

MINUTES OF THE SENATE COMMITTEE ON ECONOMIC DEVELOPMENT

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

8:00 a.m.~~x~~m. on March 15, 1990 in room 123-S of the Capitol.

All members were present except:
Senator Francisco

Committee staff present:

Bill Edds, Revisor of Statutes' Office
Lynne Holt, Kansas Legislative Research Dept.
Sue Pettet, Secretary to the Committee

Conferees appearing before the committee:

Jack Alumbaugh
Harold Stones, Kansas Bankers Assoc.

Chairman Kerr called the meeting to order and announced the agenda to be discussion and action on S.B. 621 and discussion of S.B. 732.

Attachment one is a balloon of amendments of S.B. 621.
Bill Edds of the Revisor's Office explained the amendments.

Senator Vidricksen moved to amend by adding, "any entity in this state which is exempt from taxation under the provisions of 501(c) 3 of the Federal Internal Code of 1986 as in effect on January 1, 1990 or any public entity." Senator Moran seconded. Motion carried.

Senator Vidricksen moved to favorably recommend S.B. 621 for passage as amended. Senator Karr seconded. Motion carried.

SENATE BILL 732

Jack Alumbaugh testified in favor of S.B. 732. S.B. 732 provides for the establishment, licensure, and regulation of Business and Industrial Development Corporations (BIDCOs). He explained that the BIDCO concept would provide an entity that could make available to Kansas business and industry a source for moderate risk loans that is not presently available.

Private investors would be asked to contribute \$2,000,000 to the fund. The program is also reliant upon a \$4,000,000 low interest (4%) loan from the State of Kansas, bringing the total fund to \$6,000,000 initially. (See Att. 2)

Harold Stones, Kansas Bankers Assoc. stated that his association agreed with the concept of BIDCOs. He said the targeted industrial development projects, as well as commercial and retail enterprises are very important to the economic health of Kansas rural communitites.

Chairman Kerr announced that there would be no action taken on S.B. 732 until a later date. He also announced that after conversation with various committee members and leadership, that action would be taken at the first convenient opportunity on S.B. 733 by the committee instead of referring it to another committee.

Meeting adjourned.

SENATE BILL No. 621

By Senator Vidricksen

2-7

AN ACT establishing a matching grant program to assist the development of tourist attractions in the state; amending K.S.A. 1989 Supp. 74-5032a and repealing the existing section. the promotion of tourism and

Be it enacted by the Legislature of the State of Kansas:

New Section 1. There is hereby established a state matching grant program to provide assistance in the development of quality tourist attractions within the state of Kansas. Grants awarded under this program shall be limited to not more than 40% of the cost of any proposed project. Any ~~public or private~~ entity within the state shall be eligible to apply for a grant under the provisions of this act. The secretary of commerce shall administer the provisions of this act and the secretary may adopt rules and regulations establishing criteria for qualification for a matching grant and such other matters deemed necessary by the secretary for the administration of this act. promotion of tourism and which is exempt from taxation under the provisions of section 501(c)(3) of the federal internal revenue code of 1986 as in effect on January 1, 1990,

Sec. 2. K.S.A. 1989 Supp. 74-5032a is hereby amended to read as follows: 74-5032a. The division of travel and tourism development is hereby authorized and empowered to:

(a) Encourage and promote the traveling public to visit this state by publicizing information as to the recreational, historic and natural advantages of the state and its facilities for transient travel and to contract with organizations for the purpose of promoting tourism within the state; and

(b) request other state agencies such as, but not limited to, the Kansas water office, the Kansas department of wildlife and parks and the department of transportation, for assistance and all such agencies shall coordinate information and their respective efforts with the department to most efficiently and economically carry out the purpose and intent of this subsection; and

(c) Solicit and receive moneys from any public or private source and administer a program of matching grants to provide assistance to those described in section 1 promotion of tourism and the development of quality tourist attractions in this state.

New Sec. 3. (a) There is hereby established the Kansas tourist attraction evaluation committee within the department of commerce.

1 The committee shall consist of three members, all of whom shall
2 have appropriate experience and expertise in the area of travel and
3 tourism. The members of the committee shall be appointed by the
4 secretary of commerce and shall serve at the secretary's pleasure.

