

Approved March 1, 1988
Date

MINUTES OF THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT

The meeting was called to order by Phil Kline at
Chairperson

3:34 ~~xxx~~/p.m. on Thursday, February 25, 1988 in room 423-S of the Capitol.

All members were present except: Representatives Mainey, Teagarden, Chronister, Dyck, Barkis and Heinemann. - Excused.

Committee staff present:

Jim Wilson, Revisor
Lynn Holt, Research
Elaine Johnson, Secretary

Conferees appearing before the committee:

Jo Jenkins, Attorney, Kansas Corporation Commission
Ed Schaub, Southwestern Bell Mobile Systems
Larry Southern, Southwestern Bell Mobile Systems
Bill Reppart, Kansas Telecommunications Association
Phil Woodbury, Mobile Phone of Kansas
Ronald Phillips, Mobile Phone
Diane Gjerstad, Representative
Jim Cleland, Great Plain Red, Inc.
Dennis McKinney, Member Board of Directors of Kansas Development Finance Authority
Allen Bill, President, Kansas Development Finance Authority

Chairman Phil Kline called the meeting to order and recognized Jo Jenkins, Attorney, Kansas Corporation Commission.

Jo Jenkins testified that the Commission is not taking a stand on H.B. 2958, but they did review it and they have no objections to the bill. The KCC is aware of the mobile phone companies and the KCC will be keeping an eye on the situation if this bill is passed.

Ed Schaub testified briefly on H.B. 2958 stating that the bill is rather simple and straight forward and has been worked on since the 1985 session. The bill will remove the sunset provision of July 1, 1988. There have been no complaints to the KCC in the last two years. The amendment put on the bill, if passed will allow the KCC to keep their hand in if there is any hint of cross subsidization or an accusation of cross subsidization.

Larry Southern testified in support of H.B. 2958 which will continue to facilitate competition in the radio services industry which will benefit the consumer. He stated that during the two years of the sunset, they have witnessed none of the problems projected by those who opposed deregulation in 1985. He also explained cellular mobile telephone service which is a merger of two technologies, two-way mobile radio and the computer. (Attachment 1).

Bill Reppart, President of Sunflower Telephone Co., Inc. and member of the Kansas Telecommunications Association testified that approximately forty-five percent of the KTA member companies responded to a recent questionnaire on H.B. 2958 and were unanimous in support of radio common carrier and radio communication deregulation. Mr. Reppart also stated that his company operates mobile telephone base stations at three locations in western Kansas and has radio paging service through an affiliate company in Dodge City and Garden City. During the two years of deregulation of this aspect of telecommunications industry, the prices charged for radio communications products and services either remained at the same price or have decreased. The KTA supports the deregulation and respectfully requests the committee to recommend H.B. 2958 for passage. (Attachment 2).

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT

room 423-S Statehouse, at 3:34 ~~am~~ p.m. on Thursday, February 25, 1988.

Phil Woodbury testified in opposition to H.B. 2958. It is his contention that good utility regulation of both the old and new services by a dedicated regulatory authority is mandatory if rates for basic telephone service are to be kept at an acceptable level in Kansas. He feels that if the bill is defeated and regulation is retained in the State of Kansas, a portion of the millions of dollars of profit that will be generated by the new emerging telephone service will be used to lower the cost of all telephone service in the state. (Attachment 3). As part of attachment 3 are Sources of Income Regional Bell Companies, copies of pages dealing with cross subsidization, NARCU and bypass.

Ronald Phillips of Mobile Phone of Missouri stated that he is concerned about rate deterioration on paging service when deregulated. He feels the KCC should come back in and there should be rate studies made.

Chairman Kline then recognized Representative Diane Gjerstad.

Representative Gjerstad had testimony on H.B. 2909 from James Maag, Director of Research, Kansas Bankers Association passed out to the Committee. Mr. Maag was unable to be present because of a conflict. (Attachment 4).

Representative Gjerstad testified on how H.B. 2909 addresses economic development, one in particular, small businesses. Kansas is a state of small and medium sized businesses and their expansion will be a major source of growth for the state's economy. Redwood/Krider recently surveyed 850 businesses in ten non-metropolitan areas and found that of the businesses who wanted to expand approximately one-half were unable to secure financing through normal channels. H.B. 2909 will establish the Kansas basic enterprise loan program overseen by the Kansas Development Finance Authority. (Attachment 5).


Jim Cleland of Great Plain Red, Inc. testified that he is a small businessman. He has great difficulty getting loans to expand because he is considered high risk. He feels that H.B. 2909 could be the answer in providing help to his business and many other small businesses in Kansas. Concern was expressed over lines 0116 and 0117 in the bill which reads "which had gross revenues in its most recently completed year of not more than \$500,000, and". The nature of the business should be taken into consideration.

Dennis McKinney testified in support of H.B. 2909. He stated that programs which promote capital financing also facilitate short term lending and can therefore provide a strong impetus for new business development. In addition, a loan guarantee fund would multiply the effects of development policy beyond the actual appropriation. (Attachment 6).

Allen Bell stated that because the Kansas Development Finance Authority board of directors has not had a chance to review H.B. 2909 he could not testify either as a proponent or opponent of the bill. At the request of Representative Gjerstad he would explain how the program provided for in the bill might work. He also had some minor amendments to propose and attached a flowchart, intended to show in simplified fashion how this type of "loan-to-lender" financing would work. (Attachment 7).

The minutes of the February 11, 15 and 16 meetings were approved.

The meeting adjourned at 5:03 p.m.



Date: _____

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

H O U S E

Committee on Economic Development

NAME

ORGANIZATION

ADDRESS

Arden Crown Great Plains Fed. Inc. Wakarusa, Ks

Jim Cleland Great Plains Fed, Inc Wakarusa Ks,

Bill BEPPART Sunflower Telephone Co, Inc Dodge City

Gary Reser Kansas Telecomm Assn. Topeka

Dennis McKinley KDFB Greensburg, Ks

Harold McKinley - Coldwater, Ks

Allen Bell KDFB Topeka

Marty Bloomquist " "

Debbie Zabel IPPBR, Univ. of Ks Blake Hall Lawrence Ks

TESTIMONY TO HOUSE
ECONOMIC DEVELOPMENT COMMITTEE
House Bill 2958
February 25, 1988

Mister Chairman and Members of the Committee:

I am Larry Southern and I represent Southwestern Bell Mobile Systems. Our business is cellular mobile telephone service and I appear here today in support of House Bill, 2958.

We are a wholly owned subsidiary of SOUTHWESTERN BELL CORPORATION, a holding company. SOUTHWESTERN BELL TELEPHONE COMPANY also is a wholly owned subsidiary of SOUTHWESTERN BELL CORPORATION.

- . SOUTHWESTERN BELL MOBILE SYSTEMS is fully separated from SOUTHWESTERN BELL TELEPHONE COMPANY by FCC order.
- . Our business relationship with SOUTHWESTERN BELL TELEPHONE COMPANY is such that we interconnect to phone company facilities just like any other radio common carrier (RCC's). We obtain these services under the same arrangements as any other customer.

Cellular mobile telephone service is a merger of two technologies, two-way mobile radio and the computer. Attached to copies of my testimony is an example of how cellular service works.

The market area to be served is divided into a grid of

cells, each with its own low power transmitter. Each cell serves only customers located within its coverage area. When a customer moves from one cell to another within the grid of cells, a central computer "hands off" the call to an adjacent cell without the customer even knowing it.

Two characteristics set cellular apart from other mobile technologies. One, it uses low power transmitters, making it possible to reuse the same frequencies in the coverage area. And two, as demand for the service grows, the cells can be divided into smaller cells. This technique, known as cell splitting, allows the system to grow along with customer needs. New cells can also be added to allow the system to cover larger areas.

Today, I would like to discuss the need for deregulation of cellular and other radio services.

