

Approved: 1-17-95
Date

MINUTES OF THE SENATE COMMITTEE ON COMMERCE.

The meeting was called to order by Chairperson Alicia Salisbury at 8:00 a.m. on January 13, 1995 in Room 123-S of the Capitol.

Members present: Senators Salisbury, Downey, Gooch, Harris, Petty, Ranson, Reynolds, Steffes and Vidricksen.

Committee staff present: Lynne Holt, Legislative Research Department
Bob Nugent, Revisor of Statutes
Betty Bomar, Committee Secretary

Conferees appearing before the committee:
Rich Bendis, President, KTEC
Don Erickson, KSU, Kansas Service

Others attending: See attached list

Upon motion by Senator Ranson, seconded by Senator Steffes, the Minutes of the January 11, 1995 meeting were unanimously approved.

Rich Bendis, President, KTEC, distributed guidelines used for Applied Research Matching Fund Awards, as well as a sample contract. This information was requested by the Chairman to demonstrate how royalty payments and loan repayments would be handled in the SBIR bridge financing program. see attachment 1.

SB 13- concerning the Kansas technology enterprise corporation

Rich Bendis reported KTEC's method of advertising the availability of grants and loans is by utilizing all Economic Development support agencies, the Extension Service, and a newsletter mailed to a mailing list of 3,000.

Senator Ranson inquired of Tom Blackburn as to the percentage of Kansas Venture Capital, Inc. investment in high-tech ventures. Mr. Blackburn responded that it was approximately 25%. There were additional questions of Mr. Blackburn as to the make-up of Kansas Venture Capital, Inc.'s Board. He responded that the Board is generalist in nature, not a specialized high-tech Board. Kansas Venture Capital, Inc. tends to consider loans where there is proven management or proven technology.

Mr. Bendis's response to Senator Ranson's questions were discussed by the Committee. see attachment 2

The Chair advised that Monday, January 23, 1995, will be final consideration and action on **SB-12 and SB 13**

Donald B. Erickson, Kansas State University, Extension Program, appeared before the Committee regarding the Extension Service's involvement in economic development. see attachment 3 and attachment 4. Mr. Erickson explained that he is on the faculty at Kansas State University, and is currently assigned to work as an Agricultural Economist and is not knowledgeable regarding the Extension Program's direct involvement with economic development throughout the state.

The Committee adjourned at 9:00 a.m.

The next meeting is scheduled for Tuesday, January 17, 1994.

Applied Research Matching Fund

Royalty-based
Funding for Market-driven
Applied Research

Fiscal Year 1995 Guidelines



KANSAS
TECHNOLOGY
ENTERPRISE
CORPORATION

112 W. 6th, Suite 400
Topeka, KS 66603-3869

*January 13, 1995
Commerce
Attachment 1*

Applied Research Matching Fund Guidelines

Note: These Guidelines are in effect for proposals submitted to KTEC in Fiscal Year 1995. Proposals will be accepted from July 15, 1994, through May 31, 1995. The FY 95 Applied Research Matching Fund Application Form must be utilized to submit a proposal.

The Kansas Technology Enterprise Corporation provides royalty-based funding through its Applied Research Matching Fund. The purpose of the program is to develop prototype or "near-prototype" market-driven products that lead to the creation of job opportunities and long-term economic growth in Kansas.

KTEC has allocated \$1,260,000 in Fiscal Year 1995 for such projects. KTEC monies must be matched 150% by the sponsoring company. The minimum and maximum awards are \$5,000 and \$100,000, respectively. Project duration generally ranges from three months to 12 months. KTEC takes a royalty position so that commercially successful projects will generate funds to reinvest into other projects.

The program emphasizes applied research and development that leads to marketable products or processes. Research and development is directed toward applying new knowledge to the production of useful materials, devices, and systems or methods, including design, development, and improvement of prototypes and processes.

University involvement is strongly encouraged. A project should lead to new developments that can be commercialized. This includes research and development to the prototype stage. The fund is not intended to support basic research, training, facility improvement, market assessment or development, or development beyond the prototype stage.

Project evaluation is based upon the market and commercialization potential, the innovative nature of the project, the strength of company management, and conformity with the guidelines set forth in this document. The applicant should demonstrate, through market research, that a considerable market exists. The project must have the potential to produce positive measurable results in the Kansas economy.

A. Qualified Applicants

(Preference is given to companies with less than 500

employees including parents and subsidiaries.)

1. Only for-profit Kansas companies are eligible.
2. Awards may be made directly to companies or to companies working in collaboration with universities, engineering firms, independent research laboratories, or other companies. Collaboration with Centers of Excellence is encouraged.
3. A qualified applicant is eligible for up to two awards and a total of \$100,000 during the fiscal year. Once a company has received a total of more than \$200,000 from KTEC, preference is given to other applicants.

B. Allowable Costs

1. Monies (both KTEC and corporate) are to be used to cover costs related to applied research and development leading to product or process innovation. This may include salaries, equipment, travel, supplies, and other costs directly associated with the research. Retroactive costs are not eligible.
2. The project budget may not include basic research, patent costs, working capital, marketing, real estate, construction of facilities, training programs, or general business expenses.
3. Equipment that is not an integral part of a prototype being developed is not an allowable cost (see C-4 for exception). Qualifying equipment is valued at fair-market value.
4. Maximum salary to any individual is \$20,000 per year in KTEC monies.

C. Matching Requirements

1. The sponsoring company must provide \$1.50 for each \$1.00 provided by KTEC (60/40 split). Companies with less than 20 employees (including parents and subsidiaries) may provide their entire match in-kind. Companies with 20 to 100 employees may provide in-kind matching support for up to one-half of their match. Companies with 101 to 500 employees may provide in-kind matching support for up to one-third of their match. In-kind match may include allowable costs specified under (B.1) and may not include items listed in (B.2).
2. The company must document that matching monies are available by the time KTEC makes a project decision.
3. On university-related projects, the company may wish

to own exclusive proprietary rights to the technology. If so, the company will pay overhead costs as determined by the university and prorated on the company's share of the project.

4. On university-related projects, equipment may be accepted as the industry match if it meets the following criteria: (a) it is new (being used only for quality control); and (b) title is transferred to the academic institution. Valuation will be at 75% of the published list price if manufactured by the sponsoring firm, or the purchase price if the equipment is purchased from another manufacturer. The educational discount price is considered as list price for the purpose of this fund.

5. Matching monies are paid by both parties according to an agreed upon schedule. KTEC forwards its matching monies pending satisfactory progress.

6. If the company falters on payment schedule, milestones or reporting, KTEC will assess its continued commitment to the project.

D. Application Procedure

1. A "pre-proposal" questionnaire is used to examine a company or individual interested in applying for funds. The inquiry will be evaluated and a recommendation will be made regarding suitability for a full proposal.

2. Proposals seeking up to \$20,000 from KTEC may be submitted at any time between July 15, 1994, and May 31, 1995, and will normally be reviewed within 45 days.

Proposals seeking more than \$20,000 from KTEC are submitted and reviewed on a quarterly basis. Proposal submission deadlines occur at 5:00 p.m. on the following dates: August 15, 1994; October 14, 1994; January 16, 1995; and April 17, 1995. KTEC will take up to 60 days to respond on each proposal.

3. The FY 95 Applied Research Matching Fund Application Form must be utilized when submitting a proposal. KTEC will supply the form upon request.

