Approved 1-24-89
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 19, 1989, 19__ in room 123-S of the Capitol.

All members were present except:

Committee staff present:
Bill Edds, Revisor of Statutes' Office
Lynne Holt, Kansas Leg. Research Dept
Carol de la Torre, Secretary to the Committee

Conferees appearing before the committee:
Les Boll, Commerce Bank and Trust, Kansas City, MO
Dr. Charles Krider, Professor of Business, University of Kansas

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

Minutes of the January 17, 1989, meeting were reviewed by the Committee. Senator Oleen moved the minutes be accepted. Senator Vidricksen seconded the motion. Minutes approved.

Senator Vidricksen introduced the head of the Kansas Small Business Development Centers, Tom Hull. Mr. Hull briefed the Committee on Kansas Small Business Centers, stating that a full annual report would be forthcoming for the Committee.

The hearing on Senate Bill 21 continued with the first conferee being Les Boll, Commerce Bank and Trust, Kansas City, MO. Mr. Boll gave preliminary remarks and stated that he was very proud of the efforts, under Harland Priddle, Secretary of Commerce, that the state has made in the development of an export support and promotion program. In the international area, trade finance of the exports is a very difficult situation. The typical banker in the smaller community cannot accommodate such transactions. Mr. Boll stated that if additional expertise was available within the state to the potential and actual exporters who could work with them on the trade finance side, he felt this could go a long way in terms of promoting exports from the state of Kansas. He stated he favors this legislation because it will require the state to retain individuals who have some expertise in the trade finance area. Mr. Boll stated he did not see a substantial risk of loss. He presumed the state would avoid taking foreign credit risks through reinsurance with FCIA or EXIM Bank.

Senator Salisbury questioned whether the state program really would be able to do anything that the SBA cannot already do. Mr. Boll advised that there is duplication of program on the federal level. Basically there are two major pre-export financing programs. He passed out an outline to the Committee of the federal programs that are available through the EXIM and FCIA programs. (Attachment I) The question was raised as to how accessible these programs were and how much are they used. Mr. Boll stated that the SBA has been available for a number of years and has not received that much use. He felt it was missing a marketing component. Senator Salisbury

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.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON ECONOMIC DEVELOPMENT,

room 123-S Statehouse, at 8:00 a.m./p.m. on January 19, 1989, 1989.

questioned the 360-day period, whether more flexibility was needed. Mr. Boll indicated 360 days should be sufficient.

Mr. Boll questioned whether the 1% fee proposed in the legislation was a flat fee or a per annum fee. The Chairman advised that it was a transaction fee. The Chairman questioned whether Mr. Boll would recommend a pro-rated fee for the time of the guarantee. He stated that time and risk are related and should be reflected in the fees.

The next conferee was Dr. Charles Krider, Professor of Business, University of Kansas and Director of Business Research, Institute for Public Policy and Business Research. Dr. Krider's testimony regarding Senate Bill 21 is attached. (Attachment II). He stated that he was speaking in support of Senate Bill 21. He felt that it was an appropriate approach to the issue of financing exports by small firms in Kansas. Particularly attractive is the area of loan guarantees. Dr. Krider's recommendations for the bill are found on page eight of his testimony (Attachment II). Except for those recommendations to amend the bill, he felt the legislation was clear and potentially of great benefit to the economic development and well being of the state. He urged the Committee pass the bill.

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

GUEST LIST

COMMITTEE: SENATE ECONOMIC DEVELOPMENT DATE: 1-19-88

NAME (PLEASE PRINT)	ADDRESS	COMPANY/ORGANIZATION
C. Friend	W.S.U.	KSBDC - Wichita
Bud Grant	Topeka	KCCI
Charles Warren	Topeka	Ks Inc.
Harry Salisbury	Topeka	KDOC
Les Boll	Overland Park	Commerce Bank
Charles Krider	Lawrence	KU
Harold Stones	KB. Topeka	KBA
Kathy Taylor	"	"
Chuck Stones	"	"
Jim Maag	"	"
D. Wayne Zimmerman	Topeka	KDOC
Scott Hessell	Topeka	Kansas Inc.
Jack Montgomery	"	KDOC
Harland E. Priddle	"	KDOC
Walt Darling	Topeka	Division of Budget
Ann Patterson	Topeka	KDOC