First, competition does and will exist in the cellular industry. The FCC goal is to foster competition in cellular markets and to get cellular service to the marketplace as fast as possible. In FCC decisions regarding cellular, one half of the radio spectrum was allocated to wireline carriers (telephone companies or their affiliates) and one half is allocated to non-wirelines (traditional RCC's). In other words, the FCC will license two carriers in each market, thus ensuring competition. The non-wireline carriers are typically major companies such as CyberTel-Cox, Metro Mobile or McCaw Communications. They are formidable, well financed competitors. Often, the local RCC's with an established

radio service presence will have an interest in the non-wireline partnership.

Today there are approximately 44 carriers operating 294 systems in the nation. Roughly 70 percent of the population has access to cellular systems and the FCC is almost ready to begin licensing the Rural Service Areas (RSAs) of the nation. In Kansas, Southwestern Bell Mobile Systems has the wireline license to provide service in the Kansas City, Lawrence, Topeka and Wichita Metropolitan Statistical Areas. The FCC has also licensed a competing cellular carrier in each of these markets. Competition is increasing in all types of radio service and will ultimately benefit the customer through better services and lower prices.

House Bill 2958 will allow free market entry and negate the need for rate regulation.

The FCC still regulates market entry and has the authority to grant or deny a radio license, eliminating the need for the states to also regulate market entry. Also, in a competitive business like cellular and other radio services, rate regulation is not needed. In fact, the absence of rate regulation allows the industry to package and price its service in response to the consumer. During the absence of rate regulation in 1986 and 1987, consumers in Kansas benefited from numerous promotions (see example attached) by the carriers which discounted services.

Deregulation of radio services is a growing trend across the country. Twenty-one states plus Washington, D.C. will

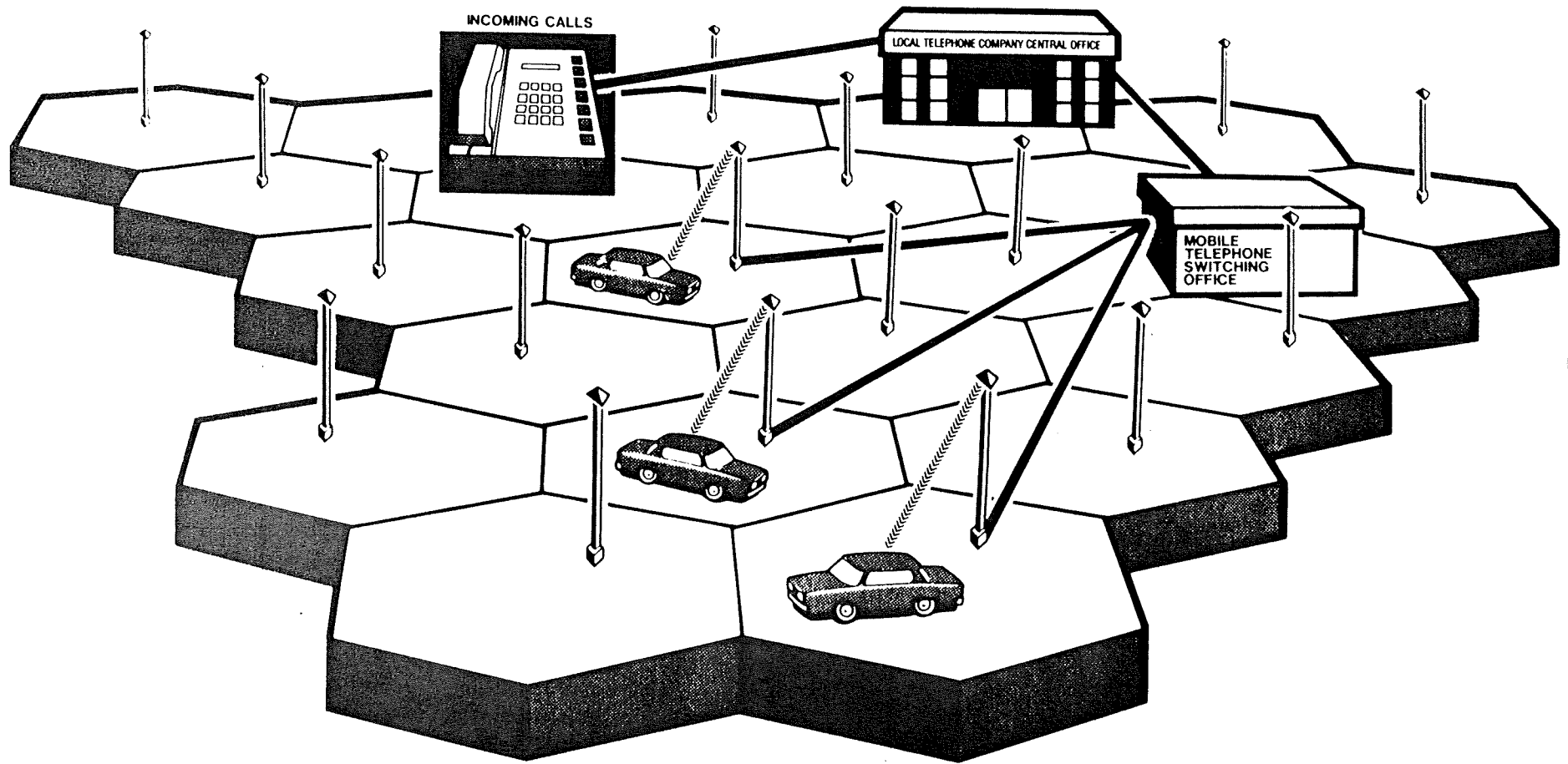
not regulate cellular, and several others are considering it. The Texas, Oklahoma and Missouri legislatures have already passed legislation to deregulate radio services. Missouri is particularly significant to my company since we operate the wireline Kansas City Cellular System which covers both sides of the Kansas/Missouri state line. Consistent views on deregulation between Kansas and Missouri would eliminate recurring regulatory difficulties.

Interconnection problems and bypass were two issues talked about by the opponents to deregulation in 1985. Interconnection facilities are still not affected by this bill. They will continue to be regulated by the KCC. Regarding bypass, it is unlikely that cellular service will ever replace local telephone service. Cellular airtime for the typical subscriber (doesn't include the mobile phone, which is already unregulated), runs approximately \$100 to \$150 per month compared to about \$10/month for local telephone service. Prices for mobile phones have been coming down rapidly because that part of our industry is intensely competitive (and not regulated). I don't see cellular as an economic alternative to landline telephone service in any of our lifetimes. In fact, an article in the January 1988 issue of Cellular Business projected a cellular penetration rate of only 3.35% by year 2000.

In summary, HB 2958 will continue to facilitate competition in the radio services industry which will benefit the consumer. During the two years of the sunset, we have

witnessed none of the problems projected by those who opposed deregulation in 1985. I sincerely hope that you can support these views and will give us your prompt consideration on HB 2958.

Thank you very much.



HOW THE CELLULAR SYSTEM WORKS

Cellular represents a revolutionary advancement in communications technology that provides mobile telephone service of far greater capacity and better transmission quality than conventional mobile phone service.

Cellular technology operates by dividing a city into smaller geographic areas called cells, each served by its own low-power radio transmitter. Cell sites are connected by wireline facilities to the Mobile Telephone Switching Office (MTSO), which is linked to the regular landline network through the local telephone company central office.

As the caller drives across the service area, the call is automatically passed from one transmitter to another, without noticeable interruption. Every cellular customer is assigned a unique seven-digit telephone number and may place as well as receive calls directly without operator assistance.

2/25/88
A-1-6

JUST A DARN MINUTE.

Buy a minute from us and get
a lot more than just a free minute of calling time.

Right now, when you sign up with Southwestern Bell Mobile Systems, you're going to get a lot more for your money than just a free minute. Besides being a part of the best mobile phone system in Wichita, you also receive all of these services from the moment you sign up until the end of the year.