4. Applicants shall certify that all state, federal and local licenses, regulatory requirements, and qualifications are in order.

E. Proprietary Information

1. Confidential information should be submitted as an appendix to the proposal. Information marked confidential will be held in strict confidence.

2. If confidential information must be presented or discussed at a KTEC Board or Committee meeting, the Board or Committee will enter a closed session to ensure appropriate protection of such information.

F. Royalty Payments

Royalty obligations vary depending on the amount of risk taken by KTEC, the size of the investment, and payback time frame. The royalty obligation begins when the first billable shipment is made, and is paid on a quarterly basis. Generally, projects fall within the following range:

For higher-risk projects, with newly emerging companies: 3% royalty on gross sales until the award amount has been repaid plus 10% simple interest, followed by an ongoing royalty of up to 1% for the life of the product.

For moderate-risk projects with well-established companies: 3% royalty on gross sales until repayment of the award amount plus 10% interest, followed by a royalty of up to 1% until the total of all royalty payments equals two times the award amount.

G. Review Process

For proposals seeking more than \$20,000 from KTEC:

1. KTEC screens proposals for adherence to program intent, guidelines, and budget. Proposals not passing this screening will be returned to the applicant.

2. Proposal receipt and acknowledgment by KTEC.

3. KTEC evaluates the commercial potential of the proposed innovation, including market, financial, and management factors.

4. Independent peer reviewers evaluate the technical merits of the proposal.

5. KTEC's Applied Research Committee reviews the proposal, and staff and peer review recommendations.

6. The applicant makes a presentation to the Applied Research Matching Fund Committee.

7. The committee makes its recommendation to the Board of Directors, which holds final approval authority.

For proposals seeking \$5,000 to \$20,000 from KTEC: Staff and committee evaluate market, finance, management, and technical factors and make a recommendation to the KTEC President, who will make the final decision.

8. Once a proposal is approved for funding, a contract will be signed by all parties involved, outlining the responsibilities of each and specifying the terms for royalty payment.

H. Evaluation Criteria

Proposals are evaluated using the following criteria:

(1) Commercial Potential (50%)

- Market potential
- Competitive advantage
- Management capability and experience
- Commercial opportunity and strategy
- Strategy for commercialization and measures of success
- Potential for sales outside Kansas
- Skilled employment potential

(2) Technical Merit (30%)

- Awareness of state-of-the-art technology
- Research plan design
- Potential for developing new, unique or improved technology
- Research qualifications and resources sufficient to implement project

(3) Investment quality/return on investment (10%)

- Potential for royalty stream
- Importance and appropriateness of KTEC as a funding source
- Company financial commitment
- Phased funding appropriateness
- Potential to attract follow-on funding

(4) Technological Infrastructure Development (10%)

- Contribution to the technology base in Kansas
- Enhancement of research capability within the state

I. Provisions of Award.

1. A contract is executed, outlining the responsibilities of each party. The contract includes agreement to pay a royalty to KTEC upon successful commercialization of the technology or product.

2. The company must adhere to the schedule of matching fund payments. The schedule may be adjusted from time to time to account for contingencies.

3. Brief quarterly reports from the recipient are required detailing: (a) accomplishments relative to established research milestones; (b) budget summary; and (c) estimated date of completion.

4. Significant changes to the project in terms of personnel, focus or budget must be reported to KTEC, which will determine if further approval is necessary. A significant budgetary change is defined as moving more than 15% of the total project budget from one line item to another.

5. The awardee shall maintain records and accounts that properly document and account for the source and use of all project monies. Such records will be subject to audit by KTEC and shall be available upon request.

6. Any significant delay in milestone progress, reporting or the transfer of company matching funds will invoke an assessment by KTEC regarding termination of the project.

7. Within 30 days following completion of the project, a final report shall be provided with emphasis on technical accomplishment and forecasting the commercialization of results.

8. After the project is completed, the company will semi-annually complete an "Economic Impact" survey in order that the commercial success of the project may be assessed.

9. Any publications that result from the project and related follow-up studies should be properly acknowledged and reported to KTEC.

Video Available

Gaining the Competitive Edge is a 12-minute video available on loan from KTEC. This tape highlights three successful Applied Research Matching Fund projects. For more information contact KTEC's office.

For More Information Contact:

Kansas Technology Enterprise Corporation, 112 W. 6th, Suite 400, Topeka, KS 66603-3869, (913) 296-5272.

Tech-Industry Consultants, Inc., 8208 Melrose, Suite 108, Lenexa, KS 66214, 913/888-5832.

Western Kansas Technology Corporation, 1922 Main, Great Bend, KS 67530, (316) 793-7964.

KTEC is an Equal Opportunity Employer.

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Other KTEC Programs

- **Commercialization Corporations** — Three sites have been established in Lawrence, Manhattan and Wichita to bring together key players in each community and accelerate the process of turning technologies into viable products in the marketplace. Each site will operate pools of pre-seed capital funds.

- **University-based Centers of Excellence** — KTEC funds centers that undertake research and technology transfer activities with a particular focus toward economic development.

The Centers include: Advanced Manufacturing Institute (Kansas State University); Center for Excellence in Computer-Aided Systems Engineering (University of Kansas); Center for Design, Development & Production (Pittsburg State University); Higuchi Biosciences Center (University of Kansas); and the National Institute for Aviation Research (Wichita State University).

- **Training Equipment Grants** — These provide advanced equipment for training Kansas workers in state-of-the-art manufacturing skills. Grants are made to vocational-technical schools and community colleges working in conjunction with Kansas industries.

- **Industrial Liaison** — Regional offices have been established in Johnson County, and in several locations in Western Kansas. A pool of specialized business and manufacturing consultants offer technology-related assistance to Kansas industries.

- **SBIR Support** — Federal agencies award \$750 million annually to innovative small firms under the Small Business Innovation Research Program. Monies are awarded for development of marketable technologies. KTEC provides small grants to support these companies in preparation of proposals to the Federal government.

- **Ad Astra Fund** — Seed capital financing is provided to Kansas advanced technology companies at their earliest stage of development.

- **Inventor Assistance** — KTEC provides assistance to inventors and entrepreneurs in a confidential and professional manner.

- **Mid-America Manufacturing Technology Center (MAMTC)** — MAMTC provides technical assistance to small and mid-sized manufacturers through six regional offices throughout Kansas. MAMTC is a subsidiary of KTEC.



APPLIED RESEARCH MATCHING FUND AGREEMENT

This agreement is dated as of _____, by and among _____, hereinafter referred to as the "Company", and Kansas Technology Enterprise Corporation, hereinafter referred to as "KTEC". The project identification number #_____.

KTEC has agreed to provide funding to the Company for the research project ("Project") _____ as specified in the Applied Research Matching Fund application ("Application"). Such work will be performed under the provisions of this Agreement, the FY95 Applied Research Matching Fund guidelines, and the specifications of the Application. The parties agree as follows:

1. Representations and Warranties of the Company. The Company represents and warrants to KTEC as follows:

- 1.1 The Company is a corporation duly incorporated, validly existing, and in good standing under the laws of the State of Kansas.
- 1.2 Except as previously disclosed in the Application, there are no actions, suits, or proceedings pending, or (to the knowledge of the Company) threatened against or affecting the Company, or before any commission or other administrative agency, and the Company is not in default with respect to any order or decree of any court or governmental commission, agency, or instrumentality.
- 1.3 The Company is not infringing or violating any patent, copyright or trademark.
- 1.4 The information set forth in the Application is true, correct, and complete in all material aspects.
- 1.5 The individual signing this contract has the express authority to represent the Company in such an agreement as specified in the Articles of Incorporation of the Company.

