

Approved January 25, 1989
Date

MINUTES OF THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT

The meeting was called to order by Elizabeth Baker at
Chairperson

3:32 ~~am~~/p.m. on Tuesday, January 17, 1989 in room 423-S of the Capitol.

All members were present except: Representatives Chronister, Brady, Foster and Dean. Excused.

Committee staff present:
Jim Wilson, Revisor
Lynne Holt, Research
Elaine Johnson, Secretary

Conferees appearing before the committee:
Charles Warren, President of Kansas Inc.

The meeting was called to order at 3:32 p.m. by Chairman Baker. Charles Warren, President of Kansas Inc. was recognized.

Mr. Warren introduced members of Kansas Inc. staff. (See Guest Register).

Mr. Warren briefed the committee on Kansas Inc. beginning with the Board of Directors. (Attachment 1). He stated that evaluation of programs is the key function of Kansas Inc. and referred to the 1988 Annual Report. (Copy available in Legislative Research Department).

Reference was made to the Report on Fiscal Year 1989 Research Activity (Attachment 2) and to the Kansas Inc. Past Research Activities (Attachment 3). An additional report will be made available to the committee on current research activities in the near future.

Kansas Inc. is funded by a public/private sector split. The State General Fund provides 2/3 funding and the private sector 1/3 funding. The budget for FY89 is \$291,742 from the state general fund and \$145,914 match from the private sector required. This year Kansas Inc. also received \$75,000 from the Economic Development Initiatives Fund for special studies with no matching funds necessary.

Mr. Warren went on to discuss the policy recommendations approved by the Board of Directors at their meeting last week. (Attachment 4).

Mr. Warren referred briefly to the Kansas Inc. proposals (Attachment 5).

Kansas Inc. began its fund raising in January and will have a report in a couple of months on the status of their fund raising. Mr. Warren also informed the committee that they would be receiving a brochure on a meeting to be held February 24th in Manhattan, Kansas sponsored by Kansas Inc. and Kansas universities and colleges entitled "Kansas Partners in Progress - The Role of Higher Education in Economic Development." He encouraged all committee members to attend.

The meeting adjourned at 4:16 p.m.

Elizabeth Baker

Unless specifically noted, the individual remarks recorded herein have not been transcribed verbatim. Individual remarks as reported herein have not been submitted to the individuals appearing before the committee for editing or corrections.

Date: 1-17-89

GUEST REGISTRE

HOUSE

Committee on Economic Development

NAME

ORGANIZATION

ADDRESS

M. Sp. Stattelocan

KITBA

Topeka

GREGG SVOBODA

KANSAS INC

Topeka

Charles Wam

Kansas Inc.

Topeka

Roger P. Nelson

Jing Lubing

KPL

TOPEKA

Jon Brass

Kansas for Life at the Best

Topeka

Ann Patterson

KDOC

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Rich Bailey

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Beck Fed

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JERRY Lonergan

Ks Inc.

Topeka

SCOTT HESSELL

KANSAS Inc.

Topeka

David V. Hue

KCOVE

Topeka

Smalley

KBA

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Chuck Stones

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Fourth Financial Corp

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Governor Mike Hayden, Co-Chairman
Eric Thor Jager, Co-Chairman

Charles R. Warren, President

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**KANSAS INC.
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Clay Center, KS

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Kansas AFLCIO
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Secretary
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Ladd Seaberg
President & CEO
Midwest Grain Products
Atchison, KS

John Walsh
Chief Scientist
Boeing Military Airplanes
Wichita, KS

House Eco Dev Committee

*Attachment 1
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REPORT ON FISCAL YEAR 1989 RESEARCH ACTIVITY
January 17, 1989

Research Studies Encumbered or Expended:

\$55,000, Economic Development Initiatives Fund (EDIF):
A contract is underway with Kansas University to study business training in the state. This will involve a review of the current system and how well it is meeting the needs of businesses in Kansas. The report will present options for improving business training and ways to ensure that firms have access to the state's training system.

\$22,000 (\$20,000 EDIF and \$2,000 State General Fund): A study to evaluate the effectiveness and efficiency of the Certified Development Companies (CDC). This evaluation will require a statewide survey of clients and the impact of the service on their business with a goal of recommending ways the financial packaging services provided by CDC's can be improved. The study will also assess how well the traditional lending structure meets the needs of business owners.

\$29,600: A review of the financial industry and capital availability in Kansas. It includes a determination, based on existing data sources of the condition of the industry and options to assist business owners in accessing capital.

\$900: Review conducted by three banking professors at Board of Regents institutions to critically evaluate the capital availability reports.

\$5,600: Kansas University is developing a strategic planning data base for Kansas Inc. This will provide a historic data file on several key economic development variables.

