

Approved

March 29, 1988
Date

MINUTES OF THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT

The meeting was called to order by Phil Kline at
Chairperson

3:38 ~~xx~~ p.m. on Wednesday, March 23, 1988 in room 423-S of the Capitol.

All members were present except: Representatives Mainey, Teagarden, Baker, Barkis and Miller. - Excused.

Committee staff present:

Lynn Holt, Research
Elaine Johnson, Secretary

Conferees appearing before the committee:

Senator Eugene Anderson
Roland Smith, Executive Director of the Wichita Independent Business Assoc.

Chairman Kline called the meeting to order and by special request reopened the hearing on S.B. 470. Bud Grant of the Kansas Chamber of Commerce and Industry was recognized for some brief comments.

Mr. Grant stated that one of his big concerns yesterday was that in his opinion S.B. 470 was going to prohibit retail warehouse operations. On page 51 it talks about the storage, warehousing and distribution of any products of agriculture, mining or manufacturing, and he coupled that with the language that said, except those services associated with the sale of products of retail. He interpreted that to mean that retails were locked out. The Department of Revenue advised him that that was their language and that was not their interpretation. He expressed the feeling that the Department of Revenue's interpretation is more important than his and he wanted the committee to know this. K Mart warehouse, etc. will continue to qualify. He still does not agree with the philosophy of elimination of retail. Mr. Grant also brought up the question asked of Senator Kerr yesterday about a business that now has qualified for credits under job expansion investment credit act and their 10 year credit period is running. That credit if it is a retailer or one who does not come under the provisions of 470 will cease on January 1, 1991. That is changing the rules in the middle of the game and in his opinion is unfair. This closed the hearing on S.B. 470.

Chairman Kline then opened the hearing on S.B. 176 and recognized Senator Anderson.

Senator Anderson stated that this bill started out two years ago as a direct loan program to stimulate an area that has not been properly addressed by the state, and that is the area of small businesses throughout the state. He referred to the Redwood-Krider report that says we'll have much more success in developing businesses locally than we will in attracting them to come to Kansas. He feels it is important that we address some of the problems that small businesses have in the area of access to capital. The traditional lending institutions are not great about lending money to small businesses. Small businesses appropriately are the role of state government. We have depended on the federal Small Business Administration and this is being cut and phased out. The state needs to look at this. He was asked on the Senate floor how S.B. 176 would be funded. He said that with S.B. 574 passed by the Senate, the vehicle is already in place. S.B. 574 would only need some minor modifications. The Senator asked that the Committee take the time to read his prepared testimony. (Attachment 1).

Discussion followed.

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT,
room 423-S Statehouse, at 3:38 ~~xx~~ p.m. on Wednesday, March 23, 1988.

The next conferee on S.B. 176 was Roland Smith. Mr. Smith stated that the Wichita Independent Business Association supports S.B. 176. There is a definite need for this financing among small businesses and especially the non-basic industries. Referring to basic industries as defined in S.B. 470. Less than 10% of WIBA membership falls under that definition of basic industries. This bill addresses many of the financial needs of small businesses in section 4 especially working capital, inventory and business expansion expenses. (Attachment 2). Mr. Smith stated that their association definitely opposes S.B. 470 in the concept of basic industries as it is unfair and it is not entirely realistic as to pure economic development within our state.

Harland Priddle, Secretary of the Department of Commerce briefly addressed funding for this bill. The Department of Commerce spoke with the Small Business Administration and others and it was recommended that a million or more would be needed. The committee should be aware that funding will be required.

Discussion followed.

The meeting adjourned at 3:57 p.m.



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SENATE CHAMBER

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

TO THE CHAIRMAN - MEMBERS OF THE COMMITTEE

WE ARE MOST APPRECIATIVE OF THE TIME YOU HAVE ALLOWED FOR PROPONENTS OF THIS BILL, SENATE BILL 176, WHICH PROVIDES FOR THE ESTABLISHMENT OF A LOAN GUARANTEE PROGRAM TO ASSIST SMALL BUSINESSES AND SMALL CONTRACTORS, WITH LIMITED FINANCIAL ASSISTANCE.

