

Approved: 1-31-00
Date

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE.

The meeting was called to order by Chairperson Senator Audrey Langworthy at 11:10 a.m. on January 27, 2000, in Room 519-S of the Capitol.

All members were present except: Senator Greta Goodwin – Excused

Committee staff present: Chris Courtwright, Legislative Research Department
April Holman, Legislative Research Department
Shirley Higgins, Committee Secretary

Conferees appearing before the committee: Bradley Douglas, U.S. Small Business Administration
David Long, Johnson County Certified Development Co.
Jeff Berke, CJS Industries, Inc.
Randall Hrabe, Kansas Assn. Of Certified Development Cos.
Marlee Bertholf, Kansas Chamber of Commerce & Industry
Senator Harry Stephens
Adrian Polansky, State Director of USDA

Others attending: See attached list.

SB 406–Income taxation; credit for certain expenses incurred by a small business

Bradley Douglas, Regional Advocate for the U.S. Small Business Administration, testified in support of **SB 406**. He explained that, besides serving as one of the largest resources for small business information and statistics, Advocacy has the role of impacting proposed federal regulations and assessing legislation that affects small businesses. He informed the Committee that, since October 1995, the number of SBA guaranteed loans has been steadily dropping which means small business owners have begun to have more difficulty in securing federally guaranteed loans. One of the reasons for the drop-off is the fee a small business owner must pay to obtain a SBA loan. The solution to this problem is legislation providing a state tax credit equal to the fees that small business owners pay on SBA loans. (Attachment 1)

David Long, Johnson County Certified Development Company, testified in support of **SB 406**. After describing a few small business that have expanded with the help of federally guaranteed loans over the past few years, he noted that, unfortunately, SBA loans have decreased over the same time period, mainly because of an increase in fees paid by business at the federal level to use SBA loans. He believes passage of **SB 406** would make a friendly statement to Kansas small business taxpayers and to the nation that Kansas is small business friendly. (Attachment 2)

Jeff Berke, General Manager of a small business in Topeka called CJS Industries, told the Committee that approximately 6 ½ years ago his small business was able to start up solely due to the availability of financing through SBA which guaranteed one-half of the start-up debt. He commented that, although much effort is spent putting together lucrative incentive packages to bring large companies to town, not much is done to entice local persons to open small businesses. He believes the proposed tax credit in **SB 406** is an incentive for small businesses which the state can provide with a minimum amount of risk. (Attachment 3)

Randall Hrabe, Executive Director of Pioneer County Development, Inc., and President of the Kansas Association of Certified Development Companies, testified in support of **SB 406**. He believes the tax credit would create an extra incentive to start a small business, thus creating jobs and future revenue for the state. (Attachment 4)

CONTINUATION SHEET

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE
Room 519-S, Statehouse, at 11:10 a.m. on January 27, 2000.

Marlee Bertholf, Kansas Chamber of Commerce and Industry, testified in strong support of **SB 406**. She emphasized that small businesses are very important to the Kansas economy and that the bill would improve the availability of business credit to small business. As a result, the Kansas economy would be strengthened. (Attachment 5)

Senator Langworthy called attention to written testimony submitted in support of **SB 406** by the following: Christy Caldwell with the Greater Topeka Chamber of Commerce (Attachment 6), G. Eugene Troehler with the Overland Park Chamber of Commerce (Attachment 7), and Chuck Stones with the Kansas Bankers Association (Attachment 8).

SB 452—Income taxation; credit for certain operating loan expenses incurred by a farming business

Senator Harry Stephens called attention to written testimony submitted by Senator Steve Morris in support of **SB 452** (Attachment 9) and followed with testimony in support of the bill. Senator Stephens noted that the robust economy of the nation has not reached the Kansas agriculture economy. Similar to the tax credit provided in **SB 406** for small business, **SB 452** allows a tax credit in the amount of the guaranty fee on an operating loan paid to the Farm Service Agency (FSA) of the U.S. Department of Agriculture by an eligible farming business. He believes that **SB 452** would benefit hundreds of struggling Kansas farmers and ranchers throughout the state. (Attachment 10)

Adrian Polansky, Director of the Kansas FSA, said he is neither a proponent or opponent of **SB 452** but came to provide information to the Committee. He explained that the FSA administers various farm programs, including farm loans. When FSA approves a guaranteed loan, the lender must pay a guarantee fee to FSA. The lender passes the guarantee fee on to the borrower. In many cases, the guarantee fee is rolled into the loan and paid over the life of the loan. To give the Committee an idea of a typical year of FSA guaranteed lending in Kansas, Mr. Polansky provided actual figures for Fiscal Year 1999. He explained how the fees are calculated, noting that total guaranteed fees paid by Kansas farmers in Fiscal Year 1999 was approximately \$487,000.00. (Attachment 11) Mr. Polansky introduced Arlyn Stiebe, also with FSA, who assisted in answering questions from the Committee.

Senator Langworthy confirmed with staff that the revised fiscal note on **SB 452** is \$1.5 million per year.

Written testimony in support of **SB 452** was submitted by Chuck Stones, Kansas Bankers Association. (Attachment 12)

The meeting was adjourned at 12:08 p.m.

The next meeting is scheduled for January 31, 2000.