\$4,800: Final payment of business tax study work conducted in Fiscal Year 1988 by Kansas University for Kansas Inc.

\$4,000: A market assessment of the feasibility of the state developing a subscriber based information network.

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Research Studies Planned:

\$75,000: Develop a strategic plan for the future viability of the oil and gas industry in Kansas. Research will focus on the Kansas industry structure including employment, drilling, and exploration; the regulatory environment; and, comparative tax standing. The study will review incentive options and policy ideas that can help the industry survive the current downturn and position it for future growth.

\$15,000 (\$3,374 expended through summer intern's research work): A study of options and alternatives to assist the state's small manufacturers. This study will review other program efforts going on nationally to promote the growth of small manufacturers.

\$10,000: First phase of a two-phase study to review capital budgeting in Kansas. The study will assess how other state's accomplish their capital planning and then budget for major infrastructure projects. After evaluating Kansas' executive branch capital planning, recommendations will be made for changes to eliminate the need to handle on a crisis basis infrastructure and other major capital intensive projects.

\$5,000: Blueprint for Kansas, a project to develop a strategic planning document for Kansas. This project, is unique because will focus on private sector concerns and issues relevant to Kansas' economic growth. Expense reimbursements are budgeted for academics, legislators, private business people, and Board members to participate in identifying key economic development issues and priorities.

Contingency Funds

\$15,573: contingency fund for new and emerging economic development issues and studies (\$8,573 = State General Funds, \$10,000 = EDIF).

KANSAS INC.
 ESTIMATED EXPENDITURE BY RESEARCH PROJECT
 FISCAL YEAR 1989 (FY89)
 JANUARY 16, 1989

	RESEARCH ENCUMBERED OR EXPENDED	RESEARCH PLANNED	PROJECT COST
*BUSINESS TRAINING: KANSAS UNIVERSITY	\$55,000		\$55,000
STRATEGIC DATA BASE: KANSAS UNIVERSITY	\$5,600		\$5,600
COMPLETE FY88 BUSINESS TAX: KANSAS UNIVERSITY	\$4,800		\$4,800
CDC EVALUATION: WICHITA STATE UNIVERSITY:	\$22,000		\$22,000
CAP. AVAILABILITY STUDY: SCOTT GARD ASSOCIATES UNIVERSITY REVEIW PANEL	\$29,600 \$900		\$30,500
KS. INFORMATION NETWORK: CAPITAL RESEARCH SERVICES	\$4,000		\$4,000
**CAPITAL PLANNING STUDY		\$10,000	\$10,000
OIL AND GAS STUDY		\$75,000	\$75,000
BLUEPRINT FOR KS STRATEGY		\$5,000	\$5,000
SMALL MANUFACTURING STUDY: SUMMER INTERN	\$3,374	\$11,626	\$11,626
CONTINGENCY FUND		\$15,573	\$15,573
RESEARCH EXPENDITURES	\$125,274	\$117,199	\$242,473
PERCENT OF TOTAL	51.7%	48.3%	

* Funding from the Economic Development Initiatives
 Fund (EDIF) total of \$75,000

** First of two phases to review capital budgeting in
 Kansas, second phase to be funded in Fiscal Year 1990.

**KANSAS INC.
PAST RESEARCH ACTIVITIES**

\$25,000: The first major activity by Kansas Inc.'s was to provide partial funding support for the Board of Agriculture's study of the future of agriculture in the state. This project resulted in the report titled The Future Direction of Kansas Agriculture and Agribusiness.

\$28,000: A study of the Kansas tax structure and its impact on business. This study reviewed Kansas business taxes and estimated, for a ten year period, the total taxes paid by nine hypothetical firms. Besides Kansas, the total taxes faced by the same firm if located in Colorado, Iowa, Nebraska, Missouri, or Oklahoma were estimated to determine how Kansas' businesses taxes compared to its competitors. Taxes faced by both new firms and existing firms were estimated and recommendations to make Kansas' tax structure competitive in the region were developed.

\$49,500: At the request of the 1987 Special Interim Committee on Agriculture and Livestock, Kansas Inc. funded a study of corporate hog farming. The study attempted to determine the impact on Kansas and the farming community of reducing the prohibitions against corporate hog farming.

\$12,900: Kansas Inc. provided funds for a telephone survey to determine the current and planned level of exporting by manufacturers. Working with the Department of Commerce and Kansas University, Kansas Inc. helped develop the survey instrument and define the sample groups of both those firms currently exporting and those firms not exporting. The purpose of the survey was to determine options available to state government to help increase the level of state exports.