5 (b) The committee shall screen, evaluate and approve or disap-
6 prove all applications for matching grants by entities for development
7 of tourist attractions in the state. The committee shall also provide
8 technical advice upon request to any local tourist attraction upon
9 ways to improve its operations.

those
described in section 1
the promotion of tourism and the

10 (c) The director of travel and tourism development shall serve
11 as a non-voting chairperson of the committee and the committee
12 shall annually elect a vice-chairperson from among its members. The
13 committee shall meet upon call of the chairperson or upon call of
14 any two of its members. Two voting members shall constitute a
15 quorum for the transaction of business.

(d) All members of the committee shall serve
without compensation or any other allowances
authorized under the provisions of article 32
of chapter 75 of the Kansas Statutes Annotated.

16 New Sec. 4. (a) There is hereby established the Kansas tourist
17 attraction matching grant development fund in the state treasury.
18 The Kansas tourist attraction matching grant development fund shall
19 be administered by the secretary of commerce. All moneys in the
20 Kansas tourist attraction matching grant development fund shall be
21 used to provide matching grants to provide assistance in the de-
22 velopment of quality tourist attractions within this state in accordance
23 with this act.

promotion of tourism and the

24 (b) All moneys received pursuant to subsection (c) of K.S.A. 1989
25 Supp. 74-5032a, and amendments thereto, shall be remitted to the
26 state treasurer at least monthly and deposited in the state treasury
27 to the credit of the Kansas tourist attraction matching grant devel-
28 opment fund.

29 (c) The pooled money investment board may invest and reinvest
30 moneys credited to the Kansas tourist attraction matching grant de-
31 velopment fund in interest-bearing time deposits in any commercial
32 bank or trust company located in Kansas. Such deposits shall be
33 secured as stipulated in K.S.A. 75-4218 and amendments thereto.
34 If the board determines that it is impossible to deposit such moneys
35 in such time deposits at a rate equal to or greater than the average
36 yield before taxes received on 91-day United States treasury bills as
37 determined by the federal reserve banks, as fiscal agents of the
38 United States, at its most recent public offering of such bills prior
39 to the inception of such deposit contract, such moneys shall be
40 invested in obligations of the United States of America or obligations
41 the principal and interest of which are guaranteed by the United
42 States of America or in repurchase agreements of less than 30 days'
43 duration with a Kansas bank or with a primary government securities

1-2

1 dealer which reports to the market reports division of the federal
2 reserve bank of New York for direct obligations of, or obligations
3 that are insured as to principal and interest by, the United States
4 government or any agency thereof. All moneys received as interest
5 earned by the investment of the moneys credited to the Kansas
6 tourist attraction matching grant development fund shall be deposited
7 in the state treasury and credited to the Kansas tourist attraction
8 matching grant development fund.

9 Sec. 5. K.S.A. 1989 Supp. 74-5032a is hereby repealed.

10 Sec. 6. This act shall take effect and be in force from and after
11 its publication in the statute book.

1-3

BIDCO/Kansas

- A strategic program for financing industrial development projects in rural Kansas, especially the rural areas
- Assumes the bank's liability on government-guaranteed loans
- Would only package and process loans referred by Kansas banks
- Offer first right of refusal to bank who referred the loan with the following conditions:
 1. 2% commission (refunded if loan prepaid in first year)
 2. Loan at New York prime annually adjusted, accepted by BIDCO from bank of reference for guaranteed portion of loan
 3. BIDCO packages, processes and services loan for life of loan and accepts all risks
- BIDCO would be capitalized a minimum of \$6 MM
- BIDCO would complete 20 to 40 projects annually
- \$6 MM annually would consume less than 10% of Kansas SBA-guaranteed investments

Proposal for
FORMATION OF KANSAS STRATEGIC FUNDS, INC.

A BIDCO in Kansas

January 22, 1988/Updated: March 17, 1988; August 30, 1988
November 2, 1989

1. EXECUTIVE SUMMARY

The BIDCO concept would provide an entity that could make available to Kansas business and industry a source for moderate risk loans that is not presently available. The specific target for the majority of the funds from this concept would be primary industries as defined by the State. This product is a source of financing for projects of generally less than \$500,000 that can not be accommodated by banks and are not appealing to venture capital companies. The BIDCO, through its professional staff, would select certain projects that have strong "vital signs" to offset elements of moderate risk associated with them, and invest in them utilizing SBA guarantees or other federal guarantees to reduce the significant risk associated with each investment. The BIDCO would utilize the secondary market as a means of increasing the income from the initial investments. The BIDCO would be reliant on the banks, the CDC's and other developers in the state as a marketing source and a preliminary packaging resource. The BIDCO would work with the banking community to provide a service banks do not presently have access to; that being exclusive entry to the **non-bank lender**.

