

Approved January 25, 1991

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./~~XXXX~~ p.m. on January 24, 1991 in room 123-S of the Capitol.

All members were present except:

Senator Alicia Salisbury  
Senator Ben Vidricksen

Committee staff present:

Bill Edds, Revisor of Statutes' Office  
Lynne Holt, Legislative Research Department  
LaVonne Mumert, Committee Secretary

Conferees appearing before the committee:

Ted Ayres, General Counsel, Board of Regents  
Jack Sampson, Member, Board of Regents  
Dr. Richard Hahn, Director, Kansas Value-Added Center

Senator Dave Kerr, Chairman, called the first committee meeting of the 1991 legislative session to order. He welcomed new committee members, Senators Petty, Brady and Francisco, and introduced LaVonne Mumert, new secretary to the committee.

Ted Ayres introduced Jack Sampson, who chaired the Regents Task Force on Public/Private Enterprise. Mr. Sampson gave an overview of the Report (Attachment 1) of the task force. Mr. Sampson reviewed the background, proceedings, findings, recommendations and conclusion of the task force (contained in the Report). Mr. Ayres discussed the recommended policies of the Regents on sales of products and services (also a part of the Report). It was noted that the institutions have been instructed "to take the policy to the community" in which they are located. It was pointed out that the recommendation of the task force that the group reconvene in January of 1992 would allow for any necessary modifications or fine-tuning of the recommended policies.

Dr. Richard Hahn presented KVAC Report to 1991 Legislature (Attachment 2). He described the leadership council of the Kansas Agricultural Value-Added Processing Center and its strategy and goals. Dr. Hahn detailed the assistance several companies have received from KVAC (contained in the Report).

The meeting adjourned at 9:00. The next meeting of the committee will be Tuesday, January 29.

Date 1-24-91

SENATE ECONOMIC DEVELOPMENT  
VISITOR SHEET

(Please sign)

Name/Company

Name/Company

TED D. AYRES, KANSAS	
BOARD OF REGENTS	
David Cleveland	Department of Commerce

**REPORT OF THE  
REGENTS TASK FORCE ON PUBLIC/  
PRIVATE ENTERPRISE**

**November 15, 1990**

**Members of the Task Force:**

Mr. Jack S. Sampson, Member, Kansas Board of Regents (Chair of the Task Force)

Dr. A. David Ambler, Vice Chancellor for Student Affairs, University of Kansas

Mr. Ted D. Ayres, General Counsel, Kansas Board of Regents

Dr. Jim Dawson, Vice President for Student Affairs, Fort Hays State University

Mr. Roger D. Lowe, Vice President for Administration and Finance, Wichita State University

Mr. Morgan R. Olsen, Associate Vice President for Fiscal Affairs, Emporia State University

Ms. Susan Peterson, Assistant to the President, Kansas State University

Task Force Staff: Mr. Mark C. Bannister  
Associate General Counsel, Kansas Board of Regents

## Background

Colleges and universities, as well as many other not-for-profit entities, have faced numerous complaints and increasing scrutiny with regard to activities which may be considered or perceived to be in competition or conflict with private enterprise. Nationally, Congress has reviewed the question on several occasions, and the Internal Revenue Service has indicated that it will take a more aggressive stance with regard to unrelated business income taxes. On a local and state-wide basis, business persons in many areas of the country have complained that universities have taken on an entrepreneurial cloak and are in actual competition with small business. In response to such complaints, many state legislatures and college and university governing boards have taken action to examine the question and, in some cases, have proceeded to take steps to restrict or limit such "competitive activities" of colleges and universities.

In Kansas, legislative review was initiated with the introduction of Senate Bill No. 164 during the 1989 legislative session. The bill was ultimately referred to the Joint Committee on Economic Development for interim study. During that interim study, legislative attention was focused on the Regents institutions (primarily the University of Kansas and Kansas State University) as a result of accusations and claims that the Regents institution bookstores: were selling computers in competition with private vendors; were selling computers below cost; and/or were financing the sale of computers with state funds. Although a legislative post-audit study confirmed that except for one or two minor exceptions, the Regents institution bookstores were acting properly with reference to the sales of computers to students, faculty and staff, the topic continued to generate debate throughout the summer. The intensity of the discussions was such that the Joint Committee on Economic Development recommended passage of legislation, which became Senate Bill No. 437 during the 1990 session of the Kansas Legislature, which created a "private enterprise review board."

Although Senate Bill No. 437 was not voted out of Committee, at least two members of the Senate expressed continuing concerns, and indicated their support and sympathy for many of the claims being expressed on behalf of small business in Kansas. On March 15, 1990, Senator David Kerr, Chair of the Senate Economic Development Committee, formally requested, on behalf of the Committee, that ". . .the Board of Regents formulate policies (if none already exist) governing the sale of products at student unions, athletic associations and other affiliates of the Regents institutions."

In response, the Board of Regents appointed the Regents Task Force on Public/Private Enterprise at its meeting of April 19, 1990. The Board also approved adoption of the following charge to the Task Force:

The Task Force shall (i) undertake a review of the current scope and magnitude of those business activities at Regents institutions which may be in competition with the private

sector, and (ii) evaluate the relatedness of such activities to the missions of the Regents institutions. **Furthermore, the Task Force should consider and develop policies that:**

- [i] define appropriate involvement in business activities;
- [ii] recommend a protocol to be followed by Regents institutions before entering into new business activities; and
- [iii] provide for the monitoring of ongoing business activities including a recommended policy for addressing and responding to the concerns of affected individuals or businesses.

A completed report shall be submitted to the Board of Regents by November 30, 1990. (emphasis supplied)

### **Proceedings of the Task Force**

The Task Force held its first meeting on May 16, 1990, with all members present. Members reviewed the charge to the Task Force and discussed various methods of proceeding in order to meet the Board's directives. It was agreed that the Task Force should first hear from university representatives who could explain their operations, how they felt they might be competing with the private business sector, and provide views of appropriate regulation. It was agreed that invitations should be extended to the following individuals as representatives of the Regents institutions: Bill Smith, Director, Campus Activities Center, WSU, Student Unions and Centers; Kay Farley, Assistant Director, K-State Union, KSU, Student Union Bookstores; Gary Ott, Director, University Computing, WSU, Non-product Services; and Bob Senecal, Dean, Continuing Education, KU, Continuing Education.

On June 12, 1990, the Task Force met on the campus of Wichita State University. Commentary was received from the individuals referred to above. At the conclusion of the presentations, Task Force members agreed that the Task Force should also invite a set of representatives of businesses possibly affected by competition from the Regents institutions to confer with the Task Force. The Task Force agreed that invitations should be extended to Miles Schachter, President of the Connecting Point Computer Centers in Lawrence and Manhattan; Jon Levin, President and General Manager of Varney's Bookstore in Manhattan; and Bud Grant, Vice President and General Manager of the Kansas Chamber of Commerce and Industry.

The Task Force held its third meeting on June 27, 1990, in Topeka in the Board of Regents Conference Room. The meeting began with presentations by the three invited conferees. Upon conclusion of the presentations, Regent Sampson, Chair of the Task Force asked that members begin assimilating the information received and that they

direct their attention to a draft policy statement. Each Task Force member was asked to provide input to Mr. Bannister by July 31, 1990.

In addition to the input received from the presentations on June 12 and June 27, the Task Force assembled additional information from a wide variety of internal and external sources. Pertinent information was gathered from state and national sources including the Small Business Administration, the Business Coalition for Fair Competition, the National Association of College and University Business Officers, the National Association of College and University Attorneys, the National Association of College Stores and individuals who have conducted national studies on competition. The Task Force reviewed the *Report of the Joint Committee on Economic Development to the 1990 Legislature* as well as the October 1989 Performance Audit Report to the Legislative Post Audit Committee by the Kansas Legislative Division of Post Audit addressing "Personal Computer Sales by State and University Book Stores."

The Task Force considered "competition" legislation from across the United States and/or summaries thereof. Additionally, the Task Force studied "competition" policy statements developed and adopted by or for the following institutions of higher education or university systems: Oregon State University; the University of Wisconsin; the University of Colorado; the Utah State Board of Regents; and the Arizona Board of Regents. The Task Force also received copies of "The Kansas and Burge Union Advertising Policy" from the University of Kansas, and the "Unrelated Business Income Policy" of Wichita State University.

