

Approved March 2, 1988  
Date

MINUTES OF THE SENATE COMMITTEE ON ECONOMIC DEVELOPMENT

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

12:45 ~~am~~/p.m. on February 18, 1988 in room 254-E of the Capitol.

All members were present except:

Senator Norma Daniels - Excused                      Senator Alicia Salisbury - Excused  
Senator Paul Feleciano - Excused  
Senator Leroy Hayden - Excused

Committee staff present:

Bill Edds, Revisor of Statutes' Office  
Lynne Holt, Legislative Research Department  
Mary Allen, Secretary to the Committee

Conferees appearing before the committee:

Charles Warren, Kansas Inc.  
Roland Smith, Wichita Independent Business Association

The meeting was called to order at 12:45 p.m. by the Chairman, Senator Wint Winter, Jr.

The Chairman introduced Charles Warren, the new President of Kansas Inc. Mr. Warren spoke to the Committee on the goals which he has outlined for Kansas Inc. and for the State of Kansas with respect to economic development. He listed the major priorities as the following:

1. Fund raising.
2. Develop a two year research agenda.
3. Evaluation - need to develop criteria for assessing the success of programs and individual projects.
4. Continuously update and evaluate Kansas Inc - Kansas Department of Commerce strategy.
5. Build a statewide constituency for economic development.
6. Strengthen the co-ordination of the umbrella role of Kansas Inc. by improving relationships and cooperative arrangements with state, local and private agencies related to economic development.
7. Development of a data base which gives good, accurate and timely information concerning the state's economy, businesses and trends.

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

Senate Bill 652 - An Act establishing a small business enterprise loan guarantee program and the small business enterprise loan guarantee fund; providing duties for an advisory council and the secretary of commerce.

Chairman Winter said that when the Committee held hearings on SB 176 on January 28, 1988, some tentative decisions were made concerning changes in the proposed program as set out in that bill. He observed that the result is SB 652. He called on staff to explain SB 652. Staff said that the bill develops a loan guarantee program in lieu of the loan program which is contained in SB 176. Staff explained the provisions of SB 652 and discussed various options to these provisions.

The Chairman called the attention of the Committee to testimony on SB 176 from Dr. Charles Krider, Institute for Public Policy and Business Research at the University of Kansas, which was presented in written form. (Attachment I) In this written testimony, Dr. Krider stated that while he supports the basic framework of SB 176, he believes it needs to be modified in the following ways:

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON ECONOMIC DEVELOPMENT

room 254-E, Statehouse, at 12:45 ~~am~~/p.m. on February 18, 1988

1. A loan guarantee is preferred to a direct loan program.
2. Basic industry is preferred over enterprise zones.
3. Administration of bill handled by a party other than the Department of Commerce. He suggested that the Kansas Development Finance Authority might administer it.
4. Eligibility is limited to those businesses who have been rejected by the SBA for the loan application.

Roland Smith, Wichita Independent Business Association, told the Committee that he is well pleased with SB 652 and that his major concerns with SB 176 have been addressed in SB 652. Mr. Smith discussed the gaps which may exist in filling certain needs for small business in the Small Business Administration's (SBA) loan programs. He observed that there are no SBA loans available to use for "seed money" or operating money to get an idea to a plan which is marketable for other financing. He said that high tech areas have less of a problem finding money than non-high tech or ordinary type businesses. He stated that many times there is a need for additional working capital to get a business moving but the collateral to do so is lacking. (See Attachment II for his statement.)

Mr. Smith suggested that a revolving loan fund might be set up for the loans from \$1,000.00 to \$15,000.00 which could be operated through the development centers. He pointed out that there are times when a few thousand dollars will get an idea to a point where it is marketable.

Senator Burke moved that the Committee ratify the introduction of SB 652 based on the Committee's direction to staff on January 28, 1988. Senator Vidricksen seconded the motion. The motion carried.

Senator Langworthy moved that the minutes of the February 9, 1988, February 10, 1988, and the February 11, 1988, meetings of the Committee be approved. Senator Vidricksen seconded the motion. The motion carried.

The meeting was adjourned at 1:25 p.m. by the Chairman.

GUEST LIST

<u>NAME</u>		<u>REPRESENTING</u>
Roland Smith		WIBA
DUO GRANT		KCC
Waco DARLING		DIVISION OF BUDGET
Miss J. M.		Emyle Beaton
Debbie Zabel		IPPBR - Univ of Ks.
Carolyn Guston		UTS
John Blythe		KFB
Bernie Nowood	Lawrence, Ks	self
Jerrey Lowreygon	Topeka	Ks Inc.
Charles Warner	Topeka	Kansas Inc
DIWAYNE ZIMMERMAN	TOPEKA	KDOC
Archie Hurst	Topeka	Ks Ado Corp
heroy Lyon	Great Bend	Mid-Ks. Econ. Dev.

