

MINUTES OF THE SENATE COMMERCE COMMITTEE

The meeting was called to order by Chairperson Karin Brownlee at 8:30 a.m. on January 28, 2004 in Room 123-S of the Capitol.

All members were present.

Committee staff present:

Kathie Sparks, Legislative Research
Susan Kanarr, Legislative Research
Helen Pedigo, Revisor of Statutes
Nikki Kraus, Committee Secretary

Conferees appearing before the committee:

Steve Kelly, Director of Business Development, Department of Commerce
Patty Clark, Director of Agriculture Marketing, Department of Commerce
John Watson, Director of Trade Development, Department of Commerce
Matt Jordan, Director of Community Development, Department of Commerce

Others attending:

See Attached List.

Chairperson Brownlee opened the informational hearing on the Department of Commerce.

Mr. Kelly reviewed several issues with the committee ranging from STAR bonds to venture capital. In response to a question from the Chair, he stated that at this time, the venture capital bill was not very effective and that groups with which he had spoken were advocating moving more to a seed venture and angel investor approach. At this point, he stated that the issue had been left up to KTEC, who had served as a lead on this issue. In response to committee questions, he recommended that transferrable income tax credits and other incentives be kept separate in legislation.

Senator Barone asked Mr. Kelly to explain the concept of saleable tax credits. Mr. Kelly responded that earned tax credits could be sold or transferred during a restricted period of time. The idea is to get away from long term trail of tax credits that are hard to budget for because there is no way for the department to know when they will arrive. This would allow companies to sell tax credits on a secondary market and turn them into money that can offset front end expenses. This would help to control the ebb and flow for budgeting and create a more flexible system to allow higher paying and higher quality jobs more than the current situation. In response to a follow up question from Senator Barone, Mr. Kelly stated that these would basically be an unfettered sale of the credits, but that they were basically tracked and monitored by the Department of Revenue in the past; one half of the credits could be sold, and the second half had to be given away.

Patty Clark presented the committee with "Testimony on Overview of the Ag Marketing Division". (Attachment 1) This included a description of several successful and ongoing projects such as the KSU Meat Science and Food Science Pilot Program, the Jason Wiebe Dairy in Marion County, and Prairie Pride, Inc. in Butler County. She also provided an article by Phyllis Jacobs Griekspoor entitled, "Two for tea Clyde women blend talents to brew successful business" from the website of the Wichita Eagle newspaper: <http://www.kansas.com/mld/kansas/business/7736121.htm?template=contentModules/printstory.jsp>.

Ms. Clark also submitted "Kansas Ethanol Plant Synopsis" to the committee. (Attachment 2) This submission states that "Kansas has five working ethanol plants in production that produce more than 80 million gallons of ethanol a year..." and proposed several new plants. Ms. Clark included handouts on the Kansas Ag Innovation Center (Attachment 3), Senior Farmers' Market Nutrition Program (Attachment 4), FY 2004 Projects (Attachment 5), Agriculture Products Development Division (Attachment 6), and the Kansas Department of Commerce Ag Marketing Division Statute Summary. (Attachment 7)

Mr. Watson provided the committee "Testimony on Overview of the Trade Development Division". (Attachment 8) He encouraged the committee to consider Kansas' position in international trade and emphasized the import of export goods to the state's economy. In response to a question from Senator Kerr

CONTINUATION SHEET

MINUTES OF THE SENATE COMMERCE COMMITTEE at 8:30 a.m. on January 28, 2004 in Room 123-S of the Capitol.

about what his division would do if given an additional \$200,000, Mr. Watson stated that the approach would be twofold, expanding Kansas' presence in China and in Central and South American markets.

Mr. Jordan provided the committee with "Testimony on Overview of the Community Development Division (Attachment 9), in addition to a publication from the Department of Commerce on the division. (Attachment 10) Some of the points he highlighted included the Mainstreet programs, which are focused on the creation of jobs in rural and small communities, enterprise facilitation, and rural entrepreneurship.

Chairperson Brownlee thanked the conferees and encouraged the committee to consider how these kinds of programs and how the Department and Legislature can compliment one another instead of being competitors.

Senator Steineger moved to introduce a bill regarding STAR bonds in Wyandotte county to remedy a threat posed to the repayment of the bonds because of Streamlined Sales Tax. Senator Emler seconded the motion. The motion to introduce the bill passed.

Chairperson Brownlee adjourned the meeting at 9:30 a.m. The next meeting will be at 8:30 a.m. on January 29, 2004 in Room 123-S of the Capitol.

**Testimony on Overview of the Ag Marketing Division
to
The Senate Committee on Commerce**

**By Patty Clark
Director of Ag Marketing
Kansas Department of Commerce
January 28, 2004**

Good morning, Chairwoman Brownlee and members of the committee. I am Patty Clark, Director of the Ag Marketing Division of the Kansas Department of Commerce, and I want to thank you for the opportunity to brief you on the Division's activities and priorities.