2. Covenants of the Company. The Company shall:

- 2.1 Perform the project in accordance with this Agreement, and the Applied Research Matching Fund Guidelines, and conduct the research and development of the _____ product described in the Application ("Product"), in order to meet the goals set in the Application. Such efforts shall be consistent with the research milestones and objectives in Exhibit D. The start date of the project is _____. The target end date of the project is _____.
- 2.2 Provide matching funding, secured through company sources, for the Project in an amount not less than \$_____.
- 2.3 Use its best efforts to promote commercialization, marketing and sale of the Product.

- 2.4 Use its best efforts to increase and retain Kansas employment opportunities as represented in the Application.
 - 2.5 Make a full refund to KTEC of the KTEC matching monies in the event the company is unable or unwilling to meet covenants 2.1 through 2.3.
 - 2.6 KTEC reserves the right to audit performance and financial records pertaining to the Project. The Company shall hold its project records open and will make them available to KTEC on demand during normal business hours.
3. Covenants and Warranties of KTEC. KTEC shall provide \$ _____ to the Company for use in connection with the financing of the Project upon the terms and conditions set forth in this document, provided that such funds are available to KTEC from the state of Kansas. The flow of KTEC funds is tied to matching funds flow from the Company. Each draw of KTEC funds will correspond to the ratio of total approved KTEC funds to total approved Company funds.
4. Funding of the Project. KTEC will transfer monies to the Company upon receipt of documentation of the Company's matching contribution. Such transfers will be made in accordance with the attached Payment Schedule-- Exhibit A, which also outlines in-kind match documentation requirements. The schedule may be revised by KTEC to allow for contingencies. The Company will set up a Project Account for KTEC and company matching monies.
5. Default by the Company. In the event the Company fails to make its contribution in accordance with the Payment Schedule, or fails to accomplish milestones set forth in the Application, KTEC may provide written notice to the Company outlining remedial action and the timeline for such. If such action is not taken by the Company, KTEC may terminate the Project and withhold any unspent KTEC monies.
6. Revision of Project Schedule and Budget. Any change in the research plan of the Project, or revision to the Project budget which involves over 15% of the total budget being moved from one line item to another, or any change in the project schedule (as listed in the Application) of more than 45 days shall be submitted in writing by the Company to KTEC for approval prior to the proposed revision or change. Any budget adjustments must adhere to guidelines for allowable costs.
7. Improper Use of Funds. Any monies used for any purpose other than payment of costs approved in the budget shall be restored to the Project Account.
8. Return of Excess Funds. Upon termination of the Project, all KTEC monies remaining in the Project Account that are not required to pay approved costs shall be paid back to KTEC within 30 days.
9. Intellectual Property Rights. KTEC will possess no intellectual property rights to the Product. When working with universities, the Company shall negotiate intellectual property rights in accordance with standard university policies.

10. Commercialization and Related Payback Provisions. The provisions for payback to KTEC are as follows:

- 10.1 If the Company successfully commercializes the product in Kansas in terms of the product being sold or the technology derived from the project being incorporated into the Company's product line or production process, the Company will pay KTEC a royalty of _____% on gross sales of the Product, until the award amount of \$ _____ plus 10% simple interest is repaid (interest begins to accrue on the date KTEC makes its last payment on the Project). Once this obligation is met, the Company will pay KTEC a royalty of _____% on gross sales of the Product.
- 10.2 If the Company licenses, sells, or otherwise transfers the rights to manufacture the Product to another Kansas firm, such that the primary point of manufacture occurs in Kansas, the Company shall pay to KTEC: (1) 25% of the proceeds of such sale, up to the award amount of \$ _____ plus 10% simple interest (interest accrues as in 10.1 above); and (2) an ongoing royalty of _____% on gross sales for the life of the Product. In the event such transfer of the Product within Kansas involves the exchange of other assets or is unsuitable to this type of repayment structure, then repayment terms may be subject to renegotiation.
- 10.3 If the Company: (1) produces the Product from a principal point of manufacture that is outside of Kansas; or (2) sells, transfers, licenses, or otherwise disposes of the rights to manufacture the Product, such that the primary point of manufacture occurs outside of Kansas, the Company shall pay KTEC: (1) within thirty (30) days of such transfer, the award amount of \$ _____ plus 10% simple interest (interest accrues as in 10.1 above). and (2) an ongoing royalty of _____% on gross sales for the life of the Product. If significant benefits to Kansas can occur as a result of such out-of-state transfer, this repayment obligation may be subject to renegotiation.
- 10.4 If the company, in exercising its best business judgment, determines not to commercialize, sell, license or market the Product, then no amounts shall be payable to KTEC under this agreement.
- 10.5 The company shall provide quarterly auditable summaries of sales of the product, which shall be signed by the president or the chief financial officer of the company. A sample of the form to be provided is attached as Exhibit E.

11. Indemnification. The Company shall indemnify and hold KTEC and respective affiliates, successors, assigns, agents, and employees, harmless from and against any and all liabilities, losses, causes of action, suits, penalties, claims, demands, or expenses of any nature whatsoever (including attorneys' fees and expenses) to the extent allowable by law at the time of the enforcement of this section in any way relating to or arising out of (1) any breach of this Agreement by the Company, or (2) actions of the Company in the performance of this Agreement or the project, or manufacture, sale, or marketing of the product, or (3) claims based on patent, trademark, or copyright infringement. The provisions of this section shall survive expiration or termination of this Agreement.

12. Confidential Information. Each party understands that it will acquire confidential or proprietary information regarding the Project, the Product, and the proprietary rights of other parties in connection with this agreement. Each party shall hold all such information in confidence and shall not, without the prior written consent of each other party, disclose, communicate, or reveal to any other persons any such confidential information; provided, however, that the Company and KTEC shall be entitled to disclose such information to the extent reasonably necessary to promote the research, marketing, licensing or sale of the Product; provided further, that KTEC may only disclose such information with the written consent of the Company. Each party shall take all reasonable precautions to safeguard such information.

13. Reports. The Company will provide the following reports to KTEC:

13.1 Quarterly reports as outlined in Exhibit B.

13.2 A final project report within 30 days of completion of the research.

13.3 Semi-annual reports for five years following project completion.

14. Binding Effect. This Agreement shall be binding upon each party and their respective permitted successors and assigns; provided, however, this Agreement shall be assignable by the company only with the prior written consent of KTEC, which consent may be withheld for any reason.

15. Severability. If any one or more of the provisions contained in this Agreement is held to be invalid, illegal, or unenforceable for any reason, it shall not affect any other provisions of the Agreement. It is the intent of the parties that if any provision is held to be invalid, illegal, or unenforceable, there shall be added in lieu thereof a valid and enforceable provision as similar in terms to such provision as is possible.

16. Incorporation of Exhibits. All exhibits and addenda attached hereto or referenced herein are incorporated into this Agreement by reference.

17. Relationship of Parties. Nothing herein is intended to be construed as creating a joint venture, partnership, tenancy-in-common, or joint tenancy relationship between the parties. Each party shall assume full responsibility for its employees, agents, or subcontractors.

