

Approved 3-5-87
Date

MINUTES OF THE SENATE COMMITTEE ON ECONOMIC DEVELOPMENT

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

12:40 ~~a.m.~~/p.m. on February 24, 1987 in room 529-S of the Capitol.

All members were present except: Senator Daniels - Excused
Senator Vidricksen - Excused

Committee staff present:

Arden Ensley, Revisor of Statutes
Lynne Holt, Legislative Research Department
Mary Allen, Secretary to the Committee

Conferees appearing before the committee:

Senator Eugene Anderson, Kansas Senate
David Barclay, Department of Commerce
Dr. Charles Krider, University of Kansas

The meeting was called to order at 12:40 p.m. by the Chairman, Senator Wint Winter, Jr..

Senator Hayden moved that the minutes of the January 18, 1987, meeting of the Committee be approved. Senator D. Kerr seconded the motion. The motion carried.

The Chairman announced that he has asked Senator Feleciano, the Ranking Minority Member of the Committee, and Senator D. Kerr, the Vice Chairman of the Committee, to join him in all discussions regarding the setting of agendas, identity of conferees, and other matters pertaining to the running of the Committee.

Senate Bill 176 - An Act creating the small contractors and small businesses' revolving loan fund.

Chairman Winter called on Senator Eugene Anderson, sponsor of SB 176, to explain the bill. Senator Anderson noted that the primary purpose of SB 176 is to try to provide some mechanism by which the state might be able to assist small businesses financially. (See Attachment I for his statement.) He stated that the reason for the bill is very well set forth in a newspaper article from the Eagle-Beacon entitled, "Tight-Fisted Climate Hampers Ventures". (Attachment II) He pointed out that in the article an expert from the Wichita Independent Business Association states that it is easier to borrow \$500,000.00 than it is to borrow \$50,000.00 today because traditional lending institutions are just not in the business to provide risk capital. He noted also that the Small Business Administration (SBA) is not in the business of helping people start businesses. Senate Bill 176, he said, is an idea to assist small business and small contractors in getting needed capital to start up or expand their operations.

Senator D. Kerr asked how large a loan fund is envisioned in SB 176. Senator Anderson replied that this could best be determined by the Committee if a source for the fund could be located. He observed that one state has put, in a fund such as this proposed one, as much as \$60 million but he does not feel that Kansas can afford that nor would that amount be a reasonable request. Senator D. Kerr asked if a loan guarantee program, as opposed to a direct loan program, has been considered. Senator Anderson said that he does not think that the SBA's loan guarantee program works very well. He noted that even though SBA guarantees a certain percentage of the loan, it still requires a substantial amount of money for an entrepreneur to provide himself. He observed that a majority of the small businesses now in Kansas are service oriented and most service businesses can start up with \$50,000.00 or less. He stated that he did not give serious thought to a loan guarantee program.

Senator Feleciano asked who would administer such a revolving loan fund. Senator Anderson answered that one would certainly want the lending institutions to participate.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON ECONOMIC DEVELOPMENT
 room 529-S, Statehouse, at 12:40 ~~a.m.~~/p.m. on February 24, 1987

He stated that the Small Business Development Centers (SBDC) could determine some of the guidelines for the fund. The SBDC's and the lending institutions could work together to determine who should receive a loan and who should not.

Chairman Winter questioned whether or not Kansas Venture Capital, Inc. (KVC) could meet the needs addressed by SB 176. Senator Anderson stated that he certainly would want KVC to meet the needs of small businesses. He pointed out that the small businesses create about eighty-five percent of the jobs in Kansas and such businesses need some source of capitalization. Businesses having loan problems are those trying to borrow \$50,000.00 to \$150,000.00, he said.

Senator D. Kerr observed that venture capital companies have as their goals to "take a piece of the action", to make an equity investment, and to try to make a profit out of that investment. They will be going for those companies who have a larger amount of "sizzle" rather than for a company which might have a more social purpose, that being to start up small businesses because they will create jobs. He feels that SB 176 proposes to set up a fund which will be willing to make loans of greater risk than a commercial lending institution would be willing to make. A program such as that proposed in SB 176 would be expected to have a high rate of loss; consequently, such a program would have to be budgeted with this fairly high rate of loss considered.