Today I would like to provide an overview of our current value added projects, initiatives for the Trademark Program, international trade activities, a review of the Ag Innovation Center Grant we received from USDA, our joint agri-tourism strategy, and an overview of how the Economic Revitalization Plan can positively impact agriculture and rural communities.

Value Added Projects Funded in FY 03:

KSU Meat Science and Food Science Pilot Plants:

\$70,000 was provided to the K-State Research & Extension Value Added program to serve meat and poultry processors, food companies, and entrepreneurs. This program assists small businesses with nutritional analysis, improving safety and quality of processed foods, development of value added products, and commercialization of new products. This is the seventh consecutive year our Division has provided this grant to KSU, and this year that investment saved 925 clients a total of nearly \$500,000.

Jason Wiebe Dairy – Marion Co.

Our Division provided a \$30,000 equipment loan to Jason Wiebe to move from milk production (125 cow herd) to on-farm cheese processing in an inspected plant. We also have assisted Jason with market expansion, and his cheese varieties are now carried in 20 locations in central Kansas. He is presently working on expanding to the KC Metro area.

Prairie Pride, Inc – Butler Co.

Prairie Pride, by partnering with Silver Creek Dairy, was provided a \$60,000 loan, which has helped establish a mini-dairy plant and retail store utilizing new technology imported from Europe. This venture, which begins operation this week, will produce cheese, yogurt, sour cream, and other processed dairy products, with the hope of incorporating goat cheese manufacturing at some point in the future.

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Davenport Orchards & Vineyard – Douglas Co.

Our \$75,000 loan helped this family-owned winery increase its production capacity to meet a growing demand. Loan funds were used to upgrade the grape harvesting and wine production facility to increase production capacity from 2,500 gallons per year (12,500 bottles) to 10,000 gallons per year (50,000 bottles).

Smoky Hill Vineyard & Winery – Saline Co.

Smoky Hill utilized a \$102,900 loan to construct a grape harvesting and wine production building to increase their capacity from 8,500 gallons per year to 25,000 gallons per year. The expansion plans include a crush pad and an ozone processor to maintain quality control in a cost effective and environmentally friendly manner.

Dinah's Noodles – Cloud Co.

The Division provided \$131,500 for frozen noodle production equipment and a CO2 tank to allow for expansion of this plant in Clyde, and to begin production and marketing of a line of salad dressings to augment the seasonality of egg noodle sales.

Our interaction with the small rural business continues in the form of technical assistance with market and business development.

Rainbow Organic Farms – Franklin, Johnson & Bourbon Co's.

In FY 01, our division helped launch Newhouse Dairy Processing, LLC in Wellsville. Our \$12,500 loan to Rainbow Organic Farms funded the purchase of glass milk bottles and a collaborative marketing effort between the two small business entities to expand Newhouse bottled milk sales through Hen House and Price Chopper stores in the Kansas City region.

Cooperative Agricultural Services, Inc. – Gove Co.

CO-AG is a 2,400-farmer member cooperative covering five counties in northwest Kansas. The \$90,986 value added loan helped fund the construction of a soybean crush facility. Previously, CO-AG was transporting soybeans a considerable distance for further processing and then returning the processed beans for use in feed rations. The new facility cuts out the transportation cost, allows greater flexibility in use of locally grown beans, and greater quality control of rations produced. KIT and KIR funds through our Business Development Division were also made available to CO-AG.

“From the Land of Kansas Trademark Program”

Our initiatives for this fiscal year include updating the database of FLOK members and making it available and cross-referenced on our website. We will also initiate a system whereby government agencies, Kansas organizations and associations, hotels, restaurants and convention facilities have current listings of qualified FLOK companies from which they may more easily procure Kansas food products for banquets, receptions and meals. We will specifically work with farmers markets, wineries, nurseries, fruit and vegetable growers, and Christmas tree

growers to effectively market their products using the FLOK logo and program, while continuing to reinvigorate the program and consumer awareness of Kansas grown and produced products.

Agri-tourism Initiative:

Our Division is collaborating staff and resources with the Division of Travel and Tourism to help develop a coordinated, strategic and sustainable agritourism plan. Our approach breaks down into three primary phases. The first phase is Education, Assessment, and Inventory, and will include the creation of a multi-agency, public-private steering committee, which will develop and implement the agritourism plan. The culmination of phase one will be a statewide agritourism conference planned for November 2004, and the production of a Kansas-specific agritourism resource manual. In phase two, Product Development, Commerce will provide limited financial assistance and organizations consulting in line with current programming. In phase three, Marketing Experiences, the State of Kansas will market agritourism destinations to the public and to tour operation.

Ag Innovation Center:

Last fall, USDA announced that our Division was the recipient of one of ten Ag Innovation Center Grants in the amount of \$1,000,000. We are working with our partners, Kansas State University, Pittsburg State University, 21st Century Producers, and Advanced Manufacturing Institute to provide business development services for value added ventures, both new and existing, to help ensure their success and sustainability.

