

Approved _____ Date _____

MINUTES OF THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT

The meeting was called to order by Elizabeth Baker at _____
Chairperson

3:43 ~~xxx~~ p.m. on Wednesday, March 22, 1989 in room 423-S of the Capitol.

All members were present except: Representatives Brady, Goossen, Helgerson, Gregory, Foster and Dean. Excused.

Committee staff present:
Arden Ensley, Revisor
Lynne Holt, Research
Elaine Johnson, Secretary

Conferees appearing before the committee:
Chuck Stones, Kansas Bankers Association

The meeting was called to order at 3:43 p.m. by Chairman Baker.

The minutes of the March 14, 15 and 16, 1989 meetings were approved.

Chairman Baker opened the continued hearing on S.B. 21 and recognized Chuck Stones of the Kansas Bankers Association.

Mr. Stones testified that their industry believes this legislation is another important part of the state's economic development program which should be enacted. They also agree that the program should be administered through the Department of Commerce with a strong and experienced loan review committee. He also emphasized that the rules and regulations promulgated by the Department for this program will be very important in determining how much the program will be used by banks. He stated that the KBA stands ready and willing to work with the Department of Commerce and any other state agency or private sector group in creating a viable export finance program. (Attachment 1).

This closed the hearing on S.B. 21.

Chairman Baker opened S.B. 21 for committee discussion.

Harry Salisbury of the Department of Commerce addressed the committee briefly and responded to questions from the committee.

Representative Chronister made a motion to amend the bill by changing line 69 of the bill to read one calendar year. Representative Mead seconded the motion. Motion carried.

Representative Kline made a motion to conceptually amend Section 3 to include wording that will allow the Secretary of Commerce to enter into a memorandum of understanding with the Small Business Administration. Representative Chronister seconded the motion. Motion carried.

Representative Heinemann made a motion to conceptually amend the bill in Section 5, lines 123 and 124 to include compensation for tele-conferencing. Representative Mead seconded the motion. Motion carried.

Representative Reinhardt made a motion to pass the bill favorably, as amended. Representative Sader seconded the motion. Motion carried.

The meeting adjourned at 4:21 p.m.

Elizabeth Baker



The KANSAS BANKERS ASSOCIATION
A Full Service Banking Association

March 21, 1989

TO: House Committee on Economic Development

FROM: Kansas Bankers Association

RE: Endorsement of SB 21 (Financing of exports)

Thank you for the opportunity to appear before the Committee in support of SB 21 - the Kansas Export Finance Act. Our industry believes this legislation is another important part of the state's economic development program which should be enacted.

Last fall a representative of the Department of Commerce attended all six of the KBA regional meetings and presented information on the financing of exports. A survey of bankers attending those meetings revealed that an overwhelming majority believed the creation of a state guarantee program on export financing would be positive for Kansas. While there is relatively little export financing by Kansas banks currently, such a program should serve as a strong stimulus for expanded activity in this area. One only has to look at the success of SBA and FmHA guarantee programs to see that banks would seriously consider using such an export program. In addition, it would obviously provide much needed capital for existing Kansas businesses involved in exporting and would encourage the development of new exporting entities.

We are in agreement that the program should be administered through the Department of Commerce with a strong and experienced loan review committee. We see no reason to set up an entirely separate authority for the program.

We would also emphasize that the rules and regulations promulgated by the Department for this program will be very important in determining how much the program will be used by banks.

The KBA stands ready and willing to work with the Department of Commerce and any other state agency or private sector group in creating a viable export finance program. We believe it is very important to the future of our state's economy and we, therefore, strongly urge passage of SB 21.

A. Why is SB 21 needed, if SBA and Ex-Im Bank now are in the business of guaranteeing export loans?

1. Commercial bankers have been trained since birth to make loans on fixed assets. When a bank has deviated from familiar areas of expertise, it usually has regretted it. Regulators have also made bankers regret making "out of territory" loans secured by collateral which is not readily available, even when no money is lost.

2. So when a local manufacturer comes in for a loan and wants to secure it with a contract from a buyer in another country, the banker has no idea whether the foreign buyer can perform.