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Governor Mike Hayden, Co-Chairman
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Charles R. Warren, President

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M E M O R A N D U M

Date: January 17, 1989
To: Standing Committees on Economic Development
From: Charles R. Warren, President
Re: Board of Directors' Policy Recommendations

The Board of Directors met on January 12, 1989 to consider policy recommendations on many important issues to the economic development and strength of Kansas. Below are the specific issues which the Board approved.

The Kansas Inc. Board of Directors:

- 1) Recommends that the Legislature appropriate \$100,000 for implementation of a trade fair assistance program under the administration of the Department of Commerce, Trade Development Division.
- 2) Recommends that the Legislature create an Export Finance Program as proposed by the Joint Committee on Economic Development and appropriate \$1,000,000 for initial funding.
- 3) Recommends the implementation of the second year of funding for the Margin of Excellence program.
- 4) Recommends that the Legislature establish a "State Small Business Loan Fund" as proposed in House Bill 2909 of the 1988 Legislature, and that \$1 million be appropriated to a loan guarantee fund for the purposes of pledging security for bonds to be issued by the Kansas Development Finance Authority to finance loans. [staff note: H.B. 2020 of 1989 Legislature]
- 5) Recommends that the Legislature provide a stable and secure source of long-term financing for the state water plan and related water projects. The assurance of a clean and adequate supply of water is essential to the State's continued economic viability. As stated in K.S.A. 79-4804, the use of Economic Development Initiative Funds for the state water plan is considered appropriate for those projects which are clearly and directly related to a community's need for job growth and/or retention.

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- 6) Reaffirms its November 1987 recommendation calling for a .5 percent reduction in the corporate income tax base rate and surcharge.
- 7) Recommends that the Legislature repeal the adoption of an Alternative Minimum Tax on corporations scheduled to go into effect on January 1, 1990.
- 8) Recommends that the Legislature seriously consider changes in the prohibition against corporate hog farming.
- 9) Recommends that the Legislature increase the availability of income tax credits allowed for investment in venture capital companies. This would be achieved by increasing the investment credit cap from the present \$24 million to \$40 million.
- 10) Commends Governor Mike Hayden's proposal to return the remainder of the federal income tax windfall and recommends that the Legislature quickly enact the income tax cuts as proposed by Governor Hayden.

* * * * *

The Board of Directors also endorsed four specific recommendations accompanied with a general statement on the banking industry in Kansas. The recommendations and statement are below.

The ability of the Kansas banking industry to meet the capital requirements of Kansas business owners is critical to the vitality and growth of the state's economy. The Kansas Inc. study demonstrates a need for banks within the state to take advantage of economies of scale and operating efficiencies, and benefit from the commercial lending and managerial expertise. Steps should be taken by the Kansas banks, themselves, and the Legislature to ensure that the strength of the industry is enhanced, and that it is capable of providing the financial services essential to produce a growing economy.

- 1) The Kansas Inc. Board of Directors endorses the cooperative efforts of the independent banks to pool resources through the formation in 1988 of the Kansas Bankers' Bank.
- 2) The Board recommends that the banking industry continue to use the multi-bank holding company device to establish stronger and more viable financial institutions.
- 3) The Board recommends that the 1989 Legislature remove all geographic restrictions on branch banking in Kansas.
- 4) The Kansas Legislature should begin the process of instituting interstate banking in the State.

January 12, 1989

(Proposal #1)

Trade Fair Assistance Program

Board Decision: Should the following program recommendation be adopted?

The Board of Directors of Kansas Inc. recommends the Legislature appropriate \$100,000 for implementation of a Trade Fair Assistance Program under the administration of the Department of Commerce, Trade Development Division.

Background:

Trade shows and fairs are one of the most efficient and cost effective ways for Kansas companies to reach potential buyers of their products outside of the state, and particularly overseas; as they provide maximum exposure to a specific industry with a minimum of research and travel expense. Trade shows are a proven vehicle for testing market demand and acceptance for new products, and are very efficient for establishing or expanding distribution, representation and direct sales.

In a study conducted for Kansas Inc., attendance at trade fairs and shows overseas was used at a low rate by both exporting and non-exporting companies as a marketing tool. The respondents stated they would attend more trade shows if state money was available. The significant indicators are:

- * Sixty percent of exporting firms never attend trade fairs.
- * Ninety-three percent of non-exporting firms never attend trade fairs.
- * For both types of firms, an increase in attendance at trade fairs is expected.
- * Sixty-six percent of exporting firms and thirty percent of non-exporting firms stated they would go to more trade fairs if they received state financial assistance.

These figures indicate a significant potential for increasing attendance at trade fairs which research shows directly contributes to increases in export sales. Maryland has documented that every \$1 in trade fair attendance assistance resulted in an additional \$50 in export sales. Iowa has recognized the success of trade fair assistance and has funded their program with \$400,000.