Letters were sent to the chambers of commerce of each of the cities in which Regents institutions are located, seeking information on perceived competition problems faced by businesses in that city. Input was also sought from each of the chief executive officers of the Regents institutions and the heads of both the University of Kansas Medical Center and the Kansas State University Veterinary Medical Center.

On September 11, 1990, the Task Force met on the campus of Emporia State University. Members reviewed a draft policy statement which had been prepared by Mr. Bannister using recommendations and comments received from Task Force members. The Task Force spent considerable time discussing the proposed policy draft and "testing" it against various factual scenarios. At the conclusion of the meeting, it was suggested that the policy be revised to include and/or address the day's discussion.

On September 18, 1990, the Task Force met again on the campus of Wichita State University. The Task Force was present for the presentation of Dr. Caspa L. Harris, Jr., President of the National Association of College and University Business Officers, of Washington D.C. Dr. Harris is a nationally known expert on the competition issue and has testified before Congressional committees addressing this matter. Dr. Harris provided background on the competition issue and

unrelated business income tax to a wide audience of Regents institutions representatives and then met with Task Force members separately to comment on the proposed Task Force policy recommendations and the issues at hand.

On October 11, 1990, the Task Force met on the Kansas State University campus in Manhattan. At that meeting, the Task Force reviewed the proposed draft of the Task Force Report and a proposed Board of Regents Policy on the Sale of Products and Services. Additionally, other affected Board policies were reviewed and discussed. Considerable time was spent reviewing possible applications of the proposed policy and numerous revisions were suggested and considered as a result of the input of campus constituencies. Several of these suggested revisions were implemented either wholly or in a revised form.

The Task Force held its last meeting on Wednesday, November 14, 1990, in Topeka. At that meeting, the members of the Task Force carefully reviewed the proposed final draft of the Report. After implementing several proposed modifications, the Task Force reached consensus agreement with regard to the Report of the Task Force. After discussion of appropriate procedures for dissemination of the Report, the Task Force adjourned with an expression of gratitude from Regent Sampson for the individual and collective efforts of the Task Force members.

### Findings of the Task Force

As a result of their consideration and review of the public/private enterprise question in Kansas as it specifically relates to the seven institutions of public postsecondary education governed by the Kansas Board of Regents, the Task Force finds that:

1. The Kansas Board of Regents is constitutionally and statutorily charged with responsibility for the maintenance, operation and control of the seven state educational institutions of Kansas, i.e. Emporia State University; Fort Hays State University; the Kansas College of Technology; Kansas State University; Pittsburg State University; the University of Kansas; and Wichita State University.

2. The Kansas Board of Regents has approved individual mission statements for each state educational institution which seek to facilitate and encourage maximal usage of human and fiscal resources to provide quality academic instruction, research and service to the citizens of Kansas, the United States and society as a whole.

3. The academic instruction, research and service provided by the state educational institutions benefits and enhances, directly and indirectly, the private business sector of Kansas in innumerable ways.

4. The economic, intellectual and recreational contributions which each Regents institution makes to its host community are considerable.

5. The state educational institutions are, in fact, often looked to by the private business sector and their host communities to be an active partner in efforts to aid and benefit the private business sector and general business activity in the community.

6. The private business sector and the host community, in turn, make significant contributions to the successful operation of the state educational institutions creating a three-way symbiotic relationship that has been, is, and will, in the foreseeable future, continue to be, of extreme importance to all Kansans.

7. The state educational institutions, by state statute, Regent policy or practical necessity, have been required to provide certain services and products which are reasonably necessary, appropriate for or related to the educational mission of each institution. Furthermore, the provision of many of these products and services, which are considered necessary for the maintenance of campus life and the fulfillment of the missions of the state educational institutions, is not profitable or attractive to the private business sector.

8. The state educational institutions, in seeking to fulfill their assigned institutional missions, statutory responsibilities, specific commitments and general obligations, occasionally are in perceived, or actual, competition with the private business sector, or some segment thereof.

9. Many of the basic services provided by the state educational institutions are performed by non-profit auxiliary enterprises or affiliated corporations which are required to be self-supporting. Not only do these entities employ many students who benefit financially and experientially from that employment, they also fund their own maintenance, utilities and other overhead costs. The benefits to students, faculty, staff, alumni and the university communities are obvious and are provided at no or minimal cost to the taxpayers of Kansas. Were the state educational institutions required to cease all services which might be perceived to be in competition with the private business sector, or some segment thereof, an additional burden would be placed on the students, faculty, staff, alumni, host communities and on the taxpayers of Kansas.

10. Many of the products and services offered by the state educational institutions were not reasonably or readily available through the private business sector at the time they were initially made available or developed by the state educational institutions.

11. In more recent years, the scope and complexity of these products and services has increased in order to meet the contemporary needs of members of the university community and the financial requirements of the state of Kansas and the Board of Regents.

12. The state educational institutions have recently attempted to benefit and assist students, faculty and staff by serving as a conduit for discounts and other price advantages on educationally related goods and services which are made available and offered by various manufacturers, i.e. computers.



13. Universities across the country traditionally and appropriately provide many educational, social, cultural and recreational resources for their university communities through the establishment of self-supporting auxiliary enterprises. As not-for-profit entities, universities recover some of their costs and support many of these resources through the sale of products and services. These sales are not intended to compete with the private business sector, but, if successful, may, in fact, spawn and support the private business sector.

14. The fact that a product or service has previously been sold by a state educational institution should not, in and of itself, mandate that such sales continue if a question of competition arises; however, the consequences of cessation of such sales by the institution must always be considered.

15. The extent of advertising utilized in relation to some operations of the state educational institutions, both in terms of the resources committed and the media utilized, has created a sense of increased competition between the institutions and the private business sector, or some segment thereof.

16. The private business sector, as a whole, has not requested that the state educational institutions discontinue the sale of products or services, rather it has been their request that the state educational institutions not **exploit** the opportunities which may arise from the unique nature of their educational missions.

17. Issues of concern between the public and private business sector may vary from institution to institution and from community to community.

18. Some members of the private business sector have not been sufficiently informed about the statutory and fiscal responsibilities of the state of Kansas, the Board of Regents and the state educational institutions.

19. **Everything** the state educational institutions do, in fulfilling their missions, responsibilities and obligations, can, in some sense, be perceived to be in competition with the private business sector, or some segment thereof.

20. The state educational institutions have not intentionally marketed products and services to compete with the private business sector.

21. Fairness in the interactions between the state educational institutions and the private business sector must be judged on the basis of the institutions' obligation to provide quality academic experiences to their students; resource support to their faculty; and intellectual opportunities to their host community and the state.

22. It is incumbent on the state educational institutions to be sensitive to the role of the private business sector and the significant contributions which these businesses make to Kansas and to the

successful and continued operation of the state educational institutions and their respective host communities.

23. It is incumbent on the private business sector to understand and appreciate the missions of the state educational institutions; their statutory responsibilities and obligations; and the interests and goals which they seek to obtain.

24. It is incumbent on the state educational institutions, the private business sector and the host communities to work together to understand and appreciate the competition issue and to seek to find satisfactory resolutions to such issues and concerns.

25. All affected parties will benefit from the implementation and enforcement of a Regents policy statement relating to the sale of products and services, which includes a fair and equitable mechanism for the review of concerns by members of the private business sector, or segments thereof.

#### Recommendations of the Task Force

As a result of their consideration and review of the public/private enterprise question in Kansas as it specifically relates to the seven institutions of public postsecondary education governed by the Kansas Board of Regents, the Task Force recommends:

1. That the Kansas Board of Regents adopt the recommended Policy on Sales of Products and Services, attached hereto as Appendix A, as a new Item 22 beginning on page 10G of the Board Policy Manual.

2. That the Kansas Board of Regents revise the present Item 6 on page 3G of the Board Policy Manual presently relating to "Auxiliary Agencies" as recommended in Appendix B.

3. That the Kansas Board of Regents revise the present Item 7 on page 3G(1) of the Board Policy Manual relating to "Auxiliary Enterprises" as recommended in Appendix C.

4. That the Kansas Board of Regents revise the present Item 9 on page 4G of the Board Policy Manual relating to "Service Clearing Activities" as recommended in Appendix D.

5. That the state educational institutions should never seek to be in direct competition with the private business sector.