SENATE ASSESSMENT AND TAXATION COMMITTEE GUEST LIST

DATE: January 27, 2000

NAME	REPRESENTING
<i>Judith Ham</i>	<i>DOR</i>
<i>David Ziv</i>	<i>KDOR</i>
<i>Adrian J. Polansky</i>	<i>USDA - FSA</i>
<i>Arthur L. Stiege</i>	<i>USDA - FSA</i>
<i>Israel Douglas</i>	<i>Advocacy - SBA</i>
<i>David C. Long</i>	<i>Johnson County Certified Develop. Co.</i>
<i>Randall J. Hrabec</i>	<i>Pioneer Country Dev. Inc</i>
<i>RICHARD BODWALD</i>	<i>_____</i>
<i>Jamie Rutherford</i>	<i>KACDC</i>
<i>Stan Parsons</i>	<i>KGC</i>
<i>Connie Fischer</i>	<i>KDOCH - Ag. Division</i>
<i>Mary Becker</i>	<i>Kansas Respond</i>
<i>Nancy Karasik</i>	<i>Senate Minority Office</i>
<i>Doug Hollman</i>	<i>Western Kansas</i>
<i>John Frederick</i>	<i>Boeing</i>
<i>Chuck Stones</i>	<i>KBA</i>
<i>Jennifer Honas</i>	<i>Steve Montgomery</i>

TESTIMONY
on
KANSAS SENATE BILL 406
TAX CREDITS for SBA GUARANTEE LOAN FEES

Before the
KANSAS LEGISLATURE
SENATE COMMITTEE FOR ASSESSMENT AND TAXATION

By
Brad Douglas
REGIONAL ADVOCATE FOR SMALL BUSINESS
Office of Advocacy
U.S. Small Business Administration

January 27, 2000
Room 519-S, Capitol Building

Senate Assessment & Taxation
1-27-00
Attachment 1

Madam Chairman and Members of the Committee, it is my privilege to be here today to provide comments on Senate Bill 406. I would ask that my written comments be made part of the hearing record.

My name is Brad Douglas and I am the Regional Advocate for Small Business for Region VII, including the states of Kansas, Iowa, Missouri and Nebraska. I was appointed to this position one year ago. Prior to coming back home to the Kansas City area, I had the privilege of serving as the Associate Administrator for the U.S. Small Business Administration (SBA) as the head of Field Operations and as the Deputy for Congressional Affairs. I am a resident of Leawood, Kansas.

The Office of Advocacy is the only non-partisan agency of its kind in the federal government. Congress created the Office in 1978 to represent the interests of small business owners before Congress, the Federal agencies and the White House. In addition to the Chief Counsel's staff in Washington, D.C., there are nine other Regional Advocates like me across the United States – one for each of the 10 Federal Regions. The Office of Advocacy is a close partner with and is housed by the SBA. It serves, however, as an independent resource for small businesses with the mission of encouraging policies that support the development and growth of American small businesses. That is just one of the many reasons we enjoy close working relationships with the leading business trade organizations. The current Chief Counsel for Advocacy, a Senate-confirmed position, is Jere Glover.

Besides serving as one of the largest resources for small business information and statistics, Advocacy has the role of impacting proposed federal regulations and assessing legislation that affect small businesses. Senate bill 406 would have a direct impact on the small business owners in Kansas.

Small business, as you know, drives the Kansas economy. In 1997, 97.2 percent of the businesses in Kansas were small businesses with employees. The state also had an additional 134,000 self-employed persons. From 1992 through 1996, small businesses, meaning those with fewer than 500 employees, were credited with creating all of the net new jobs in Kansas.

For the past several years, it is clear that SBA's guarantee loan programs have impacted small businesses in Kansas. SBA provides a guarantee of up to 90 percent to lenders providing SBA loans to small business owners. The success of SBA loan recipients provides positive effects on small business stakeholders such as employees, communities and taxpayers. A 1992 Price Waterhouse study determined that one new job was created for every \$35,000 that is guaranteed by the SBA for loans to small business owners. In Kansas, SBA approved nearly \$215 million in loans to small business owners between 1995 and 1998. Over 3700 jobs were created and nearly 5000 jobs were retained in that period – a tremendous contribution to the state's economic development.

It is common knowledge, however, that one of the highest barriers to small business owners is access to capital. You may not realize this, but since October 1995, the number of SBA-guaranteed loans has been steadily dropping. This drop means small business owners have begun to have more difficulty in securing federally guaranteed loans.

One of the main reasons for this drop-off, according to SBA District Directors across the country, is the fee a small business owner must pay to obtain an SBA loan. Congress raised these fees, which had been two percent, to as much as 3.875 percent in October 1995 in order to help lower the overall costs of the loan programs.

What does this all mean? In real terms, it means that if a small business were to seek an \$800,000 loan, and could only get the financing through an SBA-guaranteed loan, the business would have to pay \$20,125.00 in additional fees. Since a small business might not have more than \$20,000 in profits, you can see that these fees could have a chilling effect.

What's the solution? Four states in the nation have passed legislation that providing a state tax credit equal to the fees that small business owners pay on SBA loans. Oklahoma and Rhode Island were the first states to pass this legislation. Last year, Connecticut and Missouri became the other two state legislatures to pass this economic development legislation. Several other states, including Iowa, California, Hawaii, and New York are now working to pass this legislation in one form or another.

So far, the results seem to be quite positive. In Rhode Island, for example, SBA claims that the number of SBA-guaranteed loans in that state has nearly doubled since 1994 when this legislation was passed. Connecticut legislators, in passing their legislation last year, claimed that there was no opposition to the SBA guaranteed tax credits.