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The Department of Commerce plan would pay half of a company's participation expenses up to a maximum of \$2,000. This support would not include travel or subsistence, but would include expenses such as shipping of exhibits, booth space, and advertising in show catalogs.

January 12, 1989

(Proposal #2)

Kansas Export Finance Program

Board Decision: Should the following policy recommendation be adopted?

The Board of Directors of Kansas Inc. recommends the Legislature create an export finance program as proposed by the Joint Committee on Economic Development.

Background:

Kansas Inc. considers the increased export of Kansas products as one of the State's most important priorities. In a 1988 study conducted for Kansas Inc., the feasibility and usefulness of State export assistance were examined. This study found that export financial assistance from the State would benefit Kansas companies' export development. Several indicators, listed below, were significant.

- * Sixty-eight percent of non-exporting companies indicated that financial assistance would be helpful.
- * Sixty-six percent of exporting companies indicated that financial assistance would be helpful.
- * Nearly fifty-five percent of exporting companies stated that they had at least an average potential for expanding their export transactions. Thirty-six percent stated they had great potential.

Considering the present potential for entering into or expanding in the export market and the percentage of companies indicating financial assistance as an important factor, there appears to be a significant opportunity for increased export sales. Knowledge of foreign markets and governments and export educational programs were indicated as being more important methods of State involvement, but financial assistance should not be ignored.

Based on recommendations from the Department of Commerce and Kansas Inc., the Joint Committee on Economic Development endorsed a proposal to create a Kansas Export Finance Program. The important elements of the proposed legislation are:

1. The program would receive initial funding of \$1,000,000.

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2. The program would guarantee up to 90% of the bank loan for a maximum of \$300,000 for each loan.

3. Funding would cover pre-export financing which provides the exporter working capital to fulfill the sales contract and post-export financing which provides funds from date of exportation to receipt of invoice amount.

4. The Commerce Department would negotiate terms with the Export-Import Bank (Ex-Im Bank) and their agent, the Federal Credit Insurance Agency (FCIA) to administer an Umbrella Insurance Policy. This policy would provide Kansas exporters a guarantee against an importer's default associated with commercial or political risk at specifically assigned coverage amounts.

Senators Wint Winter and Jerry Karr, members of the joint committee, stated the program would be a great benefit to Kansas exports. Sen. Karr stated in the August 8, 1988 edition of the Emporia Gazette that the export finance program, "... would be a quantum leap forward as far as our commitment to help Kansas businesses...become involved in world trade."

January 12, 1989

**Higher Education and Economic Development
-Introduction-**

The Board of Directors of Kansas Inc. recognizes the importance of a quality system of higher education to the economic development of the state.

"Our nation's universities and schools have a vital role to play in revitalizing America's competitiveness...Without strong educational institutions, the United States will not be able to capitalize on our key potential strengths in technology and human resources."

-The President's Commission on Industrial Competitiveness

"Their (universities) knowledge-based resources now constitute an essential element in the new economic infrastructure the nation needs to compete in a highly competitive, technologically advanced, and rapidly changing global economy."

-Thomas Chmura, SRI International's Center for Economic Competitiveness. Author of The Higher Education-Economic Development Connection.

The traditional industrial economy which has existed for the last century is being replaced with a new knowledge-based, high technology oriented economy. The era of low foreign competition, stable markets and mass production has given way to a global economy and rapidly changing technologies and markets.

These economic shifts require drastic changes in our universities and colleges. Universities must provide more specialized research, information on foreign markets and governments, a strengthened overall educational system and greater responsiveness to lifelong learning needs.

If these necessary changes are to occur, the state must actively encourage and support stronger educational institutions. If these changes are ignored, the resulting effect on the state's economy could be significant.

The following proposals on the Margin of Excellence program and state university admission standards are included in recognition of higher education's significant role in the economic development and growth of Kansas.

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(Proposal #3)

Margin of Excellence

Board Decision: Should the following policy recommendation be adopted?

The Board of Directors of Kansas Inc. recommends the implementation of the second year funding for the Margin of Excellence Program.

Background:

The Legislature approved substantial funding in 1988 of the Margin of Excellence Program administered by the Board of Regents. The program encompasses three years and is designed to assist regents institutions in increasing funding for faculty salaries, new equipment, research and other appropriate enhancements.

The funding details of the program are below.