International Trade:

Our division has worked in partnership with the Trade Development Division on a number of initiatives, which include reconstruction efforts in Iraq, trade with Cuba, a joint Communiqué with Taiwan, and bolstering the confidence of Japan in the safety of our beef industry. We facilitate requests for information regarding trade regulations and shipping to export markets for small, mid-size, and large Kansas companies and assist food processors with introduction to export markets through tradeshow assistance programs within the Department and through MIATCO.

Economic Revitalization Plan:

Given recent and sustained droughts and periods of low commodity prices, farmers in Kansas have been forced to eat away at their personal equity to sustain their family farming operations, and hence, their liquidity has been lowered. This has resulted in difficulty raising investment capital for value added ventures of all types. Some of the tools proposed in the Economic Revitalization Plan may be helpful in dealing with this equity drain. New pools of capital, be they regional or "angel investor" based, will be useful for capitalization of new value added ventures and will help augment the equity capital currently lacking the production agriculture economy. Also, the transferability of tax credits potentially can bring in cash flow in the early years of new value added ventures, which may mean the difference between success and failure. Therefore, just because these tools do not specifically contain the word agriculture, they will nonetheless be advantageous to the agriculture business sector as new ventures arise.

Kansas Ethanol Plant Synopsis

Kansas has five working ethanol plants in production that produce more than 80 million gallons of ethanol a year...

- MGP Ingredients, Atchison, 30MGPY (9 ethanol), mostly food grade alcohol, using around 3 million bushels of corn and wheat starch, some ethanol
- Abengoa Bio-Energy, Colwich, 25 MGPY, using 6.6 million bushels a year of grain sorghum and corn
- Reeve Agri-Energy, Garden City, 12MGPY of corn and grain sorghum
- ESE Alcohol, Leoti, 1.5 MGPY, seed corn
- U.S. Energy Partners, Russell, 40 MGPY, using 14 million bushels a year of wheat starch, corn and grain sorghum
- Western Plains Energy, LLC, Campus, 30MGPY (under construction)

Ethanol

- Ethanol is a renewable liquid transportation fuel made from grain sorghum, corn and wheat grown on Kansas farms. It is otherwise known as ethyl alcohol, and is a clear, colorless, flammable oxygenated fuel typically blended with gasoline at volume levels of 5.7%, 7.7%, or 10% that are fuel formulations approved by all automakers. Ethanol-blended fuels help keep fuel injectors clean while adding 2.5 to 3.0 points of octane to base gasoline. Ethanol also adds oxygen to fuel and improves the air emissions quality of gasoline used in some of America's largest cities but does not contaminate ground water supplies due to its biodegradability. Ethanol production also reduces the demand for imported oil by more than 90,000 barrels per day and is a positive factor in the U.S. balance of trade. Kansas' five fuel ethanol plants currently produce nearly 95 million gallons per year and an additional plant with 30 million gallons per year capacity is scheduled to open in January 2004.
- Currently, 74 ethanol plants nationwide have the capacity to produce over 3 billion gallons annually.

Selected Existing Plant Narratives

Western Plains Energy, LLC Campus

DICK Sterrett, CFO
JEFF Torluemke, CEO

www.westernplainsenergy.biz
-will use 10.7 million bushels a year
-\$42.2 million facility
-Started grinding grain Jan. 19.

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Attach #2

This 30 mmgy mill took in first loads of grain January 6. Completed equity drive in late March raising somewhere between 7-20 million. Broke ground in April. Fagan/ICM design. Marketer: Ethanol Products

- DDGS building and grain storage areas done and conveyers in. Cooling tower bases are in. Fermentation tanks and beer wells done
- All structural steel in place. Siding put up. Distillation towers, molecular sieves and evaporators all in place.
- Grain storage area completed
- Installing water lines and piping
- Energy center under construction
- Team will move in mid-November
- Adding ½ million-gallon ethanol storage tank
- Expected to rival the Russell plant in storage capacity, design and innovation

U.S. Energy Partners Russell

Contact: JOHN Neufeld

The Russell ethanol plant, U.S. Energy Partners, opened two years ago and uses more than 18 million bushels of grain to produce 45 million gallons of ethanol a year, said John Neufeld, the company's general manager.

Located next door is a wheat processing plant formerly owned by Farmland Industries. U.S. Energy Partners purchased the plant and uses the leftover wheat starch/gluten, as well as milo and corn, to produce ethanol.

Russell is innovative in their research of co-product, including a high protein wheat gluten (in excess of 90% protein) and neutraceuticals.

ICM is also partial owner of the plant. Of the thirteen ethanol plants currently under construction in the US, ICM is playing a role in nine of them. The new plant near Campus is expected to rival Russell in technology and innovation.

Abengoa Bio-Energy Colwich

Contact: CHRIS Standlee

Abengoa Bioenergy Corp., a Colwich ethanol plant, said the economic impact in communities is substantial, especially those that rely on agriculture.