Senator Anderson said that with the SBDC's developing programs to aid new businesses and businesses wanting to expand, the high rate of loss could be cut. He noted that a lot of small businesses start under-capitalized and, as a result, do not have enough money to operate the first couple of years when they are not making much money. The SBDC's are helping prospective small businesses with such things as determining whether or not they have proper capitalization, preparation of tax reports, etc.. Senator Anderson observed that the state should want to help to develop small businesses, for jobs would be created for people who normally cannot find them. Once these individuals have jobs, they produce an income and are no longer subject to public assistance. They can be productive citizens, pay taxes, and feel good about themselves.

In answer to a question, Senator Anderson said that he is not suggesting that the Department of Commerce get into the business of competing with the lending institutions of the state. He observed that he would like to see a close working relationship between the Department of Commerce and the lending institutions. Senator Burke asked what kinds of safeguards could be put in SB 176 to provide that the same kind of loans would not be made by the Department of Commerce as are made by the lending institutions. Senator Anderson replied that the SBDC's could help in this area.

David Barclay, Department of Commerce, said that if the Committee decides to recommend SB 176 favorably, the Department recommends that it be passed as a loan guarantee program, not as a direct loan program. He observed that the state can get a lot more for its dollar with a program of loan guarantees.

Senator D. Kerr told the Committee that the South Central Kansas Economic Development District does have a revolving direct loan program. The money came from a federal grant. He observed that this District reports a very low loss rate on its loans.

Chairman Winter announced that the Institute of Public Policy and Business Research, headed by Drs. Krider and Redwood, has agreed to provide both the House and Senate Economic Development Committees with outside staff services and bill following. He called on Dr. Charles Krider for his observations and suggestions on SB 176. Dr. Krider said that he questions whether or not the Department of Commerce should be allocating funds to private businesses. He said that perhaps the allocation of funds should be through a third party in SB 176. The Community Development Centers (CDC) in Kansas would be a possibility.

Dr. Krider said that loan guarantees are preferable to direct loans in terms of leveraging state funds. He observed that the state could make a lot more money available to small businesses with loan guarantees. He called the attention of the Committee to line 51 of SB 176 and noted that he is not sure that the term "working capital" is what is wanted in the bill. He said that "working capital" suggests that it is capital which

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON ECONOMIC DEVELOPMENT,
room 529-S, Statehouse, at 12:40 ~~a.m.~~/p.m. on February 24, 19 87

is secured rather than more risk oriented venture capital. He stated that if you really wanted venture capital to be the aim in SB 176, this term should be rephrased. As the wording appears now in SB 176, it provides for a duplication of what banks do.

Chairman Winter suggested that SB 176 might be changed to require that applicants for the loans must show that they have applied through conventional banking channels and been turned down.

Senator Feleciano observed that organizations such as the South Central Kansas Economic Development District which represents fourteen CDC's, across Kansas could be utilized for determining who should receive a loan under the provisions of SB 176. He noted that they have extensive, broad based advisory committees which serve with them. He said that the CDC's could form a beautiful partnership with the Department of Commerce.

Dr. Krider said that SB 176 needs to contain a clarification as to under what circumstances a company would be eligible for a loan. He noted that the language in the bill is a little broad.

The Chairman suggested that he, Senator Anderson, David Barclay and someone from Dr. Krider's staff work together to narrow the issues and discuss the variables in SB 176.

Senator D. Kerr said that if SB 73, which would create the centralized bond bank authority, is passed, it might be possible to get the money for SB 176 through such a centralized bond authority with loans going out to private industry and with perhaps the possibility of some credit enhancement through a reserve pool provided by the state - no direct state investment but perhaps a reserve pool to enhance the credit enough to make the bonds float at a reasonable rate.

Senator F. Kerr said that before SB 176 should pass, it should be determined that the need expressed in the bill for loans to small businesses is truly a top priority.

The meeting was adjourned by the Chairman at 1:30 p.m..

February 24, 1987

GUEST LIST

NAME

REPRESENTING

ED DESOIGNIE

KANSAS DEPT. OF TRANSPORTATION

David Borley

DEPT of Commerce

Mary Vincent

ABC of Kansas

SPAM Coulter

K.S. Contractors Assn.