3. The buyer, therefore, usually produces a Letter of Credit (LOC) from his/her local bank (in a foreign country). Itk may be a bank the local Kansas banker has never heard of, and one which is not in the jurisdiction of the courts of the United States.

4. Therefore, a series of specific "aids" must be in place to facilitate the successful granting of this kind of credit.

a. A partial loan guarantee by an government agency to share the risk greatly facilitates the loan. SBA is a very good organization. Please do not interpret this as any negative outlook toward them, but if you have ever examined the paperwork package required for any SBA guarantee, you will quickly know the majority of Kansas banks do not have anyone aboard with the expertise in dealing with SBA. Those banks who have developed an "SBA expertise" are very happy with the agency, but it takes a good deal of effort and manpower to utilize the SBA.

The Export-Import Bank is doubly complex. It is anticipated that the Dept. of Commerce will greatly simplify the paperwork and the procedures involved when writing rules and regs for the Kansas Export Finance Act.

b. It will take a concerted effort on the part of the KBA and officials of the Dept. of Commerce who administer this program to promote the financing of exports with local banks. The KBA will greatly utilize DOC officials at virtually every meeting of bank management we have, until necessary expertise and interest exists. We will also work closely with bank regulators who will also need information and expertise so our work will not be negated by overly-cautious regulators. The KBA will gladly take this job on, because of the needed positive impact on our state's economy. Our currency rates right now make exports very doable. It is anticipated that the Dept. of Commerce will greatly assist in the marketing of information and

motivation to Kansas banks, in a way which the SBA never could, and in a way the KBA alone cannot.

c. A Correspondent bank with international expertise and relationships is needed to consult with the originating, local Kansas bank, to investigate the transaction and perhaps (depending on the reputation and size of the original LOC bank, to "Confirm" the Letter of Credit. Several Kansas City, Wichita or Denver banks are among those who could assist. Also, the "international" bank might provide some of the loan money, if the request exceeds the local originating Kansas bank's loan limit.

B. The three necessary ingredients to export financing, in order to (i) facilitate the loan; and (ii) identify and manage the risk are:

1. The guaranteeing state agency, as discussed above.
2. The Correspondent or "International" bank, as discussed above.
3. The local, originating bank.

a. If you assume the foreign buyer will have his/her purchase power backed by an LOC from a foreign bank, and that bank is fully investigated, and the LOC confirmed by a U. S. international bank, then the major element of risk becomes the Kansas manufacturer's ability to perform (to have the export material completed and shipped according to contract). Most international banks, and the SBA will not touch a transaction unless there is a local banker as part of the "package" who knows the manufacturer's reputation, who can often spot trouble quickly, who stays in touch, etc. etc. Therefore, we strongly recommend that for the program's workability, a Kansas originating bank be a requirement.

C. What about the sufficiency of the "4 to 1 leverage effect" referred to in Lines 49-52?

1. First, the state's money is not "leveraged", which implies it is mixed with bank funds and loaned. The state's money is to be used as security to pay off guarantees in the event a loss is experienced. Otherwise, the \$1 million appropriated by the State will not be used. If, prudence is carefully exercised, and Kansas Export Loan Guarantee Review committee will be in place to see that it is, then we would expect losses to be at a minimum. Therefore, the 4 to 1 ratio of guarantee to loan amount, looks to be very conservative.

This guarantee principle is utilized by SBA and by the Farmers Home Administration, and their losses on guaranteed loans have been minimal.

Mr. Chairman, Members of the Committee, thank you for this opportunity. For the benefit of the Kansas economy, we support S. B. 21.

Federal Reserve Bank of Kansas City
Economic Review
Dec. 1988

Limited gains ahead for district states

Most Tenth District states made limited gains in 1988. Looking ahead, improvement will likely continue in many states, with the size of gains determined largely by the mix of sectors in individual states. Despite the prospect for continued improvement, however, overall economic activity across the district will remain sluggish in 1989.

