards for venture capital investment in the United States; i

(c) "Kansas business" means any small business owned by a Kansas resident, any partnership, association or corporation domiciled in Kansas, or any corporation, even if a wholly owned subsidiary of a foreign corporation, that does business primarily in Kansas or does substantially all of its production in Kansas; i

(d) "Kansas venture capital company" means any for-profit partnership or corporation that has as its primary business activity the investment of funds in return for equity in ventures that are in need of capital for expansion, new product development or similar business purposes and that may be certified by the secretary as meeting the criteria of this act

ATTACHMENT I

Senate Eco Devo
February 11, 1987

and thus eligible for the tax credit provided in this act;

(e) "secretary" means the secretary of the department of commerce;

(f) "cash investment" means money or its equivalent in consideration for:

(1) An equity interest, such as a general or limited partnership interest, common or preferred stock with or without voting rights and without regard to seniority position, forms of subordinate or convertible debt, or both, with warrants or other means of equity conversion attached; or

(2) a debt instrument, such as a note or debenture, which is unsecured, subordinated to the general creditors of the debtor, and requires no payments of principal (other than principal payments required to be made out of any future profits of such debtor) for at least a seven-year period after commencement of its term.

Sec. 2. K.S.A. 1986 Supp. 74-8304 is hereby amended to read as follows: 74-8304. (a) There shall be allowed as a credit against the tax imposed by the Kansas income tax act on the Kansas taxable income of a taxpayer for a cash investment in a certified Kansas venture capital company in an amount equal to 25% of such taxpayer's cash investment in any such company in the taxable year in which such investment is made and the taxable years following such taxable year until the total amount of the credit is used. In any one taxable year, the amount of such total credit allowable for deduction from the taxpayer's tax liability shall not exceed 25% of the total amount of such credit, and, in no case, may such amount exceed be limited to the lesser of 25% of such total credit, and 25% of the taxpayer's tax liability in such year. The amount by which that portion of the credit allowed by the preceding sentence to be claimed in any one taxable year exceeds 25% of the taxpayer's liability in such year may be carried back for not more than three taxable years or carried forward until the total amount of the credit is used. Subject to the foregoing limitations in any one taxable year:

(1) Such credit is allowable in the taxable year in which such cash investment is made;

(2) to the extent the otherwise allowable credit is limited by tax liability limitation in any taxable year, the difference between the tax credit limitation and the tax liability limitation in such taxable year may be carried back three taxable years (to be applied to the earliest such carryback year first);

(3) after application of subdivision (2) above, any remaining unused total credit may be carried back to taxable years commencing after December 31, 1985, (to be applied to the earliest such carryback year first); and

(4) after application of subdivisions (2) and (3) above, any remaining unused total credit may be carried over to subsequent taxable years until such total credit is used in full.

(b) The secretary of revenue ~~may~~ shall allow credits that are attributable to not more than \$24,000,000 of cash investments in certified Kansas venture capital companies, which shall include not more than \$10,000,000 for Kansas Venture Capital, Inc. The credits shall be allocated ~~to~~ by the secretary for cash investments in certified Kansas venture capital companies in the order that completed applications for designation as Kansas venture capital companies are received by the secretary. Allocations by the secretary of such credit shall be made based upon committed future cash investments, including those contingent solely upon certification, as well as uncommitted cash investments expected to be committed or made within 90 days of certification. Any such expected uncommitted cash investments which are not in fact made or committed within such ninety-day period and with respect to which the certified Kansas venture capital company has not so demonstrated to the secretary in writing to have been made within 100 days of certification, shall forfeit their allocation of such credit. Any certified Kansas venture capital company may apply to the secretary at any time for additional allocation of such credit based upon then committed cash investments, but priority as to such additional

allocation shall be determined at the time of such subsequent application. Notwithstanding the provisions of subsection (c), investors in Kansas venture capital companies established after July 1, 1984, which otherwise meet the requirements specified in this act, shall be, upon certification of the Kansas venture capital company, entitled to the tax credit provided in subsection (a) in the calendar year in which the investment was made.

(c) No taxpayer shall claim a credit under this section for cash investment in Kansas Venture Capital, Inc. No Kansas venture capital company shall qualify for the tax credit allowed by Chapter 332 of the 1986 Session Laws of Kansas for investment in stock of Kansas Venture Capital, Inc.

(d) The provisions of this section shall be applicable to ~~all~~ cash investments made in any taxable years year commencing after December 31, 1985, and prior to January 1, 1993.

Sec. 3. K.S.A. 1986 Supp. 74-8306 is hereby amended to read as follows: 74-8306. (a) The secretary shall promulgate rules and regulations for making an application for certification of a Kansas venture capital company and shall specify the information that must be submitted at the time of application. No Kansas venture capital company shall be certified until the secretary has adopted rules and regulations as required in K.S.A. 1986 Supp. 74-8305 and amendments thereto. A company seeking to be certified as a Kansas venture capital company must specify the level of ~~capitalization~~ cash investment that the company expects to qualify for the tax credits provided for in this act. The application must show that the applicant's purpose is to encourage and assist in the creation, development and expansion of Kansas businesses and to provide maximum opportunities for the employment of Kansans by making venture capital available to Kansas businesses as described and defined in K.S.A. 1986 Supp. 74-8303 and amendments thereto.