Madam Chairman, there is no doubt that small businesses in Kansas would benefit from a tax credit on SBA-guaranteed loans. It is a fact that the passage of Senate Bill 406 would put Kansas on the cutting edge of this type of legislation across the country and would positively impact the backbone of this state's economy.

Thank you again for the opportunity to provide this information. I am happy to answer any questions.



Office of Advocacy

1998 SMALL BUSINESS PROFILE

SMALL BUSINESS: HEART OF THE KANSAS ECONOMY

The importance of small business to the state of Kansas is apparent in the 1998 Small Business Profile. This year's findings, compiled by the U.S. Small Business Administration's (SBA) Office of Advocacy, indicate that small businesses are vital to the state's economy. Not only do small businesses play a critical role by efficiently reallocating the state's resources and injecting new ideas into the economy with business starts and stops, but their diversity and composition provide the work force with many opportunities.

Number of Businesses - In 1997, Kansas had 65,155 businesses with employees; 97.2 percent of the businesses were small businesses (percent based on 1995 data for businesses with fewer than 500 workers). In addition to the number of employer businesses, the state also had 134,000 self-employed persons in 1997.

Small Business Income - The income of sole proprietors and partners rose 2.6 percent to \$4.4 billion in 1997, while wage-and-salary income rose 7.0 percent. The state also exported \$5.1 billion of goods in 1997. (In 1992, 75.3 percent of the exporters in the state were small businesses.)

Women-Owned Businesses - According to The National Foundation for Women Business Owners, as of 1996, there were 83,500 women-owned businesses in Kansas, including part-time firms, employing 160,900 people and generating \$20.2 billion in sales. Between 1987 and 1996, the number of women-owned businesses increased 43.5 percent.

Minority Businesses - According to the latest Bureau of the Census data, the number of black-owned firms, including part-time firms, increased 32.5 percent from 1987 to 1992, totaling 3,078 in 1992. The number of Hispanic-owned firms, including part-time businesses, rose 55.5 percent during the same time period with 2,396 firms in 1992. There has also been a marked increase in the number of businesses owned by Asian and Pacific Islanders, American Indians, and Alaskan Natives. The number for this group grew from 1,366 in 1987, to 1,842 in 1992, representing a 34.8 percent increase.

Business Turnover - Between 1996 and 1997, the number of new firms increased 8.2 percent, while new business incorporations increased 10.8 percent. Financial difficulties leading to business bankruptcies decreased by 1.9 percent and business failures increased by 14.1 percent.

Finance - An SBA Office of Advocacy study found that the number of banks in Kansas decreased from 476 in 1994 to 408 in 1997. The study also found the top lenders to small businesses in FY 1997 were:

Bank Name	Location
FIRST NB OF CONWAY SPRINGS	Conway Springs
PEOPLES B&TC	Mcpherson
FIRST NB	Palco
FIRST NB OF SCOTT CITY	Scott City
IOLA B&TC	Iola
CONSOLIDATED ST BK	Hill City
LEAVENWORTH NB&TC	Leavenworth
TRI-CITY NB	Washington
UNION ST BK	Arkansas City
UNITED NB	Natoma
BANK	Oberlin
FIRST NB OF WELLINGTON	Wellington
FARMERS & MRCH BK OF HILL CI	Hill City
FIRST NB&TC	Phillipsburg
FARMERS B&TC NA	Great Bend
CITIZENS ST BK OF MARYSVILLE	Marysville
SUNFLOWER BK NA	Salina
INTRUST BK NA	Wichita

Small businesses seeking loans should also consider banks that participate in SBA loan programs. To locate an SBA preferred or certified lender near you, call 1-800-8-ASK-SBA.

Job Growth - From 1992 to 1996, small businesses (fewer than 500 employees) created all of the net new jobs. The figures below indicate the importance of small businesses as job creators.

Number of Jobs Created by Major Industry and Employment Size of Firm, 1992-1996

Industry	1-4	5-19	20-99	100-499	500+	Totals
All Industries	15,736	17,939	13,926	29,516	(7,905)	69,212
Manufacturing	670	2,377	2,398	2,302	(2,959)	4,789
Retail Trade	2,519	2,813	2,954	1,368	(2,534)	7,120
Services	11,228	7,920	8,678	24,671	7,005	59,502
Other	1,319	4,828	(103)	1,174	(9,417)	(2,198)

Industries - Small firms in the state are represented in many industries. The Health Services industry is the largest small business employer in Kansas, followed by Eating & Drinking Places. The fastest growing industry for small business is Transportation Equipment (represents industries that were at least 0.25 percent of the 1995 total). The following three tables provide information about the small business sector in the state.

Table 1, Top Five Industries by Employment, 1995

Industry	SIC	Total Empl.	Percent of total	Percent small
Total - All Industries	1	981,925	100.0	57.2
Health Services	8000	119,108	12.1	48.0
Eating & Drinking Places	5800	79,970	8.1	69.0
Business Services	7300	51,188	5.2	57.0
Transportation Equipment	3700	42,155	4.3	12.4
Wholesale Trade - Durable Goods	5000	41,036	4.2	72.7

Table 2, Top Small Business Industries by Employment, 1995

Industry	SIC	Small Bus. Empl.	Percent of total	Percent Small
Total - All Industries	1	561,236	100.0	57.2
Health Services	8000	57,205	12.1	48.0
Eating & Drinking Places	5800	55,143	8.1	69.0
Wholesale Trade - Durable Goods	5000	29,839	4.2	72.7
Business Services	7300	29,201	5.2	57.0
Special Trade Contractors	1700	28,897	3.1	93.9