APPROXIMATELY 98 PERCENT OF ALL AMERICAN BUSINESSES ARE "SMALL". ONLY 10,000 OF THE NATION'S BUSINESSES HAVE 500 OR MORE EMPLOYEES. SMALL BUSINESS EMPLOYS 47 PERCENT OF THE NON-GOVERNMENTAL LABOR FORCE.

ALMOST 80 PERCENT OF ALL NET JOBS COME FROM FIRMS WITH FEWER THAN 100 EMPLOYEES. ACCORDING TO RESEARCH DONE AT MICHIGAN INSTITUTE OF TECHNOLOGY, BETWEEN 1968 AND 1976, AND TWO-THIRDS OF ALL NEW JOBS ARE ACCOUNTED FOR BY FIRMS WITH 20 OR FEWER EMPLOYEES. FUTHERMORE, IN THE NORTHEAST SMALL BUSINESS JOB GAINS MADE UP FOR OPPORTUNITIES LOST BY THE LARGEST CORPORATIONS DURING THE SAME PERIOD.

IN ADDITION, NATIONAL SCIENCE FOUNDATION AND COMMERCE DEPARTMENT REPORTS CONCLUDED THAT SMALL BUSINESS WAS "24" TIMES MORE INNOVATIVE PER RESEARCH AND DEVELOPMENT DOLLAR THAN LARGE FIRMS. THUS, CONTRARY TO POPULAR BELIEF, A STATE'S JOB CREATION, EVEN IN THE FARM BELT STATES, WILL COME FROM FOSTERING LOCAL BUSINESSES, NOT FROM ATTRACTING BUSINESS FROM OUT OF STATE.

*House Eco Devo
Attachment 1
3/23/88*

YET FOR SMALL BUSINESS, LACK OF ACCESS TO CAPITAL IS A MAJOR PROBLEM, AND THE ECONOMIC RECESSION HAS SEVERELY MAGNIFIED THIS PROBLEM. THE RATE OF BUSINESS FAILURES IN 1982 AND 1983 RAN FIVE TIMES AHEAD OF THE RATE IN 1981.

MOST SMALL BUSINESSES FINANCE THEIR WORKING CAPITAL WITH SHORT TERM, BANK-FINANCED DEBT. THE GYRATING INCREASES IN THE INTEREST RATES HAVE SEVERELY STRAINED THE DEBT-SERVICE CAPABILITIES OF MOST SMALL BUSINESSES. WITHOUT THE INTERNAL RESERVES TO WITHSTAND THE LONG PERIOD OF HIGH RATES, AND WITHOUT AN ABILITY TO FULLY PASS ALONG THESE INCREASED "COSTS" OF DOING BUSINESS TO THEIR CUSTOMERS, SMALL BUSINESSES ARE FORCED TO CLOSE THEIR DOORS. THE FARM SECTOR, COMPRISED MOSTLY OF SMALL BUSINESSES, HAS ALSO EXPERIENCED A STEEP ECONOMIC DECLINE.

SINCE APPROXIMATELY 80 PERCENT OF SMALL BUSINESSES RELY ON FINANCING FROM DESPOSITORY INSTITUTIONS, AN INCREASE IN THE COST OF FINANCING AND A DECREASE IN THE AVAILABILITY OF FUNDS HAS A MORE SEVERE IMPACT ON SMALLER FIRMS THAN ON LARGER FIRMS.

THE SMALL BUSINESS ADMINISTRATION'S DIRECT LOAN AND LOAN GUARANTEE PROGRAMS HAVE HELPED, BUT ARE BEING REDUCED. IN FACT, THE SBA PROGRAM IS A VERY MODEST CAPITAL CORRECTING MECHANISM THAT NEEDS EXPANSION TO COUNTER THE GOVERNMENT'S CAPITAL MARKET INTERFERENCE.

