

Approved 2-10-89
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 February 9, 1989 in room 123-S of the Capitol.

All members were present except:

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:

Mary Birch, Executive V.P. and General Manager, Overland
Park Chamber of Commerce.

Senator Roy Erlich

Harland Priddle, Secretary of the Department of Commerce

Kevin Karr, Kansas Technology Enterprise Corporation (KTEC)

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

Mary Birch spoke to the Committee on the regional approach to economic development and how it relates to the Kansas City and surrounding area. She cautioned the Committee not to establish another level for a prospect to have to go through as they seek to locate in the Kansas-Missouri region. Also suggested was pursuing on a basis where there might not be negative competition. An example given was in international trade development.

Senate Bill 89 - an act relating to local seed capital pools; concerning investments thereof; amending K.S.A. 1988 Supp. 74-8401 and repealing the existing section.

Senator Roy Erlich presented to the Committee written testimony from Leroy E. Lyon, Executive Director, Mid-Kansas Economic Development Commission. (Attachment 1) The Chairman also reviewed with the Committee the bill. He stated that the bill expands the purposes for the use of seed capital from a local and seed capital pool to include "operating capital".

The next conferee was Harland Priddle, Secretary of the Department of Commerce. His comments are included in Attachment 2. He stated that he did not favor or disfavor the bill, because he was not sure of the intent. He felt that if the bill was adopted in this form, it would be difficult to administer and might broaden the possible uses of seed capital more than was intended.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON ECONOMIC DEVELOPMENT,

room 123-S Statehouse, at 8:00 a.m./p./m. on February 9, 1989.

Kevin Karr, KTEC, was the next conferee. His testimony on SB89 is found in Attachment 3. Mr. Karr stated he felt the existing law allowed use of seed capital for operating expenses related to those activities specified in the law.

Minutes of the February 7, 1989, meeting were reviewed by the Committee. It was moved by Senator Winter and seconded by Senator Moran that the minutes be approved. Motion carried. Minutes approved.

There being no further business, the meeting was adjourned.



Economic Development Commission

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TESTIMONY

TO: Members of the Senate Economic Development Committee

FROM: Leroy E. Lyon, Executive Director, Mid-Kansas Economic Development Commission

DATE: Feb. 9, 1989

Honorable Chairman Kerr, Members of the Committee, and staff:

First, let me express my thanks for giving me the opportunity of appearing before you today to express my support for Senate Bill 89. In particular I'm grateful to Senator Roy Ehrlich for authoring this legislation.

At first glance, it might appear the change proposed in the bill is a minor one. I can assure you it is not minor. The inclusion of the words "or (D) operating capital" is an important change which needs to be done. Here's why:

Three years ago, the Mid-Kansas Economic Development Commission decided that Kansas inventors should be included in the effort to improve the economy of Kansas. We held our first Inventors Workshop and Exposition in Great Bend in the spring of 1987. This is now an annual event. We then formed the Mid-Kansas Inventors Association and with the help of these local inventors we formed for the first time a statewide organization now known as the Kansas Association of Inventors (KAI). Today, KAI has more than 300 members with affiliated local chapters in Great Bend, Overland Park, Washington/Marysville, Wichita, and Dodge City. Several more communities are beginning the process of forming local inventor organizations which will affiliate with KAI.

I provide this background for only one reason. I've had the opportunity to work with a lot of inventors and entrepreneurs the past three years. What I've found may surprise you. It's this. A vast majority of inventors have already invested large sums of money to patent or protect their inventions, to develop prototypes, to develop business plans, and to begin the costly process of marketing their inventions.

Let me cite two examples. Nearly two years ago we began working with a lady inventor in Denver who had patented her Min-nie Tress 'N Press. This is a unit which can be installed in motel and hotel rooms as well in recreational vehicles which has a fold-down ironing board with an iron stored in the cavity behind the board. Some models also come with hair dryers. As we worked on this project, we retained one of our local CPA firms to develop current financials. The CPA was able to verify that the lady inventor had already spent \$191,535 on her invention. This included \$45,000 for patent costs, \$92,335 for product development and pre-operating expenses, and \$53,800 for prototypes, tool and dies, and molds. But, as is the case every time, none of this pre-spent money

Barton County Speaks For Itself!

*Sen Co - Devo
2-9-89
Attachment 1*

could be counted as cash injection into the project. We did find a bank in Hoisington that was interested and it is to the credit of those bankers that they began to work with the inventor and her manager to secure a \$74,000 SBA loan. Some more stock, though, had to be sold which resulted in a \$30,000 cash injection. For the past year, this new company has been operating out of a former cheese plant building in Hoisington. And while it is still a very small operation, we continue to believe the product is a good one. The lady had done an outstanding job of contacting major hotel and motel chains on the eastern coast.

For the past year we have also been working with an inventor from Arkansas City who has a fiberglass product which could be incorporated into the product lines of some of our fiberglass tank fabricators across the state. Many of these fiberglass manufacturers have a lot of unused plant capacity and by allowing them to produce the units under contract, the inventor/entrepreneur will not have to lease a building for production nor purchase expensive equipment. This in turn makes the project more viable and easier to finance. At any rate, this inventor's CPA has verified that he has spent more than \$30,000 on patents, prototypes, business plan development and marketing. This does not include the time donated by this inventor. This \$30,000 plus is hard cash. Now what he needs is some cash to inject into the project so he can qualify for a conventional or SBA loan. If we had a state certified seed capital pool and could use about \$30,000 for start-up and operating costs, perhaps we could get this project off the ground.