The 25-million-gallon-a-year ethanol plant increases local grain prices by 5 to 10 cents a bushel, he said, plus adds more than 40 jobs to the workforce and has a \$110 million local economic impact from expenditures.

MGP Ingredients Atchison

STEVE Pickman

MGP is nearly finished rebuilding its damaged plant. Has not produced ethanol for a year..might have a ribbon-cutting to get back underway. The explosion occurred when alcohol vapors escaped through an open panel in a distillation column and ignited. The

project tech and engineering firm is Katzen (OH) and the general contractor is Burns and McDonnell (KC)

Plants Under Construction

There are 16 ethanol plants under construction nationally; one in Kansas.

Proposed Plants

Phillips County Ethanol Project LLC Phillipsburg

- First meeting August 28, 2003
- Experts in attendance from BBI, ICM, KCGA, Kansas Grain Sorghum Commission, National Grain Sorghum Producers
- 200+ in audience
- BBI feasibility study came back at the low-end of the excellent category
- The main concern now is the four ethanol plants situated within 100 miles of Phillipsburg
- Applied to USDA Rural Development for a grant
- Its primary purpose was 2 fold. Raise money from 20 or less people or organizations by selling membership interest. This group will be the controlling arm of the entire project from this point on. They are majority owned producer based.
- \$350,001 dollars was raised in 4 days.
- Requested a VAPG from USDA in the amount of \$350,000: rejected.
- Total organizational costs for this project are estimated at 1.2 to 1.5 million dollars, not figuring the engineering or other ownership cost of establishing the ethanol plant, which total around \$10 million.
- Entire project estimated cost of a 40 MMG plant is \$60 million.
- The paper work is being done to establish exemptions to the SEC state blue skies laws, so that they can proceed with raising venture funding for the organizational portion of the project. This should be completed by November. By then they will know the determination of yes/no on the VADG grant.
- They are also currently working out the legal agreements for the venture and creating the other entity to work on the main equity drive.
- Raised about \$350,000 to date.??

Ethanol Grain Producers (EGP) Washington

BRIAN Brandt, project coordinator

- 30 mmgy
- Applied to USDA Rural Development for a grant. Received a grant: \$17,500

E2 Jetmore

- Proposed 30 MGPY

Southwest Ethanol Pratt

GORDON Stull/Colleen Towns

- Originally a 30 Million Gallon proposal. Escalated to 50 Million Gallon plant

- With capacity to expand to 100 million gallon. Total cost of 50 million gallon = \$75 million
- Equity goal = 1/3 overall cost. 50% of equity target reached to date. Local investment = 10-20% of total (mostly feedlots and DeBruce grain)
- Feasibility study by BBI of Cotapaxi, CO = one of the 5 best done yet (as reported by Gordon Stull, Attorney who is the leader of the project). Business Plan by JJR partners (Greg Krissek knows them)
- Engineering by Lurgi PSI
- Project name = SW Ethanol
- Major partners = Pratt Feeders and DeBruce Grain
- Ethanol yield used in calculations = 2.67 gallons/bushel
- Corn price used in calculations = \$2.40 to \$2.45/bushel
- Filed for water permit
- Draft Air Permit received last week
- Will use 18 million bushels of corn or milo per year
- Commerce has a copy of their JJR executive summary
- If this plant is successfully built (target date = Spring 2005), then they are looking at additional plants in other locations
- Believe that there SW location is the US puts them at an advantage in the marketplace
- Came to commerce to assess the potential for Partnership funding, KIT, KIR, HPIP, KEIOF, etc

Panhandle Energies Liberal

- Proposed 30 MGPY
- Started off with a group from Louisiana, since moved to TX
- Wants to build two plants in TX
- Local feedlots ready to sign contracts for all the DDGS
- Working with Eco-Energy and Delta-T.
- Feasibility done
- Have raised \$10 Million Dollars

SCI Agri Energy, LLC Tribune

- Proposed 5 MGPY
- Applied to USDA Rural Development for a grant in the amount of \$350,000. Denied.

Central Kansas Renewable Fuel Lyons

KENNY Knight

LATEST:

- Should have money together by October
- Working with a professional Chicago-based fundraising firm
- Burns & Mac design

Great Bend ???

Nesika Energy, LLC Scandia, Republic Co.