EXIMBANK AND FCIA PROGRAMS

<table>
<tr><th>EXIMBANK PROGRAMS</th><th>PRE-EXPORT</th><th>SHORT TERM
TO 180 DAYS
exceptionally
360 days</th><th>MEDIUM TERM
1–7 YEARS
REPAYMENT TERM</th><th>LONG TERM
MORE THAN 7 YEARS
REPAYMENT TERM</th></tr>
<tr><td rowspan="2">CREDIT RISK PROTECTION</td><td rowspan="2">Working Capital Guarantee</td><td rowspan="2">FCIA Short Term Insurance</td><td colspan="2">EXIMBANK Guarantees</td></tr>
<tr><td>FCIA Leasing</td><td>EXIMBANK Leasing</td></tr>
<tr><td rowspan="3">FUNDING OR FINANCING</td><td rowspan="3">No Program</td><td rowspan="3">No Program</td><td>EXIMBANK Intermediary Lending</td><td></td></tr>
<tr><td colspan="2">EXIMBANK Lending</td></tr>
<tr><td>Engineering Multiplier Operations & Maintenance</td><td></td></tr>
</table>

Commerce Bank

Sen Eco-Devo
1-19-89
Attachment 1

Testimony Regarding Senate Bill 21:
Kansas Export Finance Authority

Presented to

The Senate Committee on Economic Development

Presented by

Dr. Charles Krider
Professor of Business,
University of Kansas
and
Director of Business Research,
Institute for Public Policy and Business Research

For further information contact:
Roger P. Nelson
Research Assistant
607 Blake Hall
(913) 864-3701

Sen Eco - Devo
1-19-89
Attachment II

Exports: A Key to Economic Stability and Development

The importance of exports to the economic development and stability of our nation cannot be emphasized enough. The level of the U.S. trade deficit is constantly in the news, reflecting the amount of capital paid to other countries for their goods and services. This capital is thus lost to our economy when an equal amount is not brought in through the sale of U.S. goods to foreign nations. The 1986 national trade deficit was a staggering $156.2 billion, and in 1987 the figure rose 9.2% to a record $171.2 billion.[1] This continued imbalance also represents jobs being performed by foreign workers that might be done here in the U.S. The declining value of the dollar in world markets in recent years has created the opportunity for increased export activity, as U.S goods become less expensive for buyers in other countries. It is extremely important that our nation take advantage of this opportunity to lessen the gap between imports and exports, and thus retain capital for the benefit of our own economy.

Individual states within the U.S. must also realize the value and importance of exports to their economic well being, and not only those to other states, but to buyers beyond the national boundaries as well. Sales from outside the state means increased employment, production, and economic development within the

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1 Associated Press, 2/13/88

state, just as it does for the nation as a whole. Unfortunately, not all states are created equal in the arena of international trade.

Kansas Barriers to International Export

IPPBR has conducted three studies in the past year related to international trade:

-Business Retention and Expansion in Kansas Mid-size Communities,

-Kansas Industry in the Global Economy: Issues of Competitiveness and Public Policy, and

-International Exporting and Non-exporting Businesses in Kansas

Our overall conclusion is that Kansas firms are exporting at a lower rate than firms in other states. A principal finding is that difficulty with financing is a barrier to exporting.

Kansas Exports

In "Kansas Industry in the Global Economy", the IPPBR found that the state of Kansas has performed relatively poorly in the area of international export compared to the nation as a whole and to other states. Table 1 shows Kansas' state rank in percentage of manufacturing shipments related to manufactured exports for 1984, along with the figures for states in its region and several others for comparison.