CHARLES KRISAN

KC

Lynn Van Halst

KL51

Eugene Andersen

senate

Janet Stubbles

WBAK

EUGENE (GENE) ANDERSON

SENATOR DISTRICT TWENTY-NINE

SEDGWICK COUNTY

P O BOX 4598

WICHITA, KANSAS 67204-0598



TOPEKA

SENATE CHAMBER

COMMITTEE ASSIGNMENTS
 MEMBER CONFIRMATIONS
 EDUCATION
 FEDERAL AND STATE AFFAIRS
 PUBLIC HEALTH AND WELFARE

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE

SENATE BILL 176 IS AN IDEA TO ASSIST SMALL BUSINESS AND SMALL CONTRACTORS IN GETTING NEEDED CAPITAL TO START UP OR EXPAND THEIR OPERATIONS.

MANY STATES, LOUISIANA, KENTUCKY, ALABAMA, ARKANSAS, CALIFORNIA, COLORADO, FLORIDA, ILLINOIS, KENTUCKY, MASSACHUSETTS, NEW MEXICO, NEW YORK, NORTH CAROLINA, OKLAHOMA, SOUTH CAROLINA, TENNESSEE, TEXAS, VIRGINIA AND WEST VIRGINIA HAVE ALL PROVIDED FUNDS TO ASSIST SMALL BUSINESSES

UNIQUE APPROACHES HAVE BEEN USED TO ACQUIRE THE NEEDED CAPITAL TO PROVIDE LOANS TO SMALL BUSINESSES FROM COMMUNITY DEVELOPMENT BLOCK GRANT MONIES, TO USING IDLE FUNDS ON HAND AT THE STATE OR LOCAL LEVELS, TO REINVESTING FUNDS THAT HAVE BEEN DIVESTED FROM SOUTH AFRICA AND PUT THOSE FUNDS INTO SMALL BUSINESSES.

A NUMBER OF CITIES HAVE ESTABLISHED FINANCIAL ASSISTANCE PROGRAMS FOR SMALL AND MINORITY BUSINESS DEVELOPMENT. MANY OF THESE PROGRAMS USE URBAN DEVELOPMENT ACTION GRANTS AND COMMUNITY DEVELOPMENT BLOCK GRANT MONIES TO ESTABLISH REVOLVING LOAN FUNDS FOR SMALL AND MINORITY BUSINESS ENTERPRISES.

SOME CITY PROGRAMS THE COMMITTEE MIGHT WANT TO LOOK AT ARE ST. PAUL, MINNESOTA, LOUISVILLE, KENTUCKY AND KANSAS CITY, MISSOURI.

Senate Sec Devt
2-24-87
Attachment I

IN THE STATE OF LOUISIANA, A SMALL BUSINESS EQUITY CORPORATION MAKES, RENEWS, PARTICIPATES IN, OR GUARANTEES LONG TERM LOANS, EITHER DIRECTLY OR IN COOPERATION WITH BANKS OR OTHER LENDING AGENCIES FOR FINANCING THE DEVELOPMENT, EXPANSION AND RETENTION OF SMALL BUSINESSES IN THE STATE.

FOURTEEN STATES HAVE SMALL BUSINESS LOAN PROGRAMS AT THE STATE LEVEL, WHILE MANY OTHER STATES (24) HAVE SMALL BUSINESS OFFICES THAT WORK WITH LOCAL UNITS TO SET UP MECHANISMS TO PROVIDE FINANCIAL ASSISTANCE TO SMALL AND MINORITY OWNED BUSINESSES, HOWEVER ONLY THREE STATES, LOUISIANA, MISSOURI AND OHIO HAVE LOAN PROGRAMS FOR MINORITY OWNED BUSINESSES.

THE STATE OF MISSOURI IN ADDITION TO A STATE LOAN PROGRAM HAS A DOWNTOWN MINORITY DEVELOPMENT CORPORATION IN KANSAS CITY, MISSOURI THROUGH WHICH A 9 MILLION DOLLAR (UDAG) AWARD WAS PASSED AS A LOAN IN FINANCING A 60 MILLION DOLLAR DOWNTOWN HOTEL DEVELOPMENT PROJECT. THE LOAN, PAYABLE WITH INTEREST TO THE CORPORATION OVER A SEVEN-YEAR PERIOD, RESULTED IN A REVOLVING LOAN FUND OF ABOUT 12 MILLION DOLLARS TO BE USED FOR FINANCING DOWNTOWN MINORITY OWNED BUSINESSES.

