

Approved March 30, 1988
Date

MINUTES OF THE SENATE COMMITTEE ON ECONOMIC DEVELOPMENT

The meeting was called to order by Senator David Kerr at
Vice Chairperson

12:40 a.m./p.m. on March 23, 1988 in room 254-E of the Capitol.

All members were present except:

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:

Rex Wiggins, Kansas Venture Capital, Inc.
Harold Stones, Kansas Bankers' Association
Susan Seltsam, State Treasurer's Office
Charles Warren, Kansas Inc.
Emery Fager, Kansas Venture Capital, Inc.

The meeting was called to order at 12:40 p.m. by the Vice Chairman, Senator David Kerr.

Senate Bill 729 - An Act relating to the Kansas statewide risk capital system; concerning investments of the pooled money investment board in Kansas Venture Capital, Inc.

Rex Wiggins, President of Kansas Venture Capital, Inc. (KVC), appeared before the Committee in support of SB 729. He stated that KVC is the sponsor of the bill. He passed out copies of a "Status Update on Kansas Venture Capital, Inc." (Attachment I) and observed that KVC has adopted a new set of Investment Policy Guidelines, the primary thrust of which is that "Kansas Venture Capital, Inc., a licensed small business investment company, will be a continuing and self-sustaining organization whose goal will be to optimize its risk-adjusted rate of return so as to enhance the Kansas economy over long periods of time. The President will focus efforts on funding companies which can use equity capital efficiently and profitably in the creation of economic value throughout the entire State of Kansas."

Mr. Wiggins stated that KVC strongly supports the passage of SB 729. He listed the following as economic rationale for passage of the bill:

1. To increase the size of investments that KVC can make.
2. The increased size of capitalization will allow KVC to do more deals which will mean more jobs and payroll for Kansas.
3. With increased capitalization, KVC will add to its own professional staff.
4. The common shareholders began putting up money at risk in November of 1987. The preferred shareholders should begin to invest simultaneously because dividend treatment will be equal for all shareholders.

(See Attachment II for a copy of Mr. Wiggins's statement.)

In answer to questions by Senator Feleciano, Mr. Wiggins said that as of the end of February, KVC has \$3,854,250.00 in equity. On April 4, 1988, there will be a ten percent call for another \$472,102.00 worth of stock for a total in equity of \$4,326,352.00. Of that amount, \$1.2 million has been invested and they have some deals pending which total about \$1,300,000.00.

Harold Stones, Kansas Bankers' Association, explained that each bank legally subscribed for one hundred percent of its stock in KVC. Since not all of the money was needed by KVC at once, KVC only asked for cash for fifty percent of the subscriptions. Each subsequent call for more money of that subscription will be ten percent of the amount of the subscription. Therefore, the money which KVC has is only half of its

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON ECONOMIC DEVELOPMENT

room 254-E, Statehouse, at 12:40 ~~xxx~~ p.m. on March 23, 1988

\$6.4 million in subscriptions.

Susan Seltsam, State Treasurer's Office, provided the Committee with copies of testimony from State Treasurer Joan Finney concerning SB 729 (Attachment III). Ms. Seltsam stated that Treasurer Finney questions the appropriateness of investing state treasury funds in high risk investments. The Treasurer believes that state money is not necessary to trigger the Small Business Administration's contribution. Ms. Seltsam said that the Treasurer does not wish to see millions of dollars of the taxpayers' money tied up and earning little or no return while it is waiting to be invested by KVCII. She observed that Treasurer Finney proposes that the KVCII law be amended to provide for low-interest loans to Kansas farmers and small businesses operating within Kansas.

Senate Bill 739 - An Act relating to Kansas Inc.; concerning the funding of activities.

Charles Warren, President of Kansas Inc., appeared before the Committee in support of SB 739. Mr. Warren pointed out that Kansas Inc. was conceived as a public-private partnership and that both its financial support and its governing structure are public-private arrangements. He stated that Kansas statutes provide that two-thirds of Kansas Inc's. funding comes from the state general fund and one-third from the private sector. Mr. Warren said that Kansas Inc. is currently engaged in a fundraising campaign to meet its obligation of private sector support for FY 1988.

Mr. Warren told the Committee that SB 739 makes a technical correction to the statutes by allowing Kansas Inc. to count in-kind donations from private corporations as part of the one-third match. He pointed out that almost all of the donations made to date have been in the form of cash but many corporations find it much easier to assist by way of non-cash donations in the form of services or products. He said that passage of SB 739 would help Kansas Inc. immeasurably in securing private sector support. (See Attachment IV for a copy of his statement.)

Senator Fred Kerr observed that the Committee might want to consider placing a provision in SB 739 to set forth who would determine the value of non-monetary support to Kansas Inc.

In answer to questions from Committee members, Mr. Warren stated that any private sector in-kind donations would have to conform to Kansas Inc's. budget and would primarily be used in research projects. The intent is to limit those contributions to firms which demonstrate a significant advantage when using their own staff or equipment. He estimated that no more than twenty percent of the private match would be in-kind contributions.