Table 1

States' Rank and Percentage of Manufacturing Shipments Related to Manufactured Exports, 1984

State	% Manuf. Shipments Related to Exports	State Ranking (including D.C.)
U.S.	11.9	
Alaska	27.2	1
Colorado	13.1	8
Minnesota	12.4	17
North Dakota	11.2	27
Illinois	10.6	33
Arkansas	10.5	34
Missouri	10.2	37
Iowa	9.8	41
Oklahoma	9.3	42
Nebraska	8.7	44
Kansas	**8.6**	**45**
South Dakota	7.0	49

Source: Kansas Industry in the Global Economy, IPPBR Monograph No. 153, April, 1988

Barriers to Exports

The table indicates that all but two Midwestern states are in the lower half of the national rankings, which suggests that geographic characteristics of the state may be a factor in export performance. The fact that most states in the region are completely landlocked, and thus unable to utilize water transportation, is one probable reason. Another reflects the more abstract notion that the central location of these states leads to a less international-oriented educational and overall cultural perspective.

Another likely factor affecting the level of Kansas exports is the state's predominantly small-business orientation. The breakdown of Kansas establishments by employment-size class in 1985 is shown in table 2.

Table 2

Kansas Establishments by Employment-size Class, 1985

Employment-size Class	# of Establishments
Total	65,510
1 - 4	37,939
5 - 9	12,791
10 - 19	7,617
20 - 49	4,704
50 - 99	1,530
100 - 249	693
250 - 499	147
500 - 999	55
1000 or more	34

Source: **County Business Patterns 1985, Kansas;** Bureau of the Census, Dept. of Commerce.

Clearly, Kansas is a state of small businesses, which are likely to be either unaware of the opportunities that exist in international markets, or simply feel that they are unable to take advantage of those opportunities. In the Business Retention and Expansion study by the IPPBR, the reasons for not exporting stated by firms who had the desire to export are illustrated in table 3.

Table 3

Reasons for Not Expanding into International Markets [2]

Reason	% Stating
Business too small	24%
Business serves specific area	20%
Lack of affordable financing	20%
Lack of knowledge of foreign mkts.	10%
Lack of knowledge of exporting	12%
Lack of federal or state assistance	5%
Unfavorable exchange rates	3%
High tariffs / trade barriers	10%
Restrictive export regulations	7%
Costs are too high	12%
Never considered it	5%
Currently engaged in exporting	5%
Tough Competition	5%

Source: IPPBR monograph # 137, February, 1988

In spite of the perceptions of these businesses themselves, their size does not necessarily make them unable to participate in foreign markets. In fact, data on 34,000 exporters in the U.S. indicate that the second largest group of exporters by size (24%) employs only 20-49 workers, and another 19% have 50-99 employees.[3] The sample for these figures is not complete, and in fact "overemphasizes--and better represents--larger manufacturing related companies," since the activities of smaller companies are more difficult to track.

Thus, our research indicates that a principal barrier to Kansas businesses that wish to enter the international market is difficulty in obtaining financing. This may be due to the

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2 Percentages will not equal 100, multiple responses were allowed. n = 74

3 "Trading Places"; David L. Birch, MIT; Inc. magazine, Ap. 1988, Attached.

banking structure of the state, which is composed largely of small local or regional banks. Such banks often lack the expertise and knowledge to work with international financing transactions and may lack the financial strength of larger banks that they feel is needed to accept the risk perceived in international transactions.

I believe that the government of the state of Kansas can help to stimulate international exports, and thus the overall economic development of the state, through implementation of a program to assist Kansas small and medium size businesses in gaining the financing that they need to enter the global markets.

Export Finance Loan Guarantees

Senate Bill 21, as proposed by the Joint Committee on Economic Development, sets forth a program similar in design to a successful program currently in operation in Minnesota. It would establish an Export Loan Guarantee Fund in the state treasury, with which guarantees would be made to financial institutions entering into financing agreements with Kansas businesses wishing to enter international markets. I believe that a program of guarantees, or "loan insurance", is the most beneficial method by which the state can assist businesses in this area. Rather than providing funds directly to the financial institution, as is the case in a similar Illinois program, or making direct loans to businesses, this program would maintain the state funds in an interest bearing account, against which the guarantees outstanding would be recorded. This method is cost effective, in that it reduces the costs and time required for unnecessary fund transfers.