As required protection for the investor and the government loan guarantee sources, the BIDCO would be regulated by a State Examiner. Enabling legislation will be required authorizing the BIDCO and establishing the examiner. This legislation would be solicited when an investor is committed. State investment tax incentives would be requested to be a part of the legislation.

Because of the BIDCO's interest in the generation of income for its investor(s) and net worth for itself, it would not be interested in participating in making loans to basic enterprises, except through referral from a Kansas Bank as is outlined in this proposal. Furthermore, BIDCOs would look to the Kansas banking community as a primary source for placement of the guaranteed portion of any loans and provide an exclusive first offering to the bank that made the referral on a guaranteed BIDCO investment project. Private investors will be asked to contribute \$2,000,000 to the fund. The BIDCO proposes to provide an average annual return estimated to be in excess of 16% to its fund investors. This program is also reliant upon a \$4,000,000 low interest (4%) loan from the State of Kansas bringing the total fund to \$6,000,000 initially. The private investor(s) would guarantee repayment of the State's investment.

2. ORIENTATION AND BACKGROUND

Over the past several years, leadership in the public and private sectors has come to agree that economic development is reliant upon an adequate range of financial and investment products available to underwrite projects of business and industry in Kansas. Recent efforts by the Kansas Legislature and the Governor's Office have resulted in the State's developing incentives to encourage and accommodate creation of risk capital programs in the private sector, which would invest into intermediate risk projects of business and industry in Kansas.

Kansas business and industry should have every opportunity to work with their lender prior to or in association with bringing on equity investors.

The creation of a state wide BIDCO entitled Kansas Strategic Funds is proposed. It will focus on offering Kansas business and industry access to a moderate risk lender if their bank provides a reference. Kansas strategic Funds would offer a special resource for accessing government guarantee programs on behalf of all Kansas banks.

3. DESCRIPTION OF A BIDCO

Other states have identified lack of moderate and high risk capital as issues in their states as well. One product that other states; for example California, Michigan, Washington, Oregon and others; are looking into and, in fact, have some experience with is the concept of a "BIDCO", described as "Business and Industry Development Companies". These organizations are created in the private sector, monitored by the state and through annual public audits. A BIDCO's primary initiative is, like any bank, to make money. However, BIDCO's do function in different ways than those in which Kansas banks presently are allowed to operate. A BIDCO, for example, is allowed to make loans which are not fully secured by collateral. BIDCO's are also allowed to negotiate for equity "kickers" in the deal. In addition, BIDCO's are allowed to have a measure of involvement in the management of the companies into which they are investing.

BIDCO's provide a financial product for a market which has yet to be addressed in Kansas by Kansas finance and equity products in the public and private sectors. Through their flexibility, BIDCO's are able to invest into business and industry projects ranging from \$50,000 to \$500,000, though there are no restrictions should they invest into smaller or larger projects. They are allowed more flexibility in regard to investing into projects than are allowed through certain restrictions of the Small Business Administration (SBA). BIDCO's do not ordinarily engage in projects with the risk factor of venture capital company projects. Also, venture capital companies have stated that they are interested in investing into projects requiring \$500,000 or more equity injection. Venture capital companies look for a minimum return on investment or 40%. BIDCO's, however, can look for a return on investment in the 10% to 25% range and still be feasible. Therefore, BIDCO's really fill an important gap between bank financing and venture capital financing. In addition, BIDCO's may be more closely associated with the wishes of the Legislature and the local economic developers than are venture capital companies.