	<u>FY89 Approved</u>	<u>FY90 Request</u>	<u>FY91 Projected</u>	<u>Three-Year Total</u>
Base Budget				
Improvements:	29,443,418	29,150,114	24,400,000	82,993,532
Margin of Excellence:				
Faculty Salary	5,320,974	6,883,000	6,900,000	19,103,974
Mission Enhancements	<u>6,672,042</u>	<u>9,064,316</u>	<u>9,100,000</u>	<u>24,836,358</u>
Subtotal:	<u>11,993,016</u>	<u>15,947,316</u>	<u>16,000,000</u>	<u>43,940,332</u>
TOTAL:	41,436,434	45,097,430	40,400,000	126,933,864

In the Margin of Excellence's first year report, funds have been used to attract top scientists from other institutions, retain the state's top faculty, assist in economic development goals and provide a better education to the state's students.

Robert Dryden, president of Boeing Military Airplanes, wrote in the first year report that, "...the Margin of Excellence has enabled Regents institutions to become even more effective in research programs relevant to Kansas business and industry."

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On January 7, 1988, the Board of Directors unanimously approved an endorsement of the Margin of Excellence program. This present proposal is a reaffirmation of support for the program's second year funding.

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(Proposal #4)

State Small Business Loan Fund

Board Decision: Should the following program recommendation be adopted?

The Board of Directors of Kansas Inc. recommends the Legislature establish a "State Small Business Loan Fund" as proposed in House Bill 2909 of the 1988 Legislature, and that \$1 million be appropriated to a loan guarantee fund for the purpose of pledging security for bonds issued by the Kansas Development Finance Authority to finance loans.

Background:

H.B. 2909 was passed by the 1988 Legislature but was vetoed by the Governor because it was incorporated into S.B. 470, the Basic Industry Act. The Governor in his veto message indicated his support for the small business loan program and urged its adoption in the next session.

H.B. 2909 was recommended by the Interim Joint Committee on Economic Development for re-introduction in the 1989 session of the Legislature.

The bill authorizes the Kansas Development Finance Authority to develop and implement the Kansas Basic Enterprises Loan program and to issue bonds for financing of those loans. All loans must be made to eligible Kansas basic enterprises, as defined in the bill. Each loan must be qualified, entered into, and serviced by a financial institution acting as an agent of the KDFA and receiving a fee for services rendered. Each program loan may be not be less than \$20,000 or more than \$200,000. In addition, each loan must be matched by a subordinated loan from the participating financial institution, in an amount not less than 15 percent of the amount of the program loan. The recipient basic enterprise is required to contribute equity capital equalling at least 10 percent of the total project cost. KDFA is authorized to pledge moneys in security for bonds issued to finance program loans. Its commitment would not exceed the remaining 75 percent of the project cost.

This loan program would free-up potential loan capital currently available in Kansas banking institutions because of its state guarantee feature. Guaranteed loans would not be expected to come under risk classification by FDIC bank examiners and would greatly ease the extension of commercial credit. The Kansas Inc. banking study has documented the extremely low commercial/industrial loan to deposit ratio in Kansas (17.4% compared to 25.4% nationally).

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The Governor's Task on the Future of Rural Communities has recommended the adoption of the small business loan guarantee fund, but has stipulated that eligibility for such loans not be restricted to basic enterprises. The President of KDFA has also objected to the basic enterprise eligibility requirement.

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(Proposal #5)

Funding of State Water Plan

Board Decision: Should the following policy recommendation be adopted?

The Board of Directors of Kansas Inc. recommends that the Legislature provide a stable and secure source of long-term financing for the state water plan and related water projects. The assurance of a clean and adequate supply of water is essential to the State's continued economic vitality. The use of Economic Development Initiatives Funds for the state water plan is appropriate for those projects which are clearly and directly related to a community's need for job growth and/or retention.

Background:

The Kansas Inc. strategy for economic development includes as one of its major elements "Investment in Public Infrastructure," including water and wastewater treatment facilities. K.S.A. 79-4804(d) provides for the "Kansas Economic Development Endowment Account" to fund economic development activities including: "programs and projects which shall include, but are not limited to, specific community infrastructure projects in Kansas that stimulate economic growth."

Water projects selected for EDIF funding should be supported by a cost/benefit analysis which demonstrates the economic development contribution that will accrue from the investment. As applicable to all other initiatives to be supported by EDIF, water projects should meet the criteria outlined in H.C.R. 5033: 1) not to be used for salaries of permanent personnel; 2) should not replace state general funding; and, 3) clearly identify with a pillar of the economic development strategy of the State.

"The Governor's FY 1989 budget recommendation to the 1988 Legislature included a total of \$4,170,000 in expenditures for natural resources, including \$4,000,000 from the EDIF and \$170,000 from oil overcharge funds. The Legislature approved the funding of all projects recommended by the Governor but shifted \$1,157,482 of funding in the State Conservation Commission budget for the multipurpose small lakes program from the EDIF to the State Conservation Storage Water Supply Fund." Total Fiscal Year 1989 funding for water related projects was \$7.1 million of which \$2,942,512 was from EDIF. (Source: Interim Committee Report of Energy and Natural Resources November 1, 1988.)