The Chairman of the Committee, Senator Wint Winter, Jr., called for discussion on SB 729.

Emery Fager, Kansas Venture Capital Inc., spoke in support of SB 729 and observed that passage of this bill would help KVCII to raise money. He pointed out that KVCII is still working on raising the remaining part of the \$10 million.

In answer to a question by Senator Feleciano, Harold Stones, Kansas Bankers' Association, stated that when KBA members went out to try to raise the \$10 million, they thought that they could get the money all at once but they found out that they had to go to an installment plan. He said that when Mr. Wiggins arrived at KVCII, they realized that if the state put in its money on the installment plan, KVCII could do more good.

Senator Vidricksen moved that SB 729 be reported favorable for passage. Senator Salisbury seconded the motion.

The Chairman announced that the Committee would not take action today but would meet Monday, March 28, to continue its deliberation of the two bills.

The meeting was adjourned at 1:35 p.m. by the Chairman.

GUEST LIST

NAME

REPRESENTING

Erroy E. Jeger

Kansas Venture Capital Inc

Susan Deltson

State Treasurer's Office

Beard Means

Kansas Dept. of Commerce

Bob E. Wiggins

Kansas Venture Capital, Inc.

D. WAYNE ZIMMERMAN

KDOC

Charles R. Wane

Kansas Inc.

STATUS UPDATE ON KANSAS VENTURE CAPITAL, INC.

March 18, 1988

MANAGEMENT:

Rex Wiggins was elected President of Kansas Venture Capital Inc. (KVCII) on December 19, 1987. Mr. Wiggins developed and refined his venture capital investment skills as an Executive for Mor-America Capital Corporation, one of the nations oldest and more successful SBIC's. He was personally responsible for a portfolio in excess of \$6 million. Investments and new business development were in a 10-state region, primarily encompassing the Midwest. His portfolio consistently averaged greater than a 25% annual compounded rate of return.

Mr. Wiggins holds a M.B.A. in Finance and a B.S. in Economics from the University of Missouri. He has served on numerous board of directors of developing companies and currently serves on the Board of Directors of a \$80 million publicly-held company. Mr. Wiggins has also served as a consultant to Allsop Venture Partners, a \$105 million midwestern based private venture capital firm.

INVESTMENT POLICY GUIDELINES:

Kansas Venture Capital has adopted a new set of Investment Policy Guidelines. This is a complete departure from the old days of KVCII doing high-risk loans with bank participations.

A blend of early stage companies, later stage companies, turn-around companies and acquisitions are a part of the guidelines.

The primary thrust of these guidelines are that

"Kansas Venture Capital, Inc., a licensed small business investment company, will be a continuing and self-sustaining organization whose goal will be to optimize its risk-adjusted rate of return so as to enhance the Kansas economy over long periods of time. The President will focus efforts on funding companies which can use equity capital efficiently and profitably in the creation of economic value throughout the entire State of Kansas."

Attachment I
Senate Eco Dept
3-23-88

BOARD OF DIRECTORS:

KVCI has recently elected a 15-person Board of Directors that is in complete compliance with State legislation.

INVESTMENTS:

KVCI has invested \$1,283,000 in five companies that created or preserved 190 jobs with an approximate annual payroll of \$3.1 million since legislation was passed allowing KVCI to become a certified venture capital company.

The industries these investments are in are as follows:

- metal fabrication
- office services
- lodging
- asphalt paving
- outdoor advertisements

A recent commitment has been made to a Shawnee County company that is relocating here from Colorado that will employ over 170 people.

Over 60 proposals from the entire state have been received in the last 75 days. Several of these are under serious consideration. Some are very large in dollar size. Many other opportunities are still to be received.

SUMMARY:

KVCI, a certified Venture Capital company with its new management, investment policy guidelines, and board of directors is poised to make a significant impact on the economy of the State of Kansas. We are very pleased with what we have accomplished in such a short time frame.

KVCI has been challenged by the State to establish a viable source of venture capital in Kansas. We look forward to meeting that challenge in the years ahead in the best way possible, and that is by achieving a high degree of profitability for KVCI while protecting shareholders investment.

Prudent investments by KVCI will not only result in earnings but prosperity for Kansas through the generation of jobs, payrolls and taxes. The opportunities are there and we will make the best of those opportunities.

We look forward to having the State become our partners in these exciting times of expansion, profitability, and greater nationwide awareness of KVCI. We applaud the legislative committees that have assisted in making this unique concept of a venture capital company a reality in the State of Kansas.

TESTIMONY ON SENATE BILL 729

Senate Committee on Economic Development

Senator Wint Winters, Chairperson

By: Rex E. Wiggins, President

KANSAS VENTURE CAPITAL, INC.

