

Approved _____ Feb. 10, 1988
Date

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT & TAXATION

The meeting was called to order by Senator Fred A. Kerr at
Chairperson

11:00 a.m./p.m. on February 9, 1988 in room 519-S of the Capitol.

All members were present except:

Committee staff present:

Tom Severn, Reserach
Chris Courtwright, Research
Don Hayward, Revisor's Office
Sue Pettet, Secretary to the Committee

Conferees appearing before the committee:

Sen. Dave Kerr
Harold Stones, Kansas Bankers Assoc.
Dr. Charles Krider, Kansas University

Rich Bailey, Dept. of Commerce

Chairman Kerr called the meeting to order and said there would be a hearing on S.B. 473. He introduced Sen. Dave Kerr, who was on Interim Comm. to explain 473. Sen. Dave Kerr explained that during the 1986 Legislative session a bill was enacted that included a package planning around a 25% tax credit for investments into venture capital for corporate and private individuals. He said that the tax credit was to be spread out over a four year period with no more than 25% of the credit to be taken in any one year. Sen. Kerr said that the 1987 Interim Economic Development Committee explored ways to help to raise the money. He stated that the private corporations asked to accelerate the tax credit to one year. The banks were reluctant to make a request such as this because they did not want to seem as though they were backtracking on their previous commitment. Sen. Kerr stated that S.B. 473 would allow acceleration of tax credits from four years to one year so that they would be able to receive the tax credit in the year of investment.

Harold Stones testified. (Att. 1) He stated that Kansas Venture Capital, Inc. (KVCI) has sold \$6.6 million of common stock subscriptions. The subscription agreement allows them to "call" in the funds as needed. He said that a 50% "call" was put on the subscription amount when \$5 million was subscribed. As each additional million is raised, another 10% call will be made, until the full \$10 million is subscribed and reached. He stated that when the original law was enacted, a 25% tax credit to investors was spread evenly over at least four years. S.B. 473 eliminates the "four-year spread" and allows the entire tax credit in one year. He said that since it has proven to be difficult to sell to "non-bank" entities on faith, S.B. 473 would definitely be an asset and speed up the sale of common stock to the final \$10 million goal.

Dr. Charles Krider testified. (Att. 2) He stated that Kansas has proven to have a "hard sell" history of venture capital sales. He stated that he felt it would be very helpful to allow the tax credit up front the first year instead of spreading it out over four years. Dr. Krider stated that another option could be to increase the tax credit percentage to 30%, which is the rate provided in the Indiana legislature. Or, the tax credit deduction period could be decreased from its present time frame of four years to two years or less. Dr. Krider stated he was in favor of the one year tax credit.

Rich Bailey testified (Att. 3) on behalf of the Dept. of Commerce. He said that so far there have been three venture capital funds certified - two in Lawrence and one in Topeka. He stated that if S.B. 473 were enacted it would have no immediate fiscal impact on the Dept. of Commerce. He stated that they felt the passage of the bill would increase the number of certified funds by offering a more immediate incentive.

(Attachment 4 is information for the committee submitted by a conferee that could not be present. Is regarding S.B. 454.)

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT & TAXATION,
room 519-S Statehouse, at 11:00 a.m./~~p.m.~~ on February 9, 1988

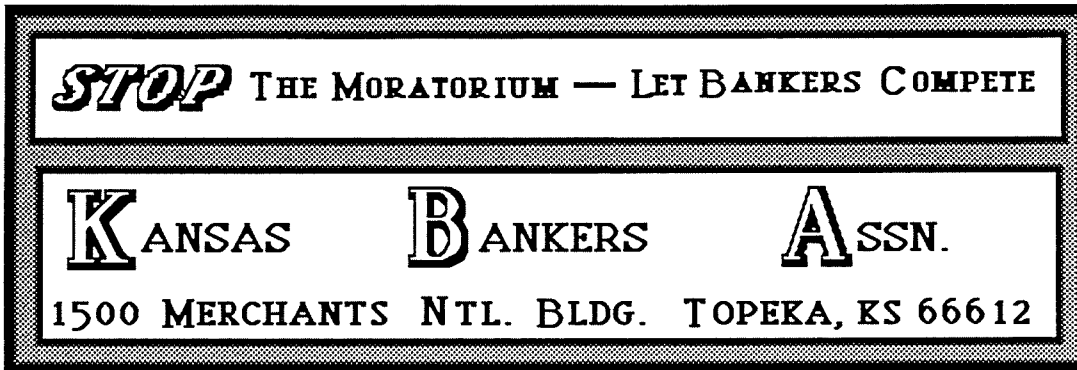
Committee Discussion

Senator Hayden made a motion to technically amend the bill on line 29 clarifying that only cash investments qualify. Senator Mulich seconded. Motion carried. Senator Hayden then moved that S.B. 473 be recommended favorably for passage as amended. Senator Mulich seconded. Discussion then took place on the likely fiscal impact of the bill in early years even though the total exposure to the state would not change. It was agreed that further action on the bill would be postponed until the fiscal data could be obtained. Chairman Kerr said that Senator Hayden's motion would be considered when committee discussion on S.B. 473 resumes.

Chairman Kerr briefly announced the agenda for the next few days. He said that Sen. Burke indicated he would be ready for hearings on S.B. 580 on Monday, Feb. 15.

Sen. Allen made a motion to accept the minutes of the Feb. 8 meeting. Sen. Thiessen seconded. Motion carried.

Meeting adjourned.



January 9, 1988

TO: SENATE COMMITTEE ON ASSESSMENT AND TAXATION

FROM: Harold Stones

RE: Senate Bill 473, dealing with economic development incentives.

Mr. Chairman, Members of the Committee:

Thank you for the opportunity to testify on SB 473. The KBA has been hard at work marketing common stock in Kansas Venture Capital, Inc., to the banks of Kansas. When we started, we had no active corporation, no Chief Executive Officer, no active Board of Directors and, consequently, no short, medium or long-term plans. We had a goal of helping our Kansas economy, and we offered the common stock to Kansas banks purely as an act of faith. And they responded well.

KVCI has subscriptions of common stock signed by 275 Kansas banks amounting to \$6.6 million. Our Subscription Agreement allows us to "call" in these funds as needed. We put a call on 50% of the subscription amount when \$5 million was subscribed. As each additional million is raised, another 10% call will be made, until the full \$10 million is subscribed and reached.

KVCI now has a President and CEO who is an experienced venture capitalist who meets national standards in the field. His name is Rex Wiggins, and he has already put two packages together, with two more to close any day. Rex tells me he has some 40 deals in the flow. Many of these may not be viable, but the sheer volume of calls alone tells the Kansas Legislature that we were all on the right track in putting this corporation together.

KVCI also has a Board of Directors which meets the standards of the enabling legislation. In short, KVCI is a dynamic, active corporation today, helping the Kansas economy, and in time, will make a very positive measurable impact.