TESTIMONY ON  
S.B. 176  
SMALL BUSINESS REVOLVING LOAN PROGRAM

presented to the  
Senate Committee on Economic Development

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 18, 1988

*Attachment I  
Senate Eco Dev  
2-18-88*

Mr. Chairman, members of the committee, thank you for the opportunity to provide written testimony on behalf of S.B. 176. S.B. 176, as introduced, authorizes the establishment of a revolving loan fund from which loans may be made or lines of credit may be extended to small businesses already located in or intending to locate in an enterprise zone. While I support the basic framework of the bill, I believe it needs to be modified in the following ways:

1. A loan guarantee is preferred to a direct loan program
2. Basic industry is preferred over enterprise zones
3. Administration of bill handled by a party other than the Department of Commerce
4. Eligibility is limited to those business who have been rejected by the SBA for the loan application

#### 1. Loan guarantee versus Direct loan

There are several advantages to the state of providing a loan guarantee program versus a direct loan to small businesses in Kansas. To begin with, a loan guarantee program is certainly less risky to the state than a direct loan program.

A second important advantage to a loan guarantee program is that with a limited pool of resources to work with, the state can influence more loan activity with a loan guarantee versus a direct loan.

Third, by providing a loan guarantee program the state is not replacing private industry but rather is working with them. The state's strategy on economic development all along has been to work through the private sector by providing assistance and leadership. We want to influence their behavior, not compete with or replace them. Indeed it is expected that by providing a vehicle through which Kansas financial institutions and small businesses can develop a relationship, this relationship will continue long after the state's involvement has ended.

I favor a loan guarantee program over a direct loan program and therefore support the amended version of S.B. 176 which establishes a small business loan guarantee program.

#### 2. Basic industry versus Enterprise Zone

I strongly recommended that any loan guarantee program be made available exclusively to firms engaged in the operation or start-up of basic industry.

Since I am in support of the definition of basic industry provided for in S.B. 470, several questions arise regarding the revised version of S.B. 176. For example, Section 2 (a) (2)

defines small business enterprise as, "any commercial enterprise making sales or providing services to industries described in subsection (a) (1);" This definition would seem to make all firms eligible as long as they supply anything at all to manufacturing companies.

I am also concerned that Section 2 (a) (4) permits the inclusion of retail businesses which I believe would be inappropriate.

There are several arguments to support limiting loan guarantees to basic industry. To begin, state funds available for the purpose of guaranteeing loans are limited. Therefore, we want to be sure that state dollars go to those industries that will provide the greatest return on the state's investment. Basic industries are the foundation of the state's economic structure and thus have the greatest potential for affecting the state's economic growth. Therefore, it is vital to concentrate loan guarantee availability on this important sector.

Providing loan guarantees to firms in basic industries will be an incentive for these firms to locate, start-up, or expand in Kansas rather than elsewhere. Basic industries have an option as to where they choose to locate. On the other hand a secondary industry, such as a retail establishment, must locate near the population it intends to service. Making loan guarantees available to primary industries will serve as an incentive to locate in Kansas versus elsewhere.

Primary industries located in Kansas have a multiplier effect due to their ability to export goods, therefore drawing "new" wealth into Kansas from other states, the nation, and other countries who are importers of goods produced in Kansas. Thus wealth is increased by income obtained when primary industries export their goods; this money then has a multiplier effect for the entire state.

A fourth argument can be made favoring loan guarantee availability only to primary industries. This argument deals with equity considerations. Primary industries generally do not compete with other primary industries within the state. On the other hand, a particular firm within the secondary industry may have several competitors within close proximity. Therefore from an equity point of view, the state would have a more difficult time justifying a loan guarantee to one establishment within the secondary industry and not another.

Basic industries are at the very core of economic development for the state and for this reason I recommend that the state make loan guarantees available to only those businesses engaged in the start-up or expansion of basic industry. With this in mind, I suggest that serious consideration be given to incorporating the definition of "basic industry" provided in S.B. 470 into the loan guarantee program.

### 3. Administering the loan guarantee

I recommend that an agency with financial expertise, particularly in debt financing such as the Kansas Development Finance Authority, direct the loan guarantee program. The KDFA would bring the financial expertise needed to implement the program and would most likely be receptive to the idea because administering the program could potentially provide an additional source of income to them.

### 4. Eligibility contingent upon prior rejection

I support the amended version of S.B. 176 which would provide a loan guarantee only if it has been verified that the applicant has been rejected by the small business administration on its application for a loan or loan guarantee for the same project or is ineligible for a loan guarantee from the small business administration.

Although these recommended modifications appear to involve considerable changes to S.B. 176 as originally introduced, I firmly believe they are necessary to be consistent with the state's economic development strategy. I regret that a previous scheduling conflict has made it impossible for me to personally answer any questions you may have at this time. However, I would be happy to appear before you at a future hearing if you so desire.