4. THE MARKET AND ITS PENETRATION

1. THE MARKET

We have a situation in Kansas, where a BIDCO could be implemented in very short order. Because of the constraints on the Kansas banking industry, the time is right; and because there is an absence of any State wide product for moderate risk lending available in Kansas, the market is right. In recent years the state has been establishing Certified Development Companies (CDC's), so a promotion and screening system has already been established through not only CDC's but banks, chambers of commerce, Kansas Department of Commerce field offices, Small Business Development Centers and other organizations brought into being in recent years. The Wichita SBA District office which services 77 of 105 Kansas Counties approved \$41,000,000 in loan guarantees last year. CDC's estimate that an additional 15-20% of potential projects are not considered by SBA because no participating bank can be found. The CDC's also identify numerous inquiries from banks seeking guarantees for existing loans but not wanting to transfer the account to a competing bank. At the present time rural banks are lending well under capacity. Simple inquiries reveal that many banks would be willing, if not anxious, to purchase guaranteed loans at a 2-3% commission at prime rate. However these same banks are unwilling to accept the 10-20% risk associated with an SBA guaranteed loan not to mention the administrative burden of transacting and servicing the guarantee.

2. MARKET PENETRATION

In addition to prime market availability, there are certain marketing aspects which make the concept of a BIDCO very attractive.

The BIDCO would have as its marketers the CDC's, banks and other economic development companies throughout the state. Banks and CDC's are accustomed to working with borrowers to develop the financial information from which investments can be made. Also, CDC's are equipped to operate from a perspective of public service to business and industry to develop financial packets for evaluation. In many instances CDC's and banks are not able to accommodate the requests but have no after markets for this project. We perceive the BIDCO would be a good product for SBA and other federal loan program guarantees in

4. THE MARKET AND ITS PENETRATION (Continued)**2. MARKET PENETRATION (Continued)**

which banks are not willing to accept the 10% to 20% risk involved with these products. We perceive for projects that go beyond the loan limits of the banks the BIDCO could be used in a creative way.

At the option of the investor but not included in this proposal, we perceive that the BIDCO could be used as a source of first position financing on SBA 504 programs in connection with the CDC's. There appears to be a great market for loan guarantees for operating capital and other feasible uses of loans of \$50,000 or less. At the same time, while SBA loan guarantees are available to banks on these smaller loans, the hassle and paperwork involved with filing applications and going through closing procedures and servicing do not always make them realistic to pursue from the bank's or small business' perspective. The BIDCO could function as a direct lender in many instances but in this proposal we are using a strategy of securing government guarantees of the funds loans. This strategy neutralizes 2 potential risks. One, government guarantees provide a source of collateral to shore up that offered by the borrower. Two, the government agency which guarantees the loan also provides a service by underwriting and servicing the loan along with the BIDCO staff.

At the present time the CDC's have 13 offices located in Kansas. These 13 offices serve each of the 105 counties in the state. The combined efforts of the CDC's the past year amounted to over \$51 million of finance packages for business and industry in our state. If the BIDCO only achieved 12% productivity of the CDC's it would fulfill its projection of investment. The CDC's, through their state association, can vouch for the need for such a product and we would ask their cooperation and involvement in the creation of a BIDCO initially relying on SCKEDD and Great Plains. The banking community in Kansas would be the primary source for prospects as well as other regulated lenders. Chambers of commerce, local development and regional development organizations would also be solicited for referrals on projects to the BIDCO. The banks would be looked to exclusively for referrals on SBA 7A projects and would be accepted only from the Kansas banking community. The bank making the referral on

November 3, 1989

KANSAS STRATEGIC FUNDS, INC.

4. THE MARKET AND ITS PENETRATION (Continued)

2. MARKET PENETRATION (Continued)

the project would have the exclusive first access to the guaranteed portion of the investment in the secondary market at prime rate adjusted quarterly.

CDC's would be most helpful and provide a very good evaluation and packaging network and provide a key resource to identify potential projects as well as screen out those projects that are not suitable for consideration within the investment strategy of the BIDCO. This is also true for the Kansas banking community, particularly banks in rural areas.

November 3, 1989

KANSAS STRATEGIC FUNDS, INC.

5. FORMULATION

What is needed to form a BIDCO are principally four parts: capital; staff with the capability to evaluate and manage projects; a loan committee to that would make the actual loan decision; and, appropriate legislation to allow a BIDCO to be formed and monitored in the State of Kansas.

The capital to be obtained is initially \$6,000,000. Private investors will contribute \$2,000,000 and the State will provide \$4,000,000 in the form of a low interest loan. The interest rate is projected to be 4%. This loan would be paid off once each year and secured by a guarantee from the investors and the loan portfolio which will be no less than 75% government guaranteed.