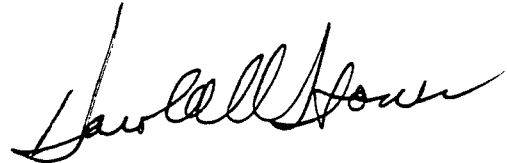
When the Legislature passed Substitute for Senate Bill 756, in the 1986 Session, one of the enhancements to selling the common stock was a 25% tax credit to investors, spread evenly over at least 4 years. The fiscal note on this is \$2.5 million, or a maximum of \$625,000 in any one tax year.

S. B. 473 eliminates the "four-year spread", and allows the entire tax credit in one year. Neither the Kansas Bankers Association nor Kansas Venture Capital, Inc., requested this legislation. We do not want to appear to be "backing down" on our deal with the Legislature at the time the tax credits

were enacted. We have sold \$6.6 million with the four-year enhancement, and we believe we can finish out the additional \$3.4 million to domestic corporations. But there is no question that it would step up the time-table, and enhance the value of the stock.

We have found that we cannot sell to non-bank entities on faith. They want a professional presentation which requires time and money to prepare and present. We will be dealing with professional investors who are looking to a future return, whereas banks very much hoped they would not lost their investment, but their primary purpose was not direct financial return. We are now in a new game, and there is no doubt that the "instant" tax credits would be a valuable assistance in the finishing up of the sale of common stock. If we were to finish the stock sales in one year, the state would allow \$1,875,000 in tax credits instead of \$625,000, in theory. However, even with this enhancement, the stock sales will be spread over at least two years, so we are actually looking at more like \$1.25 million a year in credits over two years. We sold roughly \$5 million prior to December 31, 1987, and would hope to sell the remaining \$5 million during 1988, so if S. B. 473 is enacted, the spread would be 2 years rather than 4, simply because of the time-spread of the stock sales.

In summary, Mr. Chairman and Members of the Committee, we are not requesting such legislation as S. B. 473, but there is no doubt it would speed up the sale of common stock to the final \$10 million goal, and hasten the day when KVCII has more money invested in economic-enhancing projects and ventures.

A handwritten signature in black ink, appearing to read "David L. Hower". The signature is written in a cursive, flowing style with a long, sweeping underline.

Banks Take "Pivotal Step" Toward Economic Development

By Deborah S. Lilly

KANSAS Venture Capital, Inc. (KVCI), a licensed Small Business Investment Company (SBIC) serving the state of Kansas, has announced the successful completion of the first tier of investments from the banks of Kansas.

In recent months KVCI has undergone tremendous recapitalization from the sale of KVCI stock to Kansas banks. Participating banks invest in KVCI based on a percentage of their capital accounts. As of Dec. 1987, KVCI had stock and subscriptions from 270 Kansas banks in excess of \$6 million.

KVCI Chairman of the Board Emery E. Fager, chairman, Commerce Bank & Trust Co., Topeka, congratulated Kansas banks for their outstanding response to KVCI stock solicitations, saying that "Kansas banks have shown once again they are leaders in their communities and in the state in economic development."

Newly-elected KVCI President Rex E. Wiggins agrees that Kansas banks have taken the "first pivotal step" toward reaching the corporation's goal to be \$10 million capitalized. Once this goal is attained, the State of Kansas has agreed to match the \$10 million dollar for dollar.

Wiggins comes highly-regarded to KVCI, with ten successful years of experience in the venture capital industry in the Midwest. As a regional executive for MorAmerica Capital Corporation, Wiggins was responsible for the Kansas City branch. MorAmerica Capital, with total investments in excess of \$30 million, is one of the largest SBIC's in the Midwest.

More recently, Wiggins was a consultant to Allsop Venture Partners, a national private venture capital limited partnership with over \$100 million of equity capital under management.

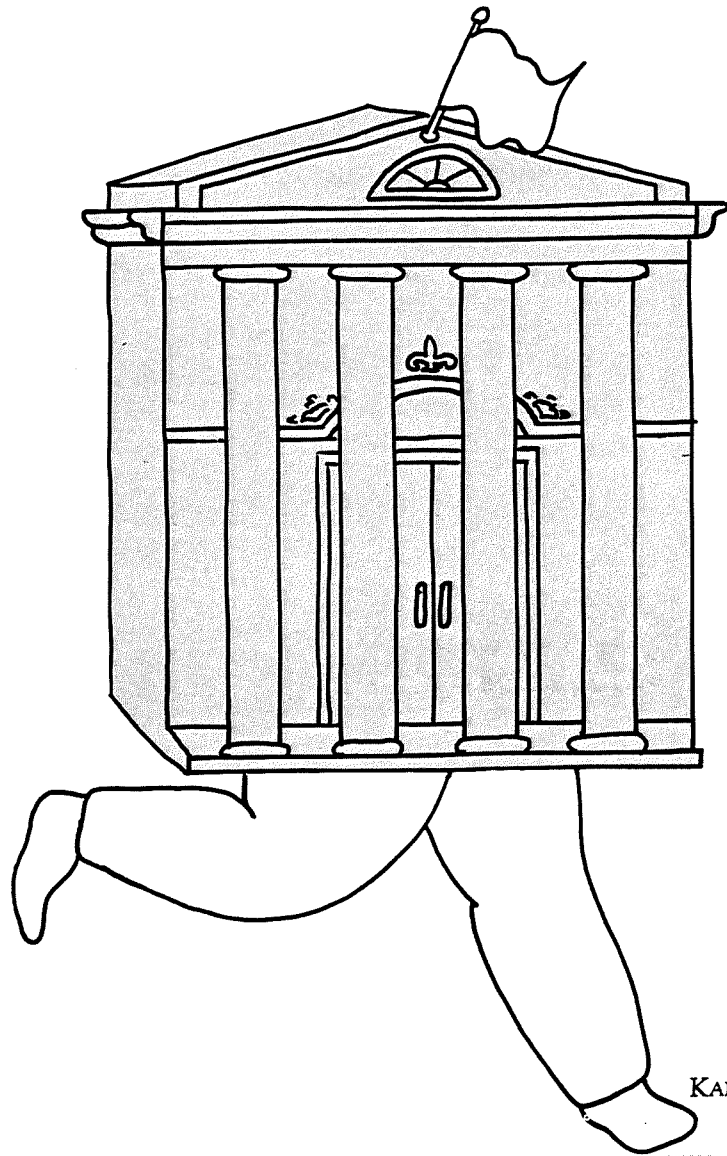
This injection of capital has effectively "doubled our capacity to in-



KVCI Chairman Emery Fager during a December news conference.

vest," said Wiggins, adding that KVCI now has the ability to look closer at "larger-sized investments." A six-member Investment Committee made up of KVCI board members is responsible for approving all investments of the corporation. In the past 60 days, investments have already been made in two Kansas businesses.