THERE IS SOME CONTROVERSY OVER WHETHER CAPITAL ACCESS IS THE MOST IMPORTANT PROBLEM OR WHETHER THE COST OF CAPITAL IS MORE IMPORTANT. BOTH ARE IMPORTANT, BUT SOME CAPITAL ACCESS PROBLEMS CAN BE SOLVED THROUGH MODEST AND INEXPENSIVE MARKET RESTRUCTURING. SUCH AS THE ESTABLISHMENT LOAN GUARANTEE TO ASSIST SMALL BUSINESSES AND SMALL CONTRACTORS.

THE NEW PUBLIC POLICIES BEING PROPOSED FOR SMALL BUSINESSES ARE BASICALLY ORIENTED TOWARD IMPROVING CAPITAL ACCESS, NOT REDUCING THE CAPITAL COST. THIS WILL HELP MANY BUSINESSES AT LITTLE OR NO GOVERNMENT COST, BUT WILL NOT SOLVE THE PROBLEM FOR OTHER BUSINESSES THAT REQUIRE CAPITAL TO SURVIVE OR EXPAND.

THIS PROGRAM PROPOSAL SHOULD NOT AIM EXCLUSIVELY TO SATISFY A SMALL BUSINESS CONSTITUENCY, BUT TO CREATE A CLIMATE OF ECONOMIC AND JOB GROWTH. THE POTENTIAL ENTREPRENEUR AND THE STRUGGLING, GROWING COMPANY - - NOT MATURE SMALL BUSINESSES MORE INTERESTED IN PROTECTING THEIR GAINS - - SHOULD BE TARGETED FOR AID. THE GOAL OF MAKING FINANCIAL INSTITUTIONS MORE RESPONSIVE TO THE NEEDS OF SMALL BUSINESSES WILL BE WELL RECEIVED, BUT SPECIFIC PROGRAM PROPOSALS SHOULD EXTEND BEYOND THE INTERESTS OF THE ORGANIZED SMALL BUSINESS POLITICAL CONSTITUENCIES. THEREFORE, NEW PUBLIC POLICIES SHOULD BE PURSUED AS PART OF AN OVERALL STRATEGY OF ECONOMIC GROWTH, NOT AS A SMALL BUSINESS CONSTITUENCY ISSUE.

ON THE WHOLE, SMALL BUSINESSES APPEAR TO BE AS PROFITABLE, IF NOT MORE, THAN LARGE CORPORATIONS. BETWEEN 1972 AND 1976, U.S. MANUFACTURING CORPORATION WITH ASSETS UNDER \$1 BILLION RETURNED ONLY 12.91 PERCENT, ACCORDING TO THE FEDERAL TRADE COMMISSION.

BIASES IN FEDERAL POLICIES HAVE TRADITIONALLY GIVEN FIRMS AN INCENTIVE TO INVEST OUTSIDE OLDER AMERICAN CITIES AND OUTSIDE LOWER-INCOME URBAN AREAS. THE CAPITAL MARKETS ALLOW BIG BUSINESS BETTER ACCESS TO FINANCING THAN NEW, YOUNG AND SMALL FIRMS.

SMALL AND YOUNG COMPANIES EXPLORE NEW COMBINATIONS OF RESOURCES MORE EASILY, MORE CREATIVELY, AND LESS RISK THAN LARGE INSTITUTIONS. SMALL COMPANIES ARE PARTICULARLY IMPORTANT SOURCES OF LOCAL ECONOMIC VITALITY IN TERMS OF JOB CREATION, PROFITABILITY,

TECHNOLOGICAL, INNOVATION, AND EQUAL OPPORTUNITY.

IN CLOSING WE WOULD LIKE TO OUTLINE SOME APPROACHES TO ASSIST SMALL BUSINESSES AND SMALL CONTRACTORS.