JEFF Strnad

- Proposed 10 MGPY
- Been working on for 3 years
- Has a business plan in loan file
- Approved for Industrial Revenue Bonds, but banks so far not huge on that
- Wet mill
- 10 MGPY

Plants Nearing End of Equity Drive Phase

East Kansas Agri Energy (EKAE) Garnett

JILL Zimmerman

20 MGPY

Will use 7.5 million bushels/year

- Negotiating terms with a senior financing institution
- Increasingly likely to be a successful project.
- Held major meeting for locals Sept. 30: large crowd and folks signing subscription agreements
- Hoped to have had commitments together by Dec. 10
- Garnett, which will produce 20 million gallons of ethanol a year, is in the middle of an equity drive...
- Has raised 8.9 million
- "Rejuvenation" meeting Sept. 30 in Garnett for Anderson Co. folks. Trying a grassroots effort focusing too on co-ops
- \$36 million project
- January 24 absolute deadline for equity drive
- Supposed to come on line in '04

Fast Facts

- Ten plants across Kansas are being considered, including ones in Pratt, Scandia, Lyons, Tribune, Liberal, Jetmore, Phillipsburg and Washington Co.
- If events occur as scheduled, by the end of 2004, Kansas could be producing 130 MGPY of ethanol, consuming 52.2 million bushels/year.
- Nationally, ethanol plants increase net farm income by \$4.5 billion annually, boost total employment to 195,200 jobs and improve U.S. trade balance by \$2 billion.
- Kansas consumes around 40 MGPY of ethanol. The Kansas Corn/Grain Sorghum Associations estimate that the price of grain increases five cents/bushel for every 100 million bushels sold.
- One bushel of corn produces 2.6 gallons of ethanol.
- Each bushel of grain used in the ethanol-making process produces 2.7 gallons of ethanol; 18 pounds of DDGS and 18 pounds of carbon dioxide.

- It is estimated that a 40 MGPY ethanol plant has the following benefits to the local community:
 - Expands economic base by \$110.2 million
 - Generates an additional \$19.6 million in income
 - Creates as many as 694 permanent new jobs
 - Generates at least \$1.2 million in new state and local tax revenue

Legislative Update

Passed:

- S191: Requires state agencies to purchase 10 percent ethanol blended fuel or 2 percent biodiesel fuel if the price differential is 10 cents or less
- H2036: Requires at least 2 percent vegetable oil or animal fat be contained in fuel labeled biodiesel

Not Passed:

- H2279: Would have required 10 percent blend ethanol be sold in all Kansas gas stations

Updated: January 21, 2004
Working Document - Internal

Kansas Ag Innovation Center

- ✓ Mission Statement: "Nurture the culture of success by surrounding promising agricultural value-added initiatives with the resources that amplify and sustain their competitive advantage."
- ✓ Centers partners are:
 - Kansas Department of Commerce Ag Marketing Division
 - Kansas State University (Bio-processing and Industrial Value-Added Program (BIVAP), Food Science Institute, Advanced Manufacturing Institute, and the Value-Added Business Development Program.
 - Kansas Polymer Research Center at Pittsburg State University
 - 21st Century Producers
- ✓ \$1,000,000 of federal funding for one year.
- ✓ Services provided by KAIC:
 - Feasibility studies, Business planning, Strategic planning.
 - Industry Research, Market Research, Financing opportunities research, Operational Research
 - Pilot services, prototyping, applied research
 - Bridge management, Executive Coaching, Governance, Functional Management.
 - Conferences, Seminars, Workshops.

Patty Clark

Senior Farmers' Market Nutrition Program

The 2003 Senior Farmers' Market Nutrition Program (KSFMNPN), administered by the Kansas Department on Aging, provided 6,122 low income seniors \$30 in coupons to exchange for Kansas-grown fresh fruits and vegetables at farmers' markets in six pilot areas of Douglas, Johnson, Riley, Sedgwick, Shawnee and Wyandotte Counties.

The goals of the program are to promote better nutrition among low-income seniors and to expand the revenue base for farmers marketing fresh, locally grown produce at organized farmers markets in select communities.

The program is primarily funded by an \$182,439 grant from the United States Department of Agriculture pursuant to Public Law 107-171.

A total of 110 farmers were authorized to accept and redeem coupons for the 2003 program. As of October 15, growers had redeemed 55,755 coupons worth \$111,510. In November a bulk issuance of fresh, locally grown fruits and vegetables was distributed to 4,073 seniors. The total value of the bulk issuance was \$40,730. Total grant expenditures to farmers was \$152,240.

As Ag Marketing staff has traveled the state, they heard the wonderful praises of the Kansas Senior Farmers' Market Nutrition Program. In one case, the market director credits SFMNP for saving the city's market as the seniors redeeming their coupons were the majority of their customers.

The Ag Marketing division has had increased contact with a number of Farmers' Markets because of its involvement with this program. A number of Farmers' Markets have become *From the Land of Kansas* members in the past six months. Three Farmers' Markets have inquired about receiving Business Enhancement funds to increase the marketing efforts of their local Farmers' Markets.

The division partnered with SFMNP to distribute the pamphlet, "Kansas Farmers' Markets" to the SFMNP distribution agencies. Five agencies requested 1,450 pamphlets to distribute to their constituents.

The Kansas Department of Commerce, Ag Marketing is represented on the KSFMNPN advisory board. Partners in this program with the Kansas Department on Aging include: Kansas Department of Commerce, Kansas Department of Health and Environment, Kansas Coordinating Transit District Council, Kansas Department of Social and Rehabilitation Services, Kansas Department of Transportation, Kansas Fruit Growers Association, Kansas Vegetable Growers Association, Kansas Rural Center, Kansas State University Cooperative Extension Service, and CSFP, TEFAP and OAA Title III-C1 Nutrition Programs.