Table 3, Fastest Growing Industries in Employment for Small Business, 1994 - 1995

Industry	SIC	Small Bus. Empl. 1995	Net change	Percent change
Total - All Industries	1	561,236	17,577	3.1
Transportation Equipment	3700	5,242	1,215	23.2
Primary Metal Industries	3300	1,605	345	21.5
Chemicals & Allied Products	2800	2,017	271	13.4
Business Services	7300	29,201	3,740	12.8
Transportation Services	4700	2,238	241	10.8

Sources: Office of Advocacy, U.S. Small Business Administration from data provided by the Department of Commerce, Department of Labor, Administrative Office of the U.S. Courts, Federal Reserve Board, Dun & Bradstreet Corporation, National Foundation for Women Business Owners, and Cognetics, Inc.

KANSAS SMALL BUSINESS TAX CREDIT

What is it?

This proposal would provide a tax credit to Kansas small businesses equal to the guaranty fee paid to the U. S. Small Business Administration (SBA) pursuant to obtaining SBA guaranteed financing.

What is the merit of such legislation?

Economic development has been a priority for the State of Kansas for the past decade. In the last year, however, job creation and retention has been significantly reduced for small businesses that secure federally guaranteed loans. The reason for this drop can be attributed to Kansas banks, prior to October 13, 1995, were enhancing economic development through making a greater number of higher risk loans to small businesses. These were loans guaranteed by the federal government through the Small Business Administration. They were loans that would never have been made without a guarantee.



You may recognize these Kansas companies that received assistance with one of these high-risk loans:

Darwin Industries, Inc.
Coffeyville, Kansas

El Charro, Inc. d/b/a El Charro
Garden City, Kansas

Gelato Caffè'
Wichita, Kansas

Elco Manufacturing, Inc.
Harper, Kansas

Magnus Archery Company
Great Bend, Kansas

Tangent Press
Lenexa, Kansas

Vaccaro's Piano
Overland Park, Kansas

Ruth's Bookkeeping & Tax Serv.
Ulysses, Kansas

Smith Orthopedic
Topeka, Kansas



You may also recognize these National companies that also received assistance from SBA sponsored programs:

Intel

Federal Express

Apple Computer

Nike

Before October 13, 1995 a small business person paid only a 2% fee on a loan. But the federal government increased that fee dramatically which significantly decreased the demand for SBA guaranteed loans. For example, if a small business needed \$800,000 before October 13, 1995 the fee to the federal government was \$13,600; today, that same loan would cost \$20,125. Since a small business might not have more than \$20,000 in profits, you can see what a chilling effect this fee increase has had on loan activity to small businesses and the negative impact on economic development. The chart below demonstrates the impact on economic development in Kansas:

<u>Year</u>	<u># of Loans</u>	<u>\$ Amount</u>	<u>Jobs Created/Retained</u>
1995	1,031	\$138.2M	2,493
1996	859	\$122M	4,861
1997	624	\$87.8M	4,872
1998	508	\$84.8M	2,667

Rhode Island, Oklahoma, and Missouri have already passed legislation providing tax credit to small businesses equal to the guaranty fee paid to the SBA. Since passage of this legislation in Rhode Island, SBA loans have more than doubled. Oklahoma and Missouri just recently passed legislation and are expecting a 25 to 35% increase in SBA loans.

Why do we need to help small business?

- Small Business drives Kansas's economy and our communities (*97.8% of the businesses in Kansas are considered small*).
- Small Business provides most workers with their first jobs and initial on-the-job training in basic skills.
- Small Businesses are the principal source of all new jobs.
- Small Businesses employ more than 50% of the private workforce and produces 55% of all new innovations.
- Small Businesses play a vital role as job creators, but their diversity and composition provide the work force with endless opportunities.

Benefits to Kansas on Tax Rebate

- 1. Encourages small businesses to pump back investments in their own companies.*
- 2. Increases the tax base both at federal and state level.*
- 3. Very low cost program to administer.*
- 4. Partnership of State and Federal Government.*
- 5. Some existing State programs could be used in conjunction with SBA loans.*
- 6. Agricultural financing is available through SBA, so agricultural entities as well as those looking for agricultural diversification could benefit.*

All small business that use SBA would be eligible thus eliminating any complaints that the state of Kansas only focuses on bringing industry to Kansas and offers nothing for those small businesses already here.

Brings federal dollars to Kansas. Since there is no limit to the dollar amount or number of SBA loans that can be made in Kansas, increased use of the SBA program is one more vehicle for leveraging federal dollars for the benefit of Kansas small business program.

Will increase small business start-ups and expansion creating new jobs which in turn will increase tax revenues for Kansas.

Benefits of SBA program in general:

Extends term of loan and provides reasonable interest rates thus maximizing working capital, which allows the business to create jobs, expand its operations and be more competitive in seeking additional markets, including exports.

Loans are based on repayment ability – not just collateral.

Lenders more willing to make loans to startups with SBA's guarantee that they otherwise would not finance.

Enables the lenders to increase their lending limit and help lenders meet CRA requirements.

How does the SBA program work?

The Kansas City District Office serves the Eastern third of Kansas and the remaining areas are served by our Wichita District Office. Under SBA's 7(a) general business loan guarantee program, loans are made by private lenders and are guaranteed by SBA up to 80%. SBA guarantee cannot exceed \$750,000. SBA charges a guarantee fee based on the guaranteed portion of a loan. The guarantee fee varies from 2% to 3.875% and is on a blended scale.