So sign up now. Because the sooner you sign up for new service, the more you save. For more information, just pick up

your nonmobile phone and call.

- Buy one minute of peak calling time, get one minute of peak calling time *free*
- *Free* off-peak calling time (evenings, weekends and holidays)
- *Free* Custom Calling (Call Forwarding, Call Waiting, Three-way Calling) for 60 days
- No need to purchase a phone — our rental plans start at just \$19.95 per month
- *Free* phone activation



Southwestern Bell Mobile Systems

The name to call on. 265-3900

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*Kathy Communications 684-4300

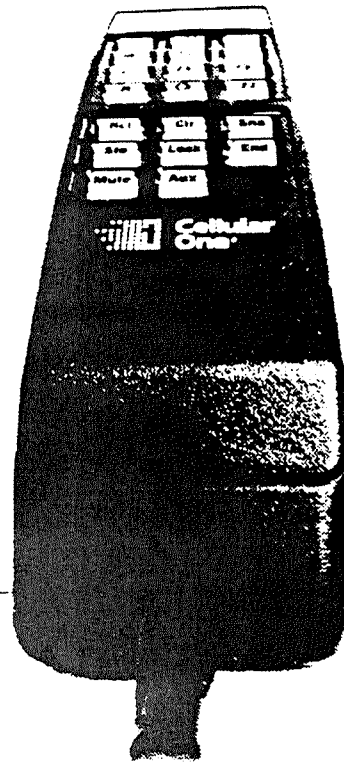
*Certified installation available at this facility.

a-1-7
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MINUTES TALK TIME

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3 YEARS
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In today's business rat race, the course is jammed with start-and-stop business problems, rising costs and declining sales curves. But now there's a way to steer clear of the hazards.

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And this low price includes:

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Shift your business into high gear. Cellular One's \$2.67-per-day car phone offer will not only put you in the fast lane on the Road to Success... but let you kick a little asphalt while you're there!



**Cellular
One®**

The Mobile Telephone Company *a-1-8*

2/25/88

“Everyone thinks I’ve been spending a fortune calling them from my car. I didn’t want to tell them it was free!”



Southwestern Bell Mobile Systems has just given you the best reason yet for getting a cellular mobile phone. Free off-peak calling time.

By signing up between now and September 4, you'll receive free service during the off-peak hours. That's from 8 p.m. to 7 a.m. on weekdays. And any-time, day or night, on weekends and holidays. This free calling time is good from

the time you sign up through the end of the year. So the sooner you sign up, the more free time you'll receive.

We'll also provide you with our exclusive Cellular Passport Service™, free. This lets you use your phone in more

than 100 cities without any hassle.

So when it comes to signing up for a mobile phone, remember, sooner is definitely better. And when it comes to the best combination of service, coverage, range and connections, there's only one name to call on: Southwestern Bell Mobile Systems.

To order your phone, or for more information, just call 888-1700.



Southwestern Bell Mobile Systems

The name to call on.

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*Central Service Company 547-6730

*Mansfield, Inc. 384-6111

Comtronics 842-3754

Kansas City Cellular & Service 829-3663

*Kansas City Mobile Systems, Ltd. 808-4466

American Communications Corporation, Inc. 451-41227

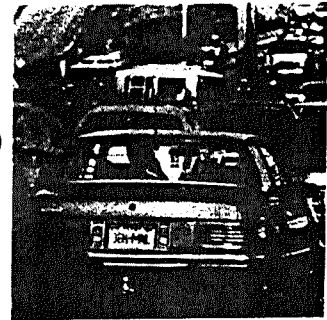
Frank Rohrback Motors, Inc. 727-2277

The Software Store 541-8981

*Certified installations available at these facilities.

a-1-9
2/25/88

“Jan called in sick.
Larry was on vacation.
Robert was confused.
I was in traffic.
That’s why I
have a car phone.”



Free installation and more.

When you own a small company, unfortunately there’s usually only one person who can take care of the major decisions. You. So when problems come up, you don’t want to be out-of-pocket.

That’s why a cellular phone from Southwestern Bell Mobile Systems

is such an important business tool. Not only does it let you stay in touch with your office, but more important, you know they can reach you, anytime.

Free installation. Buy or lease before March 15, and you’ll

receive free standard installation* in your car or truck — a \$100 value — plus your first \$30 of calling time, plus activation of your cellular phone and two months of Custom Calling features, all free. To get all the details at no obligation, just call 888-1700.



Southwestern Bell Mobile Systems

The name to call on.

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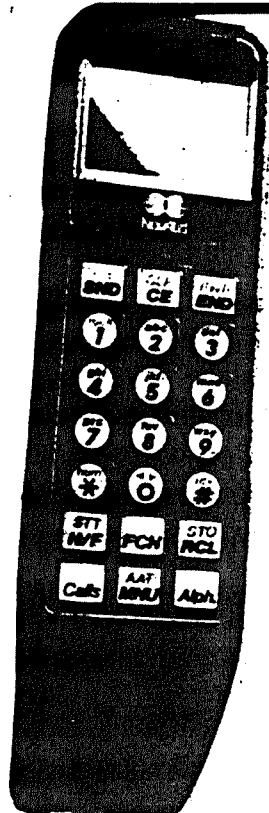
*Does not apply to rental plan. Antenna is extra. Deposit may be required.

Certified installation available at these facilities:
Central Service Company 587-6730
Kansas City Mobile Systems, Ltd. 888-4466

Americell Corp. 541-9000
United Telespectrum 221-0500

Auto Sound Plus 384-6100
Frank Robrbach Motors, Inc. 422-7900

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a-1-11
2/25/88

TESTIMONY
BEFORE THE KANSAS HOUSE ECONOMIC DEVELOPMENT COMMITTEE
THE KANSAS TELECOMMUNICATIONS ASSOCIATION
IN SUPPORT OF HOUSE BILL 2958
3:30 P.M. THURSDAY, FEBRUARY 25, 1988

Chairman Kline and members of the committee. My name is Bill Reppart. I am a member of the Kansas Telecommunications Assn. (KTA), the trade association for the Kansas telephone industry. Three telephone holding companies, 28 Kansas independent telephone companies, and three long distance carriers are members of the association. The 31 member companies have approximately 1,200,000 telephone access lines in the state.

I am also president of Sunflower Telephone Co., Inc., Dodge City. Sunflower Telephone Co. serves 4,000 telephone customers in eight western Kansas counties.

The KTA heartily supports H.B. 2958, providing for the permanent deregulation of radio common carriers and radio communications. The association also testified in the 1987 legislative session in support of H.B. 2270, which extended this particular deregulation for a six month period until July 1, 1988.

Approximately forty-five percent of KTA member companies responded to a recent questionnaire on H.B. 2958 and were unanimous in support of radio common carrier and radio communications deregulation. Some KTA member companies provide radio communications through a subsidiary, as partners with other radio common carriers, or through the telephone company itself. None of the companies has encountered any customer complaints or problems in terms of radio communications products or services.

*House Eco Dev
Attachment 2
2/25/88*

Our company operates mobile telephone base stations at three locations in western Kansas and has radio paging service through an affiliate company in Dodge City and Garden City. During the two years of deregulation of this aspect of the telecommunications industry, the prices we charge for our radio communications products and services either remained at the same price or have decreased.

Competition exists in both of our paging locations and in two of our mobile telephone locations. These competitors entered the market during the deregulation era.

Rep. Kline and members of the committee, the KTA supports the deregulation of radio common carriers and radio communications and respectfully requests the committee to recommend H. B. 2958 favorably for passage.

Thank you very much for allowing me the opportunity to be here today.

Respectfully submitted,

Bill Reppart
Bill Reppart

President

Sunflower Telephone Company, Inc.