The loan committee would be comprised of the 5 principles of the BIDCO, a Kansas banker selected from the KBA membership, and representative selected from the investor group. The 4 members of the BIDCO are Jack Alumbaugh, Jack Harris, Ron Nicholas and Bob Healy.

Draft legislation is available from the state of Washington. This draft has been discussed with legislative leadership. Staff would be provided through administrative contracts with SCKEDD and Great Plains.

6. PROFITABILITY

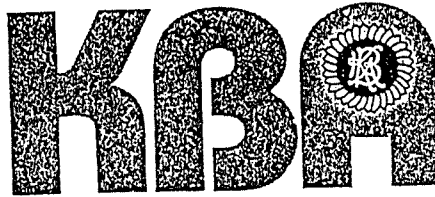
The profitability of the BIDCO can be looked at in two ways: profitability to the investors; and the profitability to the BIDCO operation.

The concept of the BIDCO is to assume moderate risk, but not high risk, in placing investments in Kansas business and industry. We suggest the BIDCO invest \$6 million in the first year in 75% to 90% loan guarantees that are currently offered through the SBA, FmHA, and on larger projects, the EDA.

Through a means of developing these projects on the secondary market with a spread for servicing loans, etc., we project the BIDCO would offer a return on investment averaging approximately 6% to 8% over prime rate over 10 years. The BIDCO plans to finance 315 projects averaging \$200,000 over its 10 years of projected operations. These investments would yield approximately 2,000 jobs for Kansas over the 10 year period.