"This recapitalization would not have been possible without the tremendous assistance and support of the Kansas Bankers Association," said Wiggins. KVCI officials especially acknowledge KVCI Chairman Emery E. Fager, chairman, Commerce Bank & Trust, Topeka; Harold



Stones, executive vice president of the Kansas Bankers Association; and Ben Craig, president, Metcalf State Bank, Overland Park, for their dedication to economic development through KVCI in the past year.



KVCI President Rex E. Wiggins

A careful blend of individuals representing the banking industry, the investment banking field, and successful business entrepreneurs make up KVCI's 19-member board of directors.

Officers of the corporation are Chairman of the Board Emery E. Fager, chairman, Commerce Bank & Trust, Topeka; Vice Chairman Robert W. Asmann, assistant to president, BANK IV, Wichita; President Rex E. Wiggins; Executive Vice President Larry J. High, Topeka; Vice President and Treasurer Don L. Collins, president, Collins Industries, Hutchinson; Secretary William Dreyer, president-Kansas Division, Southwestern Bell Telephone Co., Topeka; and Assistant Secretary Audrey A. Rupert, Topeka.

Kansas Venture Capital Inc. is a self-sustaining organization whose goal is to optimize its risk-adjusted rate of return so as to enhance the Kansas economy over long periods of time. The pooled assets of the corporation are used for attracting and retaining higher-risk job-creating business enterprises into communities throughout all parts of Kansas. As president, Wiggins will be charged with the implementation of long-range goals and policies of the corporation.

The following is a complete list of Kansas banks participating thus far in Kansas Venture Capital, Inc.

Abilene, Citizens Bank & Trust
Abilene, Farmers National Bank
Alma, First National Bank
Americus, Americus State Bank

Arkansas City, Union State Bank
Atwood, Farmers Bank & Trust
Augusta, Citadel Bank of Augusta

Baldwin City, Baldwin State Bank
Baxter Springs, Baxter State Bank
Beattie, Marshall County Bank of Beattie
Belleville, Peoples National Bank
Beloit, First National Bank
Beloit, Guaranty State Bank & Trust
Bennington, Bennington State Bank
Bentley, State Bank of Bentley
Benton, Benton State Bank (FDIC)
Beverly, Beverly State Bank
Blue Rapids, State Bank of Blue Rapids
Bremen, Bremen State Bank
Buhler, Buhler State Bank
Burdett, Burdett State Bank
Burlingame, First State Bank

Caldwell, Stock Exchange Bank
Canton, Farmers State Bank
Cedar Vale, Cedar Vale State Bank
Chanute, Bank of Commerce
Chapman, Chapman State Bank
Chase, Rice County State Bank
Cheney, Citizens State Bank
Cherryvale, Peoples State Bank
Cimarron, First National Bank
Circleville, Farmers State Bank
Claflin, Farmers & Merchants State Bank
Clay Center, Peoples National Bank
Clay Center, Union State Bank
Coffeyville, BANK IV
Coffeyville, Coffeyville State Bank
Coffeyville, Condon National Bank
Coldwater, Peoples State Bank
Columbus, Columbus State Bank
Concordia, First Bank & Trust
Conway Springs, First National Bank
Cunningham, First National Bank

Emporia, Emporia State Bank & Trust
Enterprise, Dickinson County Bank
Erie, The Home State Bank
Eureka, Home Bank & Trust

Fairview, Farmers State Bank
Fall River, Fall River State Bank
Florence, Florence State Bank
Frankfort, First National Bank
Fredonia, First National Bank
Ft. Scott, City State Bank

Galva, Farmers State Bank
Garden City, Fidelity State Bank & Trust
Garden City, Fourth Bank of Garden City
Garden City, Western State Bank
Garnett, Kansas State Bank
Gaylord, First National Bank (FDIC)
Girard, First National Bank
Goodland, First National Bank
Great Bend, American State Bank & Trust
Great Bend, Security State Bank
Greeley, Bank of Greeley
Greenleaf, Citizens National Bank
Grinnell, Peoples State Bank

Halstead, Halstead Bank
Hamilton, First National Bank
Hardtner, Farmers State Bank
Harper, First National Bank
Hartford, Hartford State Bank
Harveyville, First National Bank
Haven, Haven State Bank
Hays, Farmers State Bank
Haysville, First National Bank
Healy, First State Bank
Herington, The Bank of Herington
Hesston, The Hesston State Bank
Hill City, Consolidated State Bank
Hill City, Farmers & Merchants Bank
Hoisington, Hoisington National Bank

"Kansas banks have shown once again they are leaders in their communities and in the state in economic development."

Delphos, State Bank of Delphos
DeSoto, DeSoto State Bank
Dexter, Farmers State Bank (FDIC)
Dodge City, Bank of the Southwest
Dodge City, Fidelity State Bank & Trust
Dodge City, First National Bank
Durham, Durham State Bank

Edwardsville, Edwardsville State Bank
El Dorado, First National Bank
El Dorado, Walnut Valley Bank & Trust
Elkhart, First National Bank
Ellinwood, The Peoples State Bank
Ellis, Ellis State Bank
Elmdale, Peoples Exchange Bank
Elwood, First State Bank of Elwood
Emporia, Admire Bank & Trust
Emporia, BANK IV

Holton, Denison State Bank
Holton, The Kansas State Bank
Holyrood, The Bank of Holyrood
Hoxie, First National Bank
Hoxie, Hoxie State Bank (FDIC)
Humboldt, Humboldt National Bank
Hutchinson, Central Bank & Trust
Hutchinson, First National Bank
Hutchinson, Hutchinson National Bank

Independence, Citizens National Bank
Iola, Iola Bank & Trust
Iuka, Iuka State Bank

Jewell, Citizens State Bank
Junction City, Central National Bank
Junction City, First National Bank
Junction City, First State Bank

Kansas City, Citizens Bank & Trust
Kansas City, Commercial National Bank
Kansas City, Guaranty State Bank & Trust
Kansas City, Home State Bank
Kansas City, Security Bank of Kansas City
Kansas City, The Wyandotte Bank
Kansas City, Twin City State Bank
Kincaid, The Bank of Kincaid

Larned, First National Bank & Trust
Lawrence, Douglas County Bank
Lawrence, First National Bank
Lawrence, FirstBank
Lawrence, Lawrence National Bank & Trust
Leavenworth, First National Bank
Leavenworth, Leavenworth National Bank
Leavenworth, Manufacturers State Bank
Lebanon, First National Bank
Lenexa, BANK IV
Leoti, First State Bank
Lewis, Home State Bank
Liberal, Citizens State Bank
Liberal, First National Bank
Lincoln, Farmers National Bank
Lincoln, Saline Valley Bank
Lincolnton, Pilsen State Bank
Long Island, Commercial State Bank
Louisburg, The Bank of Louisburg
Lucas, Farmers State Bank
Luray, Peoples State Bank
Lyons, The Coronado Bank

