

Approved 1-19-89  
Date

MINUTES OF THE SENATE COMMITTEE ON ECONOMIC DEVELOPMENT

The meeting was called to order by Senator Dave Kerr at  
Chairperson

8:00 a.m./p.m. on January 17, 1989n room 123-S of the Capitol.

All members were present except:

Senator James Francisco  
Senator Gerald Karr, Excused  
Senator Jack Steineger, Excused

Committee staff present:

Bill Edds, Revisor of Statutes' Office  
Lynne Holt, Kans Leg Research Dept  
Carol de la Torre, Secretary to the Committee

Conferees appearing before the committee:

Charles R. Warren, President, Kansas Inc.

The meeting was called to order at 8:00 a.m. by the Chairman, Senator Dave Kerr.

Charles R. Warren, President, Kansas Inc., gave a briefing on Kansas Inc., and introduced the staff. The total budget for FY89 is \$512,655. Forty-seven percent or \$242,453 will be used for research and evaluation studies contracted primarily from Kansas universities.

Research studies undertaken by Kansas Inc. in 1988 and 1989 were reviewed. (Attachment I) Policy recommendations of the Board of Directors were also explained. (Attachment II)

Senator Feleciano questioned whether supporting the Governor's proposal to return the remainder of the federal income tax wind-fall would make it hard to support the other nine items. Did Kansas Inc. look at how they will be able to structure those dollars? Mr. Warren advised that personal income taxes as well as corporate income taxes related to the general tax competitiveness of the State, and in lieu of the fact that the elimination of federal deductibility increased revenues by approximately \$135 million, and going along with the other changes - congress increased taxes by \$150 million - of that \$285 million the State could afford to return the \$80 million. He stated the Board felt it was feasible.

Senator Oleen asked for the name of the firm that conducted the corporate hog study. Mr. Warren reported that it was done by Development International, Atlanta, GA., and completed in 1987

Senator Kerr questioned what was inherently bad about Alternative Minimum Tax, and what it does to discourage economic growth; how many of our surrounding states have such a tax? Mr. Warren advised that only one nearby state, Iowa, has an Alternative Minimum Tax. The philosophy behind it is that anybody that makes money should pay some tax. It gives with one hand and takes away with another. It says we will give tax credits for R & D for investments and jobs, and then takes back those credits and undermines incentives that are provided to companies.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON ECONOMIC DEVELOPMENT

room 123-S Statehouse, at 8:00 a.m./p.m. on January 17, 1989

Senator Salisbury asked Mr. Warren when he felt some of the research projects would put Kansas Inc. in a position to be able to map out something more rather than reacting to what is presently before the Legislature. Mr. Warren responded by saying that Kansas Inc. does have a strategic plan. That plan lays out seven elements: business climate, capital markets, quality of life, human capital, infra-structure and technology with those areas being addressed in the research program. Mr. Warren stated he felt that Kansas Inc. was achieving a lot of clarity as to where they are going, given those seven elements and the various steps that are needed to move the state forward.

Recommendations regarding capital availability were adopted by the Kansas Inc. Board and will be available shortly.

Mr. Warren advised committee members that on February 24, 1989, Kansas Inc. and Kansas universities and colleges will be sponsoring a conference entitled Partners in Progress, the Role of Higher Education in Economic Development". It will be held at Kansas State University and Committee members are invited to attend. Kansas Inc. will provide complimentary registration.

Senator Feleciano questioned whether Kansas Inc.'s endorsement of the Governor's plan on water included his entire budget on water. Mr. Warren stated the Board does not endorse any specific projects, and its recommendation for funding the state water plan deals with water projects not natural resources or hunting projects.

Senator Moran asked about the \$75,000 oil and gas study. What is the timetable on that issue? Mr. Warren stated Kansas Inc. hopes to get requests for proposals ready within the next two weeks through competitive bids and get contracts signed within two months.

Senator Kerr inquired whether Kansas Inc. had looked at the continuum of risk capital to determine what holes remain and if there are any additional recommendations to fill in those remaining holes. Mr. Warren stated that he had testified before the interim committee on capital availability and presented a chart of the various programs that are state provided or private sector provided to meet capital availability needs of varying types of risk and form. The Kansas Inc. Board heard presentations from KTEC, Kansas Venture Capital, KPERS, and the State Banking Commission. There is also a current study with certified development companies which will give additional information on that problem. The banking industry is and always will be the major provider of loans for business. That should be recognized.

There being no further business, the meeting was adjourned at 9:00 a.m.



**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.

*See Co - 1000  
1-17-89  
Attachment 1*

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.

*Ken Co-Alvo*  
*1-17-89*  
*Attachment 2*

## 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<br>ENCUMBERED<br>OR EXPENDED | RESEARCH<br>PLANNED | PROJECT<br>COST |
|--|---------------------------------------|---------------------|-----------------|
| *BUSINESS TRAINING:<br>KANSAS UNIVERSITY                                     | \$55,000                              |                     | \$55,000        |
| STRATEGIC DATA BASE:<br>KANSAS UNIVERSITY                                    | \$5,600                               |                     | \$5,600         |
| COMPLETE FY88 BUSINESS TAX:<br>KANSAS UNIVERSITY                             | \$4,800                               |                     | \$4,800         |
| CDC EVALUATION:<br>WICHITA STATE UNIVERSITY:                                 | \$22,000                              |                     | \$22,000        |
| CAP. AVAILABILITY STUDY:<br>SCOTT GARD ASSOCIATES<br>UNIVERSITY REVEIW PANEL | \$29,600<br>\$900                     |                     | \$30,500        |
| KS. INFORMATION NETWORK:<br>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:<br>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.