Other Comments:

It is believed this legislation could have more impact in Kansas than in Rhode Island or Oklahoma. This proposal is not only an opportunity to provide incentives for the people who are in the trenches each and every day, the small business owners, but can be provided in a way that will have an overall positive economic impact on the State Treasury. SBA approved loans in FY98 in 100 of the 103 counties in Kansas. The proposal provides incentives for small business to grow, expand, create jobs, and keep businesses in Kansas.

For more detail information please contact::

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TESTIMONY ON KANSAS SENATE BILL 406
TAX CREDITS FOR FEDERALLY GUARANTEED LOAN FEES

SENATE COMMITTEE FOR ASSESSMENT AND TAXATION

BY DAVID C. LONG
EXECUTIVE DIRECTOR,
THE JOHNSON COUNTY CERTIFIED DEVELOPMENT COMPANY

January 27, 2000
Room 519-S, Capitol Building

*Senate Assessment & Taxation
1-27-00
Attachment 2*

Thank you for the privilege to testify today on behalf of small businesses in the State of Kansas to communicate comments on SB 406.

My name is David C. Long and I am the executive director of the Johnson County Certified Development Company based in Overland Park, KS. I am also a member of the Kansas Association of Certified Development Companies Randy introduced earlier. I have worked exclusively with small business financing in the Johnson County area for the last 12 years.

DCI, Inc.
Insulite Glass Company
Heartland Services
Midland Research Laboratories

Do you recognize any of these companies?

Machine Shed Restaurants
Casey's
Winnebago

Do you recognize any of these companies?

How about:

Intel
Federal Express
Apple Computer
Nike

What all the companies have in common are they all obtained federally guaranteed financing.

The companies I first mentioned you probably never heard about, but let me give you a quick synopsis of their successes in the State of Kansas:

DCI, Inc. had reduced their workforce to 17 people after a fire destroyed their electronic manufacturing plant on Christmas Eve. The plant was rebuilt with the assistance of an SBA guaranteed loan in the early 1990's - the company now employs over 100 people and has a payroll in excess of \$2MM.

Insulite Glass Company was a start up company first financed with an SBA loan in the early 90's. The company has invested over \$5MM in the State of Kansas to date, and employs over 80 people.

Heartland Services expanded with an SBA loan in 1997. The company's sales have increased 7 fold since the SBA loan, and employs over 40 people.

Midland Research Laboratories employed 50 people when they expanded their business with the assistance of a traditional SBA loan and an SBA export capital loan. The company now employs over 80 people, and originates at least 30% of its sales now in the United Kingdom and Central America.

These are just a few of the small businesses that have expanded with the help of federally guaranteed loans over the last few years. Unfortunately, even with the general economy expanding quickly over last 3 or 4 years, SBA loans have decreased over the same time period, mainly because of an increase in fees paid by businesses at the federal level to use SBA loans. The increase in fees has discouraged small business expansion both nationally and in the State of Kansas, and investment that otherwise would have occurred is being either delayed or curtailed because of the cost of financing.

The State of Kansas spends millions of dollars annually luring big businesses to either move into or expand in the State. Kansas needs to make a statement to its small business taxpayers and the nation that we are small business friendly. Senate Bill 406 makes such a statement.

Thank you for the opportunity to provide small business opinions on this subject. I am open for any questions.

Quality Parts ~ On Time

Testimony before the Senate Assessment and Taxation Committee
 January 27, 1999
 By Jeff Berke CPA, General Manager, CJS Industries, Inc.

Chairperson Langworthy and members of the committee, I am a representative of a small business that is here today almost solely due to the availability of financing through the Small Business Administration. Ours is a company that did not exist as little as seven years ago.

Today, we employ twenty-seven people with an annual payroll in 1999 of over \$800,000. These jobs represent an average of \$35,000 per year for non-owners. In those seven years, according to the Shawnee County appraiser, we have brought to the state over \$1,000,000 of commercial machinery and equipment, and built a building appraised at over \$1,100,000. The net result is a property tax bill in excess of \$88,000.

In our opinion, especially in times of tightening budgets, it is important for government to recognize that homegrown businesses are an integral part of local economies. While communities will invest tremendous resources and put together lucrative incentive packages to bring large companies to town, not much is done to "entice" local entrepreneurs to open new businesses. Property tax exemptions for economic development, and other tax breaks represent important sources of capital or at least reduce the cost of capital.

Still, many of those are available to medium sized companies, with limits of investments of \$100,000 increments and creation of a minimum of 5 jobs.

This proposed tax credit is an incentive that the state can provide with a minimum amount of risk. In this case, the local development corporation, the SBA and a local bank will have gone to great lengths to ascertain that the project is economically viable. If the credit had been available to our company, it would have generated an annual savings to the company at a cost to the state as listed below.

That would be a good *investment* by the state.

We ask that you approve Senate Bill No. 406.

1994	1900	Guaranty Fee to the SBA over the life of a ten year note for \$196,000.
1995	1900	
1996	1750	
1997	1550	
1998	1350	
1999	1150	
2000	900	
2001	700	
2002	400	
2003	<u>150</u>	
	<u>1,1750</u>	

Senate Assessment & Taxation
 1-27-00
 Attachment 3



317 N. Pomeroy Ave. • Box 248
Hill City, Kansas 67642 • (785) 421-3488

Good morning!