Madison, First National Bank
Manhattan, Citizens State Bank
Manhattan, First National Bank
Mankato, First National Bank
Mankato, State Exchange Bank
Maple Hill, Stockgrowers State Bank
Marion, Marion National Bank
Marquette, Marquette Farmers State Bank
Marysville, Blue Valley National Bank
McCune, McCune State Bank (FDIC)
McDonald, Peoples State Bank
McLouth, Bank of McLouth
McPherson, Home State Bank & Trust
McPherson, McPherson Bank & Trust
McPherson, Peoples State Bank & Trust
Meade, First National Bank
Miltonvale, Citizens State Bank
Minneapolis, The United Bank (FDIC)
Minneola, Peoples State Bank
Montezuma, Montezuma State Bank
Moundridge, Citizens State Bank
Mount Hope, First National Bank
Mulvane, Mulvane State Bank
Murdock, Murdock State Bank

Neodesha, First Neodesha Bank
Newton, BANK IV
Newton, First Bank of Newton
Norton, First Security Bank & Trust
Norton, First State Bank
Nortonville, Bank of Nortonville (FDIC)
Norwich, Farmers State Bank

Oakley, Farmers State Bank
Oberlin, Bank of Oberlin
Oberlin, Farmers National Bank
Olathe, BANK IV
Olathe, First National Bank of Olathe

Onaga, First National Bank
Osage City, Citizens State Bank
Osawatomie, American State Bank
Osborne, The First State Bank & Trust
Oswego, American State Bank
Oswego, First National Bank
Otis, Otis State Bank
Overland Park, Metcalf State Bank
Overland Park, MidAmerican Bank & Trust

Palmer, Bank of Palmer
Paola, Citizens State Bank
Paola, The Miami County National Bank
Parsons, First National Bank & Trust
Parsons, Parsons Commercial Bank
Phillipsburg, First National Bank
Pittsburg, BANK IV
Pittsburg, City National Bank of Pittsburg
Portis, First State Bank
Prairie Village, Johnson County Bank
Prairie Village, Kansas National Bank
Pratt, First National Bank
Pratt, The Peoples Bank

Quinter, First National Bank

Ransom, First State Bank
Rexford, Rexford State Bank (FDIC)
Riley, The Riley State Bank
Roeland Park, MidAmerican Bank & Trust
Rossville, Peoples State Bank
Russell, The Home State Bank

Sabetha, Morrill State Bank
Salina, BANK IV
Salina, First National Bank & Trust
Salina, National Bank of America
Satanta, State Bank of Satanta
Scott City, Security State Bank
Sedan, Sedan State Bank (FDIC)
Sedgwick, Sedgwick State Bank
Selden, Selden State Bank
Seneca, Citizens State Bank
Shawnee, Citizens Bank & Trust
Smith Center, First National Bank
Smith Center, Smith County State Bank
South Hutchinson, Bank of Kansas
Spearville, First National Bank
St. Francis, Citizens State Bank (FDIC)
St. John, First National Bank
Stafford, Farmers National Bank
Stark, Stark State Bank
Sterling, Farmers State Bank
Sublette, Haskell County State Bank
Sylvia, Sylvia State Bank
Syracuse, First National Bank
Syracuse, Valley State Bank

Tampa, Tampa State Bank
Timken, Timken State Bank
Tipton, Tipton State Bank
Tonganoxie, First State Bank
Topeka, BANK IV
Topeka, Capital City State Bank & Trust
Topeka, Commerce Bank & Trust
Topeka, Fairlawn Plazabank
Topeka, Fidelity State Bank & Trust
Topeka, Merchants National Bank
Topeka, Southwest Bank & Trust
Troy, First Bank of Troy

Ulysses, Grant County State Bank
Uniontown, Union State Bank

Vermillion, Vermillion State Bank

Wakefield, Farmers & Merchants State Bank
Wamego, First National Bank
Wamego, Kaw Valley State Bank
Waverly, First National Bank
Wellsville, The Wellsville Bank
Wetmore, First Bank of Wetmore
Whitewater, Bank of Whitewater
Wichita, BANK IV
Wichita, BANK IV, Charter
Wichita, Central Bank & Trust
Wichita, City Bank & Trust
Wichita, First National Bank in Wichita
Wichita, National Bank of Wichita
Wichita, Union Boulevard National Bank
Wichita, Union National Bank
Wichita, United American Bank & Trust
Wilson, Wilson State Bank
Winfield, The State Bank
Winona, Farmers State Bank

Yates Center, State Exchange Bank (FDIC)



"Successful Banking Is Quality Personnel"

POSITIONS AVAILABLE

PRESIDENT, \$35-40mm ag bank, leading county town \$50,000

PRESIDENT, \$25-30mm commercial & consumer bank, top rating \$45-50,000

PRESIDENT, trade territory, high profile type bank, sophisticated market area..... Open

RESIDENTIAL REAL ESTATE HEAD, excellent bank, top management \$30-45,000

AG LENDER, college town, \$5mm diversified portfolio \$25-30,000

AG LENDER, top location, high profile bank \$25-35,000

CASHIER, \$100mm, top earning clean bank, top county town \$35-45,000

ASSET/LIABILITY, Budget, Strategic Planner Operations type, top county town \$30-35,000

Send your resume or phone:
Don W. Schooler & Associates
2508 East Meadow
Springfield, Missouri 65804
(417) 882-2265 (24 hrs.)

TESTIMONY ON
THE VENTURE CAPITAL TAX CREDIT
S.B. 473

presented to the
Senate Assessment and Taxation Committee

presented by
Dr. Charles Krider
Professor, School of Business
and
Director of Business Research
Institute for Public Policy and Business Research
University of Kansas

February 9, 1988

Mr. Chairman, I appreciate the opportunity to testify on S.B. 473, regarding the Venture Capital Company Tax Credit. After examining the results of a present value analysis of the tax credit, obtaining the opinion of Kansans involved in venture and seed capital funding, and gathering information on what other states are doing with regard to such tax credits, we concur with the interim Joint Committee's recommendation that taxpayers be allowed to claim in one year the entire allowable tax credit for investments in seed and venture capital. Therefore we support S.B. 473. Following is a summary of the results of our research on this subject which lead us to believe that the time period for taking the tax credit should be reduced from four years to one year.

SUMMARY OF KANSANS' PERCEPTIONS OF THE TAX CREDIT
FOR CERTIFIED VENTURE CAPITAL COMPANIES

Overall, there is satisfaction with regard to the structure of the current tax credit for certified venture capital companies. To date, this credit has provided fund managers with an additional marketing tool in their attempts to raise funds. However, it is clear that while the tax credit may be a necessary condition for raising capital, it is not a sufficient condition. Rather, investors rank the track record of the management team as predominant with anticipated risk-adjusted rate of return and fund objectives as second and third criteria.