(b) The department, through the secretary, shall review the articles of incorporation or the articles of partnership of each

applicant for certification and the business history of the applicant and determine that the capitalization is at least \$1,500,000.

(c) Within 60 days of application, the secretary shall issue the certification and notify the department of revenue of such certification, or shall refuse the certification and issue an order so providing.

Sec. 4. K.S.A. 1986 Supp. 74-8303 74-8304 and 74-8306 are hereby repealed.

Sec. 5. This act shall take effect and be in force from and after its publication in the Kansas register.

STATES CONSIDER NEW FINANCING METHODS;
OHIO ISSUES ITS FIRST POOLED BOND

The ringing in of the new year means the ringing out of many traditional forms of tax-exempt financing. In particular, as of Jan. 1, 1987 the new tax law prohibits the use of industrial development bonds for facilities other than manufacturing. Also, the tax law prohibits banks from deducting 80 percent of the interest incurred in buying "private purpose" tax-exempt bonds issued after Aug. 7, 1986.

ATTACHMENT II

Senate Eco Devo
February 11, 1987

In response, states are rushing to develop new forms of financing, including "pooled" or "umbrella" bonds (the proceeds of which are distributed to several businesses for their development projects) and taxable bonds.

John Carson, Connecticut's economic development commissioner and chairman of the Connecticut Development Authority (CDA), noted that Gov. Bill O'Neill has directed the CDA to "aggressively pursue alternatives" to traditional financing methods. CDA officials are discussing taxable bond financing and might restructure or consolidate the state's \$30 million array of existing special loan programs (which are currently targeted to specific needs and geographic areas).

Noting that the tax act's restrictions were imposed "as a reaction to the federal budget deficit," Carson said he hopes the new limits "will be reversed in the near future when critics realize the value of industrial revenue bonds to the national economy."

Officials in Missouri are also considering developing umbrella bonds. They note that the effect of tax reform on IDBs was felt long before the act became law. In 1985, IDB issuers in Missouri received allocations of over \$683.6 million from the state Economic Development Department. In 1986, in-state issuers received only \$212.5 million in IDB allocations.

Elsewhere, in Ohio, the first issue under the state's pooled industrial revenue bond program was sold Dec. 22. The \$23.4 million issue -- which benefited 12 manufacturing, retail and office projects -- was the largest U.S. pooled bond to date, said Mark Barbash, deputy director for the Ohio Development Department.

The largest challenge in the issuance was "bringing each of the borrowers to the same line on the same date," Barbash said. Because the commercial projects in the pool would be ineligible for tax-exempt financing after the end of the year, "many borrowers were speeding up their development process. As such, they were pushing into a four-week time period a process that normally will take three to six months."

One factor that helped the effort succeed was the acceptance -- by the underwriters, bond counsel and Master Letter of Credit issuer -- of the public purpose of issue, Barbash added. "In a number of situations, we were confronted with obstacles which, left alone, would have killed or significantly delayed an individual bond issuance. In each circumstance, our 'partners' came forward and helped solve the problem. In some cases, they accepted reductions in fees or expanded liability to help out."

Barbash noted that, because this was the first such pooled bond in the state, "there was a great deal of skepticism on the part of businesses and banks that it could be carried off. . . We focused all of our efforts for the first issuance on completing the package itself, rather than on a broad marketing campaign around the state." Now that the credibility of the program has been established, the Development Department plans a full-scale marketing effort in 1987.

The pool was sold at a six-month floating rate of 4.5 percent, with semiannual rate changes. Terms ranged from five to 15 years, based upon the asset life for each borrower. Each bond in the pool was secured by a participating bank letter of credit. The entire pool was enhanced with a Master Letter of Credit from National City Bank, Cleveland, the largest bank in Ohio.

Lead underwriter was Prudential-Bache Securities out of its Chicago office. Co-managers were McDonald and Co. (Cleveland), Prescott Ball and Turben (Cleveland) and Seasongood and Mayer (Cincinnati). Bond counsel for the Development Department was Squire, Sanders and Dempsey, the leading bond counsel in Ohio.

Illinois joins 4 states in export financing

By ANDY OAKLEY

The Illinois Export Development Authority's planned \$15 million bond issue to provide loans to export businesses is one indication of a burgeoning trend among states helping import-export companies.

At its first meeting Jan. 9, the State Export Finance Task Force, just formed by the National Association of State Development Agencies, identified five states — California, Illinois, Louisiana, Minnesota and Tennessee — as being actively involved in export financing.