My name is Randall Hrabec and I am the president of the Kansas Association of Certified Development Companies and the Executive Director of Pioneer Country Development, Inc., which covers the 18 northwest Kansas counties.

We are here today to show our support and answer any questions that may arise concerning Senate Bill #406. This bill would provide for a tax credit equal to loan guarantee fees paid by a small business in obtaining a loan from the Small Business Administration or Rural Development, and to be used against any Kansas Income Tax liability incurred after the fees are paid. This bill is important to small businesses in Kansas because of the increased guarantee fees charged the last few years. An example would be a business loan with a guarantee amount of \$750,000 from SBA, would have a guarantee fee of \$25,937. If the fee is built into the loan, the effective fee would be considerably higher because of interest paid on that amount. The tax credit would give that new or expanding business that little extra incentive to start the business, thus creating jobs for the State of Kansas.

A preliminary study was completed by the Kansas Department of Revenue, Office of Policy and Research, which showed an approximate cost to the State of \$1.6 million in year 2001. I would like to see further research completed, because it is very unlikely that the full amount of guarantee fees paid will be deducted in the same year they are incurred. From my experience in financing businesses the last 16 years, I have found very few new business even pay income tax the first couple of years they are in business. For these reasons, I would argue that the cost to the State would be three or four years from now. ~~We would like this bill to contain a feature that allows the small business to carryover the credit for up to 10 years.~~ One point I should make is to ask the question, what is the value to the State by the creation of new jobs? I would venture to say it will more than offset the business income tax credit proposed, because of personal income tax paid on the increased payroll. In this year, when tax revenues are in a shortfall, is actually the time to stimulate business development and create more jobs, which in turn increases the future revenue to the State.

Finally, I would like to give you a brief overview of the Certified Development Companies in Kansas. All 105 Kansas Counties are serviced by one of the CDC's. In the 1999 State fiscal year, over \$91 million in business loans were obtained for 246 different small businesses, through or with the help of the local CDC. The job creation associated with these loans the first year in business was 1,208 created and 415 retained. The proposed tax credit bill became of interest to the Kansas Association of CDC's partially because similar credits are available in Oklahoma and Missouri and the need to provide incentives to offset the increased guarantee fees.

I would like to thank you for your consideration of this important piece of legislation and specifically thank Senator Langworthy for her help in presenting the bill.

*Senate Assessment & Taxation
1-27-00
Attachment H*

LEGISLATIVE TESTIMONY



The Unified Voice of Business

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SB 406

January 27, 2000

KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony Before the

Senate Assessment & Taxation Committee

by

Marlee Bertholf

Director of Taxation & Small Business

Madam Chair and members of the Committee:

My name is Marlee Bertholf, Director of Taxation and Small Business for the Kansas Chamber of Commerce and Industry. I am here today in support of Senate Bill 406. This bill provides a tax credit equal to the guaranty fee paid by the small business owner to the Small Business Administration (SBA) for a loan guarantee.

The Kansas Chamber of Commerce and Industry (KCCI) is a statewide organization dedicated to the promotion of economic growth and job creation within Kansas, and to the protection and support of the private competitive enterprise system.

KCCI is comprised of more than 2,000 businesses which includes 200 local and regional chambers of commerce and trade organizations which represent over 161,000 business men and women. The organization represents both large and small employers in Kansas, with 48% of KCCI's members having less than 25 employees, and 78% having less than 100 employees. KCCI receives no government funding.

The KCCI Board of Directors establishes policies through the work of hundreds of the organization's members who make up its various committees. These policies are the guiding principles of the organization and translate into views such as those expressed here.

Under the SBA's loan guarantee program, loans are made by private lenders and are guaranteed by SBA up to 80%. SBA charges a guaranty fee based on the guaranteed portion of the loan. Prior to 1995, the guaranty fee was 2%. In 1995, the federal government significantly

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increased the fee, which currently varies from 2% to 3.875%. For example, if a small business borrowed \$800,000 before October 13, 1995, the fee to the Federal Government was \$16,000. Today, that same loan would cost \$31,000.

In a Price Waterhouse two-year study of SBA loans, it was found that companies surveyed by the study that hadn't received SBA –guaranteed loans grew by an average of 37 % between 1984 and 1989. That's impressive, but the survey group that had receive 7(a) funding grew a remarkable 300% during that same period. Program participants also performed well in other categories:

- Small businesses receiving loans watched employment grow by 167%, while non-recipient small businesses reported zero employment growth;
- Recipient small businesses doubled their profits, providing increased tax revenues of 137%;
- Small businesses receiving SBA loans were determined to be the fastest-growing and generated jobs and revenues at much higher rates than those of the average small business; and
- Showed that SBA borrowers are more likely to survive than is the typical small business (77% compared to 65%).

In Kansas, between 1992-1996, businesses with less than 100 employees created 47,601 new jobs and this trend is expected to continue. Small businesses are very important to the Kansas economy. The KCCI Small Business committee, as part of their 2000 objectives, stated that KCCI should "pursue and support efforts to improve the availability of business credit, whether through legislation or other means." This bill would improve the availability of business credit to small businesses and help strengthen the Kansas economy.

Thank you for your consideration of SB 406. I would be happy to attempt to respond to any questions.