Well, why don't we have a state-certified seed capital pool in Barton County? We see no use if we are going to be restricted to the three uses as defined in the current law. Those uses are: "Development of a prototype product or process; (B) a marketing study to determine the feasibility of a new product or process; or (C) a business plan for the development and production of a new product or process".

It makes more sense to us to become involved in projects where most of these three things plus the patent work has already been taken care of. In these projects, an inventor has demonstrated a great deal of determination and there is "sweat equity" which, while it can't count as cash injection, can give a good indication of how serious an entrepreneur is about his/her product. Funds from a seed capital pool could be used for a marketing study, only to find out the project is not viable. Thus the money is lost. So we want projects where most of the three basic things have been completed. I find it interesting that we've had the seed capital legislation for three years and now we only have one pool in operation in the state. Why? In my opinion it is because the uses are too restrictive. Why not broaden the uses and let the local seed capital investors make the determination?

In both of the examples, what was needed was operating capital. And I could cite many more instances. That's why I urge you to adopt Senate Bill 89. We need more economic development "tools" if we're going to be successful in our attempts to improve the economic climate of Kansas. And nowhere is this more true than in our rural communities where more risks must be taken if we are going to create jobs for our people. In many of these rural communities, the strategy of recruiting some Fortune 500 company will never work. Instead, a concentration on developing some "home-grown" enterprises must take place. We can assist this type of development by adopting Senate Bill 89 so that local citizens can better write their own destiny.

TESTIMONY ON SENATE BILL NO. 89

Senate Economic Development Committee

Harland E. Priddle
Secretary of Commerce

Kansas Department of Commerce

February 9, 1989

*Sen Eco - News
2-9-89
Attachment 2*

Thank you, Mr. Chairman, for the opportunity to testify before this committee on Senate Bill No. 89 concerning eligible investments by certified Kansas Local Seed Capital Pools. I am Harland Priddle, Secretary of the Kansas Department of Commerce, which is the agency charged with the administration of the state venture and seed capital programs.

Senate Bill No. 89 would amend existing statutes relating to local seed capital pools. The amendment expands the definition of local seed capital pools which is money invested in a fund established to provide funding for small businesses for any one or more of the following purposes:

- (A) development of a prototype product or process;
- (B) a marketing study to determine the feasibility of a new product or process;
- (C) a business plan for the development and production of a new product or process; or
- (D) operating capital.

The amendment adds operating capital as an eligible purpose for use of funds invested in a local seed capital pool.

A review of the 1987 testimony of when the Local Seed Capital Pools legislation was originally considered indicates that the intent of this law was to specifically fill a financing gap for pre-startup or start-up businesses in Kansas. By adding operating capital to the list of eligible local seed capital investments, and applying the rule of one or more purposes as outlined on line 45, the original intent of this

legislation, we believe, has been dramatically changed. We believe the original purposes as outlined on lines 45 through 49 under A, B, and C contain provisions for accommodating operating capital.

Allowing the funds invested in a local seed capital pool to be used by a small business for operating capital would revise the intent of the original definition that the funds be restricted to activities related to a new product or process.

The Department anticipates that this amendment would generate additional interest in the local seed capital pool program. To date, the Department has certified one local seed capital pool -- Kansas Seed Capital Fund, Inc. in Wichita. It is anticipated that allowing a local seed capital pool to provide funding for small businesses for operating capital rather than restricting the use of funds for activities associated with a new product or service would create an increased demand for the 25 percent Kansas income tax credits offered as an incentive for the program.

Under current statutes, local seed capital pools and certified venture capital companies qualify for income tax credits under the same \$24 million ceiling on investment. However, local seed capital pools do not have the same investment restrictions for type of industry and time frame for investment as required of certified venture capital companies. By further broadening the definition of eligible uses of funds by a seed capital pool for providing operating capital to small businesses, the seed capital pool may take advantage of the same tax

credit opportunities with a lesser degree of restriction. It is for this reason that investment in a seed capital pool would become more attractive.

However, if this amendment as written becomes law, the eligible investments for a certified local seed capital pool would be broadened to the extent that virtually any Kansas small business investment would become eligible.

Testimony on Senate Bill 89
Senate Committee on Economic Development

February 9, 1989
Kevin M. Carr, Vice President
Kansas Technology Enterprise Corporation

I appreciate the opportunity to testify before the Committee this morning on Senate Bill 89. Although the bill would have no direct impact on KTEC operations, it is very important to the business community with which we closely work and, ultimately, very important to the state's economic health.

The addition of "operating capital" as an allowable expenditure could potentially allow local seed capital pools to more appropriately address the critical financing needs of true seed-stage companies. "Operating capital" is assumed to include early stage needs related to bringing a new product or process to a significant position in the marketplace. Such costs may include, but are not limited to, execution of a marketing program, staff salaries, operating overhead, production tooling, and other start-up costs. The flexibility to allow these types of costs is very important if seed capital pools are going to meet the true start-up capital needs of new Kansas businesses.

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Attachment 3