WICHITA INDEPENDENT BUSINESS ASSOCIATION

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February 18, 1988

STATEMENT TO: Senate Economic Development Committee  
FROM: Roland Smith, Executive Director  
Wichita Independent Business Association  
SUBJECT: Senate Bill No. 176

Chairman Winter, members of the committee and staff, I am Roland Smith, Executive Director of the Wichita Independent Business Association.

When I appeared before you on January 28th, you asked that I look into SBA loan programs and report on the gaps that may exist in filling certain needs for small business. Again, I would state our concern is with the small businesses of 25 or less employees. This area of small business in Kansas consists of 80% or more of all the businesses in Kansas. The bulk of the economic growth in Kansas comes in this area.

I still have a serious problem with limiting programs to the basic industries concept because it fails to meet the greatest need that we see. In theory, it appears very reasonable and with the limited state funds available, it may be the only practical group to target. However, please keep in mind that our economy is going to a service oriented economy and not manufacturing as it has grown in the past. That is not to say manufacturing is not important, because it is, and we recognize that.

There are several good SBA guarantee type loans that meet the needs when buildings, land and equipment are needed. The direct loan program from SBA is very limited in funds and have selected targeted groups for their use. There are no SBA loans available to use for what I choose to call "seed money" or operating money to get an idea to a plan that is marketable for other financing. Those in the high tech areas have less of a problem finding money than non-high tech or ordinary type businesses. Also, many times there is a need for additional working capital to get a business moving, but lacks the collateral to do so. The competition factor must be a prime consideration. We are speaking to the situations where there is little or no competition that would be affected. These would be high risk loans anywhere from \$1,000 to \$100,000. The median would be in the \$10,000 to \$60,000 bracket. The concept of a guaranteed type loan program would appear to leverage more money, but the high cost of handling and processing by financial institutions could make it impractical. The rural areas are now at a disadvantage in the SBA guarantee loan program because there may be only one bank in the area and many are reluctant to get in the program especially when it's a small loan. A revolving fund under the umbrella of the Commerce Department and administered by the Certified Development Companies, we believe, would do a better job with less expense. The small business development centers could do the initial counseling and help the prospect develop a business plan or program before requesting a loan of any kind.

Attachment II

Senate Eco Devo  
2-18-88



Checking into the types of business prospects seeking help, I learned those going to the Small Business Development Center in Wichita were more service and retail oriented with only a few seeking to develop a product. The Center for Creative Capital in Wichita had a different mix; 55% manufacturing, 36% service and 10% retail. About 65% of those would be involved in some kind of export out of the area. At SCKEDD, the certified development company in Wichita, the inquiries from basic industry type businesses were 35% to 50%. The balance were service and retail. These are inquiries and not necessarily viable prospects.

Most that I hear from at the WIBA office do not qualify as a basic industry in the beginning stage, but some might later in their growth pattern. A prime success story of this kind is one called "Classic Recipes" of Wichita and a member of WIBA. A student at WSU, Paul Bond started making cookies late in the night in a pizza parlor kitchen after they closed and marketed them through Spangles and Grandy's Restaurants. Because his friend was willing to work for nothing for two years for part of the action, he was able to get going much quicker than doing it all himself. This was done on a shoe string and would have been a good risk for a small loan program like we are now discussing. He has moved into a rented facility and the business is operating on a full time basis and growing. As they broaden their markets it will go into other states and probably nation wide. The point is there was no competition involved as he created a whole new market. He could not qualify as a basic industry to begin with as his market was limited to Wichita, but will very soon. He was a student in the WSU entrepreneur program and had guidance in preparing a good plan of operations. Most that we come into contact with are not fortunate enough to be in college or even have a college education. This is one of the reasons WIBA is involved in the WI/SE Innovation Center/Incubator Program for Wichita and Sedgwick County. We expect this to be a good vehicle in meeting part of the need in our area.

A loan program that is not complicated or too expensive that will provide some seed money to get started or to move into new markets would meet a real need that exists. It may not be very profitable on the direct return on the money because of the high risk and probable success rate, but would be a good investment in Kansas by the taxpayers in helping Kansas to grow and provide more jobs.

Thank you for asking me to return and provide this information. I would like to suggest that you invite Jack Alumbaugh, Executive Director of SCKEDD for additional input on this bill and how he views the needs. We are referring most our inquiries to the WSU Small Business Development Center and to SCKEDD depending on their needs. Banks have been of little help. SBA sponsored pre-business workshops have been very helpful for prospects to attend even before going to the SBDC.

We hope our input will help in your decision making process. I will be happy to answer any questions you might have or provide any assistance or information you may request for future hearings or to the staff to distribute to you.