

MINUTES OF THE HOUSE BUSINESS, COMMERCE AND LABOR COMMITTEE.

The meeting was called to order by Chairperson Al Lane at 9:10 a.m. on January 24, 2002 in Room 521-S of the Capitol.

All members were present except: Rep. Broderick Henderson - excused
Rep. Todd Novascone - excused
Rep. Rick Rehorn - excused

Committee staff present: Jerry Donaldson, Legislative Research
Renae Jeffries, Revisor of Statutes
Bev Adams, Secretary

Conferees appearing before the committee: Pat Finn, Finn & Associates, Wichita
John Fowler, KCCI

Others attending: see attached list

Briefings by Kansas Businesses and others on the Business/Economic Climate in Kansas

Pat Finn, of Finn & Associates, appeared before the committee to talk about how the present economic conditions are affecting his business. His business flourishes when the economy is vibrant and suffers during any slumps. The forecast for their business is a 15% reduction in profits this year. One problem is the banking situation and the tightening of credit. Some changes he would like to see in governmental rules and regulations is less paper work and enforcement of current laws such as real estate licensing. He would like to see a moratorium placed on taxes during this downturn, especially on stealth taxes such as cigarettes and alcohol. He concluded his presentation by answering many questions from the committee. (Attachment 1)

A question came up about the cost of special ed as a part of the whole school budget. Rep. Ballou disagreed with the figure and will research the percentage and bring the results back to the committee.

Terry Leatherman, KCCI, introduced John Fowler, President of KCCI.

John Fowler, President of the Kansas Chamber of Commerce and Industry, appeared before the committee to present the chamber's observations on the Kansas economy. The world has changed drastically in recent months. The economy, already slowing a year ago, has since fallen into recession. Manufacturing has been troubled for over a year, due in part to the strength of the dollar and weakness in the global economy. Corporate profits are down, as evidenced by income tax receipts. With data available to us through November, neither employment nor retail sales have declined as much as had been predicted. Interest rates and energy rates remain low. Some believe that the national recession could ease as early as the third quarter of this year. The KCCI believes that the surest way to grow state revenues is to grow the economy. The Governor has proposed a series of stimulus measures that could help. The state of Kansas and its communities must redouble their commitments to keeping Kansas jobs and growing new opportunities. By doing this, the state can emerge from this recession stronger than before. He ended his presentation by answering many questions from the committee. (Attachment 2)

Chairman Lane adjourned the meeting at 10:10 a.m.

The next scheduled meeting is January 29, 2002, at 9:00 a.m.



Finn & Associates, Inc.

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January 24, 2002

The Honorable AL Lane
Business, Commerce and Labor Committee
Kansas House of Representatives
Topeka, KS

My name is Patrick J. Finn, president and owner of Finn & Associates, Inc. located in Wichita. My business primarily engages in selling businesses, consulting and valuing businesses. Our services are typically utilized by companies with sales ranging from one million to twenty million dollars. Finn & Associates, Inc. has been providing these services since 1988. I have attached a copy of our corporate brochure which provides additional detail on my firm for your information.

I believe I have a rather unique perspective of small businesses as our company deals with a variety of industries and sizes of businesses and we are constantly in touch with many key executives throughout this region.

With that being said, I will try to address each question in your letter.

1. How has the present economic climate affected your business.

There has been two major detriments to our business in the near term. First, our business flourishes when the economy is vibrant and suffers during any slumps. If I were selling smaller, more main street businesses, this would not be the case as during economic downturns and periods of layoffs the sales of smaller businesses do well as individuals tend to purchase a small business, in essence purchasing a new job. However, the larger business sales tend to be depressed during periods of economic malaise as sellers are reluctant to sell based on declining profits and valuations while buyers are risk adverse as they fear they will be unable to make debt service during a down period. So the economic psychology portends a poor year for my business. Currently, finding quality companies that believe this is a good time to sell their business is difficult.