The program will operate with virtually no financial risk to the state, as the proposed Kansas Export Finance Authority will hold an Export Credit Insurance Umbrella policy from the Foreign Credit Insurance Association, an agent of the U.S. Eximbank. Coverage under the policy is 90% for commercial risk loss, and 100% for political risk loss (Governmental unrest, war, etc.).

Perhaps one of the greatest advantages of a guarantee program utilizing the state's financial institutions is the experience that can be gained by smaller rural and community banks, which might otherwise have avoided what they believed to be overly risky endeavors. Experience in this area will allow them to build the knowledge and expertise to enter into areas other than those traditional for their areas, thus helping them to stabilize themselves against cyclical industries such as agriculture and natural resources.

Recommendations for Senate Bill 21

For all of these reasons, I strongly support the implementation of a Kansas Export Finance Authority, and while I believe that the program as proposed in Senate Bill 21 is a very favorable one, there are several recommendations / clarifications that I suggest in amending the existing document.

1. Although the limitation on the size of guarantees to $300,000 is likely to limit the size of businesses utilizing the program, I would recommend an explicit provision limiting the size of eligible businesses, such as total employment under 500.

2. In order to reduce hassles and time delays in the approval process, I suggest that the Secretary of Commerce be given authority to approve transactions that are under some predetermined amount, such as $100,000 or $150,000, in order to allow more expedient reaction to the needs of firms requiring less financing. It could be at the discretion of the Secretary to pass these smaller transactions on to the committee, and he would be required to report any of his own approvals at the committee's next meeting. The committee, having appropriate "experience and expertise" in this area, would be called upon to establish guidelines to be followed in approval procedures, as well as provide advice in making his decisions. Transactions larger than the level determined would require approval by the committee as outlined in SB 21.

3. Third, I recommend that section 2(a) be revised to explicitly include services in the definition of "Kansas export transactions."

Excepting those parts of the bill that I have addressed above, I believe that the proposed legislation is of clear and potentially great benefit to the economic development and well being of the state, and I urge you to pass Senate Bill 21.

TRADING PLACES

The conventional wisdom is that large companies are more likely to export than small ones. Once again, the conventional wisdom is wrong

BY DAVID L. BIRCH

Small companies don't export—I hear it all the time. Join a discussion about the state of our global competitiveness and you'll hear it, too. Perhaps you'll be the one who says it.

We all worry, justifiably, about the inability of our industrial giants to compete abroad—about their inability to innovate and create attractive products at attractive prices in world markets. Though highlighted by the recent, massive trade deficit (itself highlighted by the recent, massive stock-market collapse), the problem has been gnawing at us since the mid-1970s. And if big companies can't win overseas, how on earth can smaller ones? What company of, say, 100 employees can overcome all the barriers caused by distance, language, currency, and culture? . . . Or so the hypothesis goes.

This, to some, spells trouble. I've noted before that a changing of the guard is taking place among U.S. businesses, particularly in the manufacturing sector. There has been a general decline of larger companies, offset by smaller enterprises that are growing rapidly and taking up the slack. To theorists of the small-companies-don't-export variety, the increasing significance of smaller businesses means one thing: no hope for the trade imbalance.

Fortunately, and surprisingly, the theory is wrong.