6. That all state educational institutions immediately initiate efforts to comply with the recommendations set forth in the Task Force Report.

7. That each state educational institution work to strengthen its communications with the private business sector on issues relating to competition.

8. That each state educational institution consider the interests of the private business sector, as well as the interests of students, when evaluating whether to sell or provide new products or services. In cases where all other things are equal, the presumption should be in favor of non-competition.

9. That efforts be made to inform the general public, the private business sector and government officials about the missions, structures and operations of the state educational institutions, that some competition is inevitable, and that issues/concerns will vary from institution to institution and from university community to university community.

10. That all interested parties consider ways by which the dependency on the sale of products and services to finance appropriate and necessary services by the state educational institutions can be reduced.

11. That the Task Force on Public/Private Enterprise be reconvened by the Board of Regents in January of 1992 to evaluate the effectiveness of the Regents Policy on Sales of Products and Services and to recommend changes if necessary or desirable.

12. That the Report of the Regents Task Force on Public/Private Enterprise be shared with all interested parties.

13. That the Council of Business Officers of the state educational institutions establish processes for the filing of the appropriate and required Internal Revenue Service unrelated business income tax forms.

### Conclusion

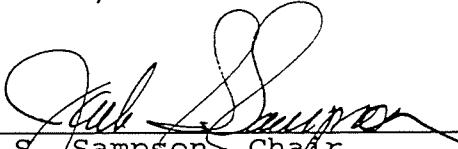
The Task Force has directed considerable efforts toward accomplishment of the assignments and responsibilities expressed in the April 19, 1990 charge issued by the Kansas Board of Regents. We are hopeful that this Report adequately reflects the seriousness with which we addressed the important, and as we found, potentially all-encompassing, issue of competition between the state educational institutions and the private business sector.

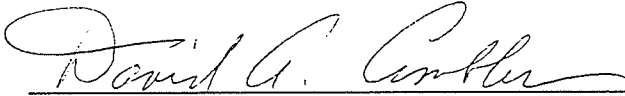
In summary, it is the view of the Task Force that while some sales of products and service at the Regents institutions are in competition with the private business sector, or some segment thereof, the magnitude of such activity is not great. Further, it is our view that no institution intentionally marketed products or services to compete with the private business sector, but did so in direct, or indirect, fulfillment of its respective mission.

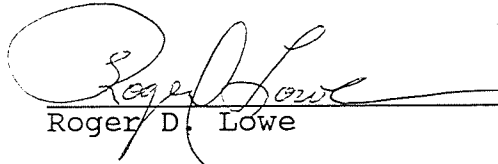
The policy which we have recommended seeks to define appropriate involvement in business activities with reference to students, faculty, staff and guests of the institution and to the external community [see Sections A and B of the recommended Board of Regents policy on sales and services]. The policy recommends a protocol to


be followed before entering into new business activities [see Section C.1 of the recommended Board of Regents policy on sales and services]; provides for the monitoring of organized activities [see Section C.2 of the recommended Board of Regents policy on sales and services]; and includes a recommended vehicle for addressing and responding to the concerns of affected individuals in business [see Section D of the recommended Board of Regents policy on sales and services].


Respectfully submitted,

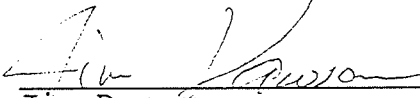
  
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Jack S. Sampson, Chair  
Regents Task Force on Public/Private Enterprise

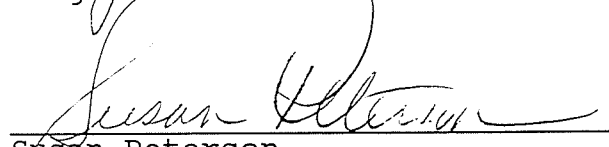
  
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**RECOMMENDED BOARD OF REGENTS POLICIES ON  
SALES OF PRODUCTS AND SERVICES**

It is the intent of this policy to establish guidelines for the conduct of sales of products and services for the Regents institutions in fulfilling their required missions and statutory obligations, and establish principles upon which fairness in the sale of products and services is to be judged. The complex needs of the Regents institutions require that a broad and flexible policy be established while at the same time making provision for the resolution of the legitimate grievances of the private sector which will occur from time to time. It is in the spirit of good faith and fair practice that this policy is established.

Any sale of products or services by a Regents institution, its auxiliary enterprises, or an affiliated corporation of a Regents institution (all hereinafter collectively referred to as "institution(s)") is deemed appropriate only if such sale is an integral part of or reasonably related to, an activity which is essential to the fulfillment of the institution's instructional, research or public service missions. Such activities must meet the following criteria:

A. Criteria for Sales of Products and Services to Students, Faculty, Staff, and University Guests

1. Institutions may sell products and services to students, faculty, staff, and university guests; provided, that the products and services satisfy reasonable educationally related or convenience needs of the university community and provided that such products and services are not generally available to persons who are not students, faculty, staff or university guests. University guests are defined as persons who enter a campus for an educational, research, or public service activity, and not primarily to purchase or receive products and services. Sales to university guests shall be related to the guest's purpose or needs while on campus.

2. Institutions may sell products and services to students, faculty, staff, and university guests if the product or service contributes to maintaining the quality of the educational, living, or work environment of the institution. Most crucial to maintenance of quality are efforts which impact positively on student, faculty and staff recruitment and retention, including, but not necessarily limited to: student activity association entertainment; movies; athletic and recreational events and facilities; institutional operation of student health facilities; counseling centers; musical, cultural and artistic activities; and auxiliary enterprise activities.

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3. The appropriateness of sales of products and services to students, faculty, staff and university guests should also be weighed by the availability or nonavailability of the products or services in the community at the time sales were initiated. Availability may be defined in terms of convenience, quality or quantity of service.

4. The sales of products and services to students, faculty, staff and university guests shall be advertised only in media which are aimed or specifically targeted to the university community or by other methods which are limited to the campus.

#### B. Criteria for Sales to the External Community

In order for a product or service to be sold to the external community, two criteria must be met: 1) the product or service must be appropriate for sale; and 2) sale of the product or service must adhere to the appropriate policy on pricing. Any advertising of products or services appropriate for sale to the external community shall be reasonably related in content and cost to the product or service being sold.

##### 1. Appropriate Sales

The following is an exclusive listing of sales to the public which are deemed to be appropriate:

a. An institution may sell a product or service which is directly related to the achievement of its institutional mission statement.

b. An institution may sell a product or service where the sale enhances the academic, cultural, recreational, or artistic environment of the university community. This shall include, but not be limited to: attendance at addresses by public speakers, musical events, athletic events, museum exhibits, and art showings.

c. Products and services which are by-products of the institution's instruction, research, or public service activities may be sold to the public; however, production of products or services for commercial sale shall not be the primary use of any institutional facilities or resources.

d. Agricultural and mineral products produced from either research activities or from land owned or leased by the institution may be sold to the public.

e. An institution may sell food service, but such food service shall be limited to the institution's campus.

f. An institution may sell clothing and other gift and souvenir items imprinted with the institutional or conference logo, seal, emblem, initials, nickname, mascot or name.

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g. An institution may sell gift or souvenir items related to the operation of university museums or similar facilities.

h. An institution may sell a product or service if it has specific state or federal statutory authority or mandate to do so.

i. An institution may provide a product or service pursuant to a grant or contract with a governmental entity to provide such product or service either to the entity or to the public.

j. An institution may offer a product or service to the external community if such product or service is unavailable elsewhere in the community and is reasonably related to the institution's mission. Unavailability may be defined in terms of convenience, quality or quantity.

## 2. Pricing Policies

a. In establishing a price or fee for products or services, the price should generally reflect the direct and indirect costs of the products or services and should minimally reflect the price in the private marketplace. For the purpose of this policy, direct costs include, but are not limited to: all salaries, fringe benefits, supplies, and capital directly attributable to the sale of the product or service. An institution's negotiated federal indirect cost rate shall be used to determine indirect costs.

b. If the activity is integral to the fulfillment of the institution's instructional, research or public service missions, prices may be established at less than full cost recovery upon approval by the institutional chief executive officer or the chief executive officer's designee.

c. All contracts offering products or services to other state agencies shall be priced in accordance with Board policy on "Contracts with Other State Agencies, Indirect Cost Reimbursement" (Item 7.c., Page 6B).

d. If a product is an agricultural or mineral product produced either as a by-product of teaching or research activities or as a product of land owned or leased by an institution, such product shall be sold for its market value.