DURING THE PAST TWO YEARS, I HAVE SERVED ON THE COUNCIL OF STATE GOVERNMENTS BUSINESS DEVELOPMENT TASK FORCE AND THIS TASK FORCE HAS PROVIDED ME THE OPPORTUNITY TO VISIT OTHER AREAS AND SEE HOW MANY OF THESE PROGRAMS WORK, AND THE VAST MAJORITY ARE WORKING WITH GREAT SUCCESS AND PROVIDING JOBS IN MANY ECONOMICALLY DEPRESSED AREAS SOME OF WHICH ARE LOCATED IN ENTERPRISE ZONES.

E THREE:

IN KENTUCKY, THE SMALL AND MINORITY BUSINESS DEVELOPMENT OFFICE OF THE KENTUCKY DEPARTMENT OF COMMERCE, WHICH HAS A SMALL BUSINESS LOAN PROGRAM ALSO COORDINATES ACTIVITIES THROUGHOUT THE STATE ADMINISTRATIVE STRUCTURE, ACTS AS AN ADVOCACY AGENCY FOR EXPANSION OF OPPORTUNITIES THROUGH UTILIZATION OF AVAILABLE STATE RESOURCES AND SERVES AS A RESOURCE CENTER FOR ALL SMALL AND MINORITY BUSINESS OWNERS AND MANAGERS.

WITH THE EVOLUTION OF OUR SMALL BUSINESS DEVELOPMENT CENTERS (SBDC) IN KANSAS WILL PUT OUR EDUCATIONAL INSTITUTIONS IN THE FOREFRONT OF ECONOMIC DEVELOPMENT GEARED TOWARD SMALL BUSINESS. THIS IS A POSITIVE AND INNOVATIVE STEP, HOWEVER THE SMALL BUSINESS DEVELOPMENT CENTERS, AT PRESENT, DO NOT PROVIDE ANY FUNDS FOR LOANS, BUSINESS PLANNING-BUSINESS DEVELOPMENT-BUSINESS START-UP OR BUSINESS EXPANSION. ALL TAKE MONEY - - AND MONEY CONTINUES TO REMAIN A PROBLEM FOR SMALL BUSINESSES.

EUGENE ANDERSON, SENATOR
29th DISTRICT

Summary of State Initiatives

States	State OMBE	Procurement Set Aside†	Bonding	Small Business Act	Small Business Office	Small Business Loan Program	Minority Business Loan Program
Alabama	•			•	•		
Alaska				•	•	•	
Arizona					•		
Arkansas	•						
California	•	•		•	•	•	
Colorado	•	•					
Connecticut			•	•	•	•	
Delaware	•				•		
District of Columbia		•	•				
Florida				•	•		
Georgia		•		•			
Hawaii				•			
Idaho							
Illinois	•	•		•	•		
Indiana	•	•	•	•	•	•	
Iowa							
Kansas		•		•			
Kentucky	•	•		•	•	•	
Louisiana	•	•	•				•
Maine						•	
Maryland	•	•			•	•	
Massachusetts	•			•	•		
Michigan	•	•			•		
Minnesota		•	•	•	•		
Mississippi				•	•	•	
Missouri							
Montana							•
Nebraska							
Nevada							
New Hampshire							
New Jersey				•	•	•	
New Mexico						•	
New York	•						
North Carolina	•				•	•	
North Dakota							
Ohio	•	•	•		•	•	•
Oklahoma							
Oregon					•		
Pennsylvania	•		•		•	•	
Rhode Island							
South Carolina							
South Dakota					•		
Tennessee	•						
Texas	•	•	•	•			
Utah						•	
Vermont							
Virginia	•		•				
Washington	•			•	•		
West Virginia	•				•		
Wisconsin	•				•		
Wyoming							

†These programs vary greatly State to State to wording and effect.

Tight-Fisted Climate Hampers Ventures

By Stan Finger
Staff Writer

The year doesn't figure to be a bonanza for budding business builders, even though money and ideas should be available, business leaders predict.

New small businesses that make it will do so in spite of the current conditions, officials said, not because of them.

"It's very difficult to start a business in the present climate," said Roland Smith, executive director of the Wichita Independent Business Association.

While there's a "glut of money" available for business investment, Smith said, most financing programs and investors "are not even geared to the bulk of the businesses that exist. They just haven't hit the mark yet. It is a very perplexing situation. And I don't expect it to get better, I expect it to get worse."

The problem, Smith said, is making financing available for businesses with only a few employees.