18. Applicable Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Kansas.

IN WITNESS THEREOF, the parties hereto have caused this Agreement to be executed and delivered at Topeka, Kansas, as of the day and year first set forth above.

THE COMPANY

KANSAS TECHNOLOGY ENTERPRISE CORPORATION

Signature

Richard A. Bendis, President

Date

Date

Name

Title

Company

EXHIBIT A
PAYMENT SCHEDULE & MECHANICS

Format for drawing KTEC monies

1. KTEC makes payments at the time Company expenses have been documented as being incurred. This would include documentation of: salaries paid; travel costs; payments to outside vendors or contractors for services, materials and supplies; invoices for equipment; in-kind supplies and equipment at cost. All expenses must be for costs approved in the Application.

Documentation of Company salaries should include name, social security number, title, basis for payment, and payment during the given period.

In addition to providing documentation of your matching expenditures, please provide a summary table in the same format as the proposal budget:

SAMPLE DOCUMENTATION

A.	Personnel	\$ _____
B.	Equipment	_____
C.	Travel	_____
D.	Materials & Supplies	_____
E.	Subcontracts	_____
F.	Other Costs	_____
G.	In-Kind	_____
	TOTAL	\$ _____

KTEC monies received by the Company are to support the KTEC column in the approved budget.

2. The ratio of KTEC to Company monies should be maintained throughout the project. KTEC cannot "pay ahead" of this ratio, which in this case is \$ _____ / \$ _____ or _____.
3. KTEC takes approximately ten calendar days to process payment, once documentation is received.
4. Payment Schedule-- Matching documentation, and subsequent KTEC payments, to be submitted: _____.
5. KTEC will retain a minimum final payment of \$ _____ pending satisfactory completion of the project and all reporting requirements.

EXHIBIT B
REPORTING SCHEDULE

- Quarterly Reports Due: beginning 90 days after project award letter
- Final Report due: within 30 days after project completion date
- Economic Impact Reports due: semi-annually, beginning six months after completion date.
- * (samples of each are attached/KTEC will mail you a blank form in advance of each due date)
- * reports may be sent to us by FAX at (913) 296-1160.

EXHIBIT C
BUDGET

EXHIBIT D

Research Objectives and Milestones



KANSAS
TECHNOLOGY
ENTERPRISE
CORPORATION

*KTEC's mission is to create and maintain
employment by fostering innovation, stimulating
commercialization, and promoting the
growth and expansion of Kansas businesses.*

KANSAS TECHNOLOGY ENTERPRISE CORPORATION
APPLIED RESEARCH MATCHING FUND

Quarterly Sales/Royalty Report

Instructions: Please fill in the boldface areas below, and send the signed form and appropriate payment to KTEC. The figures you report below are auditable according to our project agreement. Thanks for your timely response.

Project # _____ Report # _____
Company _____ Responsible Contact _____
Due Date _____

Report Covering ___ quarter ___ (from _____ to _____)
Product(s): _____
Royalty Basis: _____

Unit Sales: _____ Revenues: _____
Royalties for quarter (royalty basis times revenues): _____

*Payment of royalties is due within thirty days of the end of the quarter. Please remit payment along with this form.

Additional comments:

Signature of CEO/CFO: _____

Name: _____

Title: _____

QUESTIONS OF SENATOR PAT RANSON
SENATE COMMERCE COMMITTEE
JANUARY 12, 1995

TO: RICH BENDIS, PRESIDENT, KTEC

1: Why can't the mission of the technology-based venture-capital fund be directed to the established Kansas Venture Capital, Inc.?

If it cannot, why should the state continue to participate in the current Kansas Venture Capital, Inc?

2. How do we build in accountability and disclosure to the proposed venture-capital fund? i.e. conflicts of interest? propping up companies in which KTEC has vested interest beyond point of reasonable commercial potential?

3. Why must we go for high-powered out of state venture capital management?

4. How can we provide for geographic balance as enterprises are selected for investments?

5. How can we justify the use of state funds other than EDIF funds which are specifically allocated for economic development projects? Why should tax dollars or pension funds be used for high risk investments?

6. If funds are leveraged, and guarantees needed, who is liable for failed investment debt?

7. I have many detailed questions about the wording of the bill. It is far too general and open-ended. I will address these when the Revisor explains the bill to the Committee.

January 13, 1995
Commerce
Attachment 2

**Response to questions posed by Sen. Pat Ranson,
Senate Commerce Committee, January 12, 1995.**

1. Why can't the mission of the technology-based venture-capital fund be directed to the established Kansas Venture Capital, Inc.? If it cannot, why should the state continue to participate in the current Kansas Venture Capital, Inc.?

Kansas Venture Capital Inc. has established their mission to make the majority of their investments in existing corporations which have already demonstrated some level of success. This mission has evolved from the common shareholders and board of directors pursuant to the 1987 and 1989 securities offering memorandums, and venture capital legislation.

While they are willing to invest a small percentage of their portfolio in emerging technology-based businesses, it is not the core philosophy or strength of the existing board or management to alter their investment strategy to invest only in early-stage emerging technology companies. It appears also to be inconsistent with the common shareholders established goals both philosophically and potentially legally.

Kansas Venture Capital Inc. has been recognized by the Inspector General of the SBA in Washington, DC as one of the most efficiently run SBIC's in their program. As such, it appears that they are effectively and prudently filling a gap in a much bigger section of the states' venture capital needs, those being general business investment opportunities where the majority of the economy is situated.

Early stage technology investing requires a special set of skills and mind set and should be managed by individuals or entities that have demonstrated significant successes in this field.

Kansas Venture Capital Inc. should be evaluated on the merits of its own performance based on its current investment philosophy and should continue to be supported if it meets satisfactory return on investment and economic development goals.

2. How do we build in accountability and disclosure to the proposed venture-capital fund? i.e. conflicts of interest? propping up companies in which KTEC has vested interest beyond point of reasonable commercial potential?

The SBA has developed specific conflict of interest policies for all SBICs that are available for the Committee's review.

This technology venture capital fund will have an independent board of directors that the managing partners will report to. We will make certain that KTEC's and Ad Astra's interests are protected by encouraging some cross-board participation. The fund managers will make periodic updates of the activity of the fund to the Board and submit quarterly reports to all investors. A valuation committee would be established with regular audits by an external auditor who would also perform an audit of investment documents. In addition there will be a full board annual valuation meeting and this board of directors will have a fiduciary responsibility to the organization and their integrity to maintain as a director of this board.

The criteria for every investment in a technology-based company has to be made in order to maximize return on investment. This program will not be viewed as an economic development welfare program to prop up companies that do not have high commercial potential. This can be done by maintaining a distinct, arms-length relationship with the various boards and investment committees so that the same individuals are not making decisions in both organizations.

We would implement a tracking system to track all investments. A "big six" accounting firm would be retained to do the audit, and it would be a different "big six" firm than those which currently audit any of the KTEC entities.

3. Why must we go for high-powered out of state venture capital management?

One of the goals of establishing a technology-based venture capital fund will be to attract investors to Kansas from other regions of the country where the pockets of venture capital currently reside. There is a possibility that a co-manager will be willing to invest some of their own funds in the Kansas fund and thereby demonstrate their commitment to our state and enable us to access their established venture capital network of potential co-investors in our deals. This fund will not be successful if we only have access to Kansas risk capital dollars.

KTEC has a specific plan in mind for accomplishing this goal which we think would be in the best interest for all parties concerned.