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Attach # 4

FY 2004 Projects

Patty Clark

<i>Project #</i>	<i>Contract Name</i>	<i>Company</i>	<i>Funding</i>
2004-01	KSU Meat Science	K-State	\$13,310.00
2004-02	KSU Food Science	K-State	\$50,000.00
2004-03	AgraMarke Equipment Phase II	AgraMarke, Inc.	\$43,220.74
2004-04	AgraMarke Equity Drive	AgraMarke, Inc.	\$6,779.26
2004-05	SEK Grain	SEK Grain, Inc.	\$70,000.00
2004-06	Central Soyfoods, LLC	Central Soyfoods, LLC	\$35,000.00
2004-08	KanSoy	KanSoy LLC	\$10,000.00
<i>Total</i>			\$228,310.00

Agriculture Products Development Division

Patty Clark

Introduction and Overview

The mission of the Agriculture Products Development Division (APDD) is "To enhance the value of agriculture products through new and existing markets and uses to provide a greater return to Kansas producers, processors and rural communities." The Division furthers this mission by providing technical and financial assistance to producers and communities in Kansas to enhance rural incomes, expand markets, increase consumer demand and aid in the stabilization and diversity of the rural Kansas economy.

FY03 marks the seventh year of the division as part of the Kansas Department of Commerce (KDOC). The success of this year was built on a solid foundation established in previous years' work by the Division. Division client sales, patronage and premiums totaled \$26,845,017.05 for FY03. All clients are required to report these economic measurements for a period of five years after the loans are made.

For FY03, projects financed by the APDD processed 2,274 head of beef cattle, 39,134 bushels of soybeans, 7,300 bushels of wheat, 5,460.79 pounds of cheese; 41,366 gallons of milk; 1,287 pounds of tomatoes, 1,718 head of hogs, 11,826 bottles of wine; 133,815 pounds of wheat, barley, rye and oat grass; 5,658,387 pounds of flour; and 3,743,705 pounds of wheat resin.

From the time that the Division has been a part of the KDOC, the demand for both technical and financial assistance has increased steadily. In concert with this increased demand, the level of sophistication and economic viability of the proposed projects has also increased. By necessity, the Division has increased the level and volume of due diligence for each project and the evaluations of those projects is necessarily more rigorous. However, the resulting economic impact and return to producers and communities is also greater. As this trend continues, we will continue to evaluate and improve our procedures and reviews to capitalize on the higher quality of applications.

Trends in the loan portfolio

There are a number of trends that are emerging in value-added agriculture within the state of Kansas. The Division has responded to the changes, both by allocation of loan funds and by the scope and type of technical assistance given to clients. The changing trends identified are as follows:

Small Dairy Processing

The interest in small scale dairy processing continues to grow. To date, the Division has funded four such projects and has ongoing relationships with several more. In order to provide assistance to individuals and groups, the Division has commissioned and completed studies for both dairy processing on a small or medium scale and customer demand preferences for fluid milk products in metropolitan Kansas. Both of these studies are available on the agency website.

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Attach #6

While the Division has partnered in this renewed interest in this particular market niche, some cautionary statements are also advisable. The capital required to pursue such ventures is considerable and those entities that incur a large debt load are at substantial risk to unpredictable market fluctuations. Further, if the interest in milk in traditional glass bottles continues, in addition to Kansas originated cheeses and other manufactured milk products, the potential exists for larger players in the dairy industry to enter the very marketplace targeted by these smaller niche players. This potential for larger entrants into the marketplace necessitates a rigorous and well-developed marketing program to build and maintain loyalty within the target market to prevent loss of market share should larger players enter the marketplace. It is the aim of the Division to reinforce this message and assist in market and business development. Finally, in order to better assist and evaluate these projects, the Kansas Department of Agriculture Dairy Program is a technical assistant partner on all projects to see that all regulatory issues are addressed.

Ethanol

The marketplace for ethanol continues to change and grow with renewed interest in renewable fuels. This interest will continue with recent federal initiatives to encourage usage of ethanol as an additive for gasoline. The Division has funded a number of ethanol projects and provided technical assistance, both for business establishment and equity drives.

The ethanol industry does show some marked trends that can be discerned as it grows. First, the size of projects continues to increase. Where once, 30 to 40 million-gallon-per-year plants were considered the smallest size to be economically feasible, this size may now increase to 50 or 60 million. Further, the industry, as well as commercial lending institutions, now prefers equity contributions of 50% or 60% of required capital at the start. These trends present considerable hurdles for startup ethanol projects. Additional attention will be needed in the areas of input costs and historical basis, transportation costs and marketing arrangements, and the necessity of large numbers of livestock to utilize the byproduct, distiller's grain, in a profitable manner.