March 23, 1988

Attachment II
Senate Eco Dev
3-23-88

ECONOMIC RATIONALE FOR SENATE BILL 729

1. Increase the size of the investments that Kansas Venture Capital (KVC) can make. As a licensed small business investment company, KVC is prohibited by law from investing more than 20% of its capital in any one investment. Prudent investment experience by the President of KVC will not allow more than 10% of capital in any one investment.
2. The increased size of capitalization will allow KVC to do more deals which will mean more jobs and payroll for Kansas.
3. With increased capitalization, KVC will add to its own professional staff.
4. The common shareholders began putting up money at risk in November, 1987. The preferred shareholders should begin to invest simultaneously because dividend treatment will be equal for all shareholders. KVC already has some unrealized appreciation on its newest investments.

Summary:

KVC is greatly appreciative of the many hours of hard work and the innovative thought process that the Legislative Committees have put in on our behalf. Mr. Wiggins is proud to have accepted the Presidency of this dynamic corporation. For the above reasons we are desirous of having the State become our partner at this time. Therefore, KVC strongly supports the passage of Senate Bill 729.

WRITTEN TESTIMONY OF STATE TREASURER JOAN FINNEY
BEFORE THE KANSAS SENATE ECONOMIC DEVELOPMENT COMMITTEE
REGARDING SENATE BILL 729, PRESENTED MARCH 23, 1988

I am proposing an alternative to SB 729, amending the Kansas Venture Capital law.

I propose that the Kansas Venture Capital law be amended to provide for low-interest loans to Kansas farmers and small businesses operating within Kansas. Kansas Venture Capital, Inc. currently makes direct investments in high risk business ventures, 40% of which can be from out-of-state.

It is unwise fiscal policy to mandate direct investment of state funds in high risk business ventures when there are so many stable Kansas small businesses that could use low-interest loans.

I also propose that the Committee consider legislation to allow the Pooled Money Investment Board to offer funds to provide loans through all Kansas banks to Kansas farmers and small businesses. Under this proposal, banks would pledge securities to the state to fully guarantee and protect state funds used in the program.

Under SB 729, the Pooled Money Investment Board would be required to match money raised in the private sector by Kansas Venture Capital, Inc., up to a total of \$10 million. The state's matching payments would be made quarterly. Under current state law, investment of state funds in Kansas Venture Capital, Inc. by the Pooled Money Investment Board is discretionary, not mandatory.

I question the need for SB 729 and its mandatory matching fund provisions. Representatives of Kansas Venture Capital, Inc. testified before the Senate Economic Development Committee earlier in the session that it is moving slowly in making investments. Only half of the \$4.7 million in share subscriptions have been called for, and only half of that amount, \$1.2 million has actually been invested in projects. Additional money is not needed at this time and state money is not needed to trigger S.B.A. contributions.

I would hate to see millions of dollars of the taxpayers' money tied up and earning little or no return while it is waiting to be invested by Kansas Venture Capital, Inc. The current law makes more sense, with the state putting money into Kansas Venture Capital, Inc. only when it is actually needed and when the Pooled Money Investment Board deems it prudent to do so.

TESTIMONY
TO
SENATE ECONOMIC DEVELOPMENT COMMITTEE

SENATE BILL NO. 739

BY

CHARLES R. WARREN
PRESIDENT, KANSAS INC.

As many of you are aware, Kansas Inc. was conceived as a public-private partnership. The Board of Kansas Inc. is composed, by statute, of both state elected officials and leaders from the primary industrial, agricultural and financial sectors of the Kansas economy. Not only is the governing structure a public-private arrangement, so too is our financial support. The statute creating Kansas Inc. provides that two-thirds of our funding shall come from the state general funds and one-third shall be provided by the private sector. This financial arrangement is mandatory, in that we must raise one dollar from the private sector in order to spend two dollars of state funds. This is the first year of our operation where the requirement of a one-third private sector match is applicable.

Kansas Inc. is currently engaged in a fundraising campaign to meet its obligation of private sector support for Fiscal Year 1988. We are also in the process of developing a longer term strategy that will ensure that funds from the private sector are available on a continuing and sustained basis.

Senate Bill 739 makes a technical correction to our basic legislation by allowing Kansas Inc. to count in-kind donations from private corporations as part of the one-third match. Almost all of the donations made to date have been in the form of cash. We expect this pattern of cash contributions to continue. However, we need the flexibility that will allow other types of contributions to be made. United Telecom has assisted us in our fundraising by hosting a luncheon of 50 businessmen and by the production of a videotape that explains the mission of Kansas Inc. This video included presentations by the Governor and members of the legislature. The cash value of United Telecom's work on our behalf is substantial. We have received offers of assistance from other companies, for example, Burlington-Northern, in the form of loaned staff. As was exemplified by the Business Retention and Expansion study released last week by the Department of Commerce and done with a loaned executive from Southwestern Bell, non-cash donations in the form of services or products can be extremely valuable. Many corporations find it much easier to assist in this way.

I urge the Committee's adoption of this amendment. It will help us immeasurably in securing private sector support.

Attachment IV
Senate Eco Dev
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