## C. Compliance.

1. The chief executive officer of each Regents institution shall designate an officer at the Vice Chancellor or Vice President level who will approve the initiation of any new activity or program which will produce sales of products or services, or a substantial change in the type or level of existing sales of products or services, and determine that such activity or program complies with this policy. Each Regents institution shall develop policies and procedures for administrative approval of activities which satisfy the criteria of this policy.

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2. The Director of Internal Audit or other designated official at each Regents institution shall review service and product sales on a regular basis and shall report and identify activities to the designated Vice Chancellor or Vice President which are not in compliance with this policy. The designated Vice Chancellor or Vice President shall review the identified activities. If the designated officer agrees that the activity is not in compliance with the policy on competition, that officer shall prescribe parameters for compliance or shall require that the activity be curtailed.

3. This policy will be applicable to private entities or individuals who sell products or services directly to students, faculty or staff pursuant to a contract with a Regents institution.

#### D. Competition Grievance Procedure

1. The chief executive officer of each Regents institution shall designate an officer at the Vice Chancellor or Vice President level who will receive and evaluate complaints from private enterprises alleging inappropriate or unreasonable competition by the institution with private enterprise.

2. Upon receipt of a written, formal and signed complaint, the designated official shall investigate the merits of the complaint and determine whether the activity is in compliance with the Board of Regents policy on sales of products and services. The designated official shall proceed to resolve the complaint through administrative channels if possible. If the designated official is unable to resolve the complaint within fifteen (15) working days of receipt, it will be presumed that the complaint cannot be resolved through administrative channels.

3. If it is impossible for the complaint to be resolved by the designated official through administrative channels, the complaint shall be given to the chief executive officer of the university for referral, within ten (10) working days, to the Institutional Competition Review Committee for review. An Institutional Competition Review Committee (hereinafter "Committee") shall be separately constituted and appointed by the chief executive officer for each complaint. Each Committee shall be made up of five (5) members as follows: three (3) members from the university community (one of whom shall serve as Chair of the Committee) and two (2) members representing the private sector.

4. The Committee shall, within five (5) working days of its receipt of the complaint, and after consultation with the complainant, determine whether the complainant wishes to make an oral presentation to the Committee or whether the issue(s) shall be determined based on written submissions of the parties. If the complainant desires to personally make an oral presentation to the Committee, same shall be held within twenty (20) working days of the receipt of the complaint. The Committee shall listen to the complainant and a representative of the department or area offering the product or service. The

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Committee shall determine whether sales of the product or service are in compliance with the Board of Regents policy on sales of products and services. The Committee will prepare a written conclusion of its determination and recommendation of action within fifteen (15) working days of the conclusion of the oral presentation, or within fifteen (15) working days of receipt of the written submissions.

5. The Committee shall forward its recommendation to the chief executive officer of the university for review. The chief executive officer shall accept, reject, or modify the recommendation of the Committee and shall inform the Executive Director of the Board and the other chief executive officers of the recommendation of the hearing committee along with a statement of the action taken thereon by the chief executive officer within fifteen (15) working days of receipt of the Committee recommendation.

6. If the proposed action of the chief executive officer does not satisfactorily resolve the complaint or charge, the complainant may appeal the chief executive officer's decision to the Kansas Board of Regents within twenty (20) working days of receipt of the Committee's recommendations. Should review be granted, the Chair of the Board shall appoint, within twenty (20) working days of receipt of the appeal, a Regents Review Committee to review the complaint of the complainant. A Regents Review Committee shall be separately constituted for each complaint. Each Regents Review Committee shall be made up of three (3) members as follows: one member, who shall serve as Chair of the Regents Review Committee, shall be the Chair of the Board of Regents or the Chair's designee, one member shall be designated by the institutional chief executive officer where the complaint arose and one member shall be designated by the complainant. The Regents Review Committee will, within thirty (30) working days of its receipt of the complaints, make a complete review of the matter and provide its written Report and Decision to the Executive Director of the Board of Regents for implementation and reporting to the full Board of Regents.

7. This procedure is intended to facilitate discussion and the resolution of issues and not as a formal or judicial process. Neither party may be represented by counsel. Time limits should not be used to adversely affect any complaints and unusual circumstances may justify a waiver of such time limits. It is further anticipated by the Board of Regents that a conscientious and good faith effort will be made by both parties to resolve the complaint at the earliest possible opportunity and that appeals to the Board of Regents will be the exception.

8. This procedure shall not negate any other policy or afford additional rights relating to the processing of claims or charges of proscribed conduct which may be made by persons directly involved with or affected by the operation and management of a Regents institution. This procedure is applicable only to any individual without current access to an established institutional grievance procedure.

1/24/91  
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6. AUXILIARY-AGENCIES AFFILIATED CORPORATIONS

(1) Auxiliary-agencies Affiliated corporations are incorporated entities which are funded solely or primarily by monies other than state funds and whose purpose is to enhance or support the mission and activities of the institution. Auxiliary-agencies Affiliated corporations include, but are not limited to, certain alumni associations, incorporated student unions, boards of trustees, endowment associations and athletic corporations.

(2) Institutions shall not increase state funding for the operation of auxiliary-agencies affiliated corporations beyond normal program maintenance increases without prior approval of the Board.

1/24/91  
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7. AUXILIARY ENTERPRISES

(1) Auxiliary enterprises are self-supporting University-operated enterprises which include, but are not limited to, student housing, student health services, unincorporated student unions, and campus-bookstores-and-comparable-entities parking.

(2) The operation of auxiliary enterprises on campus is authorized when such business is related to the educational objectives of the institution. Before commencing operation of a bookstore an auxiliary enterprise, the institution shall first submit ~~to the Board for approval~~ the proposed plan for the financing, operation and management thereof and manner in which profits shall be distributed, of the auxiliary enterprise to the Board for approval. ~~In the event such activities are in competition with local business, the use of such campus facilities shall be limited to students, faculty, and employees.~~ State funds shall not be used to subsidize the operation of any organization operated as an auxiliary enterprise unless specified by the loan agreement, bond covenants or by Board action.

~~(3) State funds shall not be used to subsidize the operation of any organization operated as an auxiliary enterprise unless specified by the loan agreement, bond covenants or by Board action.~~

~~(4)~~ (3) Buildings may not be transferred from auxiliary enterprise support to general use support without approval by the Board. Such requests for transfer will only be considered at the June meeting of the Board along with requests for operating support of such buildings to be included in the June legislative budget request submitted pursuant to Item 1.b. on page 1B of the Board Policy and Procedures Manual. If approved by the Board, buildings will continue to be supported by the auxiliary enterprises until monies have been appropriated for general use operation support. Building transfers which do not involve requests for additional general use money may be brought to the Board at any time. Exceptions to these provisions may be granted under special circumstances as determined by the Board.

1/24/91

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9. SERVICE CLEARING ACTIVITIES ~~(Service-Clearing)~~

All service clearing activities must be consistent with Board policy on the sale of products or services.

a. Institutional Related Activities

Each Regents institution shall develop policies and procedures for identifying appropriate institutionally related service activities including, but not limited to, telecommunications, printing services, central stores, duplicating and reproduction services, and provide for appropriate administrative approvals prior to providing such services. ~~to-such-institutional-related-activities.~~

b. Other Organizations or Classes of Individuals

(1) Regents institutions may provide services to specific organizations or classes of individuals outside the University as approved in advance by the Executive Director chief executive officer. Such services will ordinarily be approved only if the organization or class of individuals has made a written request for such service. ~~the-service-is-not-reasonably-or-practicably available from private resources and if the organization is within any of the following classifications:~~

(2) Individual projects to be undertaken by for approved organizations or classes of individuals shall be reviewed and approved by the institutions on written application prescribed by the institutions. ~~Ne-such-approval-shall-be granted unless the individual project is found by the institution not to be reasonably or practicably available from private sources.~~

1/24/91

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# KVAC REPORT TO 1991 LEGISLATURE

## Outline of Presentation:

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## PROGRAM EXPLANATION:

The Kansas Agricultural Value Added Processing Center (KVAC) was created by the 1988 legislature. Its purpose is to foster economic development by providing technical assistance to Kansas agriculturally related value added processing endeavors. KVAC grew from a concern for the economic plight of agriculture and rural Kansas due to the general distressed condition of agriculture and the number of people leaving farms and rural communities. Various commissions, task forces and state agencies conducted studies of the condition of agriculture in the 1985 to 1988 period. Among these reports are the following:

- Kansas Economic Development Study: findings, strategy, and recommendations (Redwood - Krider Report).
- Report of the Task Force on Agriculture of the Legislative Commission on Economic Development (December 1986).
- Kansas Agriculture and Rural Communities: changing and adapting to survive. Kansas State Board of Agriculture (October 1987).
- Agriculture 2000, the Kansas Plan. KSU Agriculture Experiment Station (October 1987).
- The Future Direction of Kansas Agriculture and Agribusiness A Blue Print Study. Kansas State Board of Agriculture (January 1988).
- Task Force Report on Non-Food Uses of Kansas Agricultural Product. Kansas State Board of Agriculture (January 1989).