Obviously, the more attractive the tax credit the more significant is its role in the decision-making process. For this reason, some individuals expressed their support for reducing the time period for taking the tax credit from 4 years to 2 years or less. In addition, the amount of the tax credit coupled with the deduction time frame effects the investor's calculation of the risk-adjusted rate of return; a decision criteria mentioned above.

Finally, many individuals noted that it takes a great deal of time and effort to raise capital particularly in a marketplace where the concept is relatively new. This comment is supported in the experience of other states.

PRESENT VALUE ANALYSIS OF TAX CREDIT
TO INDIVIDUALS AND CORPORATIONS

The present value analysis is a financial methodology which recognizes that money has value over time. That is, a dollar received today is worth more than a dollar received next year. This has application to the tax credit for venture capital funds in regard to the timing of the tax credit deduction against state taxes. The full credit received in year 1 will have a greater value than one-fourth of the credit received for each of four years.

Two columns of calculations are presented in both Tables 1 and 2 (Appendices A & B). The left-hand column assumes no federal tax implications. The right-hand column takes into account the increase in federal tax liability that occurs as the state tax liability decreases. This is the issue addressed by Indiana.

As a simplistic explanation, the discount rate in these tables can be said to represent the rate of return an investor could have received on their dollars. A 10% discount rate is assumed in the first row, a 12% rate in the second row and an 8% in the final row. As expected, as the discount rate is increased, the effective percentage of the tax credit decreases for periods 2 through 4.

This Present Value methodology is illustrated first in Table 1 (Appendix A) as it relates to the tax credit for individual's investing in these funds. A \$46,000 cash investment is assumed which represents the average amount an individual contributed to the Research Capital Management Group Fund in Lawrence. The calculations which assume a 10% discount rate and no federal tax implications are shown below.

Credit taken over x yrs.	Annual State Credit	Net Present Value of Credit	Effective Tax Credit (%)
4	\$2,875	\$10,025	21.79%
3	\$3,833	\$10,486	22.80%
2	\$5,750	\$10,977	23.86%
1	\$11,500	\$11,500	25.00%

Reviewing these 10% discount figures, we find that the 25% tax credit actually represents an effective credit of 21.8% given the present requirement of a four year deduction period. The effective rate increases as this time period decreases until it reaches 25% if the full credit is allowed in the first year. The effective rate is even lower when federal tax implications are considered ranging from 15.7% for a four year period to 18% for a one year period (see additional calculations shown in Appendix A). These effective rates do not change if we assume an investment level other than \$46,000.

Table 2 (Appendix B) presents similar information as it applies to corporations. Here a \$72,000 cash investment is assumed which represents the average amount a corporation contributed to the Research Capital Management Group Fund in Lawrence. Again, the effective tax credit rates do not change if we assume a different investment level. The corporate effective rate, assuming no federal tax implications, matches the individual rate. When federal taxes are assumed, the effective rate is lower for corporate investors due to their higher average tax rate.

PRESENT VALUE ANALYSIS OF TAX CREDIT TO STATE

An analysis similar to that discussed previously was applied to determine the present value cost to the state of reducing the deduction period from 4 years to 1 year. A \$6,000,000 tax credit ceiling was assumed for this analysis as provided in the legislation. Appendix C provides the complete table of calculations for three discount rates: 10%, 12% and 8%. The calculations using 10% are shown below:

Credit taken over x yrs.	Annual State Credit	Net Present Value of Credit	Net PV Dollar Savings	Effective Tax Credit (%)
4	\$1,500,000	\$5,203,278	\$796,722	21.8%
3	\$2,000,000	\$5,471,074	\$528,926	22.8%
2	\$3,000,000	\$5,727,273	\$272,727	23.9%
1	\$6,000,000	\$6,000,000	\$0	25.0%

The fourth column entitled "Net PV Dollar Savings" indicates the savings which the state realizes with the 4, 3, and 2 year deduction periods when compared to a 1 year deduction period. In other words, with the current 4 year deduction period the state realizes a \$796,722 savings over providing a 1 year deduction period.

RECOMMENDATIONS

There are three options which exist regarding the current tax credit for venture capital companies. First, the credit may be retained in its present form; 25% over a four year period. Second, the tax credit percentage could be increased to 30%; the rate provided in the Indiana legislation. Finally, the tax credit deduction period could be decreased from its present time frame of 4 years to 2 years or less as is legislated in the majority of states we surveyed.

It is our recommendation that the current legislation be amended to decrease the deduction period from 4 years to 1 year. This change has two distinct advantages. First, the accounting complexity required by both the investor and the state to track the credit over a four year period of time is reduced. This reduction in complexity results in an administrative cost savings to both the investor and to the state. Secondly, with the reduction to a one year time period, the effective rate of the tax credit matches the legislated or "advertised" rate of 25% as shown in the previous present value analysis.

OTHER STATE VENTURE CAPITAL TAX CREDIT PROGRAMS

Arkansas

Description:

- Legislation passed in 1985
- 33% tax credit which can all be taken in the first year; carry forward provisions available

Activity:

-No activity to date; possible explanations:

- 1) No direct solicitation by the state
- 2) Firms interested in venture capital are working through other organizations within the state e.g. private sector initiative through Southshore Bank, Chicago and Arkansas Business Council supported by Sam Walton and Don Tyson.

Indiana

Description:

- Enabling legislation passed in 1981
- One-time fund "drive" with a two-year investment window for eligibility for a 30% tax credit
- 30% tax credit to be taken in the year of the investment with a 5 year carry forward provision available

Activity:

- The \$5,000,000 available for the tax credit was utilized resulting in a venture capital fund of \$16,667,000
- Major investors included Indiana headquartered insurance firms, banks, utilities and industrial concerns with a sizable Indiana presence

Role of Tax Credit:

- Considered crucial as it provided visibility that the fund otherwise would not have received
- Credit was large enough to "get attention" but not "that great". When the effects of federal tax liabilities were considered, the effective tax credit rate was calculated as less than 20%.
- Tax credit was a necessary but not sufficient condition for success of the venture capital fund. Other important factors included:

- 1) Sense of responsibility to economic development
- 2) Obtain a "window" on new technology

- They are considering the formation of a second fund, however, they will attempt raising funds without the benefit of a tax credit now that venture capital has become "visible" in the state.

Louisiana

Description:

- Original legislation passed in 1984, amended in 1986 reducing the capitalization level from a minimum of \$3 million to \$200,000
- 35% tax credit which may be taken in the first year of the investment with carry forward provisions available
- An additional 5% is given if the capital company invests in a business located in a Louisiana Enterprise Zone

Activity:

- Slow with first application requested in September 1987

Mississippi

Description:

- Enabling legislation passed in 1985, modeled after the Louisiana legislation
- 25% tax credit which may be taken in the first year
- \$200,000 minimum capitalization requirement for fund to qualify investors for the tax credit

Activity:

- To date, no one has applied for the tax credit. Just recently, one individual has indicated an interest in establishing a fund and the state is now in the process of drafting the necessary papers. They attribute the low level of activity to the cumbersome and restrictive nature of the bill.