Dodge City

DATE: February 25, 1988
TO: House Economic Development Committee
REP: Phil Kline, Chairman
FROM: Phil Woodbury
SUBJECT: Deregulation of Telephone Service: HB 2958

I represent a small group of Kansans' that have been fighting for the right for our State to continue to control the telephone service provided by Southwestern Bell and others. HB 2257/2515, a bill written and sponsored by the telephone company in the 1985 session removed control and regulation by our State Corporation Commission from a new and emerging telephone service. This new service is called by the descriptive names 'CELLULAR' telephone service and 'ULTRAPHONE' telephone service.

The telephone company, with research paid for by its subscribers, has developed a new way to make the telephone work. The bill before you will remove from Kansas regulatory scrutiny this new telephone service.

Instead of using the old 'pole and wire' system, the new system uses radio. Four years ago an executive of the telephone company told me that the new wireless telephone system will replace the old and that we will "put the copper wire boys out of business". I now know that not only is this possible; in the foreseeable future is is probable.

*House Eco Devs
Attachment 3
2/25/88*

The Bell people have formed a wholly owned subsidiary corporation to provide this service in Kansas. They have installed the plant and are now operating this new telephone service in Kansas City and Wichita -- and now in Topeka and Lawrence.

In another part of the state, in a rural area, specifically in Lyon and Osage Counties, another telephone company is currently field testing the new service called ULTRAPHONE. If the tests prove successful, this new telephone service will gradually replace the old.

The State of Kansas, through our State Corporation Commission has regulated the telephone company's business within the State of Kansas for over 70 years. The regulation, however, of the new telephone technology ceased on January 1, 1986. This was because H 2257, as amended in to H 2215, was passed by the legislature in 1985. As you know, a 'sunset' was placed on this deregulation bill and without further legislation it will 'DIE' on July 1, 1988.

Simply put, this telephone company bill as passed by the 1985 legislature removed the telephone company subsidiary organized to provide this new telephone service from the scrutiny and regulation of our State Corporation Commission.

In 1984, and again in 1985, the telephone company lobbyists said that this new wireless telephone service was really inconsequential since it was only to be used from moving locations (cars or people) and that as a 'benefit to the people' this new service should be removed from state regulation. They said the cost of service would be lower to the public if the cost of regulation was saved.

During the 1985 session, I stated many times to several committees and many legislators that this new telephone technology would - in time - replace the old. Obviously, without expensive wires and poles to install and maintain, the maintenance and repair costs of the new wireless system will be greatly reduced (no poles means no pole trucks or drivers or climbing repairment: maintenance can be done from the central office).

And the cost to connect a rural telephone customer drops to around \$3,000.00 per subscriber, as opposed to the \$8,500.00 cost for the old wire and pole technology.

You will note that attached INSIDE BUSINESS article from the Kansas City Times of January 9, 1987, describes this new telephone system that is being tested down in Lyon County - about 30 miles south of Topeka. This ULTRAPHONE service uses technology ever 'newer' than cellular service and it has come

to Kansas since the 1985 session. Both of these new telephone services are currently deregulated and will remain so until July 1, 1988.

My intent is to provide the committee a little background on this legislation. This is a bill that when enacted in 1985 removed from our Kansas regulatory scrutiny the new radio (or sometimes called 'wireless') telephone technology.

As you may know: The State of Kansas, through and by our State Corporation has regulated telephone service for over 70 years. Back in the early days the Kansas Statute used as a definition for transmission of telephone messages the following, at 66-104:

As used herein, the term "transmission of telephone messages" shall include the transmission by wire or other means of any voice, data, signals, or facsimile communications, including all such communications new in existence or as may be developed in the future.

Well, the future came along. Technology was developed that provided a new means by which telephone service could be delivered. The new technology works (just as our predecessors anticipated) in both the city and in rural areas.

COMMENT: Technology incidentally that telephone users of this country paid for. The wireless technology for cellular telephone service was not developed or paid for by private industry as one state representative testified two years ago in support of this bill. The monopoly telephone users of this country were charged and they paid the hundreds of millions of dollars of cost that went to develop this new telephone system.

I testified in 1984 and in 1985 that this new technology would replace the old. It is doing just that right now. The problem, as I see it, is that if you allow the new telephone service to continue to be excluded from regulatory control, you will drive up the cost of basic telephone service in Kansas and when you increase the cost of basic telephone service, in a state, you do not enhance economic development in that state: you hinder it. Where one company, provides both the old and new service and you allow the new to become unregulated, the immense profits generated by the new will be used to improve the profits of the unregulated telephone subsidiary company instead of helping to maintain an affordable basic monopoly telephone rate.

It is obvious that as subscribers switch to the new and use less of or even abandon the old, fewer will be left to pay for the old. When this occurs the cost of basic telephone service for the remaining user will, of course, go up.

As the new technology becomes commonplace and demand for the 'latest' increases, there will be a natural migration from the old to the new. "Bypass" ^{could be} ~~is~~ a great threat to maintaining low cost basic telephone service in Kansas and the greatest bypass threat of all will come from the new wireless telephone service. It is ironic to find one subsidiary of the telephone company offering the old regulated service and another sister subsidiary of the same company offering the new unregulated service. The immense and continuing profits of the new unregulated sister can flow - without regulatory scrutiny - directly to the telephone company stockholder. The decreasing profits from the smaller and smaller monopoly (regulated) subscriber base will have to be bolstered from time to time by regulatory authority granting allowable rate of return increases.

It's simple:

Since there aren't as many players as there was -- those left will have to pay more --

And one other simple observation; visualize, if you will, how easy cross-subsidation can occur. Both facilities are telephone 'offices': one uses copper wire, the other radio. Both are owned by the same "MOTHER". One plant, the monopoly

has its rate of return guaranteed. The other plant sends its return (PROFIT) out in the form of dividends to its stockholders. And since both plants operate very close and are much intertwined (one could say they "co-mingle") the possibility to shift expenses from one pocket to the other or to adjust "intercompany" charges are immense.

In a recent (March 1987) telephone company study requested by the staff (the Subcommittee on Accounts) of the National Association of Regulation Utility Commissioner -- NARUC -- it is stated --

The overwhelming dominance of the regulated telephone companies compared to other subsidiaries produces a cost assignment that is weighted heavily toward the regulated segment. In the last NYT (New York Telephone) rate case NYNEX Corporate allocated 93.5% of its costs to its regulated telephone companies and only 6.5% to its remaining subsidiaries. 1/

The Auditors continued:

--that NYNEX (the 'Mother' holding company) "dictates policies that may not be in the best interests of NYT (New York Telephone)/ NET (New England Telephone) and their ratepayers" and diverts telephone company resources to enhance corporate profits.

1/ NYNEX is one of the newly created seven (Bell) Regional Holding Companies (RHO's). Southwestern Bell Corporation is one of these seven RHO's. The others are: Ameritech, Bell Atlantic, Bell South, Pacific Telesis, and U S West.

Good utility regulation of both the old and new services by a dedicated regulatory authority is, in my view, mandatory, if rates for basic telephone service is to be kept at an acceptable level in Kansas.

If this bill is defeated and regulation is retained in the State of Kansas, a portion of the millions of dollars fo profit that will be generated by the new emerging telephone service will be used to lower the cost of ALL telephone service in the state.

One certain way we can enhance the opportunity - or should I say chance - for good solid economic development in this state is, among other things, to keep the cost of telephone service at an affordable rate for business. This bill, if defeated, will help that cause.

PHIL WOODBURY
2-27-88

New telephone technology may undo party lines

By Martin Rosenberg
Of the Business Staff

Kansas Ed McKernan at times spends 45 minutes or more on the phone discussing his investments.

Because he lives in a rural area 15 miles northeast of Emporia, where telephone lines are as sparse as the population, three other parties share his phone line and could listen to his conversation.