	KANSAS STRATEGIC FUNDS, INC.										TOTAL
	1st Year	2nd Year	3rd Year	4th Year	PRO FORMA		7th Year	8th Year	9th Year	10th Year	
					5th Year	6th Year					
PRIVATE INVESTMENT	\$2,000,000										
STATE LOAN TO INVESTOR	\$4,000,000										
TOTAL INVESTMENT	\$6,000,000										
REINVESTMENT		\$150,000	\$470,846	\$666,246	\$864,513	\$1,071,814	\$1,294,919	\$1,539,855	\$1,732,123	\$1,868,873	
SECONDARY SALE OF GUAR. PORTION OF LOANS		\$5,100,000	\$4,462,500	\$4,193,344	\$4,130,652	\$4,245,891	\$4,520,048	\$4,942,722	\$5,510,190	\$6,155,966	
% OF STATE LOAN GUARANTEED BY GOV. AGENCIES	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	
% OF \$2MM PRIVATE INVESTMENT GUAR. BY GOVT.	55%	123%	110%	107%	112%	126%	147%	176%	208%	241%	
UTILIZATION											
GOV'T GUARANTEED PORTFOLIO											
Interest from Idle Funds Invested (8%)	\$240,000										\$52,920,500
Annual Amount Loaned	\$6,000,000	\$5,250,000	\$4,933,346	\$4,859,590	\$4,995,165	\$5,317,704	\$5,814,967	\$6,482,577	\$7,242,313	\$8,024,839	
Guaranteed Portion	\$5,100,000	\$4,462,500	\$4,193,344	\$4,130,652	\$4,245,891	\$4,520,048	\$4,942,722	\$5,510,190	\$6,155,966	\$6,821,113	
Interest on Loaned Funds (12%)	\$306,000	\$535,500	\$503,201	\$495,678	\$509,507	\$542,406	\$593,127	\$661,223	\$738,716	\$818,534	
Recap. from secondary sale (2%)									\$50,749	\$91,579	
First Year/Ninth Year	N/A								\$9,180	\$56,696	
Second Year/Tenth Year		\$46,971	\$84,762	\$74,562	\$62,934	\$49,878	\$35,190	\$18,666	\$16,333	\$8,032	
Third Year			\$41,100	\$74,167	\$65,242	\$55,067	\$43,643	\$30,791	\$28,934	\$15,348	
Fourth Year				\$38,621	\$69,693	\$61,307	\$51,746	\$41,011	\$40,398	\$28,501	
Fifth Year					\$38,043	\$68,651	\$60,390	\$50,972	\$52,394	\$41,525	
Sixth Year						\$39,105	\$70,567	\$62,075	\$66,083	\$55,777	
Seventh Year							\$41,630	\$75,123	\$82,148	\$72,263	
Eighth Year							\$45,522	\$66,083	\$82,148	\$72,263	
Subtotal		\$46,971	\$125,862	\$187,349	\$235,912	\$274,008	\$303,166	\$324,161	\$346,219	\$369,722	\$2,213,370
NON-GUAR. ANNUAL LOANS	\$900,000	\$787,500	\$740,002	\$728,939	\$749,275	\$797,656	\$872,245	\$972,387	\$1,086,347	\$1,203,726	
NON-GUARANTEED PORTFOLIO	\$900,000	\$1,687,500	\$2,337,502	\$2,897,690	\$3,391,615	\$3,837,402	\$4,247,065	\$4,627,739	\$5,050,540	\$5,589,317	
Int. on Non-Guaranteed (12%)	\$54,000	\$202,500	\$280,500	\$347,723	\$406,994	\$460,488	\$509,648	\$555,329	\$606,065	\$670,718	
2% Comm. on scndry sale		\$89,250	\$83,867	\$82,613	\$84,918	\$90,401	\$98,854	\$110,204	\$123,119	\$136,422	
Loan Losses	(\$90,000)	(\$78,750)	(\$74,000)	(\$72,894)	(\$74,927)	(\$79,766)	(\$87,225)	(\$97,239)	(\$108,635)	(\$120,373)	(\$883,000)
Less: Operating Budget	(\$200,000)	(\$210,000)	(\$220,000)	(\$230,000)	(\$240,000)	(\$250,000)	(\$260,000)	(\$270,000)	(\$280,000)	(\$290,000)	(\$2,450,000)
Servicing Budget		(\$44,625)	(\$41,933)	(\$41,307)	(\$42,459)	(\$45,200)	(\$49,427)	(\$55,102)	(\$61,560)	(\$68,211)	(\$449,824)
Accumulation of STATE Debt	\$4,000,000	\$4,000,000	\$4,000,000	\$4,000,000	\$4,000,000	\$4,000,000	\$4,000,000	\$4,000,000	\$4,000,000	\$4,000,000	(\$4,000,000)
Interest Paid on STATE Debt	(\$160,000)	(\$160,000)	(\$160,000)	(\$160,000)	(\$160,000)	(\$160,000)	(\$160,000)	(\$160,000)	(\$160,000)	(\$160,000)	(\$1,600,000)
Accumulation of PRIVATE Debt	\$2,150,000	\$2,530,846	\$3,028,342	\$3,637,506	\$4,357,450	\$5,189,787	\$6,137,930	\$7,206,506	\$8,410,430	\$9,767,243	(\$9,767,243)
Total Return	\$150,000	\$380,846	\$497,496	\$609,163	\$719,945	\$832,337	\$948,143	\$1,068,576	\$1,203,925	\$1,356,812	\$1,356,812
Annual Return on PRIVATE Inv.	7.50%	17.71%	19.66%	20.12%	19.79%	19.10%	18.27%	17.41%	16.71%	16.13%	17.24%
Accumulated Total Assets	\$6,150,000	\$6,530,846	\$7,028,342	\$7,637,506	\$8,357,450	\$9,189,787	\$10,137,930	\$11,206,506	\$12,410,430	\$13,767,243	\$0

11-2



The KANSAS BANKERS ASSOCIATION
A Full Service Banking Association

December 15, 1989

SCKEDD

DEC 18 1989

RECEIVED

Mr. Jack Alumbaugh
Suite 580, 727 N. Waco
Wichita, Kansas 67203

Dear Jack:

I am pleased to tell you that the Kansas Bankers Association Board of Directors and Governing Council unanimously adopted the recommendation of our KBA Task Force on Rural Development to endorse the Kansas Business and Industrial Development Company (BIDCO) concept and also endorse your legislative efforts.

We agree with you fully that the industrial development projects, as well as the commercial and retail enterprises which BIDCO would target, are very important to the economic health of our rural communities in Kansas. We support the organization which you propose of using bank referrals, agency insurance, and recycling funds back into the loan pool for further future use.

Thank you for taking the time to make your excellent presentation to our Task Force on Rural Development. We look forward to working with you in this important endeavor.

Cordially,

A handwritten signature in cursive script, appearing to read 'Harold A. Stones'.

Harold A. Stones
Executive Vice President

HAS/ah