Missouri

Description:

- Enabling legislation passed in 1986 establishing the mechanism to form 5 qualified contribution funds
- Investments in one of the five funds qualifies the investor for a 30% tax credit which may be taken over the first year with a 10 year carry forward tax provision
- Tax credits are negotiable instruments
- \$2,000,000 maximum capital contribution per investor

Activity:

- In the final stages now of presenting the first prospectus to a group of investors. This would establish the first of the five qualified contribution funds.

Montana

Description:

- Original legislation passed in 1983
- Provided a 25% tax credit which is required to be taken in year of investment if possible, carry forward and carry back provisions are provided
- Original legislation amended in 1987 as only \$2.4 million in venture capital had been raised resulting in \$400,000 in tax credits over the four year period since the legislation was first adopted
- New law provides a 50% tax credit with same time frame provisions and increases the maximum tax credit per individual from \$25,000 to \$125,000

Activity:

- Since the passage of the new legislation in July 1987, one capital company is in the process of raising the \$1.5 million minimum capitalization level
- Slow activity attributed to the character of the people in Montana, the lack of knowledge and education in venture capital and a general fear of these riskier funds

North Dakota

Description:

- Original legislation passed in 1985, amended in 1986/87 to allow insurance companies and banks to contribute funds
- 25% tax credit to be taken over four years, carry forward and carry back provisions included
- \$500,000 minimum capitalization

Activity:

- Slow; the first application is in process

APPENDIX A

EFFECTIVE TAX CREDIT
CERTIFIED VENTURE CAPITAL COMPANIES
INDIVIDUALS

TABLE 1

Assumptions : \$46,000 Cash Investment
25% tax credit or \$11,500
Discount rate of 10%
No federal tax consequences

Credit taken over x years:	Annual State Credit	Net Present Value of Credit	Effective Tax Credit (%)
4	\$2,875	\$10,025	21.79%
3	\$3,833	\$10,486	22.80%
2	\$5,750	\$10,977	23.86%
1	\$11,500	\$11,500	25.00%

Assumptions : \$46,000 Cash Investment
25% tax credit or \$11,500
Discount rate of 10%
Individual federal tax rate of 28%

Credit taken over x years:	Annual State Credit	Credit Net of Fed Tax	Net Present Value of Credit	Effective Tax Credit (%)
4	\$2,875	\$2,070	\$7,218	15.89%
3	\$3,833	\$2,760	\$7,550	16.41%
2	\$5,750	\$4,140	\$7,904	17.18%
1	\$11,500	\$8,280	\$8,280	18.00%

Assumptions : \$46,000 Cash Investment
25% tax credit or \$11,500
Discount rate of 12%
No federal tax consequences

Credit taken over x years:	Annual State Credit	Net Present Value of Credit	Effective Tax Credit (%)
4	\$2,875	\$9,780	21.25%
3	\$3,833	\$10,312	22.42%
2	\$5,750	\$10,884	23.66%
1	\$11,500	\$11,500	25.00%

Assumptions : \$46,000 Cash Investment
25% tax credit or \$11,500
Discount rate of 12%
Individual federal tax rate of 28%

Credit taken over x years:	Annual State Credit	Credit Net of Fed Tax	Net Present Value of Credit	Effective Tax Credit (%)
4	\$2,875	\$2,070	\$7,042	15.31%
3	\$3,833	\$2,760	\$7,425	16.14%
2	\$5,750	\$4,140	\$7,836	17.04%
1	\$11,500	\$8,280	\$8,280	18.00%

Assumptions : \$46,000 Cash Investment
25% tax credit or \$11,500
Discount rate of 8%
No federal tax consequences

Credit taken over x years:	Annual State Credit	Net Present Value of Credit	Effective Tax Credit (%)
4	\$2,875	\$10,284	22.36%
3	\$3,833	\$10,669	23.19%
2	\$5,750	\$11,074	24.07%
1	\$11,500	\$11,500	25.00%

Assumptions : \$46,000 Cash Investment
25% tax credit or \$11,500
Discount rate of 8%
Individual federal tax rate of 28%

Credit taken over x years:	Annual State Credit	Credit Net of Fed Tax	Net Present Value of Credit	Effective Tax Credit (%)
4	\$2,875	\$2,070	\$7,405	16.10%
3	\$3,833	\$2,760	\$7,682	16.70%
2	\$5,750	\$4,140	\$7,973	17.33%
1	\$11,500	\$8,280	\$8,280	18.00%

APPENDIX B
EFFECTIVE TAX CREDIT
CERTIFIED VENTURE CAPITAL COMPANIES
CORPORATIONS

TABLE 2

Assumptions : \$72,000 Cash Investment
25% tax credit or \$18,000
Discount rate of 10%
No federal tax consequences

Credit taken over x years:	Annual State Credit	Net Present Value of Credit	Effective Tax Credit (%)
4	\$4,500	\$15,691	21.79%
3	\$6,000	\$16,413	22.80%
2	\$9,000	\$17,182	23.86%
1	\$18,000	\$18,000	25.00%

Assumptions : \$72,000 Cash Investment
25% tax credit or \$18,000
Discount rate of 10%
Corporate federal tax rate of 34%

Credit taken over x years:	Annual State Credit	Credit Net of Fed Tax	Net Present Value of Credit	Effective Tax Credit (%)
4	\$4,500	\$2,970	\$10,356	14.38%
3	\$6,000	\$3,960	\$10,833	15.05%
2	\$9,000	\$5,940	\$11,340	15.75%
1	\$18,000	\$11,880	\$11,880	16.50%

Assumptions : \$72,000 Cash Investment
25% tax credit or \$18,000
Discount rate of 12%
No federal tax consequences

Credit taken over x years:	Annual State Credit	Net Present Value of Credit	Effective Tax Credit (%)
4	\$4,500	\$15,308	21.26%
3	\$6,000	\$16,140	22.42%
2	\$9,000	\$17,036	23.66%
1	\$18,000	\$18,000	25.00%

Assumptions : \$72,000 Cash Investment
25% tax credit or \$18,000
Discount rate of 12%
Corporate federal tax rate of 34%

Credit taken over x years:	Annual State Credit	Credit Net of Fed Tax	Net Present Value of Credit	Effective Tax Credit (%)
4	\$4,500	\$2,970	\$10,103	14.03%
3	\$6,000	\$3,960	\$10,653	14.80%
2	\$9,000	\$5,940	\$11,244	15.62%
1	\$18,000	\$11,880	\$11,880	16.50%

Assumptions : \$72,000 Cash Investment
25% tax credit or \$18,000
Discount rate of 8%
No federal tax consequences

Credit taken over x years:	Annual State Credit	Net Present Value of Credit	Effective Tax Credit (%)
4	\$4,500	\$16,097	22.36%
3	\$6,000	\$16,700	23.19%
2	\$9,000	\$17,333	24.07%
1	\$18,000	\$18,000	25.00%