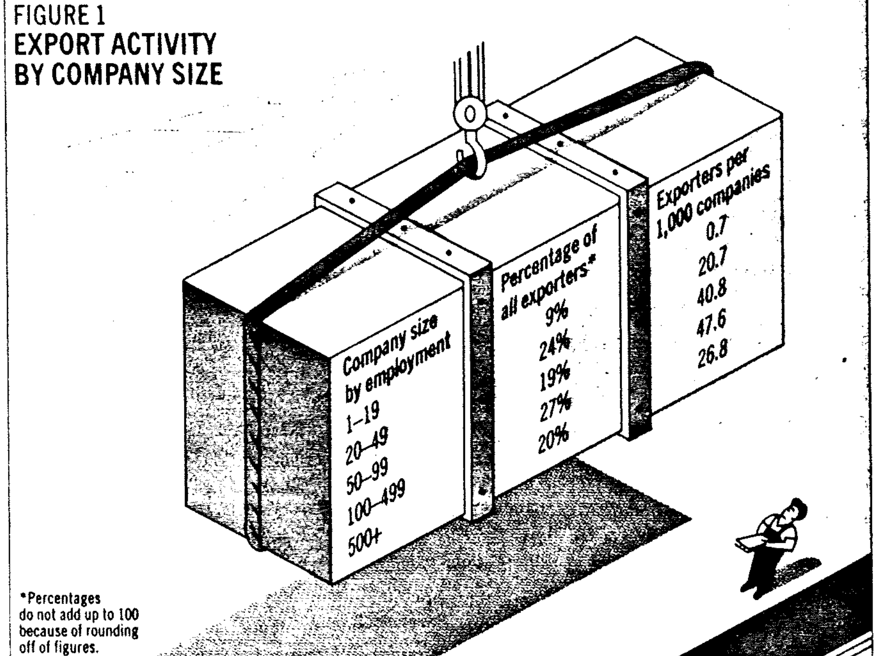
Data exist for about 40,000 companies involved in international trade, 34,000 of which export (the rest are importers only). It's not a complete sample. The international activities of many smaller companies are hard to track, so the database inevitably overemphasizes—and better represents—larger manufacturing-related companies. Still, what it indicates about smaller companies is fascinating.

First, the businesses most likely to be exporters today are small, not large. The second biggest group of exporters consists of companies with just 20 to 49 employees (see figure 1).

While statistics suggest that it's difficult for enterprises with fewer than 20 employees to reach beyond U.S. borders, trading abroad becomes common among companies that have crossed the 20-employee threshold.

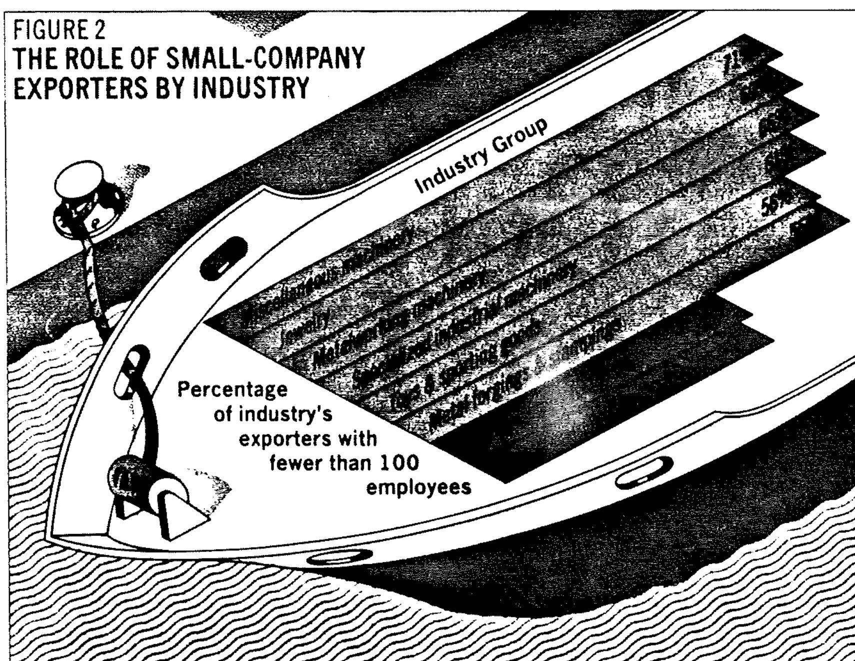
In fact, more than half of all exporters have fewer than 100 employees. Even more significant, the proportion of 50- to

FIGURE 1
EXPORT ACTIVITY BY COMPANY SIZE



More than half of all exporters have fewer than 100 employees, and companies with 50 to 99 employees are more likely to export than those with over 500.

FIGURE 2
THE ROLE OF SMALL-COMPANY EXPORTERS BY INDUSTRY



Small-company exporters aren't high tech. Often they come from old, basic low-tech industries—in which the changing of the guard is happening fastest.