Sometimes he worries about the lack of privacy. And he feels guilty

Technology

that his heavy use of the phone might create problems for the other people sharing the line.

McKernan is one of 5 million telephone customers in the United States and Canada who must share phone lines because the cost of installing private lines for them is prohibitive.

But new radio telecommunications technology may mean that those 5 million, plus 500,000 Americans unable to get any phone service, may soon have private lines.

For three months McKernan has been using new wireless telephone equipment, called Ultraphone, that is being field-tested by the International Mobile Machines Corp. of Philadelphia.

Equipment about the size of a microwave oven was placed in his basement, and a small antenna was mounted on the back of his house.

When he places a call, digital phone signals are transmitted from the antenna to the S&A Telephone Co., which provides him with his basic phone service, and then into the telephone network.



TheTimes/Kerry Meyer

In a second field test International Mobile Machines is providing service to eight Wyoming ranches that previously were unable to get any phone service, said Thomas Plummer, the company's executive vice president.

This year his company will try to set up additional tests with phone companies across the country to demonstrate the technology, he said.

Ultimately his company may de-

velop a portable phone small enough to fit in a shirt pocket that could revolutionize the way Americans stay in touch.

Because Ultraphone uses digital signals, it could soon compete with cellular radio systems in metropolitan areas that must rely on conventional analog signals.

Analog phone conversations are transmitted as sound waves, subject to interference and interception. Digital messages are trans-

mitted in ones and zeros, the language that computers understand.

Ultraphone offers several features that would make it superior to cellular communications, Plummer said.

In cellular communications, computerized switching allows calls to be handed off from one "cell" to another as a vehicle moves through a city.

Ultraphone, with different technology, uses radio signals that travel up to 38 miles, much farther than cellular signals travel, Plummer said.

In addition, because Ultraphone is digital, messages transmitted by the system are more secure against eavesdropping than those relayed along a cellular system, he said.

Four phone conversations can be carried simultaneously over an ultrahigh-frequency channel, and the number may soon be increased to 16 per channel, Plummer said. A cellular system can carry one call per channel, he said.

Ultraphone also offers advantages to phone companies that must install miles of lines above or below ground. Now, the cost of the Ultraphone system makes it attractive only to rural phone companies that face high costs to install lines for relatively few customers, Plummer said.

But as the technology improves, he said, Ultraphone will become increasingly competitive with conventional wire networks even in more densely populated areas.

S&A Telephone, which serves 770 customers in a 175-square-mile area 100 miles west of Kansas City, learned of Ultraphone when

it was planning to install additional telephone cable, said Arthur Biggs, president of the family-owned company.

The cost of bringing private lines to the company's 140 party-line customers would be \$8,500 a house, he said.

Ultraphone, on the other hand, would cost \$3,000 a customer, Biggs said.

Later this month International Mobile Machines will install new equipment at the McKernan residence and expand the Kansas test of the technology to 20 subscribers, Biggs said.

In addition to stepping up its tests, the company this year will begin marketing Ultraphone, Plummer said.

It has already aroused the interest of the Department of Defense, which will begin testing the equipment in April in Washington, he said. The military is interested in coding Ultraphone's digital signals to make it more difficult for agents of foreign governments to listen to sensitive conversations, he said.

The government is also interested in how quickly and easily an Ultraphone system can be installed, he said.

International Mobile Machines has few competitors, but Plummer said that could change after Ultraphone begins generating revenue.

For now, 35 employees in Pennsylvania are working to find a niche for the Ultraphone technology, he said. Ultimately it could hasten the day when telephone service is totally wireless, he said, adding: "Maybe in the year 2000 they will stop putting up telephone poles. Who knows?"

RCCR

RADIO COMMUNICATIONS REPORT

10899

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PHIL WOODBURY
MOBILEPHONE OF KANSAS
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EMPORIA KS

newspaper
for the mobile
communications industry

NOV 15, 1986

Southwestern Bell reports increase in 3rd quarter earnings

ST. LOUIS—Third-quarter 1986 revenues for Southwestern Bell Corp. showed an 8.4 percent increase over adjusted 1985 figures. Total revenues were \$1.96 billion with a net income of \$257.5 million, or \$2.58 per common share. Return on shareholders' equity was 13.4 percent.

Comparable third-quarter revenues were \$1.97 billion with a net income of \$237.3 million, or \$2.38 per share. Return on equity was 13.1 percent. These figures are adjusted to exclude a 1985 non-recurring net income of \$7

257.5 million x 4
= 1.03 billion
(NET)

million from Yellow Pages directories.

"The corporation performed very well this quarter considering the weak economy that exists in many parts of the Southwest region, where the majority of our subsidiaries' revenue opportunities exist," said Zane Barnes, chairman and chief executive officer of Southwestern Bell Corp. "Looking ahead," he continued, "we are anticipating an overall strong year considering the challenges facing the corporation."

Figures for the first three quarters of 1986 reflected a 4.5 percent growth per share when compared to 1985 figures. Revenues for 1986 are \$5.89 billion with a net income of \$741.5 million, or \$7.44 per share. Return on equity was 13.4 percent.

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EXHIBIT 1
 THE TOP TELECOMMUNICATIONS FIRMS
 RANKED BY MARKET VALUE

<u>Ranking</u>		<u>Entity</u>
<u>March 1987</u>	<u>March 1986</u>	
1	1	AT&T
2	2	BellSouth
3	3	Bell Atlantic
4	4	NYNEX
5	6	GTE
6	5	Ameritech
7	9	Southwestern Bell
8	7	Pacific Telesis Group
9	8	U S West
10	11	United Telecom
11	12	Contel
12	10	MCI
13	13	Centel
14	14	Southern New England
15	15	Alltel
16	17	Cincinnati Bell
17	18	Pacific Telecom
18	16	Communications Satellite
19	NR <u>1/</u>	Mobile Communications
20	NR <u>1/</u>	M/A-Com
21	NR <u>1/</u>	Metro Mobile CTS
22	19	Rochester Telephone
23	NR <u>1/</u>	Scientific Atlanta

Source: "The Top 1000 Companies Ranked by Industry," Business Week, April 17, 1987, pp. 156-57; April 20, 1986, p. 80.

1/ Not ranked.

EXHIBIT 2
 SOURCES OF INCOME
 REGIONAL BELL COMPANIES

<u>ENTITY</u>	<u>Income from Telephone Operations</u>	<u>Income from Competitive Subsidiaries</u>
Ameritech	\$1,820,000,000	(\$65,000,000)
Bell Atlantic	\$1,828,000,000	(\$59,000,000)
BellSouth	\$2,435,000,000	(\$4,000,000)
NYNEX	\$1,776,000,000	(\$79,000,000)
Southwestern Bell	\$1,630,000,000	(\$36,000,000)
Pacific Telesis	\$1,799,000,000	(\$47,000,000)
U S West	\$1,684,000,000	(\$180,000,000)
	<hr/>	<hr/>
	\$12,972,000,000	(\$470,000,000)

Source: Judge Harold Greene, September 10, 1987 Order, Civil Action No. 82-0192, p. 159.

a-3-12
2/25/88

EXHIBIT 1
 THE TOP TELECOMMUNICATIONS FIRMS
 RANKED BY MARKET VALUE

<u>Ranking</u>		<u>Entity</u>
<u>March 1987</u>	<u>March 1986</u>	
1	1	AT&T
2	2	BellSouth
3	3	Bell Atlantic
4	4	NYNEX
5	6	GTE
6	5	Ameritech
7	9	Southwestern Bell
8	7	Pacific Telesis Group
9	8	U S West
10	11	United Telecom
11	12	Contel
12	10	MCI
13	13	Centel
14	14	Southern New England
15	15	Alltel
16	17	Cincinnati Bell
17	18	Pacific Telecom
18	16	Communications Satellite
19	NR <u>1/</u>	Mobile Communications
20	NR <u>1/</u>	M/A-Com
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	\$12,972,000,000	(\$470,000,000)

Source: Judge Harold Greene, September 10, 1987 Order, Civil Action No. 82-0192, p. 159.