Assumptions : \$72,000 Cash Investment
25% tax credit or \$18,000
Discount rate of 8%
Corporate federal tax rate of 34%

Credit taken over x years:	Annual State Credit	Credit Net of Fed Tax	Net Present Value of Credit	Effective Tax Credit (%)
4	\$4,500	\$2,970	\$10,624	14.76%
3	\$6,000	\$3,960	\$11,022	15.31%
2	\$9,000	\$5,940	\$11,440	15.89%
1	\$18,000	\$11,880	\$11,880	16.50%

APPENDIX C
EFFECTIVE TAX CREDIT
CERTIFIED VENTURE CAPITAL COMPANIES
STATE OF KANSAS

TABLE 3

Assumptions : \$5,000,000 TOTAL TAX CREDIT
Discount rate of 10%
No federal tax consequences

Credit taken over x years:	Annual State Credit	Net Present Value of Credit	Net PV Dollar Savings	Effective Tax Credit (%)
4	\$1,500,000	\$5,230,278	\$769,722	21.79%
3	\$2,000,000	\$5,471,074	\$528,926	22.80%
2	\$3,000,000	\$5,727,273	\$272,727	23.86%
1	\$5,000,000	\$5,000,000	\$0	25.00%

Assumptions : \$5,000,000 TOTAL TAX CREDIT
Discount rate of 12%
No federal tax consequences

Credit taken over x years:	Annual State Credit	Net Present Value of Credit	Net PV Dollar Savings	Effective Tax Credit (%)
4	\$1,500,000	\$5,102,747	\$897,253	21.26%
3	\$2,000,000	\$5,380,102	\$619,898	22.42%
2	\$3,000,000	\$5,678,571	\$321,429	23.66%
1	\$5,000,000	\$5,000,000	\$0	25.00%

Assumptions : \$5,000,000 TOTAL TAX CREDIT
Discount rate of 8%
No federal tax consequences

Credit taken over x years:	Annual State Credit	Net Present Value of Credit	Net PV Dollar Savings	Effective Tax Credit (%)
4	\$1,500,000	\$5,385,645	\$634,355	22.36%
3	\$2,000,000	\$5,568,529	\$433,471	23.19%
2	\$3,000,000	\$5,777,778	\$222,222	24.07%
1	\$5,000,000	\$5,000,000	\$0	25.00%

TESTIMONY ON SENATE BILL NO. 473
to the Senate Committee on Assessment and Taxation

Presented by Harland E. Priddle, Secretary of Commerce

February 9, 1988

Thank you, Mr. Chairman for allowing me to present testimony on Senate Bill 473.

Background

I thought it might be useful to update this committee on the activity regarding Kansas venture capital company and local seed capital pool certification. Thus far, we have certified three venture capital funds -- two in Lawrence and one in Topeka. Currently, we are in the discussion stage with a number of other groups expressing interest in certification including several parties in Topeka, Kansas City, Wichita, Hutchinson, Junction City, and a group in southwest Kansas.

In terms of local seed capital pool certification, we have had serious inquiries from parties in Lawrence, Overland Park, and Great Bend. To date, however, we have received no formal applications for local seed capital pool certification.

Issue

Parties interested in certification have expressed a variety of concerns dealing with the ability to raise capital for their funds. One of the suggested means to facilitate the fund-raising process concerns the issue Senate Bill No. 473 would address --- accelerating the Kansas income tax credit available for investment in certified Kansas Venture Capital Companies, local seed capital pools, and Kansas Venture Capital, Inc.

Fiscal Impact

If Senate Bill 473 were to be enacted, it would have no immediate fiscal impact on the Department of Commerce. The overall impact of

this legislation would be in the acceleration of income tax credit claims which may affect state revenues. However, the claims would still be limited to a total of 25 percent for \$24 million of actual investment.

Recommendation

Based on our discussions with prospective applicants for certification, the Department of Commerce supports Senate Bill 473 believing that accelerating the tax credit would indeed stimulate additional investment in risk capital funds in Kansas. We believe that passage of this bill would increase the number of certified funds by offering a more immediate incentive to potential investors.

Thank you once again for the opportunity to testify before this committee. We would be happy to answer any questions you might have.

BOARD OF DIRECTORS
JOHN FLENTJE, CHAIRMAN
CHARLAND E. PRIDDLE
CHRISTOPHER MCKENZIE
DENNIS MCKINNEY
HARRY WIGNER

ALLEN BELL, PRESIDENT



Suite 113
Landon State Office Bldg
900 S.W. Jackson
TOPEKA, KANSAS 66612

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

MARTY BLOOMQUIST, ASSISTANT

February 4, 1988

MEMORANDUM

TO: The Honorable Fred Kerr, Senator
Room 143-N, Statehouse

FROM: Allen Bell, *AB* President

SUBJECT: Testimony for Senate Bill 454

Enclosed please find a copy of the testimony intended for the Monday, February 1, hearing by the Senate Assessment and Taxation committee on Senate Bill 454.

This testimony was sent to me by Marvin Cox from First Securities Company in Wichita. It was his plan to attend the hearing and present the testimony, but due to weather conditions he was unable to do so and asked that I forward the enclosed document to the committee.

If you have questions, or would like to get in touch with Mr. Cox, please call me at 296-6747.

AB:jDeS

—A & T

2/9/88

Att. 4

FIRST SECURITIES COMPANY

OF KANSAS INCORPORATED

INVESTMENT SECURITIES

ONE MAIN PLACE
316-262-4411

WICHITA, KANSAS

RECEIVED

FEB 3 1988

K D F A

P. O. BOX 1321

ZIP CODE 67201

STATE OF KANSAS

SENATE ASSESSMENT AND TAXATION COMMITTEE

Good morning Chairman Kerr and Distinguished Members of the Committee:

We thank you for this opportunity to express views and opinions regarding the proposal on your agenda for consideration, regarding the elimination of State of Kansas income taxation on municipal bonds for individuals. I am Marvin Cox, a principal and officer of the investment banking firm, First Securities Company of Kansas, Inc. The First Securities Company has been active in public finance since 1916. Our main offices have been located in Wichita since 1916 and the Company has offices located in cities throughout the State of Kansas. We hope our testimony regarding S.B. 454, based upon our broad background of experience and history of service to the people of the State of Kansas, is helpful in your decision making process.

Other members of the industry, which underwrite and distribute Kansas municipal bonds, have also been requested to appear today; and previously appeared August 20, 1987 at the Interim Committee on Taxation. In an attempt to fully communicate not only our concerns, but the industry's opinions and concerns, an industry-wide telephonic conference call was originated August 18, 1987 past. The general opinions and viewpoints of the industry were presented at that meeting. A synopsis of same is attached for your information and consideration regarding the question of elimination of State of Kansas income

taxation upon municipal bonds. I wish to today expound the seven major points contained in the synopsis. They are as follows:

- 1.) Lower taxes for Kansas taxpayers will be resultant due to interest cost savings directly attributable to lower interest costs via additional Kansas investor demand for Kansas bonds. Tax-exempt bonds sell better than taxable bonds.
- 2.) Additional demand by Kansas investors for Kansas bonds would keep investment dollars in Kansas.