CHARTS NIGEL HOLMES

99-employee companies that export is greater than the proportion of 500-plus-employee companies that do. Of course, this is not to say that the smaller businesses export more in aggregate than the larger ones; they don't. But it is true that small, dynamic companies *can* export successfully. They are doing so in large numbers—a finding made more remarkable by their underrepresentation in the data. So much for the myth that such companies can't export.

"Fine," a skeptic might respond, "I can imagine some smaller companies selling abroad, but they're all high-tech companies pushing a few exotic products." When it comes to basic industry, this sort of argument continues, the world is taking us to the cleaners, even in the small-business universe.

Again, not true. Small exporters tend to be found in *stable or declining* industries, many of which contain a large number of expanding companies. This makes sense. Small exporters are found in industries in which the changing of the guard is taking place the fastest. The very decline of such industries provides opportunities for smaller companies to identify a niche and figure out a clever way to exploit it—clever enough, in many cases, to support successful marketing abroad. Lots of small companies are exporting sawed lumber, steel forgings, jewelry, or toys.

The number of such low-tech exporters significantly exceeds the number of exporters of more exotic products such as computers, electronics components, or medical instruments. Almost three times more companies sell metalworking machinery abroad than export computers and office machines. And, as figure two shows, many of these low-tech exporters are smaller, not larger companies. The much-publicized woes of our basic industries appear to represent a great opportunity for small enterprises within them.

All of this would suggest that dynamic smaller businesses, already regenerating our domestic economy, might begin closing the trade gap. There's one problem: it takes smaller companies a long time to get going in export markets, and therefore a long time to make their influence felt. Almost 80% of small exporters are more than 12 years old, and virtually none are less than 4 years old. This contrasts sharply with big-company exporters, 44% of which are less than 12 years old.

It figures, in a way, that smaller companies would take longer to feel a need for foreign business, and to marshal the resources to get it. But 12 years is a long time. Given that these are the businesses that create most of the New Economy's jobs, might there be an enormous opportunity to expand exports simply by encouraging smaller businesses to cross national boundaries sooner?

Well, maybe. But we should remember that the export activity of such companies may already be better than we think. I suspect that many smaller, growing companies are selling abroad without us knowing about it. My own company has sold overseas and is not listed among the exporters in the database. Businesses that don't put their products in boxes and ship them on planes or boats (with the necessary permits) are often not listed as exporters simply because there's no way to track what they do abroad. The federal statistical system can't follow them, except through aggregate currency exchanges.

We know, for instance, that aggregate U.S. service exports are beginning to approach aggregate U.S. goods exports ($148 billion for services versus $224 billion for goods in 1986), yet nongoods exporters represent only 4% of our database.

The federal government has expressed similar concern about its own ability to monitor service exporters. The truth is, we don't really know how well a major component of the New Economy—the service sector—is doing abroad.

From what we do know, however, it's clear that exporting is not limited to large manufacturing or trading companies. We know that tens of thousands of smaller companies are selling their products and services all over the world. Many thousands that we don't know about are probably doing likewise.

For owners and managers of smaller companies who haven't thought of exporting as being feasible, these facts can serve as admonition. And inspiration, too. □

David L. Birch is president of Cognetics Inc., in Cambridge, Mass., and director of MIT's Program on Neighborhood and Regional Change.

SOME OTHER STATES CURRENTLY USING EXPORT SERVICE AND FINANCING PROGRAMS (by type of program)

I. Information and Marketing Service Programs

Overseas Offices
- Illinois - Hong Kong, Japan, Brazil, Brussels, People Republic China
- Massport - Antwerp
- California - Tokyo, London
- Florida - Frankfurt, Tokyo
- New York - London, Montreal, Tokyo, Toronto, Weisbaden
- S. Carolina - Brussels, Tokyo
- Wisconsin - Frankfurt, Hong Kong
- Iowa - Frankfurt, Tokyo, Hong Kong
- Minnesota - Stockholm, Oslo

Trade Missions
- Illinois
- Massport
- Michigan
- Florida
- New York
- Iowa
- California