"It is more easy to borrow \$500,000 than it is \$50,000 today," said Smith, who complained that lending policies "are not dealing yet with those businesses of 25 or less employees . . . and 80 percent of the businesses in Kansas probably fall into that category."

BUT DEVELOPMENT leaders said good ideas with good chances of success still find support.

"If you have the right idea with the right person with the right plan — *that's* what is in short supply — I have never seen money to be a problem," said Fran Jabara, director of the Center for Entrepreneurship at Wichita State University. "It's usually when one or more of those other factors are weak, those people have difficulty attracting funds."

There are a lot of people taking the plunge into the business world, whether or not financing is readily available.

Officials for Dun & Bradstreet said 1,300 businesses sprang up in Kansas last year, with more than 1,100 of the new firms employing 500 or less. And Smith said his local 1,300-company association continues to grow by 20 to 25 new members a month.

NEW BUSINESSES have accounted for less than 30 percent of the loans approved by the Small Business Administration in the past five years, which had traditionally been a frequent financier of new businesses.



Smith
... Says lending
policies aren't geared
toward starting
small businesses.

SBA spokesman Tom Means said only 21 of the 84 loans approved in Wichita last year were for new businesses, and just 83 of the 324 loans approved for the state's 77 western counties were for new businesses.

Means said the agency has been reluctant to gamble on ventures that might fail.

Banks, investors and other lending institutions are also being cautious about financing ventures. When people ask him about the best form of financing to start a business these days, Smith said, "I tell 'em, 'Find you a rich aunt.'"

Business leaders say the tight-fisted fiscal approaches can be blamed on the fitful local economy, which is struggling to overcome slumps in the businesses that have been pillars of the Kansas economy — agriculture, energy and aircraft production.

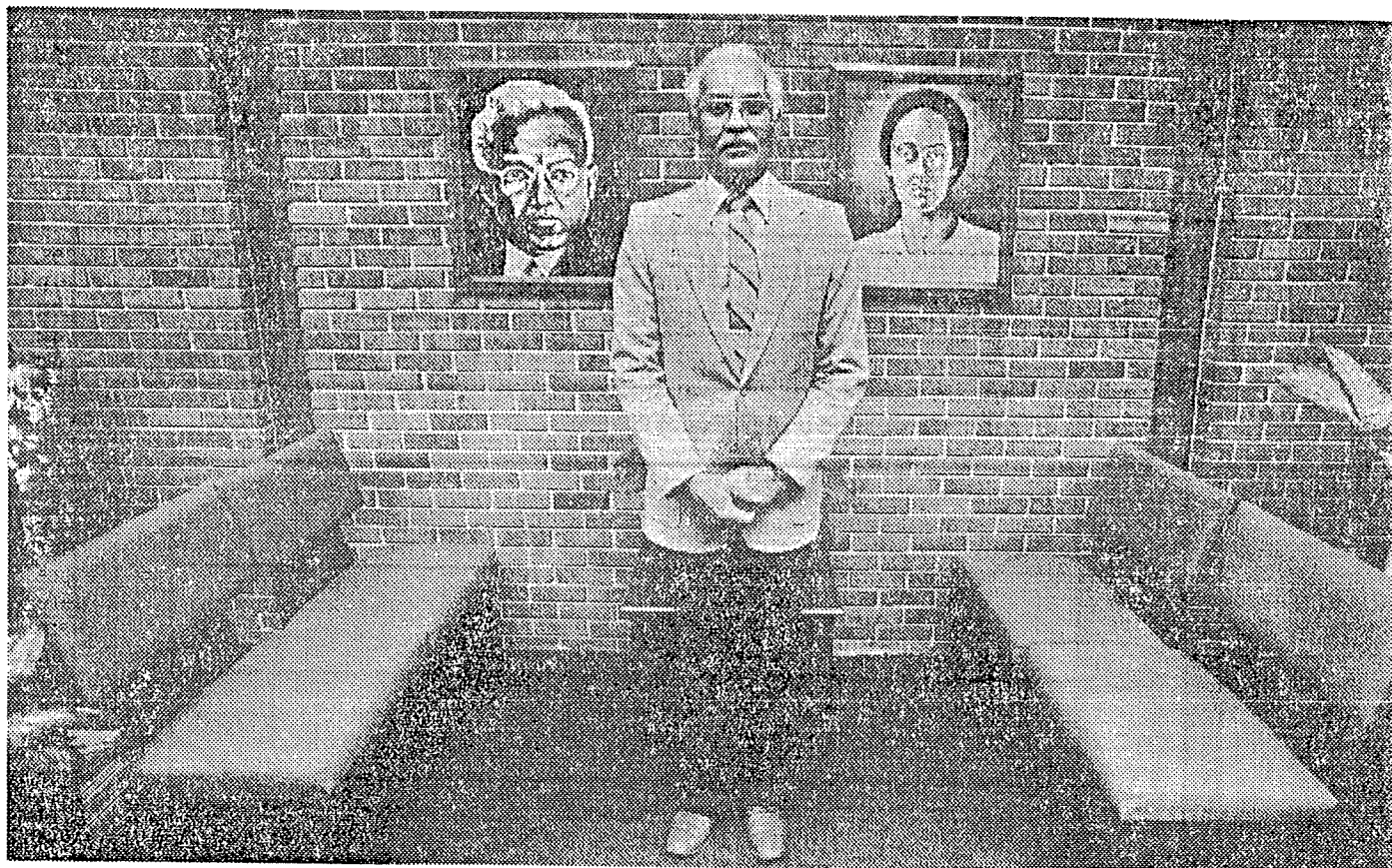
But small business developers said the lolling economy is also spawning new business. Workers who have been laid off or otherwise forced to find new ways to make a living are testing the waters of business ownership.