A synopsis of the total principal amount of bonds issued at public sale in the State of Kansas for 1986 through August, 1987 total \$321,691,493. A total of 806 bids were given for these issues sold for an average "principal sold per bid," for these two years, of approximately \$399,000. This is information regarding 157 public sales. There was an average of five bids per sale. All bond dealers who participated in these public sales were asked to participate in the dealer's meeting hereinbefore referred. It is interesting to note several comments in the meeting from dealers not domiciled in the State of Kansas that the retail buyers of other "neighboring" states' securities, in states where there is no state tax upon "in-state" municipal securities, that only 1 out of 15 purchases were for "out-of-state" bonds versus 50:50 for Kansas! In addition, the industry has seen a rapid growth of municipal bond mutual funds containing bonds of various states. This product segment has enjoyed a very rapid growth in Kansas.

- 3.) All states but five in the United States of America do not have, currently, a state income tax upon their respective state's municipal bonds¹. Differently phrased, 97% of the states do not tax bonds of their own municipalities!

4.) There is, obviously, benefit associated with "full" tax-exemption to Kansas bonds, whereas various authorities and instrumentalities of the State of Kansas issue fully exempt bonds, including, for example, the State of Kansas Highway Department, the Kansas Turnpike Authority and the Kansas Board of Regents. This financial advantage which state tax-exemption brings to the issuers and their citizens and taxpayers should be distributed to all municipal units. This opinion is shared by the Kansas League of Municipalities in a recent publication:

"For many years, the League of Kansas Municipalities has supported state legislation to eliminate the income taxation of interest on municipal bonds. Under existing state law (K.S.A. 1986 Supp. 79-32, 177), bond interest income is included within the Kansas adjusted gross income for taxation purposes, unless there is a specific statutory exemption. Strangely, most of the classic, traditional public purpose bonds issued by Kansas counties, cities and school districts are subject to state income taxation, while the interest on the bonds of state agencies and most "special purpose" type local bonds are tax-exempt"² . . . (further) . . . "some - we now have: the interest on Kansas turnpike bonds and state freeway bonds is exempt, but bonds issued by cities and counties for streets and highways and bridges are taxable"² . . . (and) . . . "Rural water district bonds are exempt, but not the bonds of cities for water supply and distribution improvements."²

5.) Whether or not the income tax on Kansas municipal bonds is unilaterally removed, the municipal bond industry which purchases, underwrites and distributes Kansas municipal bonds is not going to cease their activity. Bonds will still be bid upon and sold at some price level. We feel it important to indicate this. The industry

¹ An Investors Guide to Tax-Exempt Securities, Public Securities Association, New York, and Commerce Clearinghouse, Inc. State Tax Guide, October, 1986, pages 16 and 17. (Copies available upon request.)

² Kansas Government Journal of the League of Kansas Municipalities, June, 1987 edition, page 163.

will still be in the business of underwriting and distributing bonds at some yield level. The undergirding thought is not to help a small minority, nor to redistribute wealth, nor to help the Kansas bond dealers industry, but to aid the average taxpayer, to aid our tax base, and to lower taxes. The Kansas municipal bond industry will not enjoy nor reap benefit from this tax elimination. Competition will be increased which, as herein indicated, would lower interest costs through bidding procedures for municipal bonds, thus lowering taxes levied for interest on funds borrowed for capital improvements. Again, tax-exempt bonds sell better than taxable bonds. With this thought in mind, and due to the above delineated paradox occurring due to different levels of taxation upon Kansas bonds, there is an industry segment which is not fully supportive of elimination of said taxation, whereas it is perhaps not in their best interest to alleviate, due to the trading opportunities such confusion creates. Again, the underlying thought is to aid our citizens.

- 6.) Due to recent federal tax law changes enacted, municipal bonds are not as attractive to institutional investors, including insurance companies and commercial banks, as in prior years. This reduces overall demand for bonds. In an attempt to aid on the federal level this reduction in demand, a special exemption for commercial bank purchases of municipal bonds to help small issuers was enacted (i.e. "bank qualified"). This was based upon information available in this regard at the federal level and bond industry testimony. It should therefore be in the best interest of Kansas municipalities and small Kansas banks for the State of Kansas to

give attention to enacting such legislation possible, which can aid in increasing demand of investors for Kansas bonds.

- 7.) The fiscal impact upon the general fund of the State of Kansas due to removal of said tax is uncertain. However, it is the industry's opinion that the benefits of the elimination of said tax to Kansas taxpayers would far outweigh revenue loss to the State of Kansas.

In summary, these are the opinions of the participants in the underwriting and distribution of Kansas municipal bonds. These opinions delineated are relevant! They are of your bankers! We believe that by elimination of Kansas income taxation to individuals upon municipal bonds, measurable benefits to all Kansas citizens will be enjoyed!

Thank you.

FIRST SECURITIES COMPANY

OF KANSAS INCORPORATED

INVESTMENT SECURITIES

ONE MAIN PLACE
316-262-4411

WICHITA, KANSAS

P. O. BOX 1321

ZIP CODE 67201

SYNOPSIS OF MUNICIPAL BOND INDUSTRY OPINION

REGARDING THE ELIMINATION OF KANSAS (INDIVIDUAL) INCOME TAXATION ON MUNICIPAL BONDS

- 1.) Tax-exempt bonds sell better than taxable bonds. Lower taxes for Kansas taxpayers will be resultant due to interest cost savings directly attributable to lower interest cost via additional Kansas investor demand for Kansas bonds.
- 2.) Additional demand by Kansas investors for Kansas bonds would keep investment dollars in Kansas.
- 3.) All states but five in the United States of America do not currently have a state income tax upon their respective state's municipal bonds.
- 4.) The benefit of full exemption associated with current fully exempt Kansas bonds should be distributed to all Kansas municipalities instead of only to various authorities and instruments of the State of Kansas.
- 5.) The Kansas Municipal Bond Industry will not benefit from this tax elimination. Bidding competition will be increased. This will lower interest costs and underwriter profit margins through bidding procedures on municipal bonds, thus lowering taxes levied for interest and costs of funds borrowed for capital improvements.
- 6.) Due to recent federal tax law changes enacted, municipal bonds are not as attractive to certain investors as in prior years. This reduces overall demand for Kansas municipal bonds. State legislation to remove said tax would reverse downward demand trends.
- 7.) The fiscal impact upon the general fund of the State of Kansas, due to removal of said tax, is uncertain. However, the long-term benefits of elimination of said tax to Kansas taxpayers should outweigh the revenue loss to the State of Kansas.