FIRST, THE SKILLS OF ENTREPRENEURS, BOTH IN PRIVATE AND COMMUNITY-BASED-VENTURES NEED TO BE ENHANCED BY BETTER-COORDINATED EDUCATION, TRAINING AND TECHNICAL ASSISTANCE SERVICES. SUCH SERVICES COULD BE PROVIDED BY THE KANSAS DEPARTMENT OF ECONOMIC DEVELOPMENT, SPECIFICALLY THE MINORITY BUSINESS DIVISION. FOR EXAMPLE, THE EMPLOYMENT PLACEMENT AND TRAINING PARTNERSHIP ACT, COULD BE USED TO HELP THE UNEMPLOYED BECOME NEW BUSINESS OWNERS. THE SUCCESSFUL BE-YOUR-OWN-BOSS PROGRAM IN BROWARD COUNTY, FLORIDA, ARRANGED LOANS FROM SEVEN LOCAL BANKS AND TRAINED CETA-ELIGIBLES TO ESTABLISH 44 NEW BUSINESSES. ANOTHER STRATEGY IS THE CREATION OF TECHNICAL ASSISTANCE OFFICES LIKE THE MASSACHUSETTS COMMUNITY ECONOMIC DEVELOPMENT ORGANIZATIONS STARTING OR EXPANDING BUSINESSES.

SECOND, HIGHER COSTS OF PRODUCTION DISCOURAGE FIRM START-UP EXPANSION, AND RELOCATION IN MANY COMMUNITIES. THE COSTS OF LAND AND TAXES CAN ALL BE ADDRESSED BY APPROPRIATE PUBLIC POLICIES. " LAND BANKS " HAVE BEEN ESTABLISHED IN CLEVELAND, PHILADELPHIA AND MILWAUKEE TO ACQUIRE AND IMPROVE CONTIGUOUS PARCELS OF LAND. LOCAL GOVERNMENTS SHOULD USE THE URBAN IDENTIFICATION SYSTEM DEvised BY THE COUNCIL ON NORTHEAST ACTIONS TO DETERMINE WHAT BUSINESSES ARE UNDER REPRESENTED IN THEIR COMMUNITIES. SUCH RESEARCH WILL HELP NEIGHBORHOOD GROUPS, SMALL BUSINESS PERSONS AND LENDERS IDENTIFY PROMISING BUSINESS VENTURES.

LOCAL CITIZENS ORGANIZATIONS ARE ALSO A LARGELY UNTAPPED SOURCE OF ENTRENEURSHIP. BALTIMORE, PHILADELPHIA, KANSAS CITY, MISSOURI, NEW YORK AND SAN DIEGO HAVE AIDED NEIGHBORHOOD GROUPS IN ESTABLISHING BUSINESSES FOR DELIVERING LOCAL SERVICES. URBAN DEVELOPMENT ASSISTANCE GRANTS AND COMMUNITY DEVELOPMENT BLOCK GRANT MONIES CAN BE USED FOR ENTREPRENEURIAL FINANCE, AS NEW YORK CITY HAS DONE. LOCAL GOVERNMENTS COULD ALSO EXPLORE USING COMMUNITY DEVELOPMENT BLOCK GRANT MONIES TO GUARANTEE INDUSTRIAL REVENUE BONDS FOR FIRMS MEETING CERTAIN TESTS OF SIZE AND LOCATION.

THE STATE COULD DEVELOP A STATE-LEVEL EQUIVALENT OF THE 1977 FEDERAL COMMUNITY REINVESTMENT ACT, WHICH DIRECTED REGULATORS TO CONSIDER WHETHER BANKS WERE MEETING THE NEEDS OF THE COMMUNITY. SUCH AN ACT SHOULD FOCUS ON A BANK'S RECORD IN MEETING THE NEEDS OF SMALL BUSINESS AS WELL AS CONSUMERS AND MORTGAGE LOANS.

THE STATE COULD INSURE THAT SMALL BUSINESSES ARE REPRESENTED ON THE BOARDS OF DIRECTORS OF MAJOR FINANCIAL INSTITUTIONS. MAJOR BANKS SELDOM HAVE SMALL BUSINESS REPRESENTATION.