A constant theme in these reports was that agricultural value added processing could provide economic benefits to agriculture and rural Kansas. In addition, "The State of Kansas can facilitate the success of private endeavors by assuring a supportive commercial environment and by supporting technical assistance and infrastructure facilities useful to Kansas industry." (Blue Print study p. XIV)

## STATUTORY HISTORY:

Early in the 1988 session, Senator Fred Kerr and others began work on the formal establishment of an agricultural value added processing center. The resulting bill, SB 599, responded to the need for such a center as reported by a number of commissions and study groups. Upon passage by both houses, the bill was signed by the governor on May 10, 1988. The bill is now codified as 1988 Supp. 76-481, et. seq.

The bill provided six objectives for the center and for a 12 member Leadership Council to set policy and hire a director. The first meeting of the Leadership Council was in September 1988 and a director was hired on March 26, 1989. The center became operational May 1, 1989.

Activities of the center are subject to appropriations acts. Appropriations for operations of the center are included within the budget of Kansas Technology Enterprise Corporation. In addition to operational funding, the legislature on several occasions has provided funding for special projects to be administered by KVAC. The KVAC director is required to present the strategy, goals, and budget proposals to the legislature annually. The Agricultural Value Added Processing Center is scheduled to sunset on July 1, 1992.

**KANSAS AGRICULTURAL VALUE-ADDED PROCESSING CENTER**  
**Leadership Council**

Authorization S.B. 599  
 Appointed By: Governor Mike Hayden

Chairperson: Bernie L. Hansen

Vice Chairperson: Jim Allen

**PRIVATE SECTOR REPRESENTATIVES**

	<u>Appointment Date</u>	<u>Expiration Date</u>
James (Jim) Kramer, Managing Partner KRAMER SEED FARMS 907 South Monroe Hugoton, Kansas 67951 (316) 544-4330                      (316) 544-8000 pick-up phone	08-10-88	06-30-92
Jerry Lasater MIDWEST GRAIN PRODUCTS INC 1300 Main, Box 130 Atchison, Kansas 66002 (913) 367-1480                      FAX: (913) 367-1838	06-30-90	06-30-92
Dale Rodman, Executive Vice President EXCEL CORPORATION 151 N. Main, Box 2519 Wichita, Kansas 67201 (316) 291-2500                      FAX: (316) 291-2508	08-10-88	06-30-91
Bernard (Bernie) L. Hansen, President FLINT HILLS FOODS, INC. P.O. Box 435 Alma, Kansas 66401 (913) 765-3396                      FAX: (913) 765-2294	08-10-88	06-30-91
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# STRATEGIC PLAN

Adopted: 11/27/89  
Revised: 08/01/90  
Revised: 01/02/91

**STRATEGIC PLAN**  
**KANSAS AGRICULTURAL VALUE ADDED PROCESSING CENTER**

January 2, 1991

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**AGRICULTURAL VALUE ADDED PROCESSING CENTER  
MISSION/GOALS/STRATEGIES**

**Mission:**

The mission of the Agricultural Value Added Center (KVAC) is to enhance the economy of the State of Kansas by providing technical and market information, research and development programs and pilot facilities to assist agriculturally related value added processing endeavors.

**Objectives (as established in 1988 Supp. 76-481, et. seq., 10 May, 1988:**

1. Providing technical assistance to existing and potential value added processing facilities including incubator facilities.
2. Developing a network for collecting and distributing information to individuals involved in value added processing.
3. Initiating pilot plant facilities to act as research and development laboratories for existing and potential small scale value added endeavors in Kansas.
4. Providing technical assistance to new agriculture value added processing businesses.
5. Developing and promoting communication and cooperation among private businesses, state government agencies and private colleges and universities in Kansas.
6. Establishing research and development programs in technologies that have value added commercial potential for food and non-food agricultural products.

**Strategies:**

1. KVAC will put its primary emphasis on assistance to small agricultural processing businesses in all sections of the state of Kansas. We will be particularly responsive to opportunities directed toward rural development and revitalization.

2. The center will primarily respond to opportunities that come to us. We will seek to generate new businesses and new industries through a planned industry visitation program. We will respond promptly to all inquiries.
3. All activities of KVAC will be market oriented. We will insist that all clients have a clear understanding of the marketplace and that their commercialization efforts are market directed and market driven.
4. KVAC will provide factual technical information and assistance to all Kansas businesses and entrepreneurs. Depth and extent of assistance will depend on the amount of value added potential for the opportunity.
5. The Center will make every effort to preserve client confidential information and not unnecessarily divulge their business activities without prior approval.
6. Center programs and assistance will have commercialization targets of two to three years or less.
7. The Center will build on the present strengths of Kansas, its agriculture production, current processing, markets, and institutions.
8. KVAC will coordinate its activities with other agencies and be a link between private industry and state agencies and universities.
9. The Value Added Center will be visionary, innovative, and creative in its approach. We will try to anticipate the future and develop programs, products, and technologies that will survive.

## Programs and Goals:

In carrying out its mission, KVAC established a number of programs and procedures for delivering its services to the customer. The following programs and goals are established for FY91:

1. **We will provide a central focus for responding to technical questions from Kansas value added processors.**

KVAC will be a center for assisting Kansas citizens and companies to develop products and analyze markets for value added agricultural products. The center will provide information and technical consulting for the agricultural value added industry. We will also have the capability of conducting developmental activities on a limited basis in cooperation with industrial clients.

Goals established:

1. We will hold initial discussions on all requests to the center within 10 working days.
  2. Reasonable targets will be established for furnishing information to clients that meet client needs and are within the capability of KVAC. Once established, targets may not be changed without concurrence of client.
  3. The center will follow up with clients as required to keep them moving in the commercialization process.
  4. Have sufficient technical consultants, KVAC associates, and part-time help committed or under contract to adequately serve the needs of KVAC clients.
  5. Visit at least two Kansas businesses each month to learn of their needs and seek their input in identifying future technologies.
  6. Provide technical training "scholarships" for small businesses to encourage acquisition of necessary technical knowledge.
2. **We will develop needed pilot and development facilities.**

Many pilot processing facilities suitable for developing value added agricultural products already exist in Kansas. These facilities will be fully utilized before requesting additional facilities. The need to provide operating funds, new or modified equipment and support personnel to make these facilities usable will be addressed.

Goals established:

1. Maintain agreements for private industry use of existing university pilot plants.
  2. Implement Kvac Wet and Dry Development Laboratory funding and continue to develop justification for food processing development equipment and facilities for use by Kvac clients.
  3. Provide pilot facilities as required for commercialization of three client ideas in FY91.
  4. Requests for use of University Pilot Plants will be translated into a project form and scheduled as quickly as possible considering the universities' teaching and research needs. Charges will be negotiated according to Kvac policies.
3. We will strengthen the States technology transfer and technical communication capabilities.

The center will develop a strong, interdisciplinary outreach program of technical assistance in value added processing. Expertise will be developed in processing, production, quality assurance, packaging, safety, economic feasibility, and market analysis. The center will be a leader in effecting coordination with state and federal programs and with businesses, producer groups, community groups, and others involved in value added commercialization.

Goals established:

1. We will maintain close contact with other state agencies and hold periodic meetings to coordinate activities of the various groups.
2. We will establish files and databases of technical and product literature for easy access of clients.
3. We will establish data links with sources, libraries, etc. for obtaining required information.
4. Conduct a minimum of two technical training seminars per year. Seek cooperation with Extension, Board of Agriculture, and other interested groups.
5. Information of a general nature generated by Kvac will be widely disseminated in Kansas.