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Written Testimony for the Senate Assessment and Taxation Committee
SB 406

January 27, 2000

By Christy Caldwell, Vice President Government Relations,
Greater Topeka Chamber of Commerce

The Greater Topeka Chamber of Commerce would like to express our support for SB 406 which provides for an income tax credit for the fees paid by a small business to acquire a SBA guaranty loan.

This credit would assist Kansas' small businesses in their pursuit of company growth and strength in a competitive economy. I have asked Jeff Berke, one of the owners of CJS Industries, to testify today. He will relate his company's experience with the fees associated with a guaranty loan and what this type of tax credit could have meant to his company if it was available.

The Topeka Chamber recognizes the fiscal restraints with this year's state budget and that these restraints may preclude providing new tax credits. However, this is an opportunity to help Kansas small businesses successfully grow. And, with that growth, greater tax revenue may be realized by the state. We encourage your positive vote for this legislation.



January 27, 2000

The Honorable Audrey Langworthy
Chairman, Senate Assessment & Taxation Committee
State House
Topeka, KS 66612

Dear Chairman Langworthy and Members of the Committee:

As chairman of the chamber's State/Federal Affairs Task Force, I am writing to express the chamber's support for SB 406, which would provide small businesses a tax credit equal to the guaranty fee paid to the U.S. Small Business Administration pursuant to obtaining SBA financing.

As you well know, small businesses provide the backbone of our state's economy. This fact is reflected in our chamber's 1,100 members, over 80% of which are small businesses.

Prior to 1995, the SBA guaranty fee was 2%. In 1995, the federal government significantly increased the fee, which currently varies from 2% to 3.875%. This increase dramatically raised the costs of SBA guaranteed loans for small businesses.

To relieve the burden of excessive loan fees and to invest more money back into small business, at least four states, including Missouri and Oklahoma, have already passed legislation that provides a tax credit like the one proposed in SB 406. Iowa is seriously considering the same legislation.

In the states issuing such tax credits, the number of SBA guaranteed loans to small businesses increased substantially. Rhode Island experienced a four-fold increase in small business loans.

Investing in these tax credits would facilitate growth of new and existing small businesses in Kansas, which increases the tax base, creates jobs, and helps retain business--all of which is ultimately good for all Kansans.

For these reasons, the chamber respectfully urges the Senate Assessment and Taxation Committee to recommend SB 406 favorable for passage. Thank you for your time and consideration.

Sincerely,

G. Eugene Troehler

G. Eugene Troehler
Chairman, State/Federal Affairs Task Force

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1-27-00*



Attachment 7

Kansas Bankers Association

800 SW Jackson, Suite 1500

Topeka, KS 66612

785-232-3444 Fax - 785-232-3484 kbacs@ink.org

1-27-00

TO: SENATE ASSESSMENT AND TAXATION COMMITTEE
FROM: CHUCK STONES

RE: SB 406

Madam Chair and Members of the Committee:

The Kansas Bankers Association appreciates the opportunity to present written testimony to you in support of SB406.

We believe a tax credit for SBA guaranteed loan fees would be a positive step for the state to make. We think this would be a step in the right direction for the creation of small businesses and the desire on the part of the small business owners to seek SBA loan guarantees as a source of capital.

This legislation is similar to legislation passed in Oklahoma and Missouri.

We urge your support.

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STATE OF KANSAS

STEVE MORRIS
SENATOR, 39TH DISTRICT
600 TRINDLE
HUGOTON, KS 67951
(316) 544-2084

STATE CAPITOL BUILDING, ROOM 143-N
TOPEKA, KS 66612
(785) 296-7378



TOPEKA

SENATE CHAMBER

COMMITTEE ASSIGNMENTS
CHAIRMAN: AGRICULTURE
SRS TRANSITION OVERSIGHT
VICE CHAIR: ENERGY AND NATURAL RESOURCES
MEMBER: WAYS AND MEANS
UTILITIES
STATE BUILDING CONSTRUCTION
JT. COMMITTEE ON CHILDREN'S
ISSUES
ORGANIZATION, CALENDAR AND
RULES

SENATE ASSESSMENT AND TAXATION COMMITTEE

SB 452

January 27, 2000

Senator Langworthy and Members of the Committee:

Senate Bill 452 is a bill similar in concept to SB 406 with certain agricultural loans being the topic for SB 452.

There has been a lot of discussion in recent months about ways the State of Kansas can help agriculture. There has not been a consensus on many of the ideas that have been suggested.

I would submit that there are a series of relative small measures that could help smaller agricultural producers in our state. Allowing a tax credit for certain fees paid to the USDA Farm Service Agency would be one of those measures.

I would encourage you to support this measure.

Respectively submitted,

A handwritten signature in dark ink, appearing to read "Stephen R. Morris". The signature is fluid and cursive.

Stephen R. Morris
Senator, 39th District

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STATE OF KANSAS
SENATE CHAMBER

HARRY STEPHENS
SENATOR, SEVENTEENTH DISTRICT
CHASE, COFFEY, GEARY, LYON, MARION,
MORRIS, OSAGE, WABAUNSEE COUNTIES
2602 MONTEREY DRIVE
EMPORIA, KANSAS 66801



STATE CAPITOL
TOPEKA, KANSAS 66612-1504
785-296-7384
(FAX) 785-296-0103
1-800-432-3924

COMMITTEE ASSIGNMENTS
RANKING MEMBER AGRICULTURE
MEMBER ASSESSMENTS & TAXATION
ENERGY & NATURAL RESOURCES
SPECIAL CLAIMS AGAINST THE STATE
TRANSPORTATION & TOURISM

January 27, 2000

The robust economy of this nation has not reached the Kansas agriculture economy. Kansas ranchers and farmers reported a significant drop in net farm income from 1997 to 1998. With the low commodity prices of 1999, the Kansas farmer and rancher will experience the lowest net farm income of the decade. Our state revenues have declined by such results.