The second major deterrent to our business is the banking situation. Although interest rates are very low, bankers are much more stringent in their lending requirements. Banks are demanding far greater downpayments (effectively reducing the buyer pools) and the qualified buyers must be more pristine than in the past.

While Dr. Greenspan has been lowering the discount rate, the banking regulators seem to have ratched up the credit worthiness criteria to prevent another savings and loan type debacle due to the slowness of the economy.

House Business, Commerce & Labor Committee
1-24-2002
Attachment 1

A prime example of this credit tightening is a small manufacturing company we had sold for \$1.3 million a few months back. Although the buyer did not have industry specific experience, he had successfully run and sold a business and had \$500,000 cash to put into the transaction (38% of purchase price) plus had an equity in his home of approximately \$300,000 which he agreed to pledge plus other assets. The business made a profit of approximately \$250,000 and there were assets in the business valued at approximately \$600,000. This loan was turned down by four banks but three of the four would take the loan providing the seller would take a \$200,000 standby letter of credit (in effect the banks wanted this much additional security). However, the seller was unable to do so because of his personal problems so this transaction was not consummated.

Because of the banking situation and current economic malice, I felt it prudent in our corporate business plan to forecast a lower profit for the current year. This is the first time in fourteen years my plans call for less revenue than the prior year. I feel I could still have a good year but it will require more effort and better qualified buyers and more of our effort will address the consulting needs of our clients.

I have also been told by a client that his suppliers have tightened credit to him by demanding personal guarantees after having done business with this supplier for six years and never having missed a payment. He was told that this large foreign company was concerned about the quality of his accounts receivables during periods of economic uncertainty.

We had one client who indicated that after the September 11th attack, his business fell 40% for two months but now his business is nearly back to normal levels. This dramatic one time drop will cause his year to decline when compared to 2000 as the slowdown hit during the critical selling period and he could not adjust expense levels quickly enough.

2. What are the problems you are encountering with respect to federal, state and local regulations or laws?

The biggest problem is the time and effort and knowledge required to comply with all of the paperwork. I do not have a problem with Kansas agencies as most of my business is done in this state, however, we have sold businesses over many states and there is a myriad of rules and no two states are the same. I have found through a hard experience that I cannot count on the answers I am given by State agencies and although they provided the wrong answer to my firm, it was my firm that paid a price for the state agencies advice.

In my field, perhaps the biggest problem deals with real estate licensing. If I sell a business in Kansas that has real estate as part of the transaction does that require a license? In my opinion, yes. If you ask the real estate commission that question, they would concur. Yet, there are many selling businesses without real estate licenses. So, business intermediaries like myself that are licensed brokers and attend continuing education and subject ourselves to an annual audit and do the right thing are handicapped because many don't. While I don't like regulations in general, if you have them they should be enforced.

3. Has your firm had to lay off any personnel?

As the business outlook was not favorable I took the occasion to terminate one employee. It was a combination of a slowing economy and lack of productivity of the person. I am currently trying to add a part time person to bolster our marketing effort.

4. Has the labor market affected your company?

No, the type of person I need must have a very specific background and they are always difficult to find. However, over the last year, most of my manufacturing clients have discussed the difficulties in finding manufacturing personnel.

One of our clients that owns a retail business indicated that he no longer has trouble finding employees which had been a problem in the past.

5. Do you have any ideas on what the Legislature can do to assist you in overcoming the present difficulties?

I would like to see less regulation, less government involvement in all areas. To hear our governor talk about new taxes to make up the revenue shortfall is disheartening to the average businessman. Businessmen see the state bureaucracy as bloated and wasteful and yet they ask for more money during a time when sales are falling for the average business and many are struggling to meet payroll. Business people cannot operate their business like government and we don't think government should operate that way either.

I think most businesses would like to see a consistent tax policy. It is hard to keep up with changes and the nuances available. A stable system is much more palatable.