CROSS SUBSIDIZATION

Q. HAVE ANY STUDIES BEEN PERFORMED SINCE THE BELL SYSTEM BREAK UP WHICH INDICATE THAT CROSS SUBSIDIZATION BETWEEN CARRIER MONOPOLY AND COMPETITIVE OPERATIONS HAS TAKEN PLACE?

A. Yes, evidence apparently exists that cross subsidization has been occurring during the post divestiture period for at least the Bell regional companies. For example, in his September 1987 Order, Judge Greene opined:

. . . what is wrong from an antitrust point of view with the combination of (1) telephone rate increases and (2) Regional Company outside ventures is that these ventures appear to have been funded from and are being supported, at least in part, by the local phone rates.

Thus, during the period in question, the Regional Companies had a total operating income from their telephone operations, paid for by the ratepayers, of almost \$13 billion, and a loss from their competitive enterprises amounting to close to one-half billion dollars [see Exhibit 2]. These figures suggest that the rise in local telephone rates during the past several years may be due in some significant part to cross subsidization, that is, the diversion of ratepayers' monies to finance the Regional Companies' ambitions to become full-fledged players in conglomerate America.

. . .

One likely consequence, then, of Regional Company entry into the inter-exchange, manufacturing, and information services markets would be to give these companies the ability to undersell their rivals in these markets because they would have at their disposal an ever-replenishing fund with which to subsidize their competitive operations--the monies contributed pursuant to regulation compulsion by the nation's local ratepayers. The decree was, of course, aimed in significant part at the avoidance in the future of such practices. 15/

15/ Judge Harold Greene, op. cit., pp. 158-161.

NARUC

During 1986 and 1987, the National Association of Regulation Utility Commissioners (NARUC) undertook audits of the seven Bell regional companies. These audits were primarily rooted in the major regulatory concern that the Bell operating companies might be cross subsidizing the unregulated affiliates of their respective parents. In each case, task force auditors were denied access to materials pertinent to their examination by the holding companies. Other findings included the poor quality of accounting records, duplication of services, diversion of future revenues, deficient transaction standards, and the passing on of lobbying costs to subsidiary operating companies. As asseverated by the NARUC Staff Subcommittee on Accounts:

It should be apparent that the reorganization of the telephone system has created a number of problems and concerns. Questions remain as to the accounting separation of regulated and unregulated companies; RHC diversification and its effect on basic telephone service; and the commitment of the RHCs to maintaining basic service and abiding by the stipulations of the MFJ. Under these circumstances, it would be a major failure of public policy to abandon the telecommunications industry to "competition" since there is no guarantee that the integrity of the system will be maintained. . . . The RHCs must continue to be monitored by both state and federal agencies. 16/

Clearly, tangible evidence exists which demonstrates that LECs (in these instances, Bell entities) can potentially and actually have engaged in dubious cost and revenue shifting.

16/ NARUC, Summary Report on the Regional Holding Company Investigations, September 18, 1986, pp. 21, 22.

BY PASS

Judge Harold Greene, whose court oversees the Modification of Final Judgment (MFJ) that set forth the terms of the AT&T - Justice Department settlement dismantling the Bell System, has held to a similar view for several years. For example, in a July 1984 Opinion, the Judge observed that:

As for bypass, whatever its future, it is certainly not a broad threat to the viability of the local companies at the present times. 4/

More than three years later, he reached a similar conclusion:

The complete lack of merit of arguments that economic, technological, or legal changes have substantially eroded or impaired the Regional Company bottleneck monopoly power is demonstrated by the fact that only one-tenth of one percent of interLATA traffic volume, generated by one customer out of one million, is carried through nonRegional Company facilities to reach an interexchange carrier. Huber Report at 3.9, Table IX.5. To put it another way, 99.9 percent of all interexchange traffic, generated by 99.9999 percent of the nation's telephone customers, is today carried entirely or in some part by the Regional Companies (or their equivalents in the territories served by the independents). The Department of Justice found only twenty-four customers in the entire United States who managed to deliver their interexchange traffic directly to their interexchange carriers, bypassing the Regional Companies. Department of Justice Report at 80-81. It is clear, therefore, and the Court finds, that no substantial competition exists at the present time in the local exchange service, and that the Regional Companies have retained control of the local bottlenecks. 5/

(footnote omitted; underscoring in original text)

4/ Slip Opinion, filed July 26, 1984, U.S. v. WECO and AT&T, and U.S. v. AT&T et al., Civil Action No. 82-0192, Misc. No. 82-0025, p. 69.

5/ Order, filed September 10, 1987, pp. 34-36.



The KANSAS BANKERS ASSOCIATION
A Full Service Banking Association

February 25, 1988

TO: House Economic Development Committee
FROM: James S. Maag, Director of Research *JSM*
Kansas Bankers Association
RE: HB 2909 - the Kansas basic enterprises loan program

Mr. Chairman and Members of the Committee:

Thank you for the opportunity to present written testimony on HB 2909 which would create the Kansas basic enterprises loan program. The banking industry of Kansas believes this could be a valuable addition to the various means of extending credit to small businesses in the state.

The economic development package created by the 1986 Legislature is now beginning to show results in Kansas. The work of Kansas, Inc., Kansas Venture Capital, Inc., KTEC, the Small Business Development Centers and the Certified Development Companies throughout the state has created a much more positive economic atmosphere. As these various entities pursue their goals, it is apparent that some additions to the economic development plan may be necessary and one of those additions is addressed with HB 2909.

This measure is designed to assist those businesses which may otherwise "fall through the cracks" in obtaining the necessary credit with which to continue operations. The loan program is structured in such a way as to allow the state to have a maximum impact on credit availability at a minimum of risk. Particularly for developing businesses in the more rural communities, the loan program would provide a very valuable credit source. We have every reason to believe that a significant number of banks would participate in the program if it authorized.

Your favorable consideration of HB 2909 would be greatly appreciated.



TOPEKA

HOUSE OF
REPRESENTATIVES

COMMITTEE ASSIGNMENTS

MEMBER: ECONOMIC DEVELOPMENT
FEDERAL AND STATE AFFAIRS
LABOR AND INDUSTRY
JOINT COMMITTEE ON ECONOMIC
DEVELOPMENTDIANE A. GJERSTAD
REPRESENTATIVE, NINETY-EIGHTH DISTRICT
WICHITA
2701 LULU
WICHITA, KANSAS 67216-1237

TESTIMONY HB 2909

BACKGROUND:

During the development of the state's economic development strategy, we have recognized the need to target our limited resources. The success of our economic development strategy will be measured by our ability to capitalize on our strengths. HB 2909 addresses one in particular -- small businesses.

Existing industry is the core of Kansas' economy....it is always necessary to consider existing industry as the foundation upon which all other development is built (Midwest Research Institute, 1986). Redwood and Krider estimate that two-thirds of Kansas' economic growth in the next decade will likely come from the expansion of existing industry. We are a state of small and medium sized businesses and their expansion will be a major source of growth for the state's economy.

THE NEED TO TARGET:

A significant gap exists between small business and the capital markets. Redwood/Krider recently surveyed 850 businesses in ten non-metropolitan areas and found that of the businesses who wanted to expand approximately one-half were unable to secure financing through the normal channels. We are all familiar with the difficulties that rural Kansas banks have faced. For these reasons we decided to initiate the discussion

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2/25/88

Page two
HB 2909

of a hybrid loan program that combines elements of traditional loan programs and guarantee programs targeted toward basic enterprises.

HB 2909 establishes the Kansas basic enterprise loan program overseen by the Kansas Development Finance Authority.