Another eight states — Connecticut, Maine, Maryland, Ohio, Pennsylvania, Texas, Virginia and West Virginia — were reviewing ways to use the idea.

Illinois and Louisiana are the only two states that have plans to take on the role of banker, selling bonds to help finance import or export companies inside their boundaries.

"There's a big explosion of export promotions and export finance-related programs by various states," said Suzi Ezalenko, director of export activities for the American Association of Exporters and Importers.

"Still, the idea of lending is not quite as prevalent as the idea of having counseling services and other kinds of promotion activities, or helping put buyers and sellers together," she said.

The Illinois authority's first bond issue will finance short-term loans to small and medium-sized businesses that want to export products. The taxable bonds, which are backed by a letter of credit from the Bank of Tokyo, are scheduled to be sold to Dean Witter Reynolds Inc. in late June.

Bonds to help companies in the export and import markets do not qualify as tax exempt.

The issue is geared toward helping small to mid-sized export businesses, said Philip Korot, vice president of public finance for Dean Witter. Up to \$500,000 would be lent to each company.

The Illinois sale comes two months after the Louisiana Imports-Exports Trust Authority sold \$50 million in taxable notes for larger firms that deal in export and import markets. The notes are backed by a letter of credit from Sumitomo Bank in New York. Co-underwriters were Howard, Weil, Labouisse, Friedrichs Inc. and Drexel Burnham Lambert Inc.

The bond proceeds will be used to finance loans of \$1 million or more, said Henry Spicer, an international marketing specialist with the Louisiana Department of Commerce. Plans are in the works to help smaller companies with loans of under \$1 million, Mr. Spicer added.

The Louisiana authority was created by the Legislature in 1979

but didn't become active until 1984 when a board was appointed. The bond issue — the authority's first — will finance the shipping, insurance and other costs of bringing in or sending out goods through Louisiana ports — even if the company is based outside the state.

The authority is considering issuing another \$100 million in bonds. The sale "might go in the next few weeks," especially if interest rates continue to decline, Mr. Spicer said in an interview in mid-May.

A shift in focus toward helping smaller firms might be under way, because they are the ones that have the most difficulty obtaining financing elsewhere.

A number of state officials have agreed that "international departments of many banks are ill-equipped to serve the needs of exporters or only serve large firms," according to the Trade Monitor, a newsletter of the National Association of State Development Agencies.

"The financial needs of small exporters are frequently not met by existing programs. Export financing is a relatively new issue on the international trade agenda. And while it is an option for many states, it is clear that states will have to carefully research and assess their needs and banking capabilities before they venture into this relatively uncharted territory," stated an April 1986 article in the newsletter.

The Trade Monitor said three state legislatures — Alabama, Florida and Georgia — have rejected state export financing programs.

A study by Georgia on its exporting needs determined that such help to businesses was not needed. Officials in Florida determined that banks in the state were doing an adequate job of financing exports, while the Alabama Constitution prohibits the government from assuming such liabilities.

But these failures haven't slowed other states from taking on the role of banker or adviser in the export world.

Some states maintain "sister-state" agreements with foreign countries to develop computerized programs for exploring trade opportunities in other nations.

The Illinois Export Development Authority, which was created by the state's Export Development Act of 1983, was formed to expand exports of manufactured goods and services to foreign purchasers, to cooperate with public and private export organizations, to provide financial counseling, and "to establish a source of funding, credit guarantees and insurance to support export development not otherwise available, particularly to small and medium-sized business," Illinois statutes say.

The authority was also given permission to sell up to \$100 million in bonds.

John Kerwitz, the authority's executive director, said his office received more than 500 inquiries from businesses within three weeks of announcing the proposed \$15 million bond issue, which has a five-year maturity.

Loans to exporters would be for terms up to 180 days, Mr. Kerwitz said. When a loan is paid off, that money would be lent to another

business.

"We could finance \$1 million a year per exporter. That's quite a bit of exporting," Mr. Kerwitz said. "From the response we've been getting from the business and banking communities, we'll probably have to go with another bond issue in the not-too-distant future."

Smaller companies often are shut out of the export business, Mr. Kerwitz added.

Banks involved in international trade financing generally deal in transactions of at least \$1 million with a term of two or more years, he said.

"That type of transaction is not what many of the smaller to medium-sized companies do," Mr. Kerwitz said. "They're looking at smaller transactions, and they're looking at about 180 days or less in term."

"Community banks, where a lot of small to medium-sized businesses do their banking, are very reluctant to involve themselves in international trade transactions because of the uncertainty of the foreign buyer and the credit and political risks associated with it," he said.

"So the company with a limited capital base finds it extremely difficult to accept an order because of the inability to finance it. We're here to fill the niche and provide the financing," he said.

The Illinois General Assembly adopted the Export Development Act of 1983 to help smaller companies within the state step into a world often dominated by large exporting companies.