4. We will provide focus and leadership to agriculture value added research and development programs.

Kansas has significant technical expertise in a number of value added technologies. The role of KVAC is to provide information and guidance in the best commercial opportunities and to provide seed funding to explore new and promising areas.

Goals established:

1. Maintain a close working relationship with key value added technologists.
2. Maintain contact with Federal and other value added programs.
3. Bring industrial participation to value added development programs.
4. Identify and fund two promising exploratory programs vital to Kansas future.

Staffing of Center

The Center will operate with a small staff and rely on consultants, service contracts, and graduate assistants to provide necessary services. Essential staff are the director, office manager, and market research manager. Due to limited funding, we have delayed filling the market research position.

Budget to Support Program

	<u>FY90 Actual</u>	<u>FY91 Budget</u>	<u>FY92 Budget Request</u>
Salaries	\$101,303	\$145,000	\$135,190
Operating Expenses	30,933	43,000	52,000
Grants & Contracts	<u>234,476</u>	<u>376,475</u>	<u>287,000</u>
Total Expended	\$366,712	\$564,475	\$474,190
Authorized but not dispersed until FY91	<u>116,500</u>		
	\$483,212		

**PROPOSED PROGRAM FOR SUPPORT OF SMALL FOOD PROCESSING COMPANIES**

**OBJECTIVE:** To provide technical, market research, and product development assistance for new and existing Kansas small food processors.

**OPERATIONS:** This program would work in close cooperation with KSU Value Added Extension Specialists and the Board of Agriculture, Marketing Division. Its primary role is to insure that Kansas companies have the technical knowledge and back up support to economically produce and market quality food products that meet regulatory requirements and market needs.

The program operates in the following manner:

1. Provides a referral service to assist companies in dealing with the right resources.
2. Provides technical consultants and information on specific company problems.
3. Provides matching funding for specific company commercialization projects.
4. Funds projects of general interest to the Kansas food industry or product segments.
5. Provides training and education through publications, training grants, workshops, etc.

**BUDGET:**

Technical resources	\$ 30,000
Equipment purchases	20,000
Projects	62,000
Scholarship grants	3,163
Nutritional labeling support	<u>10,000</u>
<b>TOTAL</b>	<b>\$125,163</b>



## PROPOSED MEAT PROCESSING INDUSTRY SUPPORT PROGRAM

Meat processing is the largest food processing industry in Kansas and we rank #1 in U.S. cattle slaughter. The industry employs more than half of all food processing jobs for the state. The industry is dominated by four large companies but there is also a large number of small processors. Due to the decrease in red meat consumption, the Kansas industry has suffered a series of plant closings and a general difficult competitive situation.

KVAC must be prepared to help protect this major source of food processing jobs. New initiatives under way or planned where KVAC might play a role would include:

1. Meat processing by-product utilization.
2. New processing techniques such as Surimi products.
3. Nutrition oriented meat products development.
4. Convenience oriented meat product development.
5. Cost reduction/product mix improvement.

In addition, we must support the small regional meat processors. They currently serve niche markets not attractive to the large processors. These companies must continue to innovate and evolve in order to survive. Since they are small, with limited internal resources, KVAC needs to be sensitive to and respond to their special needs.

Closely related industries where we need to continue our efforts are the pet food processors. Kansas has a special opportunity in pet foods. Hills Pet Food, Topeka, is a leading innovator in specialty animal diets. They and others sponsor considerable nutrition work at the KSU veterinary school. Plus we now have the Extrusion Center in Grain Science and Industry which is the leading processing mode for these products. We need to pull all these resources together for the economic benefit of the state.

Interest in intensive aquaculture has increased significantly. We now have three indoor systems in operation and two more in the planning stages. We have only one small processor with limited capability, and marketing and economics are relatively unknown. Major support will be required for this industry to become established.

Budget for meat processing:

By-product utilization	\$ 10,000
Product development for regional processors	10,000
Pet food program	5,000
Aquaculture production, processing, marketing	<u>10,000</u>
TOTAL	\$ 35,000

## PROPOSED GRAIN AND BAKING INDUSTRY PROGRAM

Milling and baking is the states second largest food processing industry with 1/4 of the food industry jobs. Manhattan Kansas also is the world center for milling and bakery technology with the KSU Grain Science Department, American Institute of Baking, USDA Grain Marketing Lab, Wheat Quality Council and a number of other organizations located there. Technology developed in Manhattan is transferred world wide. Kansas needs to capture its share of this technology in the form of new products and businesses for the state. We also need to make sure this unique expertise is maintained.

### Potential Project Areas:

1. Capitalize on the Extrusion Center by developing products for commercialization in Kansas (breakfast food, snacks, pasta).
2. Support development of hard white winter wheat as a identify preserved grain and as a raw material for a wide range of high quality, unique Kansas food products.
3. Development of specialty feeds for aquaculture and exotic animals.
4. Specialty baked product development (cookies, mixes, microwave products).
5. New product and process development for wet milled wheat processing.
  - \* Improved separation techniques.
  - \* New uses for modified gluten, starch, etc.
  - \* Emphasis on non food - non feed uses. Both from wheat and other agricultural raw materials.

### Budget

White Wheat Program	\$ 35,000
Red Wheat Program	35,000
Extrusion Programs	25,000
Other Projects	<u>5,000</u>
TOTAL	\$ 100,000

## PROPOSED FRUIT AND VEGETABLE PROGRAMS

Fruits and vegetables are a growing segment of the food industry, driven by the consumers demand for freshness, quality, safety, and nutrition. KSU Extension and the Board of Agriculture have been effective in stimulating production through the many farmers markets. These will continue to grow and become a major outlet for the small producer.

Kansas is ready to enter the next phase of development. We have the climate, soil, and irrigation water that are required plus a number of growers are expressing interest in expanding production. We lack the cheap field labor and automation that will be required and do not have the handling facilities or marketing organization that is necessary to compete on a regional or national level. In FY90, KVAC provided KSU the beginning of an experimental sorting, grading, packing system that will be used to develop procedures and demonstrate for Kansas growers how to pack products for these expanded markets.

### Proposed FY91 Program

1.	Education of growers in grading, packing, etc.	\$ 5,000
2.	A market study of crops to grow and ways to market.	7,500
3.	Processing for non-traditional markets and outlets for excess production	<u>7,500</u>
	TOTAL	\$ 20,000

## PROPOSED SPECIALTY FOOD PRODUCTS FOR KANSAS

Current trends in food processing are toward larger and more centralized food processing plants and strong national branding of products. Kansas should continue its quest to attract these large plants, especially where we have a raw material advantage (meat, grain based, and baking). At the same time, specialty products with regional appeal are also growing rapidly. This is the area where Kansas companies can do quite well. Some areas of opportunity include the following:

1. Dry mix convenience products - the low capitol requirements for mixes make this attractive. In addition, we have two contract packers in the state who do an excellent job. We have a number of wheat flour based operations that are doing quite well. KVAC's role will be to begin to get more sophisticated products developed and marketed.
2. Frozen foods - the low energy rates in Kansas suggest that this is an excellent location for freezing and drying processing operations. We are a big producer of frozen pizza. As with dry mixes, our role needs to be to get upscale frozen products such as meals, and entrees developed and commercialized.
3. Ethnic foods - this could be considered a subclass of both dry mix and frozen products but it is a strong enough trend to justify a place of its own. Kansas has several producers of Mexican food. There are additional opportunities here but KVAC's role should be to get prepared for the next innovation. With the lowering of the iron curtain there is a suggestion that Middle European will be the next craze.
4. Snack foods and hors d'oeuvres - the U.S. is becoming a land of "grazers". People snack at all times of day and night. There are opportunities for products that can combine nutrition with the taste and appeal of current salted snacks.
5. The institutional market - nearly one half of our food is consumed away from home. Product requirements are highly segmented and the marketing chain is largely regional (the largest food service company, Sisco, has less than 4% of the market). This is ideally suited for the regional producer and marketer.

### Budget

Dry mix development (equipment & projects)	\$ 20,000
Institutional marketing	10,000
Ethnic foods	<u>10,000</u>
TOTAL	\$ 40,000

## UNIDENTIFIED DEVELOPMENT OPPORTUNITIES

A significant portion of KVAC's program budget should remain for as yet unidentified opportunities. It is not possible to forecast even one year in advance in the dynamic, ever changing food industry. As in the past, the Leadership Council will alter priorities and adapt programs to meet these changing needs.