4. How can we provide for geographic balance as enterprises are selected for investments?

This fund will operate on maximizing return on investment or internal rate of return. We cannot be accountable to the legislature, the governor, or the state, if we geographically disburse money rather than invest in those deals which provide the greatest return on the dollars invested.

5. How can we justify the use of state funds other than EDIF funds which are specifically allocated for economic development projects? Why should tax dollars or pension funds be used for high risk investments?

We are not recommending the use of other state funds. The committee received a copy of an earlier presentation piece that referred to KPERS. We concur that KPERS funds or general fund dollars should not be used in this technology-based SBIC. And, only EDIF dollars should be placed at risk.

6. If funds are leveraged, and guarantees needed, who is liable for failed investment debt?

This is non-recourse debt and no one has to guarantee it according to SBIC guidelines which eliminates the concern for unfunded liabilities..

7. I have many detailed questions about the wording of the bill. It is far too general and open-ended. I will address these when the Revisor explains the bill to the Committee.

The original long version of Senate Bill 13 is Kansas Venture Capital Inc's legislation. It has been modified to reflect a technology-based venture capital fund it and is more specific and less open ended than thr shorter bill. We will follow the Senate Commerce Committee's recommendation concerning which bill they feel most comfortable in introducing.

SENATE COMMERCE COMMITTEE

January 12, 1995

Donald B. Erickson
Extension Agricultural Economist, Kansas State University

EXTENSION'S ROLE IN ECONOMIC DEVELOPMENT

The mission of Community Economic Development Program is to strengthen, through education processes, the decision-making capacity of Kansas citizens who are addressing community and economic development issues. This is accomplished by:

- Providing perspective on local development issues.
- Increasing the knowledge base for community decisions.
- Assisting local decision-makers in obtaining the necessary leadership skills to achieve individual and community goals.
- Encouraging institutional structures promoting community development.

The nature and purpose of Extension educational programs is to plan, develop, conduct, and evaluate effective educational programs directed toward increasing the capacity of: individuals, groups, communities, and agencies in the state to identify and analyze opportunities for enhancing the development, establishment, or expansion of economic enterprises in rural Kansas in cooperation with other Extension community development related agricultural economics, and other appropriate faculty at Kansas State University, and to give leadership and support to county Extension personnel in conducting effective community enterprise development programs. This program is in addition to the traditional economic development programs that have been provided to farmers and ranchers for many years.

Economic analysis programs have been developed with the cooperation of many disciplines and many private and state agencies. The use of economic impact studies can be used to teach agribusiness users the importance of and the process of economic development for the firm and for the community.

Several economic feasibility studies have been prepared for various groups and individual investors. Some want to know the economic impact a proposal on individual communities in order to decide whether or not to continue the project. There have been several agriculturally related value added economic studies completed by Extension Agricultural Economics working with other departments and agencies indicating that development of new facilities or expansion of existing operations could contribute from \$900,000 to over \$10 million to the local economies. Some examples of special studies are as follows:

1. An economic impact of Special Olympics in Kansas. There are several Special Olympic events that occur in different cities, Winfield, Salina, Lawrence, Atchinson, Hays, and Wichita. Director Chris Hahn, Special Olympics Kansas, requested an economic impact that each of these events had on each community and the estimate this

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impact. The total economic impact for all six communities was about \$5.9 million each year.

Mr. Hahn said, "Prior to our initial conversation and upon reading the results of the study, I was at a loss as to our role in the economic picture of the state. I, like so many in a variety of areas, took our presence for granted. No more! The efforts of the Cooperative Extension analysis will provide a key element as we negotiate with host communities for services and support."

2. Rooks County was considering whether to consolidate or to remodel existing county wide school facilities and asked Cooperative Extension to provide some information that would be useful for the community to decide. The results indicated that additional classroom space was not needed because of declining enrollments. Cost comparisons were presented for remodeling existing buildings or building a new consolidated school. Results indicted the taxes would increase over the next 20 years to pay for the new school. The estimated \$10 million for the school for each of the school districts would be considerably more than budgeted capital outlays presently. No additional money would be brought into the county thus total financing would have to be fully financed from existing tax-based properties. Based on these results, the voters decided to not consolidate the school system and to remodel or build units as needed.
3. A system to analyze each locker plant operation was prepared and presented to the 22nd Annual Midwest Meat Processors Seminar. A detailed procedure was presented complete with tables to be completed by each manager. Three locker plants asked for extra assistance in analyzing their operation. One plant wanted additional information concerning the expansion into a new building. The city would help with some financing, and entrepreneur wanted to know about the economic impact and results of such an investment. The entrepreneur and his accountant have been taught how to analyze the operation and future opportunities for expansion.
4. Adding value to wheat increases income to rural areas. The new Kice Shortflow Flour Mill will provide the opportunity for small mills to be located in rural areas. This mill is manufactured in Wichita, and any use made of these mills will also benefit the plant in Wichita. The Walkingham Grain Elevator manager wanted to have an economic analysis of the plant for his location in Greeley County.

The size of the plant would mill 1,535,000 bushels per year, add six skilled jobs and provide an estimated \$900,000 economic impact to the local area plus the return on the initial investment.
5. Contract farrowing and finishing hogs by Farmland Industries and Dekalb offers producers a risk-sharing arrangement that does not violate the Kansas Corporation laws. Several separate studies of costs and economic impact analysis were completed.

Rural Electric Administration is using these studies as a basis for providing funding for the construction of the facilities. The contract farrowing and finishing hogs operation is estimated to have an initial investment of \$2.3 million with an additional longer-term economic impact of \$3.8 million. The Swine Breeder Program with an investment of about \$434,016 result in an economic impact of \$1.5 million. The 500 head capacity sow herd facility would require about \$964,315 investment and would result in about \$1.76 million income per year.

6. Small Business Administration (SBA) wanted to estimate the monetary impact of procurement and loans in Kansas. Loans used for investments are used to create jobs and income in various economic sectors throughout Kansas. In addition, SBA helps with Government procurement from small and disadvantaged businesses with more than \$1 billion in 1990. SBA loans of \$70 million in FY 1992 resulted in an overall impact of over \$133 million in Kansas. The total economic impact of this procurement program would be about \$2.2 billion for Kansas.
7. Working with Extension Specialists through the Kansas Value Added Center, a producer of alfalfa sprouts requested an economic analysis in addition to some technical help from the Agricultural Engineer. Initially, estimates were made without accurate data. Once accurate data was obtained, it was possible to determine a breakeven price per unit. The price paid by the buyer was below the cost of production. This provided the opportunity for negotiation with the buyer, Dillons Stores, who said the price could be increased to allow the price to be greater than the costs. Until this study, there was no knowledge of the cost of producing sprouts. Because of this educational assistance, this operation is still in business.
8. Turkey production in Kansas is increasing. Northwest Kansas farmers interested in raising turkeys requested a study for a 10,000 bird unit to raise the birds to slaughter weight. The hatchery and slaughter plant was included in the study as these are important aspects of the growing process. A total investment of \$364,595 that would produce about 65,000 birds per year would have a favorable economic impact of \$952,583 to the region. At this time, there have not been any interested producers seeking this opportunity.
9. A Chautauqua County strategic planning group requested a follow up of a program that started as a series of Extension educational strategic planning meetings. They requested a team of experts to help them with their strategic planning process. The team, representatives from REA, Department of Commerce, and Extension, visited the county for three days. During this time they interviewed many people and groups and prepared a report that will be used in the strategic planning process for development.
10. Rural Electric Administration requested an economic analysis for a very specialized type of cattle feedlot in Butler County. A small

lot of 3,500 capacity was requesting funding but required an economic impact statement before funding was granted. The total impact to the area was estimated to be \$5.5 million from a loan of \$1.9 million to build the facilities. This would result in 2.65 additional jobs in the area for each person employed at the feedlot.