"WE ALREADY see this in the small business development center, people who say 'I've always had an idea,'" said Susan Osborne-Howes, state director of the Small Business Development Center of Kansas. "This is an appropriate environment for new business development.

"For observers of the business world, this is a very exciting time," Osborne-Howes said. "People who might have been very comfortable in a mature environment, they may say, 'This is the time.' They may be concerned about the future of their job, so they're looking at their alternatives."

And those alternatives include opening businesses and pursuing ideas that comfortable jobs kept dormant. That exploring, Osborne-Howes said, has traditionally led the way to developments that change the shape of business, the products it produces, and the way those products are sold.

*See at Co. Burd
2-24-87
Attachment II*



Joel Sartore/Staff Photograph

Gene Jackson, of Jackson Mortuary, is president of the newly formed local chapter of the National Business League, a group which aids minority businesses.

Group Fosters Minority Network

By Stan Finger
Staff Writer

After 87 years, Booker T. Washington's legacy has finally reached Wichita.

A new era is dawning for minority businesses in the city with the formation last month of a local chapter of the National Business League. Minority businessmen in Wichita say the organization, established by Washington in 1900 to provide information and access to financing for firms owned by blacks, will fill a tremendous void.

"The National Business League in Wichita is going to be a vehicle that's going to be helpful by networking and helping individuals get other contracts, find other business sources, cut their losses, and operate more efficiently," said Othello Curry Jr., a member of the board of directors of the organization, which included 101 members on the charter document approved in January.

"This is an experienced organization, and we need to bring some of that experience here, to relate to the problems that we face. If you don't have a com-

mon vehicle to get together, it doesn't help."

Officers for the local chapter say they plan to establish an information library that business owners can turn to when they have questions. Minority business owners simply didn't know where to turn when they had a question or a problem, they said.

"There's a wealth of talent out there," said chapter president Anderson "Gene" Jackson. "It needs to be tapped and collectively used."

The chapter will provide a clout that minority businesses haven't had in the past, officers said.

"When you have an organization that has a track record, I think people respond a little bit more to your concerns," said state Sen. Eugene Anderson, D-Wichita, a charter member of the chapter.

One of the organization's most important tools, officials predict, will be the establishment of a venture capital arm that could clear the way for private financing of local small-business develop-

ment. Minority businesses have not escaped the struggle to find money for development.

Many minorities — including women who own and operate their own firms — find themselves still having to go the extra step to prove themselves.

"It takes more hard work on my part," said Val McDonald, who has run Kansas Waterproofing and Asphalt Repair for the past 15 years. "Men, they don't have to prove themselves in this business. They're supposed to know that kind of stuff."

"But if a woman comes out there, I say, 'Wait a minute. Don't let her up there. Does she know what she's doing?' There are still a few of them that have those doubts, but all I have to do is show them references, and they say, 'Well, she must be doing something right.'"

And Anderson said the formation of the local chapter of the National Business League could be a sign that long-standing doubts about the abilities and future of minority businesses could be disappearing.

Senate Geo. Decker
3-24-87