Information & Marketing Assistance
- Illinois (catalog exhibitions, trade exhibitions, distributor search program, reverse investment support)
- Massport (seminars, guidebooks, arrangements on trade missions, counseling)
- Michigan (publications, market research, seminars)
- California (credit information services, training, computerized trade lead system)
- Delaware (database and directory of state companies)
- Florida (trade shows, catalog shows, training, seminars, market research, database)
- Minnesota (seminars, conferences, trade shows, trade leads, counseling, training, database)
- New York (seminars, trade shows, database and bulletin of trade leads, guide to exporting)
- Wisconsin (counseling, trade show, mentor program - larger business counsels a smaller exporter, seminars, Eximbank program)
- S. Carolina (market research, seminars, workshops, counseling, data base, directory)
- Iowa (counseling, trade shows, trade leads)

Language Assistance
- Nevada - language bank hotline in the Las Vegas airport for foreign trade visitors

II. Export Financing Programs

Loans and/or Loan Guarantees
- Minnesota
- S. Carolina - has the authority but hasn't used to date
- California
- Illinois
- Louisiana
- S. Carolina
- Tennessee
- Wisconsin
- Michigan
- Louisiana
- New Jersey
- Massport - loans to cover travel expenses on trade missions

Insurance
- Minnesota
- Illinois
- Wisconsin - authorized, but hasn't used
- California
- Missouri
- Colorado
- Ohio

Tax Incentives
- Delaware - setting up a regional program to take advantage of a federal tax exemption; provides state tax deduction
- S. Carolina - deferment on income tax for export income

Reverse Investment
- Wisconsin - uses its appropriated funds to support reverse investment
- Illinois

Buy-Down Grants
- Iowa - pre- & post-export, lowers the interest rates on loans. Iowa offers 5% interest buy-down grants

Eximbank Experiment
- (states have limited authority to commit Eximbank guarantees)
- Wisconsin
- Illinois
- Michigan
- Minnesota

Trading Companies
- N. Dakota
- Virginia
- New York/New Jersey

STATE EXPORT FINANCE PROGRAMS IN OPERATION AS OF AUGUST 1987

State	Type of Authority	Year Established	Funding Source	Amount of Fund	Counseling	Insurance		Loans-to-Lenders		Loans-to-Exporters		Loan Guarantees	
						Administration	Liaison	Pre Export	Post Export	Pre Export	Post Export	Pre Export	Post Export
California	Creation[a]	1985	Appropriation	$3,000,000	X							X	X
Colorado	Expansion[b]	1987	Appropriation	$500,000	X		X		X				
Connecticut	Expansion[b]	1987	Appropriation	$1,000,000							X	X	X
Illinois	Creation[a]	1984	Bonds	$100,000,000	X	X		X	X				
Indiana	Expansion[b]	1983	Appropriation	$8,500,000[c]								X	
Louisiana	Creation[a]	1984	Bonds	Promissory Notes[d]							X		
Maryland	Expansion[b]	1985	Appropriation	$7,000,000	X	X						X	X
Michigan	Creation[a]	1986	Bonds	$50,000,000	X							X	X
Minnesota	Creation[a]	1983	Appropriation	$2,000,000	X	X						X	
Missouri	Expansion[b]	1984	N/A	N/A			X						
Ohio	Expansion[b]	1983	Allotment[e]	$100,000,000[c]			X	X					
South Carolina	Creation[a]	1985	Appropriation	$50,000	X		X						
Tennessee	Creation[a]	1983	Appropriation	$100,000	X								
Washington	Creation[a]	1983	Appropriation	$400,000	X								

Notes:
a. Creation of a new export authority or agency as a separate entity or as a new office within an existing department.
b. Expansion of the responsibilities of an existing agency.
c. Program is not specifically an export financing program, but export financing is one of several eligible activities for program funding.
d. Promissory notes issued as needed.
e. This is a "linked deposit" program. Using state funds, the state deposits money that the bank then lends to a qualified small business at below market rates. This is a variation on the loans-to-lenders approach.