11. A 4,000 and 1,200 head capacity dairy barn study that was completed in 1992 has created the opportunity for four different dairy barns to be started in western Kansas. A 4,000 head dairy barn in Hamilton County is being built by local investors. A 2,000 head dairy barn is being built in Seward County by a dairy producer family moving from California. These two will increase employment in southwest Kansas by at least 50 jobs plus the added income from the sale of the milk. In addition there are two more being constructed at the present time.

Forty million pounds of milk is imported from outside the state per month and an average of 16,000 pounds per cow per year would require the addition of over 35,250 cows. This would require an increase in the present number of dairy cows by 36 percent to 134,260, a number that has not occurred since before 1980.

Several commercial dairies have requested different analysis, prices, and economic impact analysis for commercial dairies. A 1992 publication, "Economical Guidelines for Developing Commercial Dairy Herds," is in the third printing. Copies have been sent to interested parties in California, Texas, Wisconsin, Saskatchewan and Kansas. The Southwestern Kansas Chamber of Commerce have used or distributed more than 30 copies.

KANSAS VALUE ADDED CENTER - KVAC

Value-added product development serves as an excellent opportunity to stimulate economic development in Kansas communities. A multi-disciplinary team of Kansas State University Extension specialists cooperate with KVAC to provide confidential technical assistance to Kansas food processors, agricultural producers and entrepreneurs for developing or improving agriculturally related value-added products.

Nineteen different economic analyses were provided to clients requesting economic analysis information concerning their products. There are many projects that the KVAC team deals with from the inception of an idea to assistance provided for the development of the product. Some of the assistance is providing guidance for the layout of the plant and equipment. Additional information has to be obtained for business planning and marketing of the idea to the final stage of commercialization. Some of the economic development aspects of various producers are as follows:

1. A frozen sweet corn initial feasibility project was requested by a group of interested corn producers and the Cloud Chamber of Commerce. During the summer of 1994, several farmers planted one acre of sweet corn to determine some of the production and

harvesting issues that will have to be dealt with. This winter they are getting specific bids on equipment and buildings. A complete economic analysis format and information on how to make changes and estimate the impact on breakeven prices was provided. The format to estimate breakeven prices for each ton delivered, input pound cost, return on investment, breakeven acres to keep the plant operating in addition to the annual fixed costs, variable costs and total costs was provided to the group so they will be able to make future estimates of their project.

2. Enchilada Dinner Economic Study provided estimates of two situations using different depreciations schedules for equipment producing salsa. Presently breakeven price per gallon and per case of salsa was figured. A cash flow was projected for the years, August 17, 1994 to December 31, 1997. This procedure has been requested several times as changes are made in the equipment and receipts.
3. A young entrepreneur has a brand of barbecue sauce called Sweet Fire. KVAC Extension specialists provided some technical, sanitary and economic guidelines that will be necessary for him to consider when he is ready to set up his system. He will be instructed to make additional economic and technical analyses without assistance from the KVAC team.
4. A producer of many chocolate products requested and received an educational program and help to set up a spreadsheet on his computer. This included an economic analysis procedure for various chocolate recipes and breakeven costs for different levels of production. His managerial experience and knowledge of product costs was purchased by another Kansas company.
5. A gentleman who is presently living overseas, started a company called Maple Street Foods, Inc. He inquired about economic costs of producing spaghetti sauce. He is interested in setting up a new processing facility in Kansas when he returns to the U.S.
6. A young entrepreneur, interested in gourmet meats asked for assistance to estimate breakeven costs for specialty meats. He was asked to be more specific concerning equipment and products before any kind of economic analysis could be made.
7. Grandma Hoerners owners asked for an initial meeting to get acquainted and to develop an economic and marketing plan for setting up a new applesauce operation in Kansas.
8. A gentleman from western Kansas requested a preliminary cost estimate of pickled tomatoes. These were developed based on initial estimates provided by letter. The costs per case did not seem to be reasonable and the importance of accuracy and alternative production levels were clearly understood. Additional information will be forthcoming plus continued interest in learning about the costs of production.

9. A specialized restaurant utilizing Angus cattle produced on their farm is being considered by the owners of the farm. The initial meeting began the process of collecting equipment costs, building costs and estimating the kind of menus that will be offered. The entrepreneur is going to attend a restaurant management course at KSU to pick up some ideas for planning a unique restaurant. Additional work will be forthcoming after the initial information is collected.
10. Information concerning the economics of corporate operations was provided to interested people. This information was used to provide some educational inputs for additional hog operations or dairy barns in Northwest Kansas. A report indicating the different economic impacts for each facility and an explanation of the legal organizations and their economic impact was prepared.
11. A farmer interested in the economics of wheat straw logs needed help with an economic analysis of his operation to provide additional information to apply for grants and loans.

PRIDE PROGRAM

The Kansas PRIDE Program is a self-help program through which people can take the initiative in making their community a better place to live and work. It is co-administered by the Kansas State University Cooperative Extension Service and the Kansas Department of Commerce & Housing. Private sector companies and associations operating in Kansas provide program direction and financial support for community achievement cash awards and related program activities each year.

The PRIDE program is intended to encourage all communities, regardless of size, to initiate and carry out a program of total community development. It includes many facets of community development such as planning, economic development, community services, utilities, housing, transportation, education, community enrichment and energy conservation. A PRIDE Review for 1993 is one of the extra pieces of material available.

DIRECT PROGRAM

Working with other agencies, the DIRECT program has made over 200 referrals to other state agencies such as Kansas Department of Commerce & Housing (KDOH&C), Department of Agriculture, and Department of Health and Environment. Some of the work that has been done with others include:

1. Develop the "First Impression Program" was tested in six communities with assistance from KDOC&H field staff who made revisions that improved the program. This program is being used by community leaders to start development programs in their communities.
2. Collaboration with KDOC&H, Kansas Rural Development Council (KRDC), Association of Counties and Kansas Technology Enterprise Corporation

(KTEC) to produce a video on multi-community collaboration using the cooperation of Coffee, Woodson and Allen counties.

- 3. Collaborated with KRDC to build a self-standing computerized resource data base containing 280 business and economic programs of state and federal agencies. Distribution of information has been made to County Extension Agents, libraries, various state agencies, Economic Development Associations, and Chambers of Commerce.
- 4. Collaborated with MAMTEC in technology transfer to rural manufacturers. Has scheduled a conference with several panelists including Tom Hull, SBDC; Steve Kelly, KDOC&H; MAMTEC staff, and Kansas Value Added Center specialists.

FOCUS TOPICS

In planning for the next four years, Cooperative Extension specialists plan to develop a series of multidisciplinary extension programs that will be called "FOCUS TOPICS." The "FOCUS TOPICS" for Major Program Development were based on a series of town meetings held by the Associate Director of Extension and his staff in conjunction with local Extension board members in the following towns: Erie, Meade, Stockton, McPherson, Colby, Wichita, Garden City and Olathe.