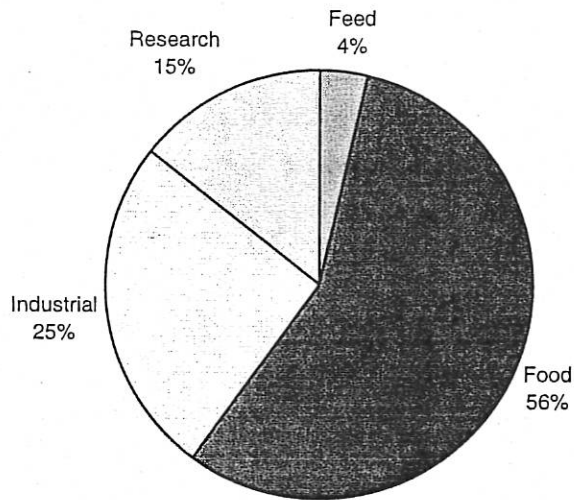
Kansas Wine Industry

A bright spot on the Kansas horizon is the increasing interest and successful ventures in the wine industry. Kansas has a number of successful vineyards and wineries in the state, and growth is continuing. Currently, the state has approximately 100 acres of grapes under cultivation. This compares to over 5,000 acres in the early 1900's. The Division has funded several projects and is presently assisting the industry in developing a statewide marketing effort to draw attention to their products. Currently in development is a wine brochure that lists each winery in Kansas, their products, and additional information. This entire effort is being led by technical assistance from the APDD and funding through the Arthur Capper Cooperative Center at Kansas State University and the United States Department of Agriculture. This brochure will be available at Travel Information Centers throughout the state.

Industrial Agriculture

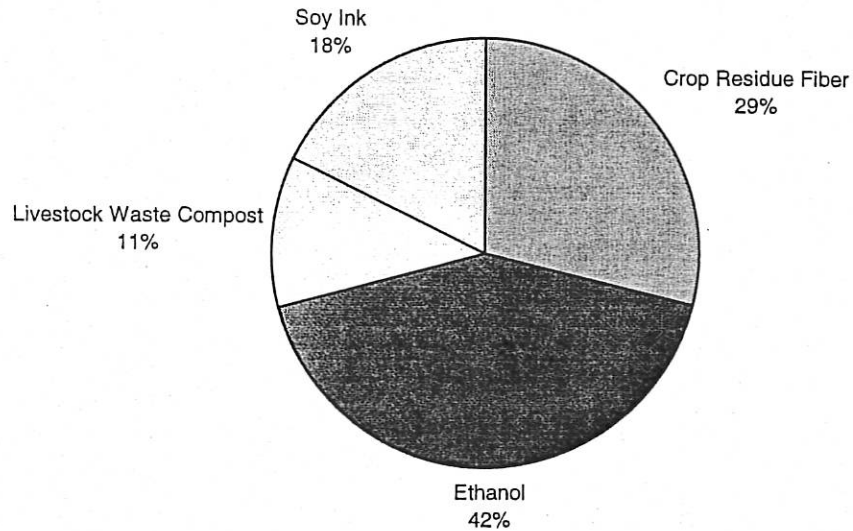
The charge given to the Division by the Kansas Legislature places great emphasis on the study and development of an industrial agriculture industry in Kansas. Over time, the allocation of the Value-Added Center loan portfolio reflects the growing interest and opportunity in this area. The graphs below show the increasing allocation to industrial agriculture projects from AVAC funds.

Loan Portfolio Allocation 2000-2003



For the four years of 2000-2003, the total allocation of industrial projects as a percentage of overall funding has grown to 25% of the loan portfolio. The Division anticipates that this will continue to increase.

Industrial Ag Allocation



Within the industrial agriculture allocation, the majority of funding has gone to ethanol projects at 42% overall, crop fiber projects at 29%, followed by soy ink and livestock waste compost.

To reinforce and encourage the development of industrial agriculture uses in Kansas, the Division is forming a biomass working group in cooperation with other state agencies, federal agencies, commodity groups and the private sector. This working group will pursue research and analysis of biomass energy production to provide more strategic direction for a statewide plan to fully develop the industry to its greatest potential.

Internal and External Relationship with the Agriculture Products Development Division

The APPD has been given the task of assisting Kansas agriculture producers and rural communities in developing agriculturally based products through new and existing markets and uses. While the Division is the lead in this task, it is fortunate to have the able assistance, technical expertise and additional funding of other divisions in the KDOC. Countless agriculture businesses in Kansas have benefited from the infrastructure programs that are funded through the Community Development Division. The APPD is co-located with the Trade Division, where obvious overlap in international trade initiatives and expertise can be brought to bear on important opportunities for Kansas agriculture. The Business Development Division has many programs in the area of employee tax credits, training and retraining programs, as well as business

development expertise that agriculture can tap, and is a tremendous beneficiary. The nexus between agriculture and tourism has never been greater. The ability to leverage the expertise and assistance of the Travel and Tourism Division for Agritourism projects continues to pay dividends. Finally, the research and marketing expertise by the Administrative Division are utilized on a daily basis to enhance Kansas agriculture and its rural communities.