The best thing you could do is place a moratorium on all taxes, especially stealth taxes like cell phone, gasoline, cigarettes etc. Hidden taxes breed distrust.

Government spending always seems to outpace inflation. If this trendline continues unabated, at some point it will become impossible to support government.

Most businesses would flourish in a low tax state.

6. What are your prospects for recovery from the present situation?

I will do fine. I think my profits will be lower and I think that some of my client will suffer greatly but being a small business, I can turn on a dime and change strategies to fit the evolving environment.

LEGISLATIVE TESTIMONY



The Unified Voice of Business

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January 24, 2002

KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony Before the

House Committee on Business, Commerce and Labor

by

John Fowler, President
Kansas Chamber of Commerce and Industry

Mr. Chairman and members of the Committee:

I am John Fowler, President of the Kansas Chamber of Commerce and Industry. Thank you for inviting us to present our observations on the Kansas economy. I appreciate the committee's wisdom in assessing the current situation as a prelude to consideration of public policy that will affect our state's future well being.

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.

Let me begin by stating what may seem obvious. The world has changed dramatically in recent months. The economy, already slowing a year ago, has since fallen into recession.

House Business, Commerce & Labor Committee

1-24-2002 Attachment 2

Manufacturing, the key economic driver of most Kansas communities, has been troubled for over a year, due in part to the strength of the dollar and weakness in the global economy. Corporate profits are down, as evidenced by income tax receipts. Expansion projects involving new investment or job growth have been delayed, or in some cases, scrubbed. We have experienced significant layoffs by a number of key employers, with more than 7,000 job cuts announced in Wichita alone. More are on the way. Although Kansas fared better than many surrounding states in the 1990s, today a Creighton University study ranks the Kansas economy as the weakest in the Midwest, and predicts continued weakness through 2002.

Much of this weakness was evident before September 11, the total effect of which is still difficult to discern. Consumer confidence remains at its lowest ebb since the Gulf War a decade ago. According to the Center for Economic Development and Business Research at Wichita State University, a full 94 percent of respondents in a recent survey expect total employment to decline in their community.

Of course, there are long term issues unrelated to September 11. Roughly one half of all counties in the state continue to experience population declines and the erosion of their economic base. Small communities find it difficult to retain their infrastructure, and young people are forced to move to urban areas to find employment. And while commodity prices are beyond the scope of these proceedings, the ongoing challenge of the farm economy underscores the urgent need to encourage other sources of economic opportunity in rural Kansas.

It is not my intent to paint an unnecessarily bleak picture of the Kansas economy. In fact, there is much to be optimistic about: so far, with the data available to us through November, neither employment nor retail sales have declined as much as had been predicted. Interest rates and energy rates, both significant factors in the expansion equation, remain low. Economic developers report continued relocation interest in Kansas among employers outside the state. Some economists believe that the national recession could ease as early as the third quarter of this year. We have

2-2

confidence in the resilience of Kansas enterprise, the productivity of its workers, and the boundless American spirit that will grow us out of the current slowdown.

The next few months, however, must be characterized as a time of uncertainty, one in which policy makers must carefully consider the effects of their actions on employers. We believe the surest way to grow state revenues is to grow the economy. And the best way to grow the economy is through a competitive tax structure and regulatory environment that retain jobs and encourage investment. The Governor has proposed a series of stimulus measures that could help. The new strategic plan for Kansas' economic development, recently released by Kansas, Inc., includes numerous public policy recommendations that if adopted, will help our state remain competitive for new jobs and new investment. And finally, the state's economic development budget, which has declined in real terms over the years, should be enhanced and focused on those programs which will put more Kansans to work.

In closing I would simply state that this is not the time to rest on the economic development successes of the past. The competition for new investment is global, and it does not rest. The state of Kansas and its communities must redouble their commitments to keeping Kansas jobs and growing new opportunities. By doing so, our state can emerge from this recession stronger than ever.

Thank you for the opportunity to visit with you today and I would be happy to answer any questions.