Citizens of each of these communities were invited from all segments of the community to spent 4.5 hours discussing issues that KSU Cooperative Extension should be addressing in future educational programs. There were two threads that seemed to link many of the expressed issues together -- our families and our communities are not as strong as they need to be.

The dynamics of each town meeting were somewhat different due to the mix of participants and the concerns or priorities that were discussed. The major categories are listed in order of the priority indicated by input from all eight meetings.

- 1. Family Relationships and Human Development
- 2. Youth Development
- 3. Agricultural Economic and Social Issues
- 4. Strengthening Communities
- 5. Tied for fifth
 - Health, Wellness and Nutrition
 - Crime/Violence/Drugs
 - Environmental Stewardship and Management
 - Water Resources
 - Empowering Leaders and Volunteers
 - Family Resource Management

These topics plus the remaining were combined into:

- 18 - Agriculture & Natural Resources/Community Development programs,
- 8 - Home Economics Programs,

- 4 - 4-H Programs, and
- 3 - Organizational Programs.

One of the FOCUS programs is called COMMUNITY ECONOMIC DEVELOPMENT AND RURAL VIABILITY (CEDRD). There are 18 people on this committee from eight departments and administration, two area Extension Specialists, and two County Extensions Agents.

There are several other FOCUS programs represented by members on this committee. In addition many of these members are on several other committees; I am a member of three other FOCUS committees. There is a concerted attempt by each committee to deal with and coordinate issues and not worry about departmental, college or university boundary lines. Attached is a copy of the "FOCUS TOPIC" - CEDRD and additional information about some of the above programs.

FOCUS
COMMUNITY ECONOMIC DEVELOPMENT AND RURAL VIABILITY
 Cooperative Extension program

How does this program benefit the Public?

Kansas Communities will identify, manage and coordinate public and private resources to continually enhance the quality of life.

What is Extension's mission?

To provide public and personal education, some technical services and research to Kansas communities so that local leaders and entrepreneurs can assess their situation, determine goals, and take specific actions to make informed decisions.

What is the problem, need, or opportunity?

The major issue facing rural communities is the loss of income and human capital base to support rural communities. Most community leaders have full time jobs in addition to managing a rural community and as such do not have the time and resources to research various alternative programs and industrial opportunities that would be of economic benefit to the local community. Many rural communities attempt to develop an overall strategic economic development program. Many of these attempts are often associated with limited leadership abilities and too small an area with no or limited coordination with other near-by communities.

What is Extension's objective in offering this program?

1. Community leaders will be able to develop their capacity to make and implement informed investment and community decisions.
2. Kansas community leaders will:
 - * develop and adopt organizational structures,
 - * recognize and have access to appropriate and timely information,
 - * develop and implement strategies for decent and affordable housing/infrastructure/public services, and
 - * implement job and enterprise development strategies to maintain economic stability and rural viability.

How is Extension going to help Kansans reach this objective?

1. Partner with groups having similar interests:
 - * Kansas Value-Added Center.
 - * Kansas Department of Agriculture.
 - * Kansas Department of Commerce and Housing.
 - * Farmers Home Administration.
 - * Kansas Electric Power Cooperative Inc.

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 Attachment 4

- * Private businesses.
- * Local government officials.
- * Local economic development and planning groups.
- * Chambers of Commerce.
- * Area economic development planning organizations.
- * State Health planning organizations.
- * Kansas State University Community Development - Rural Development FORUM.

2. Conduct necessary applied research:

- * DIRECT program will provide a point of contact to questions concerning business, economic and rural development.
- * Population data base by county and area for program development and analysis for local planning organizations.
- * KSU Community Development - Rural Development FORUM includes faculty that are interested in conducting research projects based on issues identified in communities throughout the state.
- * Conduct technical and feasibility studies that will provide assistance for evaluating new or expanded enterprises.
- * Programs to assess housing needs of various types of communities.
- * Retail trade research
- * Community vitality analysis
- * Economic base studies

3. Provide relevant materials and educational strategies:

Materials:

- * Brochures indicating how to contact and use the DIRECT Program.
- * Provide updated demographic information to Extension agents and local governments about their county and area for program development activities.
- * Develop 1) "population data - census information" and 2) "situation and trends" for each county.
- * Completed research studies and analyses will be provided to the relevant communities and businesses.
- * Housing assessment summaries will be developed to the community leaders.
- * Update Kansas Rural Development Council computerized resource data base.
- * PRIDE Program material and continued organizational assistance.
- * Leadership programs are available with the "Development Effective Leaders" program.

Educational Strategies:

- * Provide satellite conferences, telenet conferences, videotapes, PBS television, and face-to-face meetings

for communities seeking resources concerning economic development and rural viability.

4. Partner with agents in:

In-service education:

- * Develop an educational program and information for agents that includes economic and organizational alternatives toward new county extension program districts.
- * Create awareness and understanding of opportunities for utilizing existing agricultural and nonagricultural resources and products as a base for enterprise development.

Presenting information at local meetings and one-on-one:

- * Program delivery using telecommunication and other types of videos, PBS television, and personal face-to-face meetings as tools to develop:
 - a. classes and training using various locations that have down-link facilities,
 - b. a local facilitator to answer or find answers to questions raised by participants and,
 - c. video or tape presentations and provide for a local facilitator to keep the person to person contact that has been established by Extension.
 - d. State contacts to answer questions and provide a facilitator.

5. Provide education and technical services to customer:

- * To develop and present a curriculum for local Extension and RC&D boards.
- * To present both interpersonal skills and structural information in areas such as:
 - a. communications,
 - b. working with diverse people,
 - c. developing effective committees,
 - d. advising committees, and
 - e. facilitating interactions of local governmental boards, commissions, and councils and to foster networking and collaboration.

Contact Person: Gayla Randel.

- * Strategic Planning program will
 - a. assist in organizing a strategic planning committee for communities and/or county, and
 - b. help leaders develop community economic goals.
- Contact Person: David Darling.

- * Develop an educational program and information that includes economic and organizational strategies toward new county extension program districts.

Contact Person: Donald Erickson

- * The PRIDE program provides assistance:
 - a. to organize local citizens for community improvement,
 - b. to identify and prioritize improvement needs,
 - c. to establish community goals & projects,
 - d. to help communities find the resources to implement improvement projects,
 - e. to evaluate the quality of their facilities and services and to offer suggestions as to how the facilities and services might be improved, and
 - f. to give state-wide recognition to the communities that have made significant progress in improving their community.

Contact Person: Stan McAdoo.

- * Economic services:
 - a. Teach rural and community economic development strategies,
 - b. Guide community groups as they address and resolve economic issues,
 - c. Assist those involved in downtown revitalization,
 - d. Assist those interested in rural retail trade issues,
 - e. Analyze community strengths, retail trade and forecast impacts of economic change.

Contact Person: David Darling

- * Leadership services:
 - a. Guide county-wide and city-wide groups as they organize leadership training programs,
 - b. Train leaders on a variety of community, economic, planning and mega trends subjects.

Contact Person: David Darling

- * The DIRECT Program will:
 - a. Provide a point of contact for those with questions regarding business, economic and rural development,
 - b. link entrepreneurs, businesses, and firms with available expertise and specialized business assistance in both the private and public sector.

Contact Person: E. J. Sisk.