Kansas (10th District - KS, MO, NE, OK, CO, N.M., WI)

Kansas economic conditions improved somewhat in 1988. The employment gain in Kansas during the first three quarters of 1988 was among the largest of all seven district states. But while the state's modest 1.8 percent increase in employment was well above the district average, it was also well below the nation's employment increase. The increase in Kansas real personal income during the first half of 1988 exceeded the districtwide increase in income and nearly matched the U.S. increase. A recovering farm economy was a positive influence on the Kansas economy during 1988, while the performance of

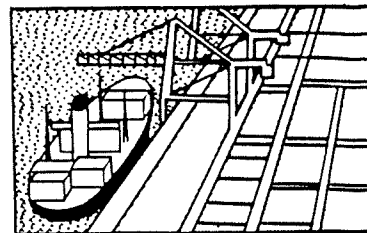
other major sectors was mixed.

The state's manufacturing sector received a boost in 1988 from the increased sales of general aviation aircraft and defense-related aircraft production in the Wichita area. High-tech industries continued to strengthen during the year, especially the assembly of civilian jet-aircraft components. In contrast, automobile production in Kansas City continued to slide. However, a new, more automated plant will bring some stability to the long-term outlook for auto production in Kansas.

The weakening of oil prices in 1988 began to erode some of the stability established by the Kansas energy industry in 1987. Although production increased, exploration and development activity declined significantly. Oil production for the first half of 1988 was slightly higher than for the same period a year earlier, but natural-gas production increased over 13 percent. And the state's relatively small coal production doubled in the first eight months of the year, compared with the same period in 1987. Despite the improvement in energy production, however, the average number of active drilling rigs in the first three quarters of 1988 was nearly 20 percent below the level from the same period in 1987.

Continued gains in agriculture and manufacturing will probably contribute to another year of moderate economic growth in Kansas. High-tech and general aviation manufacturing stand to benefit further from favorable exchange rates. The energy industry, however, will likely weaken further as low prices force additional closings of the state's numerous high-cost stripper wells—those producing less than ten barrels of oil a day.

Characteristics of Kansas Exporters



Steven Maynard-Moody
William Cheek

Dr. Maynard-Moody is director of policy studies at the Institute for Public Policy and Business Research and associate professor in the Department of Public Administration. William Cheek was a research assistant at the Institute at the time of the survey.

Increasing Kansas's participation in the national and world economies is an important part of the state government's plan for economic development. How this might be accomplished most efficiently is still to be determined. To provide data for informed policy making, 424 business owners and managers were asked about their product markets, their firms' characteristics, barriers to exporting to foreign countries, and programs to facilitate foreign export trade. The survey results point to several factors affecting exporters that might be addressed by policy makers.

Methodology

The telephone survey for this study was conducted from February 29 to March 8, 1988. A total of 424 interviews with the owners or managers of exporting and non-exporting Kansas firms were completed. The response rate for the survey was 89 percent: for every ten individuals contacted, nine responded to the survey.

Questions asked in the survey were designed by the Institute research staff in collaboration with Kansas Inc., which the Kansas legislature has established as the planning organization for state economic development.

The sample was drawn from the Kansas Department of Commerce's *Di-*

rectory of Manufacturers and Products. Two hundred and three exporting firms and 221 non-exporting firms were included in the final sample.

The percentages obtained in the sample are estimates of the entire populations under consideration. Sampling theory suggests that when an adequate random sample is obtained within a population, the sample will adequately reflect the responses that would be given if the entire population were surveyed. The margin of error in a survey is the probable difference between interviewing everyone in a given population and a sample drawn from that population. The margin of error for this survey is 5 percent at a 95 percent level of confidence. Given this margin of error, chances are that in about 19 out of 20 cases if all exporters and non-exporters in Kansas had been surveyed with the same questionnaire, the result would differ from the poll findings by no more than 5 percent in either direction.

Although great care is taken in composing questions and drawing a sample, caution should be exercised in the interpretation of telephone survey results. Responses generally represent immediate answers to questions, and respondents are limited to the answer categories given. Nevertheless, telephone surveys are by far the best form of public opinion polling to obtain random and representative samples in a timely fashion.

Results

The survey results show clearly that larger firms are more likely to export than smaller ones. The majority

of Kansas exporting businesses employ between ten and 99 full-time employees. Nearly half of exporters have sales of between \$1 million and \$10 million. In contrast, most non-exporting firms have fewer than ten full-time employees and less than \$1 million in sales.