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In Fiscal Year 1989, \$4.5 million from the EDIF was appropriated to establish the Partnership Loan Fund expenditures which will finance loans for public infrastructure improvement projects. Certain types of water projects will be eligible for funding under this program. Due to an estimated \$4.2 million shortfall in anticipated lottery revenues, FY89 funding for the Partnership fund will be reduced. The Fund has not been implemented, but is awaiting approval of rules and regulations and completion of arrangements for additional bond financing through the Kansas Development Finance Authority.

The Interim Committee on Energy and Natural Resources has recommended that \$10 to \$15 million annually is necessary to implement the state water plan, and that several sources be used for funding to include: 1) fee on sale of water, 2) fee on sale of fertilizers, 3) fee on sale of restricted use pesticides, 4) dedicated portion of severance tax receipts, and 5) a solid waste tipping fee. The Interim Committee did not recommend use of EDIF for ongoing funding of the state water plan.

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(Proposal #6 & 7)

Business Tax Structure

Board Decision: Should the following policy recommendations be adopted?

6. The Board of Directors of Kansas Inc. reaffirms its November 1987 recommendation calling for a .5% reduction in the corporate income tax base rate and surcharge.

7. The Board of Directors of Kansas Inc. recommends that the Legislature repeal the adoption of an Alternative Minimum Tax on corporations scheduled to go into effect on January 1, 1989 as recommended by the 1988 Interim Committee on Taxation.

Background:

Current Board Policy Position:

At its meeting of November 18, 1987, the Board recommended five changes in business taxes to increase the State's competitiveness. In order of priority, the tax changes were:

- * a sales tax exemption on manufacturing machinery and equipment.
- * changing the apportionment formula.
- * lowering the corporate income tax rate by .5% on both the base rate and the surcharge.

The Board recommended two revenue "enhancers" if these three business tax reductions created a revenue loss that was "projected to damage the state's fiscal stability."

- * an alternative minimum tax on corporations that would piggyback the federal tax.
- * a loss carryback provision.

Current Status of Business Taxes:

The 1988 Kansas Legislature enacted four of the five business tax changes recommended by Kansas Inc. A corporate rate reduction was not adopted.

Table 1 below provides information on the estimated net changes in business tax liability as a result of the 1988

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revisions recommended by Kansas Inc.

Table 1

Tax Revisions - 1988 Legislative Session
Estimated Net Changes from 1988 Revenues by Tax Source
(millions)

	<u>FY89</u>	<u>FY90</u>	<u>FY91</u>
Corporate Income Tax:	-0-	-0-	-0-
Sales Exemption on Manuf. Equip. and Mach.:	- 4.6	-11.0	-11.0
Apportionment Formula:	- 0.7	- 1.0	- 1.0
NOL Carryback:	+ 3.7	+11.3	-0-
AMT:	<u>-0-</u>	<u>-0-</u>	<u>+ 6.0</u>
Total Net Changes:	- 1.7	- 0.7	- 6.0

Source: Estimates provided by Committee Staff, Legislative Research Department.

As seen in Table 1, only minor tax relief has been provided to corporations operating in Kansas. The net reductions of 1.7, 0.7, and 6.0 million over the next three fiscal years are against total estimated revenue collections from the corporate income tax alone of \$171.5 million in FY1988.

Interim Committee on Taxation:

The 1987 Interim Committee recommended the repeal of AMT following testimony it received on July 21, 1988. Testifying against the implementation of AMT was: United Telecom, KIOGA, KCCI, Kansas Society of CPA's, and Kansas Inc.

Because the business tax changes of 1988 have only reduced revenues marginally and since the State enjoys a \$300 million or more surplus, the condition of a threat to fiscal stability set by the Board does not exist. A total of eight states have an AMT, and only Iowa in our region has adopted it. Speculation exists that the Federal AMT may be abolished. The AMT is seen as particularly onerous by the Kansas oil and gas industry which is already burdened by severance and ad valorem taxes.

The 1987 Committee recommended a corporate rate reduction of .25% on the base and the surcharge, but suggested increasing the base amount to \$50,000. The fiscal impact of their .25% reduction is estimated to be \$10.7 million annually. A .5%

reduction without changing the base amount would reduce revenues by \$13.3 million the first year and \$17.7 million each year thereafter (based on 1987 estimates from Secretary Duncan).

Only Iowa, among the states in our region, has a corporate rate higher than Kansas' 6.75%. Iowa permits firms to deduct their federal income taxes on their state return.