- 1) Banks would be able to use this pool for loans to businesses which meet the criteria in section 1. Directing our resources toward basic industries will target those businesses which have the potential to expand employment and generate new wealth.
- 2) The loan pool would be capitalized by an initial allocation into basic industry loan guarantee fund from which KDFA will issue bonds. The proceeds from the bond sales will be used by local banks to make loans to basic enterprises. The borrower's loan repayments will be used to service the bonds.
- 3) All three parties will share in the risk: borrower not less than 10%, the lender not more than 10%, and the authority not more than 80%.
- 4) The bill is written to allow great flexibility on the part of KDFA to structure a program which is able to meet the need of business and the bondholders.

SUMMARY:

A fundamental barrier to non-metropolitan economic development is the lack of financial capital at an appropriate risk-return relationship. There is the problem of availability

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2/25/88

Page three
HB 2909

and accessibility, and the intensity varies with type of capital and geography. (Job Creation in Nonmetropolitan Communities, IPPBR 1987, Redwood). By allowing banks to utilize an additional source of funds to make loans from - we are aiding those banks which are experiencing liquidity problems and enabling them to service loans which they would not otherwise be able.

When examining the testimony and discussion on HB 2909, you may want to weigh the following statements: does this bill fill a gap in capital financing

- ..will this program efficiently utilize the state's scarce resources
- ..will a basic enterprise loan program encourage urban and rural economic development
- ..by investing now will this legislation help build long term job generation
- ..will the types of businesses this program targets expand the economic base of Kansas.

I feel that HB 2909 is an important plank in the Kansas economic development strategy. I would appreciate your favorable consideration.

a-5-3
2/25/88

TESTIMONY TO
KANSAS HOUSE OF REPRESENTATIVES
ECONOMIC DEVELOPMENT COMMITTEE
ON HOUSE BILL 2909
February 25, 1988

Thank you for the opportunity to speak to you today on House Bill 2909. My name is Dennis McKinney and I am a farmer and livestock producer from Greensburg. Our farm is located on the Comanche and Kiowa County line.

I am also a member of the Kansas Development Finance Authority. However, my views here today are my own and not of K DFA.

Four primary thoughts underlie my support for the basic enterprise loan and loan guarantee fund proposed in HB 2909.

First, the money appropriated for loan guarantees would leverage loan financing and thereby maximize the policy impact. If \$1,000,000 in guarantees facilitates \$4,000,000 in loans the impact of the development policy is multiplied by a factor of four.

Furthermore, placing monies in a guarantee fund rather than direct spending allows the state to earn additional idle funds interest and use the idle funds for certificates of indebtedness in case the State General Fund encounters a revenue shortfall. Thus, internal financial flexibility is maximized.

Attachment 6
2/25/88

Second, the combination loan and loan guarantee approach creates an extra source of capital financing to higher risk new businesses at lower risk interest rates. With the combination of 10% owner equity, 10% bank participation and the state guarantee the bonds issued by the Kansas Development Finance Authority should achieve a high quality credit rating and relatively low interest rates.

Requiring 10% bank participation encourages good review of loan applications and good servicing and monitoring of loans in place.

A third and very important reason for the loan program is that it could stimulate bank liquidity. Areas under economic pressure often have banks with tight liquidity and little available lending capacity. The HB 2909 proposal provides a source of funds that permits a bank to seek and assist viable new business ventures.

Finally, the program could stimulate more operating loans to new businesses. A new business which has a good source of long term capital financing in place becomes a better credit risk. Hence, the business is more able to secure short term credit to finance its payroll, inventory, and other operating needs.

I like to parallel the creation of a program which facilitates capital financing to the creating of Federal Land Banks. Farmers were given access to long term credit markets

reasonable interest rates which allowed them to purchase land and make major improvements to the land. Once these farms were in place or expanded they became a tremendous source of business for banks making operating loans. Most banks are not set up to make many long term capital loans, especially when the applicants propose new business ventures of unknown credit risk.

In conclusion, programs which promote capital financing also facilitate short term lending and can therefore provide a strong impetus for new business development. In addition, a loan guarantee fund would multiply the effects of development policy beyond the actual appropriation.

BOARD OF DIRECTORS
H. EDWARD FLENTJE, CHAIRMAN
HARLAND E. PRIDDLE
CHRISTOPHER MCKENZIE
DENNIS MCKINNEY
HARRY WIGNER

ALLEN BELL, PRESIDENT



Suite 113
Landon State Office Building
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TOPEKA, KANSAS 66612

(913) 296-6747
KANS-A-N 561-6747

MARTY BLOOMQUIST, ASSISTANT

February 25, 1988

M E M O R A N D U M

TO: Members of the House Committee on
Economic Development

FROM: Allen Bell, President
Kansas Development Finance Authority

SUBJECT: House Bill No. 2909

House Bill 2909 calls for the implementation of a major economic development financing program by the Kansas Development Finance Authority. Because the K DFA board of directors has not had a chance to review this bill, I cannot testify as either a proponent or opponent of the bill. I am here at the request of Rep. Gjerstad to try and explain how the program provided for in the bill might work, and to answer any questions you might have. I also have some minor amendments to propose.

The attached flowchart is intended to show in simplified fashion how this type of "loan-to-lender" financing would work. It is modeled after single-family mortgage bond financing with which many of you are no doubt familiar.

There are two key features to this financing structure that deserve your attention:

1. **The Loan Guarantee Fund** is the essential feature in that without it bonds cannot be issued. The guarantee fund provides the needed credit enhancement that negates the diversity-of-credit problem that plagues all private sector pooled bond issues. The guarantee fund can be leveraged through a bond issue to produce a loan pool three or four times the size of the guarantee fund. This leveraging ratio is dependent upon the stability and liquidity of the guarantee fund, and the anticipated default rate in the loan pool.

2. **The Participating Lenders** are the key to making the loan program work administratively. K DFA is not a bank and does not

want to become one. The basic lending decisions must be made by institutions whose business that is. That is why it is crucial that the participating lenders share the exposure to loan defaults. My opinion is that a 10% matching loan from participating lenders is an absolute minimum and that the bondholders may well require a more significant participation.

One possible drawback to this program is the cost of administering it. As an inherently self-financing operation, it is important that each of the programs it undertakes pays for itself. My preliminary analysis is that KDFFA could not expect to make more than \$20,000 on the issuance of bonds under this program. That is not enough to hire an additional staff person to administer it. The participating lenders and the trustee bank enjoy the economies of scale to make their administration of the program feasible.

The following table shows how interest rates and up-front points might be set:

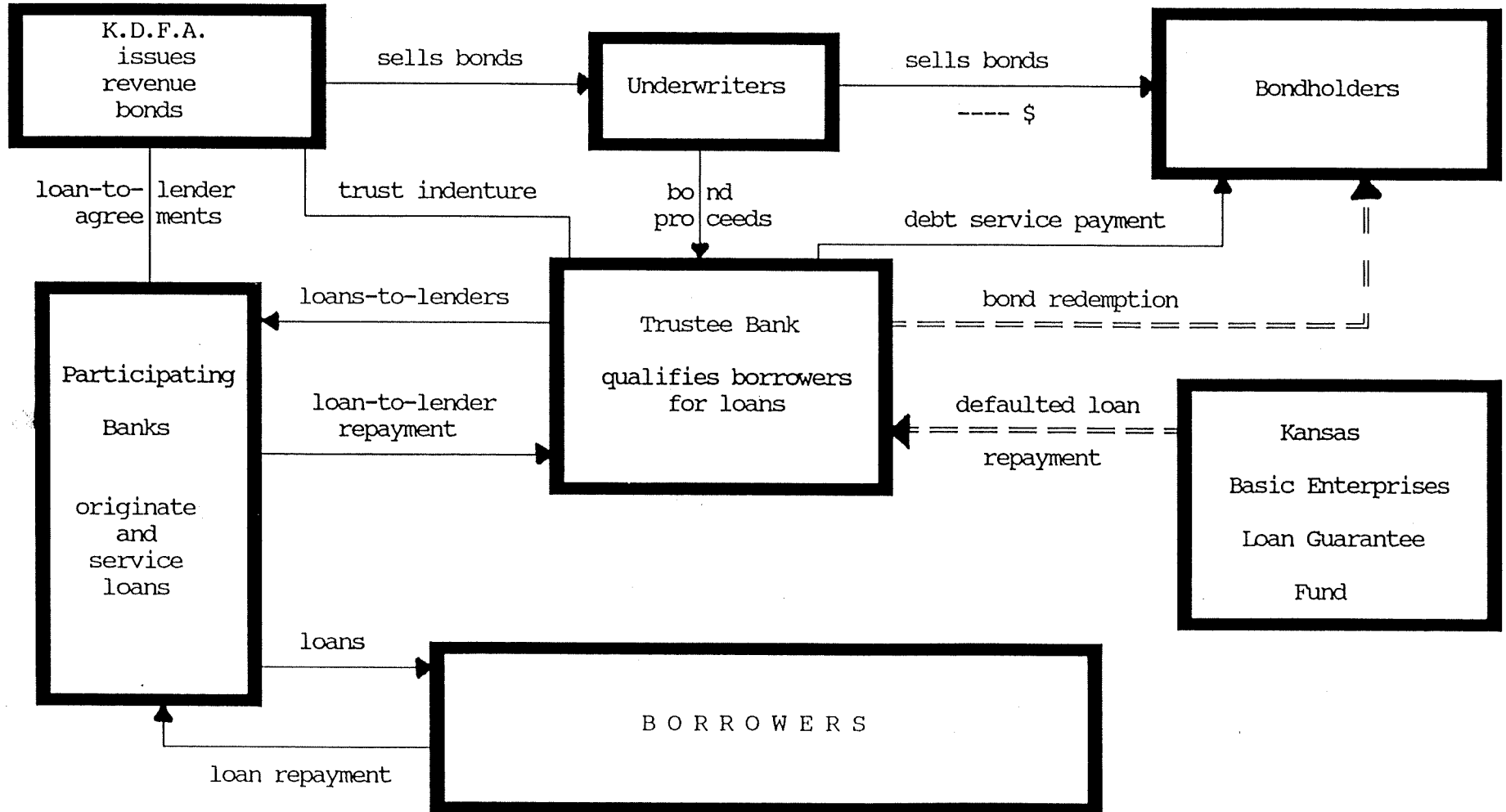
<u>Borrower Rate</u>	
Index Rate (90-day T-Bill)	6.75%
Spread	<u>+1.00%</u>
Bond Rate	7.75%
Trustee Fee	.25%
Lender Service Fee	<u>.50%</u>
Total	8.50%

<u>Points</u>	
Underwriters Discount	1.50%
Cost of Issuance	1.00%
KDFFA Fee	<u>.50%</u>
Total	3.00%

To my knowledge, this particular type of loan-to-lender program has never been attempted. I have not had the time to do the type of research and development work that will ultimately be needed to come up with a workable financing model. I do believe, however, that the present bill, with the amendments I have proposed, has the flexibility needed to permit us, with the help of bond counsel and underwriters, to produce a program that works. The only way to find out if a program like this will really work in this state is to try it.

KANSAS BASIC ENTERPRISES LOAN PROGRAM

Preliminary Flow of Funds



Q-7-3
2/25/88

0232 proceeds of the bonds issued by the authority shall be paid or
0233 reimbursed out of such venture capital fund.

0234 (e) The authority is hereby authorized and empowered to use
0235 the proceeds of any bond issues herein authorized, together with
0236 any other available funds, for venture capital investments or for
0237 purchasing, leasing, constructing, restoring, renovating, altering
0238 or repairing facilities as herein authorized, for making loans,
0239 purchasing mortgages or security interests in loan participations
0240 and paying all incidental expenses therewith, paying expenses of
0241 authorizing and issuing the bonds, paying interest on the bonds
0242 until revenues thereof are available in sufficient amounts, pur-
0243 chasing bond insurance or other credit enhancements on the
0244 bonds, and funding such reserves as the authority deems neces-
0245 sary and desirable. All moneys received by the authority, other
0246 than moneys received by virtue of an appropriation, are hereby
0247 specifically declared to be cash funds, restricted in their use and
0248 to be used solely as provided herein. No moneys of the authority
0249 other than moneys received by appropriation shall be deposited
0250 with the state treasurer.

0251 (f) (1) The authority is hereby authorized and empowered to
0252 develop and implement the Kansas basic enterprises loan pro-
0253 gram and to issue ~~adjustable rate taxable~~ bonds for the financ-
0254 ing of loans thereunder. All loans under the program shall be
0255 made to eligible Kansas basic enterprises in accordance with
0256 guidelines and conditions prescribed by the authority and by
0257 statute. Each loan under the program shall be qualified, entered
0258 into and serviced by a financial institution acting as the agent of
0259 the authority and receiving a fee for such services pursuant to a
0260 contract entered into by the authority with the financial insti-
0261 tution. Each loan under the program shall be in an amount of
0262 not less than \$20,000 and not more than \$200,000 and shall be
0263 ~~secured in the following manner: (A) An amount specified in the~~
0264 ~~loan agreement which shall be equal to not more than 80% of~~
0265 ~~the amount of the loan shall be pledged by the authority as~~
0266 ~~security for the loan, and (B) an amount specified in the loan~~
0267 ~~agreement which shall be equal to not more than 10% of the~~
0268 ~~amount of the loan shall be pledged by the financial institution~~

matched by a subordinated loan from the participating financial institution which shall be in an amount not less than 10% of the amount of the loan made under the provisions of this subsection.

2/25/88
2-7-4

0269 ~~servicing the loan as security for the loan and as prescribed in the~~
 0270 ~~contract between the authority and the financial institution.~~
 0271 The eligible Kansas basic enterprise receiving a loan under the
 0272 program shall ~~have a risk exposure for each loan of not less than~~
 0273 ~~10% of the amount of the loan.~~ Subject to the provisions of this
 0274 subsection (f), the authority is hereby authorized to pledge
 0275 moneys credited to the Kansas basic enterprises loan guarantee
 0276 fund in security for ~~loans made under the program.~~

contribute equity capital to the project for which
 the loan is made, equal to at least 10% of the
 total project cost.

0277 (2) There is hereby established in the state treasury the
 0278 Kansas basic enterprises loan guarantee fund. The fund shall be
 0279 administered by the authority and all moneys in the fund shall
 0280 be used for the purposes of pledging security for loans to eligible
 0281 Kansas basic enterprises pursuant to this subsection (f). On or
 0282 after July 1, 1988, the director of accounts and reports shall
 0283 transfer from the Kansas economic development endowment
 0284 account of the state economic development initiatives fund to
 0285 the Kansas basic enterprises loan guarantee fund, amounts
 0286 certified to the director by the president of the authority, on the
 0287 date or dates specified in each such certification, except that the
 0288 balance of moneys credited to the Kansas basic enterprises loan
 0289 guarantee fund at any one time shall not exceed \$1,000,000. All
 0290 expenditures from the Kansas basic enterprises loan guarantee
 0291 fund shall be made in accordance with the provisions of appro-
 0292 priations acts for the purposes of satisfying obligations arising
 0293 pursuant to surety agreements entered into pursuant to this
 0294 subsection (f) on warrants of the director of accounts and
 0295 reports issued pursuant to vouchers signed by the president of
 0296 the authority or a person designated by the president.

bonds issued

0297 Sec. 3. K.S.A. 1987 Supp. 74-8902 and 74-8905 are hereby
 0298 repealed.

0299 Sec. 4. This act shall take effect and be in force from and
 0300 after its publication in the statute book.

0-7-5
 2/25/88