SB 452 allows for a tax credit in the amount of the guaranty fee on an operating loan paid to the farm service agency of the United States Department of Agriculture by an eligible farming business. This would be similar to the tax credit provided in SB 406 to small businesses. The one percent guaranty fee for farm operating loans by the farm service agency as a tax credit against income generated by the farming business would benefit hundreds of struggling Kansas farmers and ranchers in rural communities throughout this state.

I urge your sincere consideration of the tax credit in SB 452 for the farmers and ranchers of Kansas who are participating in such programs. Their success results in an improved economy for all of Kansas.

Harry Stephens

FAX: 785-296-0103

Senate Assessment & Taxation
Email: stephens@senate.state.ks.us

1-27-00
Attachment 10



United States
Department of
Agriculture

Farm
Service
Agency

Kansas State Office
3600 Anderson Ave
Manhattan, KS 66503-2511
(785)539-3531 FAX (785)537-9659

Testimony by the USDA Farm Service Agency
for the Kansas Senate Committee on Agriculture
Senate Bill No. 452

Mr. Chairman, we appreciate the opportunity to meet with your committee and hope the information we provide will be of benefit to you.

The Farm Service Agency (FSA) is an agency within the U.S. Dept. of Agriculture that administers various farm programs including farm loans, CRP, disaster programs, and direct farm program payments. In fiscal year 1999 the Kansas FSA distributed almost 1.5 billion dollars in program benefits to Kansas farmers.

In regards to the Farm Service Agency guaranteed loan program and its impact on Kansas; FSA currently has a guaranteed loan portfolio of 2,960 loans to 1678 borrowers for a total of 263 million dollars. Of those totals, there have been 224 loans made to 164 beginning farmers in the amount of 14.4 million dollars.

When FSA approves a guaranteed loan the lender must pay a guarantee fee to FSA, which they then pass on to the borrower. The borrower may pay the fee up front, or in most cases, the guarantee fee is rolled into the loan and paid over the life of the loan.

The guarantee fee is determined by loan category and amount. Following is a list of the loan categories and the fee rate.

<u>Loan Category</u>	<u>Guarantee Fee</u>
Guaranteed Loans with Interest Assistance	0%
Non Interest Assistance Guarantee - if the majority of the loan funds are used for the purpose of refinancing FSA Direct Loan debt	0%
Beginning Farmer, Downpayment Farm Ownership	0%
All other Guaranteed Loans	1%

On loans subject to a guarantee fee, the fee is 1% of the amount guaranteed. For example, if a bank obtains a \$100,000 guaranteed loan at a 90% guarantee, the fee would be \$900.00. (\$100,000 x 90% x 1% = \$900.00) The percent of guarantee cannot exceed 95% and usually will be no less than 70%, depending on the quality of the loan. The loan limit for guaranteed loans is \$700,000, so it is possible that a borrower could pay as much as \$6,300 in guarantee fees.

Farm Service Agency is an Equal Opportunity Lender, Provider and Employer
Complaints of discrimination should be sent to:
USDA, Director, Office of Civil Rights, Room 326-W, Whitten Building, 14th and Independence Ave., SW
Washington, D. C. 20250-9410

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To give you an idea of a typical year of FSA guaranteed lending in Kansas we are providing you with our actual figures for Fiscal Year 1999.

Guaranteed Operating Loans - 436 loans 51.8 million

Guaranteed Farm Ownership Loans - 125 loans 23.5 million

Of the guaranteed operating loans, 141 (\$20.6 million) were interest assistance loans that did not have a guarantee fee. Of the remaining 54.7 million loaned, we estimate that approximately 90% of it was loaned at a 90% guarantee and 10% at an 80% guarantee. The fees would be calculated as follows:

$$54.7 \times 90\% = 49.2 \times .90 (\% \text{ guarantee}) = 44.28 \times .01(\text{guar. fee}) = \$442,800$$

$$54.7 \times 10\% = 5.5 \times .80 (\% \text{ guarantee}) = 4.40 \times .01(\text{guar. fee}) = \$ 44,000$$

\$486,000

Total guaranteed fees paid by Kansas farmers for FY 99 was approximately \$486,000.

Compared to FY 99, Congress has increased our funding in the guaranteed loan program by almost 70%. Due to the current state of the ag economy we expect to use all of the allocation for FY 2000.

At this time we would be happy to entertain any questions you might have.

Kansas Bankers Association

800 SW Jackson, Suite 1500

Topeka, KS 66612

785-232-3444 Fax - 785-232-3484 kbacs@ink.org

1-27-00

TO: SENATE ASSESSMENT AND TAXATION COMMITTEE
FROM: CHUCK STONES

RE: SB 452

Madam Chair and Members of the Committee:

The Kansas Bankers Association appreciates the opportunity to present written testimony to you in support of SB452.

We believe a tax credit for Farm Service Agency guaranteed loan fees would be a positive step for the state to make. The FSA is generally considered a lender of last resort for marginal farm borrowers. A credit for the fees associated with the guarantee would be a way for the state to help reduce the expenses of the marginal farm borrower when he or she needs it most.

We urge your support.

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