To qualify for a loan, a business must prove its export will either create or maintain jobs in Illinois. At least 25% of the final manufacturing process of an exported good or service must be done inside the state. ■

Illinois testing taxable bonds in a big way

By ANDY OAKLEY

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Oregon considers overseas sale

Treasurer hopes to flee tax reform by issuing abroad

By ANDY OAKLEY

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

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

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

"I learned that we could sell state

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

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

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

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

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

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

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

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

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

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Oregon flees

Continued from page 3

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

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

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

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

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

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

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

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SMALL BUSINESS

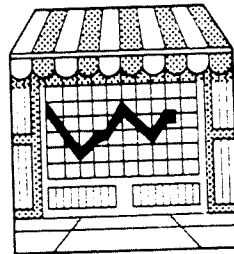
States Launch Efforts to Make Small Firms Better Exporters

By STEVEN P. GALANTE

Staff Reporter of THE WALL STREET JOURNAL

THE DOWN PAYMENT arrived last week for C.M. Magnetics Corp.'s biggest sale yet, a \$2.7 million order from China for a system that makes videotape. Already the venture capitalists are knocking on the door of the three-year-old company in Santa Fe Springs, Calif., just outside Los Angeles.

C.M. Magnetics might not even be around today, though, were it not for a California program that helps small companies finance exports. The program, operated by the state's World Trade Commission, enabled C.M. Magnetics to obtain financing last year after three banks declined to lend the company working capital to complete a \$280,000 order from Hong Kong. The agency stepped in again a few months later when C.M. Magnetics needed capital to fill a \$180,000 order from China. That sale paved the way for the current contract. "Without their help," company President J. Carlos Maciel says of the agency, "we probably wouldn't be in business today. We were struggling."



California's is one of a number of financial-aid programs popping up around the country to assist small and medium-sized companies expand their sales through exports. At least 10 states operate similar programs, and more are following suit. "Most small businesses can't get export financing from traditional sources such as banks," says Joseph Azzolina, a New Jersey assemblyman who has proposed such a program in his state. His bill is intended to help small businesses establish an exporting track record that would ease their access to commercial financing.

EXPORT FINANCING ELUDES small businesses for two reasons. Big banks generally aren't interested in making small loans. And small banks, lacking experience in export financing, are wary of the risks. Most state programs are addressing the problem through small banks. They aim to make such lenders more comfortable with export financing by guaranteeing repayment of the loans.

California, for example, guarantees 85% repayment on loans used to finance working capital or receivables related to exports. Illinois's program is slightly more ambitious. It will lend banks 90% of the funds they use to make an export-related loan. Illinois also has arranged to have the U.S. Export-Import Bank insure the state, the lender and the exporter against most losses on export sales.

The state programs have limits. California's maximum guarantee is \$350,000. Illinois caps its guarantees at \$500,000.

Since California's program started in mid-1985, the state has made 23 guarantees totaling \$3.7 million. Illinois, which launched its program last summer, so far has backed six sales totaling \$2.5 million. "None of those transactions could have occurred without our participation," says John C. Kerwitz, executive director of the Illinois Export Development Authority.

Start-Up Firm's Tribbles Cause Troubles

FEDERAL TAX REFORM ADVANCES

When members of Congress return on September 8, they will be greeted with a written conference committee report which will reflect agreements reached and signed by 18 of the 22 tax conferees. The effect of those agreements on states is summarized below. It should be noted that all details are extracted from a 102-page general congressional summary and related information NCSL has obtained. An official written report is being processed.

TAX-EXEMPT FINANCING

Congress had exhibited a strong intention to curb perceived abuses involving tax-exempt financing and volume. Despite the relatively small revenue gains (\$2 billion over 5 years according to House sources), the conference report would seem to achieve this intention. Financing of state and local government public works projects could well become more costly and more difficult in the future.

All bonds, including general obligation bonds, will remain "governmental purpose" and tax exempt only if 10% or less of the proceeds are used in private business and 10% or less of the principal is secured by private business. Current law applies 25% use and security tests. Any bond failing the test is a private purpose bond and subject to the minimum tax.

IDB Uses - Bonds for convention, sports, trade, parking, pollution control and industrial park facilities will no longer qualify as IDBs. Governments could continue to use tax exempt financing for such facilities if they passed the aforementioned 10% use and security tests. IDBs may be used for: multifamily rental housing; airports; docks and wharves; mass transit; small issue IDB (terminate 12-31-86); water, sewer and solid waste; hazardous waste; local electric, gas and heating.

Volume Cap - "Government Purpose" bonds are not under the volume cap, as NCSL sought. Effective 8-15-86, the per state volume cap on most IDBs, student loan and home mortgage revenue bonds becomes \$75 per capita or \$250 million, whichever is greater. Effective 12-31-87, the volume cap drops to \$50 per capita on \$150 million.

Nonprofits - Nonprofit (501-c-3) hospitals and universities are not subject to the volume cap.