One area being explored are veterinary and pharmaceutical opportunities as applied to Agricultural Value Added. KU has a leading pharmacy school and KSU vet school is highly regarded. With biotechnology expected to have major impacts on agriculture in the 90s, these two resources should be an excellent source of value added opportunities.

In this category also are situations that arise when companies encounter unexpected growth opportunities or product and process problems. KVAC should have available a small reservoir of funds that could be quickly utilized to meet a special situation.

Budget \$ 0

**REPORT TO LEGISLATURE**

Project 89-12

Small manufacturer located in North Central Kansas. Company has four employees with projected 1991 employment of 18.

Product History

Product is sprayed on hay bales, silage, grains and other forage products exposed to the elements to reduce moisture uptake and spoilage. It was introduced in late 1988 and is protected by US patent 4,846,890.

Highlights of contacts with KVAC

- September '89 ■ First meeting (have averaged 1 contact/week since then).
- November '89 ■ Business plan evaluated and opportunities to reduce costs identified.
- January '90 ■ Project authorized - experimental work by KSU Ag Engineering.
- April '90 ■ Laboratory work completed.
- June '90 -  
January '91 ■ Field tests planned and assistance provided.
- June '90 ■ Patent Infringement Assistance.
- February '90 -  
December '90 ■ Work with suppliers to develop sources of supply.
- August '90 ■ Field demonstration.
- December '90 -  
January '91 ■ Contracts for reformulated product signed.
- January '91 - ■ Consultation on a new product.

Cost of Assistance

KVAC staff time and \$3,500 for laboratory assistance.  
Company costs for field testing in excess of \$15,000.

Value of Assistance

Cost of reformulated product \$1.45/pound less than original formula.  
Projected cost savings on actual 1990 sales is \$343,000.  
(91 contracts will significantly surpass '90 sales)

## REPORT TO THE LEGISLATURE

### Project 90-15

Small food processor located in Southeast Kansas.  
Family owned business growing, processing, and marketing sorghum syrup.  
Eight family members involved in operating business.

### Key contacts with KVAC

- May '89      ■ Crystallization problems in syrup.
- September '89      ■ Requested information on evaporation temperatures of sugar solutions and design of evaporators.
- February - March '89      ■ Product seized by Missouri Department of Health as "adulterated". KVAC diagnosed problem is due to improper processing and product is only "out of specification". Product is safe and wholesome. KVAC discussed problem with Missouri Department of Health and product released for sale on April 3.
- May '90      ■ Requested information on vacuum processing equipment.
- July '90      ■ Samples of material "fouling" evaporation pans was analyzed and cleaning instructions presented.
- October '90      ■ Sorghum Syrup processing short course presented at plant. Attended by eight company employees, seven state regulatory people, and sixteen other processors.
- December '90      ■ Established industry testing program with KSU Extension having major role.

### Value of KVAC's assistance in product seizure

Product placed under embargo - 4,000 gal valued at \$13.50/gal  
 Lost revenue                      \$ 54,000  
 Unrecovered costs                \$ 27,500  
 Value fully recovered through KVAC assistance.

Cost to KVAC --    staff time  
    cost of short course \$1,000

**REPORT TO THE LEGISLATURE**

Project 90-FLI

Start up food business located in Central Kansas.

Highlights of contacts with KVAC

- May '90     ■ First contact to discuss concept and marketing. Information requested on Bureau of Alcohol licensing requirement.
- August '90   ■ Requested information on juice sources, packaging equipment and water treatment.
- November '90   ■ First 10 cases of product produced.
- December '90   ■ Requested assistance on laboratory analysis of product and ingredients.

Cost of Assistance

KVAC staff time.

Project 90-TG

Small food processor expanding plant. Located in Northwest Kansas. Will employ 3-5 in expanded plant.

Highlights of Contacts with KVAC

- March '90   ■ Contacted KVAC for assistance in designing new mill and inspection of used equipment.
- May '90     ■ Design complete, equipment purchased, building construction underway.
- December '90   ■ Assistance in start up of mill - performs well. Company has ten times original capacity, improved sanitation and consistent project quality.

Cost of Assistance

KVAC staff time.  
Initial consultant fees \$1,000.  
Company spent \$30,000 on equipment and additional consultant fees.



REPORT TO THE LEGISLATURE

Grain company from Southwestern Kansas wishing to get into flour milling

First contact by telephone April '90.

Meeting arranged with KSU flour milling personnel in May '90. Process, products, markets and costs were discussed. A list of additional contacts were provided.

November '90 additional market information requested.

January '91 requested assistance in hiring general manager to assist in designing, constructing, and operating mill.

Cookie Bakery in South Central Kansas

Contacted KVAC November '89 regarding formulation, ingredient and processes.

Provided scholarship to AIB specialty short course in March '90.

Additional help provided in April-May '90 in selecting commercial equipment and equipment testing.

Current status - expanding production from 70 doz./week to 30,000 dozen/week. Employment will increase from three to seven. Profitable at end of first full year of operation.

Specialty food processor in East Central Kansas

Makes and markets an array of food products in small quantities. Frequent requests for assistance with formulas, commercial sources of ingredients and packaging. December '90 requested KVAC assistance with business and marketing plan and product cost and quality for venture capital expansion of business.

Tortilla producer in Eastern Kansas

Assistance requested in "sticky" tortilla problem in Summer '90. Arranged plant visit with consultant. Formula modifications and process changes recommended and problem solved.

Farmer in Southeast Kansas

Called in December '90 seeking information on soybean processing and products. Interested in small scale processing. Supplied information.

**CONFIDENTIAL**

**REPORT TO THE LEGISLATURE**

Kansas Jam and Jelly Quality

Kansas has seven jam and jelly producers registered with the "Land of Kansas" program. KVAC initiated a program in early 1990 to assist these producers to improve their quality and profitability. The program consisted of the following three aspects:

1. Assessment of product quality.

Five processors submitted three samples of their product which were measured for flavor, texture, consistency of production, and chemical analysis. Information was provided to each processor on their product.

2. A jam and jelly quality seminar.

The companies were invited to an all day seminar on jelly production and quality techniques (five companies and sixteen people attended).

3. Personal follow up.

In plant assistance has been provided to three companies to correct specific problems.

Results achieved

- Product quality and consistence has improved.
- Production costs and lost batches have been reduced.
- Product lines have been extended - new flavors added (KVAC developed a "no sugar" formula being used by three processors).
- Sales have increased and profitability improved.

Cost of program

KVAC staff time.

\$10,000 for quality testing at KSU Sensory Center.

\$ 1,000 for formula development and KSU extension follow up.

## **REPORT TO THE LEGISLATURE**

### Nutrition Labeling Assistance (Project 90-16)

In mid 1990, the FDA announced its intention of making nutrition labeling mandatory for all food products. The cost of getting the required laboratory analysis will be in excess of \$200/product. The legislation may exempt small manufacturers from this requirement, but consumers are demanding labeling be on all products. This is placing a significant economic hardship on small processors.

In August 1990, KVAC began a program to assist companies registered in the Board of Agriculture "Land of Kansas" food promotion program with nutrition labeling. We offered to perform the necessary laboratory work to obtain nutrition analysis for one of their products and provide consultation on the FDA product labeling requirements.

As of 31 December 1990, 42 Kansas companies have submitted products for nutrition labeling consultation. Cost is running about \$300 per product. The benefit to the Kansas processor is he now has a product that is fully and correctly labeled, and contains the information the consumer is requiring. Kansas small processors can now compete equally in the market place with major companies.

An added benefit to Kansas has been the qualification of a Kansas analysis laboratory to perform this type of analysis. Previously, Kansas food processors had to send products to Denver, Minneapolis, Chicago, St. Louis or Des Moines for this type of testing.