January 12, 1989

(Proposal #8)

Corporate Hog Farming

Board Decision: Should the following policy recommendation be adopted?

The Kansas Inc. Board of Directors recommends that the Legislature seriously consider changes in the prohibition against corporate hog farming.

Background:

In the fall of 1987, a special interim committee on Agriculture and Livestock requested Kansas Inc. to contract for a study to assess the state's hog industry and determine the economic impact of reducing the state's corporate swine prohibitions. A comprehensive analysis was made employing an extensive data file obtained from a wide variety of sources. The scope of research included Kansas, eleven other states, the U.S. swine industry, and relevant sectors of the world market and their impact on Kansas swine farming. The analysis also included the relationship of the feed grain sector to corporate hog farming in Kansas.

The report presented a detailed assessment of the present condition of swine farming in Kansas. It highlighted several major problems including: continued decline in position and number of swine farms, hog production compared to nearby states, lower than average prices for Kansas producers compared to U.S. average and poor corporate image to outside investors.

The report presented four changes to assist the Kansas swine industry. They are:

- * Amend the present law to allow corporations to be involved in only particular levels of activity,
- * Allow only corporation-farmer contractual agreements rather than internal vertical integration with a provision of necessary contractor technical assistance,
- * Allow corporate participation and expansion of Farm Cooperative.
- * Establishment of a program for farmer support including an industry committee, outreach programs, a "Center of Excellence", increase in extension services, and education.

In the past year, there has been much discussion on this

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issue. The Kansas Inc. Board decided because of the issue's controversy that an objective assessment would be beneficial to policy debate and to ensure objectivity of the report, the Board chose not to take a position on corporate swine prohibitions.

Most recently, an editorial in the November 12, 1988 edition of the Wichita Eagle-Beacon titled "Hogs Head South: Economic Suicide in Kansas". The editorial stated that DeKalb Swine Breeders had "begged" the Kansas Legislature to make changes in the statutes to allow them to expand their operations in Kansas. The law was not changed and DeKalb then moved its operation 7 miles across the state line into Oklahoma. The editorial states that,

"The issue shows the dangers of economic protectionism. Most of the opposition to the DeKalb expansion came from Southeast Kansas, where hog farmers feared competition. Rather than fight in the marketplace, the smaller operators ran to the politicians to defend them from the rigors of the capitalist system...

"American agriculture is in transition. Many of the future jobs in rural areas must come from such companies as DeKalb...

"Kansas has survived because it has adapted to changing economic realities. But as long as the Legislature succumbs to special economic interests trying to protect themselves, the state's future will remain cloudy."

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(Proposal #9)

Venture Capital Investment Credit Cap

Board Decision: Should the following policy recommendation be adopted?

The Kansas Inc. Board of Directors recommends that the Legislature increase the availability of income tax credits allowed for investment in venture capital companies. This would be achieved by increasing the investment credit cap from the present \$24 million to \$40 million.

Background:

In K.S.A. 74-8304, the Legislature placed a limit on venture capital investment credits attributable to \$24 million in cash investment in Kansas certified venture capital companies. This included a maximum amount of \$10 million for Kansas Venture Capital, Inc. Presently, \$22,595,505.56 in cash investment has been committed which leaves only \$1.4 million for future venture capital programs.

With the current limitation of \$24 million, the new KTEC Seed Capital Fund, "Ad Astra," will be seriously hampered in their marketing efforts for attracting private venture capital into their fund without the tax credit incentive. In addition, Kansas Venture Capital Inc. is intending to solicit funds to reach the \$10 million level originally outlined in their statute. Neither of these entities would be allowed to perform the intended function under the limitation as it now exists. This cap also reduces the amount of activity possible by private venture capital companies and local seed capital companies.

This increase from \$24 million to \$40 million would increase the fiscal impact to state from \$6 million to \$10 million. This amount is calculated from the credit provisions in the statute. The legislation states that a taxpayer may receive an income tax credit equal to 25% of their actual cash investment and that this amount cannot exceed 25% of their tax liability during any given year. The remaining amount may be carried back for three years or carried forward until the credit is completely used. These provisions would limit the impact to the State during any given year by spreading the credits over several years. Therefore, the \$10 million liability will not be felt by the State during one year.