Bond Proceed Usage - 95% of bond proceeds must be used for the qualified activity. Current law sets a 90% threshold. Cost for issuance (bond counsel, accountant fees, etc.) may be covered by a maximum 2% of the proceeds.

Alternative Minimum Tax - Interest on new issue IDBs, student loan and home mortgage revenue bonds is treated as a preference in both individual (21%) and corporate (20%) minimum taxes. Corporations would also be taxed retroactively on all tax-exempt interest (including interest from government purpose bonds) via a "book income" item.

Bank Deductibility - On bonds acquired after 8-7-86, cost for banks to purchase and carry tax-exempt bonds will no longer be deductible. One exception is permitted. 80% of purchase and carry costs would be deductible if the issuer anticipates issuing a maximum of \$10 million in bonds within a year.

Advance Refunding - One advance refunding will be permitted for governmental bonds issued after 12-31-86. No advance refunding is allowed for IDBs.

Arbitrage - Earnings from investment of any bond proceeds not spent within 6 months must be rebated. Governments issuing less than \$5 million annually are exempt from the rebate requirement.



League of Kansas Municipalities

PUBLISHERS OF KANSAS GOVERNMENT JOURNAL / 112 WEST SEVENTH ST., TOPEKA, KANSAS 66603 / AREA 913-354-9565

TO: Senate Committee on Economic Development
RE: SB 73--Kansas Development Finance Authority
FROM: E.A. Mosher, Executive Director
DATE: February 11, 1987

On behalf of the League and its member cities, I appear in general support of SB 73. This position of general support was taken by the Finance and Taxation Committee of the League. It is consistent with a convention--adopted Statement on Municipal Policy provision, which provides as follows:

"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."

Our position of general support is deliberate. It is an extremely broad bill, creating a state bond agency with extensive powers to finance a wide variety of public and private activities. We are somewhat overwhelmed by its encompassing nature, and are frankly surprised that all the stated public objectives can be secured by a bill of only 24 pages. We suspect some amendments will be required to secure the stated objectives, and thus we extend our conceptual support.

Most of our interest deals with the public sector financing provisions of the bill, and the potential of the authority to efficiently and effectively meet public capital needs in the future. However, we also have an interest in the potential of the authority in providing capital financing for economic development purposes.

As Committee members know, the bill would permit the development authority to issue bonds for governmental purposes on behalf of requesting governmental units. I think it important to keep in mind that nothing in the bill, that we can find, would permit authority bond issues except at the request of and on behalf of governmental units. (1)

Our support position for the "on behalf of" provisions stems in part from knowledge that the public infrastructure needs of Kansas local units are substantial. I'm not sure we have a good handle on the dimensions of our infrastructure needs. However, we do have the study entitled "Kansas Infrastructure"; published by the Kansas Department of Economic Development in the Spring of 1986. One paragraph of this report provides:

"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

ATTACHMENT III
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rail lines. An estimate of funding shortfalls for these needs is in a range of \$3.5 to \$7.5 billion."

While the private delivery system for securing long-term municipal finance has served Kansas communities well in the past, we have less confidence in the future, an anxiety compounded by the new Tax Reform Act and the apparent declining Kansas market for municipal securities.

As I suspect Committee members know, there are several states that do now have municipal bond banks. These include Alaska, Indiana, Maine, Michigan, New Hampshire, North Dakota and Vermont. There may be others. Advocates of state bond banks report they can reduce expenses in three ways:

(1) Applying economies of scale to up front issuance costs. One estimate by the Bank of Boston is that a bond bank can lower overhead costs by over one-half.

(2) Bundling small issues into larger offerings achieves state-name recognition. Large borrowers may be crowding out small borrowers. In 1984, 65% of the issuers received just 8% of all proceeds. The top 35% received 92%. To quote a John Nuveen & Company report, "the municipal market has moved away from the city or school district wishing to borrow \$1 million or less."

(3) Bond banks can upgrade the ratings of borrowers, cutting interest costs.

Our second kind of concern in support of a bill like SB 73 is the need for having "something on the books" which can respond to changing needs and conditions in the future. For example, there have been recent suggestions that local capital contributions may be necessary to secure some of our new, major highway objectives. If this concept should develop, it would appear inefficient to have separate bond issues by dozens of cities and counties in an attempt to obtain some area or corridor financial support from local units. A finance authority vehicle, such as proposed in SB 73, would provide a mechanism for intergovernmental financing of such projects.

Another example of the possible future use of such a finance authority would be in the water pollution control area. The new federal Clean Water Act envisions a phase-out of direct federal grants, with provision for increasing reliance on state financial assistance and state revolving fund loan financing. A state finance authority has potential application in this area.

In addition, it seems to us that a finance authority, with the potential of pooling "on behalf of" issues, might be effective in bringing outside capital into Kansas. Hopefully, Kansas banks and other financial institutions will still be a market for classic municipal issues, particularly for those under \$1,000,000 under the new Tax Reform Act. I'm not an economist, but it seems to me there are some advantages to bringing outside capital into Kansas, a product typically obtained through larger, nationally marketed issues.