## KVAC FINANCIAL INFORMATION

	<u>FY89</u> <u>Actual</u>	<u>FY90</u> <u>Actual</u>	<u>FY91</u> <u>Budget</u>	<u>FY92</u> <u>Request</u>
<u>Funding</u>				
General Fund	\$ 0	\$ 250,000	\$ 0	\$ 0
EDIF	175,000	175,000	481,155	475,190
Special Appropriations	0	35,000	35,000	0
Carry over	<u>          </u>	<u>103,517</u>	<u>38,877</u>	<u>0</u>
Total Funds Available	\$ 175,000	\$ 563,517	\$ 555,032	\$ 475,190

### Spending

Salaries	\$ 20,156	\$ 101,303	\$ 145,000	\$ 135,190
Operations	31,327	72,361	50,500	53,000
Grants & contracts	<u>20,000</u>	<u>326,729</u>	<u>359,532</u>	<u>287,000</u>
Total expended	\$ 71,483	\$ 500,393	\$ 555,032	\$ 475,190
Governors Budget cut		\$ 24,247		
Carry over	\$ 103,517	\$ 38,877	\$ 0	

### Comments

1. Division of Budget Recommendations for FY92 is \$388,190.
2. KVAC needs to receive money in equal monthly amounts rather than at end of fiscal year as in FY91.
3. KVAC needs ability to carry over money since projects authorized in one fiscal year may be completed in a different fiscal year.

PERFORMANCE INDICATORS:

KVAC in its Strategic Plan is committed to judge its success using the following measures:

1. Number of jobs created or saved in Kansas agricultural processing industries.
2. Sales and profitability improvements of KVAC clients resulting from interaction with the center.
3. Profitability improvements in Kansas agriculture resulting from increased processing generated by KVAC assistance.
4. Cost savings generated through KVAC assistance.

Quantitatively measuring these KVAC contributions to economic development must occur over a several year period. In many cases technical contributions such as a new product do not become profitable for two to five years. Likewise, in job creation, the input of many factors besides technical are required making it difficult to directly link jobs and technical assistance. We will continue to look for quantitative measures and cite examples as they occur.

However, in the short term and on an annual basis we will use six indirect methods as measures.

1. Number of clients served, their location in the state and size of the community. Our goal is to provide technical support to 36 new contacts with the center each year and maintain technical contact with at least 48 companies through continued technical support. These contacts will represent all sections of the state and include small rural communities.
2. Degree of satisfaction with KVAC services as determined by discussion with users and repeat customers. Appropriate comments will be cited.
3. Number of KVAC suggestions implemented and potential value to company. Our goal is that at least 1/2 of our new and ongoing contacts will implement KVAC information.
4. Number of new and improved products, processes, and innovations introduced by our clients using KVAC services. Our goal is to commercialize at least four new products per year.
5. We will also document as much as possible a cost/benefit ratio for our expended funds. A positive ratio will be maintained.

	Actual <u>1990</u>	Goal <u>1991</u>	----- 1992 -----		
			A	B	C
Clients served					
* new	88	36	30	30	36
* ongoing	32	48	48	48	48
Counties served	66	40	40	40	40
Suggestions implemented	--	50%	50%	50%	50%
New products	1	3	2	2	4
Projects authorized	23	20	15	15	20
Cost/project	\$ 15,035	\$ 18,000	\$ 18,000	\$ 18,000	\$18,000
Seminars sponsored	5	4	4	4	6
Reports Published	9	6	5	5	9
Cost savings documented	\$437,000	--	--	--	--
Jobs impacted	3	--	--	--	--

## KVAC STATISTICS - CALENDAR YEAR 1990

Companies provided assistance	
New to KVAC	71
Ongoing assistance	30
Labeling only	42
Meetings held with companies	
New to KVAC	26
Aided prior to 1990	27
In-state trips	50
Out-of-state trips	10
Meetings with state agency personnel	56
Meetings with university personnel	89
Meetings with economic development groups	11
Seminars/Talks	23
Value Added Specialists meetings	6
KVAC Leadership Council meetings	6

KVAC GRANT PROGRAM (total since May '89)

Contracts for Technical Assistance Resources	\$ 109,500
Business Specific Projects	
Designated by legislature (white wheat, red wheat)	\$ 116,000
Technical Assistance (24 companies)	\$ 45,500
Nutrition Labeling (42 companies)	\$ 20,000
Purchase of Pilot Plant Equipment (KSU, WSU)	\$ 117,300
Seed money for new technology for Kansas	
New crops (canola, organic foods)	\$ 15,500
New Processors (aquaculture, biomass, extrusion)	\$ 32,000
Non food uses (starch plastics, leather composites)	\$ 37,500

OTHER RESULTS

Newsletter published - Sent to 800 Kansas agriculture processors and economic development individuals and groups.

Fourteen Market and Technology reports issued.

Food Analysis laboratory in Kansas qualified.

Five seminars sponsored or co-sponsored.

Eight training scholarships provided to Kansas companies and technologists.

Assisted five firms in receiving technology matching grants. Total value of grants \$212,000 with match an excess of \$318,000.

## REPORT TO LEGISLATURE

### White Wheat Commercialization - Progress Report

The 1989 legislature appropriated \$35,000 from EDIF to assist white wheat commercialization. These funds were placed in the KVAC budget for FY 90, 91, and 92. KVAC has contracted with the American White Wheat Producers Association (AWWPA) to conduct these commercialization efforts. AWWPA provides quarterly reports and frequent consultation with KVAC on the progress of its commercialization efforts.

AWWPA was chartered in April 1988 under Kansas Cooperative Law. A nine member board of directors provides overall policy and management direction. Offices are located in Atchison, KS. There currently are two employees, eight preferred stockholders and 50 common stockholders. Capitol stock totals \$46,200.

AWWPA intends to implement an alternative marketing system for hard white wheats that will permit producers, either individually or collectively, to maintain ownership of their production to the end user and retain more of the value of their wheat.

### Marketing Status

AWWPA has demonstrated that high quality white wheat flour and bran can be grown and processed by their contracted milling arrangements. Repeat sales have been made to a number of markets, but sales volume is not sufficient to be profitable nor to adequately test the premium that will be paid for white flour and bran.

### Keys to Success

1. AWWPA Must establish wholesale flour sales volume. Major industrial customers have not committed due to lack of guaranteed supply and questions regarding premiums that can be expected.
2. Sales volume of specialty products such as bulgur production, institutional and retail flour sales, and premium bran sales, must be increased while maintaining margins.
3. Sufficient return must be generated for the growers to justify storing of the grain and any yield and growing problems.
4. Volume of production and sales must be increased to the 1 mm bu/year level to provide "break even" operation.



## REPORT TO LEGISLATURE

GREAT PLAINS RED COMMERCIALIZATION - PROGRESS REPORT (#90-19)

The 1990 Legislature appropriated \$35,000 from EDIF funds for commercialization of high protein hard red winter wheat (Senate Bill 793 amended). The bill further stipulated the money must be matched on a \$1 for \$1 basis by the Kansas Wheat Commission. On 24 July 1990, a contract was signed between KVAC, Kansas Wheat Commission, and Great Plains Red, Inc. of Wakeeney to carry out the intent of the bill.

Great Plains Red was incorporated in August 1984 to commercialize identity preserved high protein hard red winter wheat for the milling and baking industry. They have 23 stockholders with capitol stock of \$124,000. The business occupies a 5,000 square foot facility at 706 Barclay Avenue in Wakeeney. In the last four years, Great Plains Red has suffered net operating losses totaling \$129,577. The primary reason for the losses has been insufficient volume of production to cover necessary operating expenses. Employment was increased from two to five during 1990.

The project objectives prepared in consultation between Great Plains Red, Kansas Wheat Commission, and KVAC address the steps necessary for commercial success and if successfully completed should provide a profitable self supporting business.

At the mid point of this project year, Great Plains Red has contracted for 27,000 acres of grain to be grown (a 10 fold increase over its '90 crop year plantings), and is achieving the projected 50¢/bu premium for its growers on the '90 crop.

FUTURE

The market at Kansas mills for a high protein blending wheat to replace spring wheats imported from Minnesota and North Dakota is approximately 1 mm bu/year. Even at today's depressed prices of \$2.63/bu., the 27,000 ac plant in 90 should produce a new market of \$2.3 mm for Kansas wheat. In addition, there will be a 50¢/bu protein premium paid to the farmer (approximately \$1,550 extra for each of the 275 growers). In addition, Great Plains Red Inc will receive \$223,000 in operating income and there is royalty income of \$102,000 to the seed producer. Overall, successful completion of this project should provide over \$3 mm/year of new income for the Kansas economy. Great Plains Red is currently considering if support will be requested for FY92.