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STATE OF KANSAS



DEPARTMENT OF COMMERCE

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Phone (913) 296-3481
Telex No.—4931494KS

Mike Hayden, Governor

Harland E. Priddle, Secretary

CERTIFIED KANSAS VENTURE CAPITAL COMPANIES

	<u>Current Level of Capitalization</u> <u>Qualify Tax Credit</u>
Research Capital Management Group I, Ltd., L.P. P.O. Box 1732 Lawrence, Kansas 66046 (913) 841-7238 Contact: Charlie Becker	\$1,575,599.90
Kansas Venture Capital, Inc. Lenexa Office 8700 Monrovia, Suite 214 Lenexa, Kansas 66215 (913) 888-5913 Contact: Rex Wiggins	\$4,335,230.00
Topeka Office Bank IV Tower, Suite 1030 Topeka, Kansas 66603 (913) 233-1368 Contact: Larry High	
Research Capital Management Group II, Ltd., L.P. P.O. Box 1732 Lawrence, Kansas 66046 (913) 841-7238 Contact: Charlie Becker	\$1,549,905.66
Devlin Venture Partners, L.P. P.O. Box 782170 Wichita, Kansas 67278 (316) 686-1222 Contact: Bob Taylor	\$2,000,000.00
DeBoer Venture Capital Company, Inc. 8100 E. 22nd St., North, Building 500 Wichita, Kansas 67226 (316) 681-5100 Contact: Roy R. Baker	\$1,500,000.00

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CERTIFIED KANSAS VENTURE CAPITAL COMPANIES (Continued)

Jabara Ventures Group 35 Hampton Wichita, Kansas 67207 (316) 262-5161 Contact: David Jabara	\$1,500,000.00
Kansas Business Investment Company 710 Fairlawn Topeka, Kansas 66606 (913) 272-9243 Contact : J.D. Lakhani	\$1,500,000.00
Carmen Venture Partners, L.P. P.O. Box 782170 Wichita, Kansas 67278 (316) 686-1222 Contact: Stan Gegen	\$1,770,000.00
DV Venture Investments, L.P. P.O. Box 782170 Wichita, Kansas 67278 (316) 686-1222 Contact: Bob Taylor	\$1,500,000.00
Ruhfus Venture Capital Corporation 8100 E. 22nd St. North, Building 500 Wichita, Kansas 67226 (316) 681-5100 Contact: Roy R. Baker	\$1,500,000.00
Coleman Venture Capital, Inc. 250 N. St. Francis Avenue Wichita, Kansas 67202 (316) 261-3402 Contact: Jim Beebe	\$1,500,000.00
R.M.B. Venture Capital Co. 970 Fourth Financial Center Wichita, Kansas 67202 (316) 265-3511 Contact: Charles B. Wilson	\$1,500,000.00

CERTIFIED KANSAS LOCAL SEED CAPITAL POOLS

Kansas Seed Capital Fund, Inc. \$ 200,000.00
125 N. Market, Suite 1210
Wichita, Kansas 67202
(316) 262-8339
Contact: Tom Hyde

TOTALS

Currently Allocated:	<u>\$21,930,735.56</u>
Reserved for KVICI to reach \$5 million:	\$ 664,770.00
Total Committed:	<u>\$22,595,505.56</u>
 BALANCE TO \$24 MILLION VOLUME CAP:	 \$ 1,404,494.44

January 12, 1989

(Proposal #10)

Governor Hayden's Tax Cut Proposal

Board Decision: Should the following policy recommendation be adopted?

The Kansas Inc. Board of Directors commends Governor Mike Hayden's proposal to return the remainder of the federal income tax windfall and recommends that the Legislature quickly enact the income tax cuts as proposed by Governor Hayden.

Background:

On Thursday, January 5, 1989, Governor Mike Hayden announced his proposal for returning the remaining tax windfall which was created by the Federal Tax Reform Act of 1986.

His proposal includes personal income tax rate reductions and increased income tax rebates to schools. Governor Hayden proposed that individual taxpayer's rates be reduced for all individuals while emphasizing middle-income families. The percentage decrease in personal income tax rates are:

<u>Income</u>	<u>Married Joint Return</u>	<u>Single</u>
\$5,000 - 15,000	10.6%	7.4%
15,000 - 25,000	11.5	7.6
25,000 - 35,000	11.7	7.7
35,000 - 50,000	11.7	7.1
50,000 - 100,000	11.1	5.9
100,000+	8.7	4.6

He also recommended that the sales tax exemption on farm machinery and equipment enacted by the 1988 Legislature be made permanent. Finally, he proposed that the rebate granted to school districts from the income tax be increased from 20% to 22% which would provide a total of \$20.6 million annually. These tax changes would return, in addition to the tax cuts from 1988, a total of \$152.6 million. Governor Hayden will ask the Legislature to enact these tax cuts by February 1, 1989.

In Thursday's press release, Governor Hayden stated that, "I am now able to recommend these tax cuts for one very important reason. And that is because we have now restored fiscal integrity to state government...That accomplished, last year's improved financial conditions paved the way for us to begin the return of the windfall. Today, our state's financial condition allows us to return the rest of the windfall."

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