Finally, I would restate the previous observation that the private dealer system has served Kansas well in the past. Indeed, some imaginative ways have been developed to issue new and refunding bond issues. Further, Kansas municipals have long enjoyed a favorable market rate compared to other states. And some dealer firms and municipal bond attorneys report "subsidization" of the handling of small issues by small municipalities. We do not believe the proposed authority will jeopardize these advantages. It will provide an option-- an option to be used when the public benefits. The authority approach for "on behalf of" bonds might be used next year, or it might not be used for many years. We think the vehicle should be there, when, as, and even if, the need arises.

Senator Winter
Chairman, Economic Development Committee

Thank you Senator Winter for letting us appear before your committee today. We are a family owned corporation which basically operates in Kansas. We have Sirloin Stockades in this state: Hutchinson, McPherson, Salina, Abilene, Junction City, Manhattan, Lawrence, Coffeyville, Emporia, El Dorado and Newton. We also own a Best Western Motel in McPherson. We own the buildings and land in six of these locations. We are a profitable Kansas corporation with 458 employees. Our payroll is over \$2,700,000 per year. We have sales of \$8,900,000. We have too great a net worth to qualify for any SBA loans, except for the 504 Program which we have reached our limit on. The new tax laws are making it extremely difficult to find investors to lease building and land from in order to build a new restaurant, which adds jobs and income to our state. We have contacted banks in Wichita, McPherson, Hutchinson, and Ottawa to finance a new restaurant in Ottawa. None of these banks would consider a loan with fixed rates longer than three years. Several of these banks were interested in the loan amortized over as many years as we would want, but would fix the rate for no longer than three years. We will not borrow money for twenty years to build in Kansas with variable rate loans. If you don't know what the rate is, you don't know if you can pay it back. Kansas needs a bond pool for businesses who are too big for the SBA and too small for public bonds or stock offering. This type of financing is very important for the business community which exists in this state to help Kansas grow. Our father borrowed \$450,000 to build the Holiday Manor Hotel in McPherson in 1972. He put \$50,000 of his own money into it. This was a fifteen year fixed rate loan of 8%. Since that time, \$1 million has been borrowed and all but \$300,000 has been repaid. All of it was longer term fixed rate. Neither of the financial institutions in McPherson who participated in these loans loan to anyone money on fifteen year fixed rate today, let alone 10% or less.

Our father could not have built this facility without fixed rate loan. Larry, Gale and myself would not have joined together to build upon what he started. We would not employ 458 people in this state if it was not for long-term fixed rate loans. We cannot grow without them. Kansas will not have the growth it needs without them. You need to help us help Kansas grow.

Thank you,

LeWayne Premer

ATTACHMENT IV

Senate Eco Devo
February 11, 1987

February 11, 1987

Senator Winter
Chairman, Economic Development Committee

Dear Senator Winter:

Thank you for allowing my letter to be read. I regret that I cannot be here in person to discuss this very important letter with you. I am past president of the Kansas Restaurant Association and have to chair a board meeting in Wichita at 1:00 pm today.

As LeWayne stated to you, we can't grow as a firm without long term financing. This is not a problem just in Kansas. I am president of Sirloin Stockade International. We have a chain of 60 restaurants and net income of over \$1 million. We are based in Hutchinson, Kansas. One of my jobs is to raise capital for our company. I have met with over ten banks in the last four months. Large banks and small banks alike. Five of those banks will give us variable rate balloon loans for new construction. None of them would consider fixed rate loans over five years. By providing Kansas with a bond fund of fixed rate long-term mortgage, you would put Kansas ahead of many states and start Kansas growing again. To borrow \$500,000 - \$600,000 through a bonding firm is too expensive to do, but by being able to borrow from a pool would lower these costs. This idea would be a great aid to getting Kansas growing again.

Sincerely,

Gale Premer, President
Sirloin Stockade International

PROPOSED AMENDMENT

SUBMITTED BY:

Jack Ranson

TO

SENATE BILL NO. 73

Line 123-124 delete	" , except that bonds shall not mean bonds issued by a municipality which constitute a general obligation of the municipality"
Line 228 insert	after "including" the following: <u>municipal and quasi-municipal corporations.</u>
Line 232 insert prior to "(0)"	<u>"Pooled bonds" means bonds of the authority, the interest on which is subject to federal income taxation, which are issued for the purpose of acquiring bonds issued by two or more political subdivisions.</u>
Line 530 delete	"revenue"
Line 531 insert	<u>(a) prior to "purchase"</u>
Line 532 insert after "utility"	<u>or (b) finance any capital improvement facilities, educational facilities or health care facilities which are authorized under the laws of the State to be financed by the issuance of general obligation or utility revenue bonds of a political subdivision; provided, however, the acquisition by the authority of general obligation or utility revenue bonds issued by political subdivisions with the proceeds of pooled bonds shall not violate the provisions of the foregoing</u>
Line 569 delete insert	"county judge" <u>board of county commissioners</u>
Line 589 delete	"section 103(k) of"
delete insert	"1954" <u>1986</u>
Line 671-672 delete insert	"the tax equity and fiscal responsibility act of 1982, or any other" <u>any</u>