- * Feasibility studies and enterprise development activities will:
 - a. assist in developing, establishing, and expanding economic enterprises,
 - b. identify information resources and analytical procedures that select potential opportunities for economic development,

- c. assist in the development of community action plans to encourage new enterprise development leading to increased job and income opportunities,
- d. create awareness and understanding of opportunities utilizing Kansas' agricultural and nonagricultural resources and products.

Contact Person: Donald Erickson.

- * Decent and affordable housing programs will also identify various funding sources for communities to access.

Contact Person: Marilyn Bode.

- * Local government educational programs for newly elected government officials will provide programs concerning the operation of county and city governments.

Contact Person: Ronald Young.

- * Provide health care community development programming and planning.

Contact Person: Ronald Young.

- * Home-based businesses will be assisted with specific information that will support local efforts to expand or develop new products or services in the home.

Contact Person: Margaret Neal.

- * Kansas Value-Added Program will:

- a. provide programs that estimate economic feasibility or a new or expanded Kansas product,
- b. provide assistance for evaluating the technical, nutritional, and processing aspects of a new or expanded product,
- c. coordinate marketing and promotion with other state agencies involved in new product development.

Contact Person: David Hurt.

- * Tourism programs will analyze opportunities within a community based on the resource base.

Contact Person: Daryl Buchholz.

- * Explain economic alternatives and possible impact of corporate farming on local communities.

Contact Person: Donald Erickson.

- * Waste management/Biosolids Programs will identify pollution controls and strategies for maintaining natural resources.

Contact Person: William Eberle.

What are the outcomes of the program?

1. Long-range outcomes customers want:
 - * Empowered communities.
 - * Enhanced community capacity to make and implement informed decisions.
 - * Improved quality of life.
2. Indicators of accomplishments and measurement from 1996 - 1998:
 - * Increased knowledge of programs addressing issues of leadership (communication, group process and team building skills), strategic planning, community goals, information resources, enterprise development, local government, housing, health care, home-based businesses, value-added programs, tourism, corporate farming, and waste management.
 - * Comparison of leadership (strategic planning, etc.) program participants' knowledge before and after instruction. This will be done by the actions taken based on the information and educational programs provided.



Office of
Dean of Agriculture
Director of Agricultural Experiment Station
Director of Cooperative Extension Service
113 Waters Hall, Manhattan, Kansas 66506-4008
913-532-6147 FAX: 913-532-6563

MEMORANDUM

*Extension
Systems and
Agricultural
Research
Programs*

*Cooperative
Extension
Service*

*Agricultural
Experiment
Station*

*International
Programs*

*College of
Agriculture*

*Academic
Programs*

TO: Lynn Holt
Legislative Research Services

FROM: Marc A. Johnson *MAJ*
Dean and Director

DATE: January 18, 1995

SUBJ: ECONOMIC DEVELOPMENT

I would like to add a statement to my January 17 response to your inquiry about economic development resources in the Cooperative Extension Service:

County Extension Council Law (K.S.A. 2-611c) and Extension District Law (K.S.A. 2-625a) require that each extension council have a Program Development Committee (PDC) to develop educational initiatives relating to economic development. The campus resources devoted directly to support economic development initiatives at the state and county levels are represented by the figures I reported to you January 17. Additional staff effort is applied through county extension offices on economic development initiatives.

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**FUNDING FOR EXTENSION
BRIEF SUMMARY OF HOW KANSAS COOPERATIVE EXTENSION
RECEIVES AND SPENDS ITS FUNDING**

Marc A. Johnson
Director of Extension

The Kansas Cooperative Extension Service is a three-way partnership between County Extension Councils in 105 counties, Kansas State University, and the Extension Service of the United States Department of Agriculture. Funds to operate this partnership are provided by taxpayers through county commissioners, the state legislature and the federal Congress. In addition, limited funding is provided by grants for special educational activities. The responsibility for these monies is a shared management team composed of the county executive boards, the director of extension, and the administration of the extension system USDA.

Table 1 contains a summary of sources of all funds for extension programs for 1993-94. Funds were provided by county, state, and federal appropriations. Forestry funds include the funds obtained for state and extension forestry from a cooperative agreement with the U.S. Forest Service, receipts from tree distribution program and other agencies. The other category includes primary farm management association membership fees and from sales of publications and other receipts. Extension funding was \$36,596,358 in 1993-94 with 35.1% from county sources, 38.1% from state appropriations, 17.2% from federal appropriations and with forestry and other making up the remainder.

Table 2 shows the federal funding break down for the items included in line 3 of Table 1. All funds must be spent according to specific guidelines. The general funds have more flexibility for funding the broad base program for extension. In case of the restricted funds that are available to support special programs under specific guidelines. For general expenditures of the Smith Lever funds the state legislature authorizes a maximum expenditure level. Any balance above legislative authorization is deposited in the Federal Reserve Bank.

Table 3 is a broad based summary of all expenditures (county and state) for all sources of funds (excluding contracts) for extension in Kansas. The salary expenditures for unclassified personnel includes county extension agents, area and state specialists and administrators.

Table 4 gives the amount of direct support from state and federal funds to counties. The contribution of fringe benefits on the total salary of agents, publications, and penalty mail makes a sizeable contribution in addition to salary for agents. State and federal funds are used to pay the full salary of agents in training before they are paid from the employing county funds.

Table 1. Sources of Extension Funds, 1993-94

County	\$12,859,214	35.1%
State	13,947,858	38.1%
Federal	6,299,003	17.2%
Forestry	1,303,697	3.6%
Other	2,186,586	6.0%
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TOTAL	\$36,596,358	100.0%

Table 2. Federal Funds, 1993-94

	General	Restricted	Total
Smith-Lever Formula	\$4,370,426	\$ 144,600	\$4,515,026
EFNEP		697,451	697,451
Farm Safety		19,019	19,019
Integrated Pest Mgmt.		155,200	155,200
Pest Impact Assessment		43,693	43,693
Renewable Resources		38,748	38,748
Water Quality		55,000	55,000
Retirement		744,868	744,868
Nutrition Education		30,000	30,000
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TOTAL	\$4,370,426	\$1,928,577	\$6,299,003
State Legislated Maximum	\$4,130,438		
Penalty Mail		\$ 331,611	

Table 3. Expenditures 1993-94
(All Funds, Excluding Contracts)

	DOLLARS	PERCENT
Salaries		
Unclassified	\$18,281,611	49.7%
Paraprofessional	345,074	.9%
Classified	4,990,262	13.6%
Health, Life Insurance	1,745,710	4.7%
Retirement	2,895,316	7.9%
Travel	1,030,600	2.9%
Other Operating	6,854,127	18.6%
Penalty Mail	609,883	1.7%
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TOTAL	\$36,752,583	100.0%

Table 4. Direct Support to Counties, 1993-94

	State	Federal	Total
Agent Salaries	\$1,801,864	\$1,214,298	\$3,016,162
F.I.C.A.	81,554	51,939	133,493
Retirement	49,345	584,858	634,203
Health and Life	163,652	584,048	747,700
Other State Benefits	32,583	20,356	52,939
Publications	335,393	-	335,393
Penalty Mail	-	290,000	290,000
	<hr/>	<hr/>	<hr/>
TOTAL	\$2,464,391	\$2,745,499	\$5,209,890
EFNEP (4 counties)	-	630,011	630,011
	<hr/>	<hr/>	<hr/>
GRAND TOTAL	\$2,464,391	\$3,375,510	\$5,839,901