THE STATE COULD ESTABLISH LOAN LOSS RESERVE PROGRAMS. THESE PROGRAMS DEVELOP A SPECIAL RESERVE FUND TO ALLOW BANKS TO MAKE LOANS OF MORE THAN NORMAL RISK. THEY WORK BEST IN STATES THAT HAVE A SUBSTANTIAL PERCENTAGE OF BANKING ASSETS IN LARGE BANKS, SINCE THE PROGRAM REQUIRES EACH PARTICIPATING BANK TO DEVELOP A LOSS RESERVE COVERING A BROAD PORTFOLIO OF LOANS.

THE STATE COULD CREATE A NEW CLASS OF COMMERCIAL LENDERS TO PROVIDE FUNDS FOR VENTURE CAPITAL FIRMS. CALIFORNIA, NEVEDA AND SOME OTHER STATES HAVE CREATED "BUSINESS AND INDUSTRIAL DEVELOPMENT CORPORATIONS" (BIDCOs) TO GENERATE MORE SOPHISTICATED FINANCING FOR VENTURE CAPITAL COMPANIES. THESE INSTITUTIONS MAKE GOVERNMENT GUARANTEED LOANS AND SELL THE GUARANTEES TO LEVERAGE THEIR FUNDS. SINCE THEY DO NOT TAKE DEPOSITS AND DO NOT HAVE FIDUCIARY RESPONSIBILITY OR FEDERAL INSURANCE, THEY CAN TAKE EQUITY POSITION AND DEVELOP MUCH MORE FLEXIBLE FINANCING RESPONSES THAN IS THE CASE FOR BANKS.

THE STATE SHOULD REQUIRE FINANCIAL REGULATORS, IN THEIR ANNUAL REPORT TO THE GOVERNOR AND LEGISLATURE, TO REPORT ON THE PERFORMANCE OF THE INSTITUTIONS IN SUPPORTING SMALL BUSINESS DEVELOPMENT.

NEW ENTERPRISE DEVELOPMENT AS A REVITALIZATION STRATEGY IS NOT OF COURSE WITHOUT PROBLEMS. THE QUALITY OF JOBS PRODUCED IN TERMS OF WAGE LEVELS, FRINGE BENEFITS AND LOGEVITY IS OFTEN LOWER THAN AVERAGE.

OBVIOUSLY THE QUESTIONS COME TO MIND ON HOW SUCH A LOAN GUARANTEE FOR SMALL BUSINESS MIGHT BE FUNDED, AND I BELIEVE THAT THE PASSAGE OF SENATE BILL 574 COULD BE THE VEHICLE WITH SOME MINOR MODIFICATION.

SENATOR EUGENE ANDERSON



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March 23, 1988

STATEMENT TO: THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT
FROM: The Wichita Independent Business Association
SUBJECT: Senate Bill No. 176

Chairman Kline, members of the committee and staff members, I am Roland Smith, Executive Director of the Wichita Independent Business Association. We are an association of over 1400 locally-owned small businesses in over 350 different categories in the Wichita trade area. Employment by the WIBA members exceeds 12,000.

WIBA is supporting Senate Bill No. 176. There is a definite need for this financing among small businesses and especially the non-basic industries. I am referring to basic industries as defined in Senate Bill No. 470. Less than 10% of WIBA membership falls under that definition of basic industries. This bill addresses many of the financial needs of small businesses in section 4 especially working capital, inventory and business expansion expenses.

We would have preferred a revolving loan fund over a guarantee loan program but the Senate Committee felt this would leverage the funds available and increase the number of businesses this program could help.

I just hope the cost of having a bank or lending institution involved will not make the loan cost prohibitive to many small businesses. I foresee some difficulty in obtaining these cooperating institutions at reasonable fees. In the rural areas, it may be difficult to obtain a local institution to cooperate. This has been a problem with SBA guarantee programs.

This bill is a step in the right direction and we would encourage you to recommend it for passage in the House.

If there are any questions, I'd be glad to answer them. Thank you.

*House Eco Devo
Attachment 2
3/23/88*