ATTACHMENT V

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February 11, 1987

FIRST SECURITIES COMPANY

OF KANSAS INCORPORATED

INVESTMENT SECURITIES

ONE MAIN PLACE
316-262-4411

WICHITA, KANSAS

P. O. BOX 1321

ZIP CODE 67201

SUMMARY OF POINTS IN OPPOSITION TO SENATE BILL 73

Senate Economic Development Committee
Senator Wint Winter, Jr., Chairman

Wednesday, February 11, 1987
12:30 p.m., Room 123-S

Overview

The Goals and Objectives outlined in the Senate Bill No. 73 are certainly critical to our State's future, however, the following questions should be considered before the committee votes to approve the legislation:

- 1) A State agency is another form of bureaucracy we do not need.
- 2) How is the agency to be funded? Will it be an added expense to the State budget and/or the municipalities?
- 3) Takes away the ability of local governments to govern themselves regarding capital improvements in their community.
- 4) Kansas municipalities have not had any trouble getting financing for capital improvements in the twenty-four years of my experience.
- 5) Local investment bankers from Wichita, Topeka, and Kansas City have underwritten and marketed Kansas bonds and have supplied the needs of municipalities capital improvements over the years, and have been competitive with interest rates through the a free market system and competition.
- 6) A State agency puts too much power in the hands of a few who may not be sensitive to to the needs of Kansas municipalities in all areas of the State.
- 7) Small municipalities may have trouble receiving funds for capital improvements in a timely manner.
- 8) Red tape will slow down the process of receiving funds with restrictive requirements.
- 9) Several cases have existed in the past with federal agencies where delays in getting funds, due to the bureaucratic process, has increased construction cost and higher interest rates.

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February 11, 1987

FIRST SECURITIES COMPANY
OF KANSAS
(INCORPORATED)

Senate Economic Development Committee
Senator Wint Winter, Jr., Chairman
February 11, 1987
Page 2

10) Many purposes listed in the Bill are prohibited from being tax-exempt due to the Tax Reform Act of 1986.

11) I have worked with industries in other states and have had to go through state authorities and state agencies. In every case it cost the industrial client more money in fees, caused delays, and created uncertainties as to when and if bonds could be issued.

12) Kansas has some advantages over surrounding states in attracting industry. Kansas has the Right to Work Law; available land; a good labor force and work ethics; centrally located; and tax abatement for industries and businesses. Kansas municipalities have been competitive in trying to attract industry to their locale through their chamber of commerce, governing body, and local citizens. Local municipalities may lose a competitive edge if a state agency has control.

Respectfully submitted,

FIRST SECURITIES COMPANY
OF KANSAS, INC.



Larry L. McKown
Executive Vice President

LLM:sd

STEFEL, NICOLAUS & COMPANY INCORPORATED

INVESTMENT SERVICES SINCE 1890

111 S. Main Street, Wichita, Kansas 67202, 316-264-6321
KS 1-800-362-1167

SUMMARY OF POINTS IN OPPOSITION TO SENATE BILL 73

Senate Economic Development Committee
Senator Wint Winter, Jr., Chairman

Wednesday, February 11, 1987
12:30 p.m., Room 123-S

Overview

The Goals and Objectives outlined in the Senate Bill No. 73 are critical to our State's future. I feel the Senate Economic Development Committee should, before approval of this legislation, consider the following:

1) Is there a need for SB 73 and are there any activities or financing vehicles proposed in SB 73 which are not currently available in existing Kansas statutes? SB 73 provides no new financing tools which are not available today with existing State legislation.

2) Does SB 73 assist economic development? SB 73 appears to be primarily directed at pooling municipal bond issues into larger issues. Pooling sometimes creates economics but frequently does not. SB 73 appears to pool together good and bad financing credits. This means good credits will pay more for financing with only the lesser financing credits benefiting.

3) Why are we establishing more State government versus less State government? By establishing a Kansas Development Authority with the power anticipated by SB 73, the State is establishing more State funding requirements versus less. This is a period when austerity is a byword.

4) The market for Kansas Municipal and Quasi-Municipal Bonds has historically been far better than the National Bond Market. This means interest rates for Kansas bonds have been lower and sell for a premium in the National Market. Kansas issues have, for the most part, been smaller in principal amount. The majority of the Kansas bonds are sold in Kansas to Kansas investors. Our State does not lack investment capital for Municipal Bonds. There is no reason to believe that this investment base will not be available in the future.