Even though exporting firms are relatively large, decisions about exporting are made by executives in Kansas (rather than by out-of-state corporate leaders) in about two-thirds of export firms. And most of these managers are optimistic about their potential for increasing exports.

For the most part, these executives have decided to do their own marketing, and they do not rely heavily on foreign trade fairs to sell their products. Nearly 80 percent of exporters market their products themselves. About 10 percent use U.S. marketing firms, and another 10 percent hire international marketing firms.

Only 39 percent of exporters attend foreign trade fairs. However, 59 percent plan to attend trade fairs in the future. This increase may point to rising interest in export expansion in the Kansas business community. If the state were to pay half the expenses of attending foreign trade fairs, 66 percent of exporters say they would attend.

Characteristically, Kansas firms that sell their products abroad also distinguish themselves from non-exporters by their activity in national markets. Exporters sell 72 percent of their products in the national market rather than locally, within the state, or abroad. Businesses that do not export sell less than a third of their products nationally, and nearly half their sales are in the local market.

The survey respondents export

Table 1
Products of Surveyed Kansas Export Firms

<u>Type of Product</u>	<u>Percent of Firms</u>
Non-electrical machinery	27.9%
Fabricated metal products	10.9
Rubber and plastics	7.5
Food and kindred products	7.0
Instruments and related products	6.0
Miscellaneous manufacturing	6.0
Electric and electrical equipment	6.0
Transportation equipment	5.5
Chemicals and allied products	5.5
Printed and published materials	5.0
Stone, clay, and glass products	3.0
Apparel and textile products	3.0
Primary metal industries	1.5
Paper and allied products	1.5
Agricultural products-livestock	1.0
Furniture and fixtures	1.0
Agricultural services	0.5
Lumber and wood products	0.5
Leather and leather products	0.5
Petroleum and coal products	0.5
Total	100.0 (N=201)

their products to more than fifty countries. Europe receives the largest share of Kansas exports, 37 percent, and Canada is next, receiving 23 percent. Fifty-one percent of Kansas exports are classified as machinery, instruments, transportation equipment, and miscellaneous manufactured goods.

Managers and owners of export firms were also asked whether or not five types of state programs would help their businesses. They agreed with managers of non-exporting firms when they gave the highest rankings to programs that would provide information. Eighty-two percent of exporters would like the state to provide information on foreign markets. Individual assistance with export development would help 71 percent of exporters, and information

on foreign governments would help 68 percent. Sixty-seven percent could use state help with financing exports, and 51 percent would like the state to help coordinate financing with private banks. About 70 percent of Kansas exporters finance their exports internally. Fifteen percent use credit from Kansas banks, and 13 percent use out-of-state banks. Less than 1 percent have received financing from venture capital firms.

Eighteen exporters, 9 percent, reported they had lost export contracts because of a lack of financing. When they were asked what type of financial assistance programs could help increase exporting, their preferences were almost equally divided among open accounts for overseas customers, a program to allow exporters to receive payment on

shipment of goods, and a program to allow customers to pay for goods up to 180 days after receipt. So few respondents had lost contracts because of financing problems that we cannot generalize from these responses.

In contrast, many non-exporters consider lack of financing a significant barrier to entering export markets. Forty-seven percent of the businesses that would like to export report that they do not because of lack of financing.

Discussion

One strategy for increasing Kansas exports would be to establish programs that target firms with characteristics similar to those of successful exporters. Our survey shows that these would be larger firms, firms with a large proportion of sales in the national market, and firms producing machinery, fabricated metal, and the other types of products shown in Table 1.

Entering the export market could help small firms grow as well. A program to assist small businesses that are selling products with proven export potential would be promising. However, such a program should take financing problems into consideration. Survey results indicate that financing is a barrier to exporting for small firms. Exporting firms are larger than non-exporters, they can rely heavily on internal funds for financing, and they do. Also, non-exporters in general consider financing to be a barrier.

The survey results show that no matter what type of firm is targeted for state programs, information on foreign markets, and to a lesser extent on foreign governments would be helpful.

For more detail, see the full report of this study, International Exporting and Non-Exporting Businesses in Kansas, Monograph Series no. 154, Institute for Public Policy and Business Research, May 1988. The study was conducted at the University of Kansas for Kansas Inc.