5) Have any credit worthy financings not been able to be financed with existing sources of capital? To my knowledge there have been no business enterprises or communities which have not been able to secure very competitive financing for their projects..

ATTACHMENT VII

Senate Eco Devo
February 11, 1987



MEMBERS / NEW YORK STOCK EXCHANGE, INC. / AMERICAN STOCK EXCHANGE, INC. / MIDWEST STOCK EXCHANGE, INC.

6) Why add more government involvement in the "free market system"? Economic conditions are tough in Kansas, don't strike out to build a new State agency to do what the private sector has been successful in providing.

7) How much will funding this Agency cost? If it cost the State any money from appropriations, it is too much. If the agency is proposed to be self perpetuating, then it is competing with investment banking firms, banks and savings and loans, who have never lacked the ability to provide financing in the State.

8) Does the Tax Reform Act of 1986 make this type of financing vehicle as viable as it would have been in the past? The Tax Reform Act of 1986 makes bonds issued for private businesses subject to an Alternative Minimum Tax for individual and disallows the Federal income tax exemption entirely for institutions. Therefore, some of the bonds issued by the proposed development authority will not provide lower interest rates, but will actually sell for higher rates.

Respectfully submitted



Steven F. Randle
Vice President
Municipal Finance

J. O. Davidson & Associates, Inc.



Municipal and Corporate Securities

420 E. English • Suite B • P.O. Box 205
Wichita, Kansas 67201 • (316) 265-9411

Branch Office:

301 W. 13th Street • Suite 410
Hays, Kansas 67601 • (913) 628-8743

SUMMARY OF POINTS IN OPPOSITION TO SENATE BILL 73

Senate Economic Development Committee
Senator Wint Winter, Jr., Chairman

Wednesday, February 11, 1987
12:30 p.m., Room 123-S

Overview

The Goals and Objectives outlined in the Senate Bill No. 73 are certainly critical to our State's future, however, the following questions should be considered before the committee votes to approve the legislation:

- 1) Senate Bill No. 73 addresses the economic development activity of the State of Kansas. However, it does nothing to promote economic development other than to establish another State-level agency.
- 2) The Bill presupposes that there is a lack of debt and/or equity capital in the State. This is not true. All of the purposes outlined in the Bill can be financed by present law.
- 3) Many of the purposes listed in the Bill cannot be financed with tax-exempt bonds due to Federal Tax Law.
- 4) Enormous efforts are being made by local governments, business leaders, financial institutions, and many others to promote economic development in the State. This legislation merely duplicates many of those efforts and may add confusion.
- 5) The market for Kansas bonds continues to be Kansas institutional and individual investors. Bonds issued by State agencies historically are pooled and sold nationally. Those investors that have provided the financial support in the past would be precluded from participating in the future.
- 6) Kansas municipal bonds presently enjoy lower interest rates than our neighboring states. One of the reasons for this is the clear understanding and identification of the bond credits. Bonds issued by State agencies are difficult to evaluate and identify, resulting in higher interest rates.
- 7) Another reason Kansas bonds enjoy low interest rates is the healthy competition that exist amongst bond dealers. Senate Bill No. 73 provides for negotiated sales for the bonds eliminating that competitive environment.
- 8) Bonds issued in a pooled or consolidated basis reduces local government involvement and control. The best source of economic development often is present industry and businesses, which can best be identified by local government.

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February 11, 1987

Senate Economic Development Committee
Senator Wint Winter, Jr., Chairman
February 11, 1987
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9) Providing debt financing does not create economic development. The Wichita general aviation industry is a perfect example. Cessna and Beech have recently been sold to very large corporations that can provide enormous amounts of capital to them. Neither businesses have seen an improvement in business due to the access to more capital.

10) Establishing another financing vehicle whereby good and bad credits are consolidated causes good credits to pay more for financing than if they entered into the financing independently. Healthy economic development comes from growth in good solid creditworthy entities.

11) Providing financing for health care facilities and elderly housing is an important segment of economic development. During the month of January, our firm closed a bond issue for \$4.8 million in Ellis County, Kansas providing capital for the expansion of two nursing homes and an elderly housing project. We underwrite several bond issues each year like this one and have found there is a ready market for the bonds.

12) Educational facilities are also important to our State's growth. Our firm recently purchased the \$3.5 million Board of Regents bonds for Kansas University at an average interest rate of 5.59% for a ten year financing. Obviously low cost financing is available for educational facilities under present law.

13) Many of the public purposes that would be financed by the revenue bonds contemplated by this Bill are presently subject to voter approval before the debt is consummated. As I understand this Bill, the general public would have no voice in the decision.

14) In summary, Senate Bill No. 73 identifies many worthy economic development objectives. However, the establishment of another State agency to provide a financing vehicle is not the answer. All of the purposes listed can be financed by present statutes on a tax-exempt or taxable bond basis.

Respectfully submitted,

J. O. DAVIDSON & ASSOCIATES, INC.



Ronald E. Ott
President

REO:sd