The APPD has also developed good working relationships with like organizations at the state and national level, both public and private. The relationship with USDA Rural Development and the Arthur Capper Cooperative Center at Kansas State are particularly important. These entities are involved in many of the same projects as is the KDOC and the interaction strengthens the entire effort. Additional resources are brought to bear, both in the areas of funding and technical assistance. Due diligence is more rigorous to determine if individuals and groups pursuing value-added ventures are ready to progress with their projects. These two entities not only work well with the APPD, but share a good working relationship with commodity groups and farm organizations in Kansas to further the efforts to benefit rural Kansas.

KIT/KIR

In addition to the loan funding through the Agriculture Value-Added Center, companies producing further processed food and fiber products can also benefit from participation in the *Kansas Industrial Training/Kansas Industrial Retraining* program offered through the Business Development Division. These programs provide funding for training workers for new or expanding businesses in Kansas. The value-added clients that benefited from these two KDOC programs are as follows:

Heartland Mill, Inc. (Wichita)	\$ 4,000
RC Pork (Osborne)	\$23,838
Cooperative Agriculture Services, Inc. (Gove)	\$ 1,833
Prairie Pride (Butler)	\$13,000
Pine Family Farms (Douglas)	\$12,762

International Marketing

Cuba

In an effort to promote Kansas agriculture products to Cuba, Lt. Governor John Moore and former Lt. Governor Gary Sherrer led a trade mission of Kansas agriculture leaders to Cuba in December 2002. The five-day trip included a three-hour meeting with Cuban President Fidel Castro, where Kansas agriculture exports to Cuba were the top agenda item. The discussion covered not only Kansas commodities such as wheat and corn, but also pork, grain sorghum and dry edible beans. In addition, the Cuban representatives, lead by Pedro Alvarez,

president of Alimport, the Cuban state enterprise responsible for imports to Cuba, expressed interest in convenience and precooked food products as well.

The delegation also included a representative from each of the following Kansas organizations:

Kansas Farm Bureau
Kansas Pork Association
Kansas Wheat Commission
Kansas Corn Commission
Kansas Soybean Commission
Kansas Grain Sorghum Commission

The U.S.-Cuba Business Conference was held in February 2003 in Cancun, Mexico where Lt. Governor John Moore and Pedro Alvarez met to facilitate sales to Cuba from the state of Kansas. Accompanying the Lt. Governor on this trip were representatives of the following Kansas companies:

Bartlett Grain (Kansas City)
21st Century Grain Merchandising, LLC (Manhattan)
21st Century Bean Processing (Sharon Springs)
WATCO Companies (Pittsburg)
Schwan's food International (Tony's Pizza) (Powder Springs, GA/Salina)

Each company met one-on-one with Pedro Alvarez to discuss possible export opportunities to Cuba. To date, these efforts have enabled companies to complete sales to Cuba of more than 40,000 MT of wheat. Efforts continue to develop and grow sales in Cuba, and to continue the dialog and relationship begun by the KDOC to provide additional business opportunities to Kansas companies.

APPD staff have assisted four processed food companies to become licensed to send samples of their products to Cuba. These companies will ship products for review by Alimport to begin trade discussions. The approved companies are:

Original Juan Specialty Foods (Kansas City)
Schwan's Food International (Tony's Pizza) (Powder Springs, GA/Salina)
Legacy Foods, LLC (Hutchinson)
Kan-Pac, LLC (Arkansas City)

MIATCO

As a member of the Mid-America International Agri-Trade Council (MIATCO), the APPD assists eligible companies in Kansas who wish to begin international exporting or expand existing efforts in the field. The twelve state members of MIATCO utilize funding from the United States Department of Agriculture,

Foreign Agriculture Service (USDA-FAS) to assist these companies with both technical assistance and funding to pursue export ventures. Five Kansas companies have used this funding for export market development in fiscal 2003. The following companies utilized \$134,403 from MIATCO funding:

Natural Life Products (Crawford) – Pet Foods

Original Juan Specialty Foods, Inc. (Wyandotte) – Specialty Mexican Foods

S&M Nutec, LLC (Wyandotte) – Pet Snacks

The Pantry Shelf (Reno) – Bakery Mixes

Wyldeewood Cellars (Sumner) – Wine

By utilizing this funding, these companies were able to realize sales of \$302,374, a return on investment of 5 to 1.

Iraq Roundtable

After decades of neglect and war, the country of Iraq has considerable challenges to rebuild the country's infrastructure, establish private enterprises and to re-establish the agricultural sector of a shattered economy. The KDOC has taken a lead in laying the groundwork for Kansas companies to participate in the Iraq rebuilding effort.

By coordinating with other divisions of KDOC, a roundtable discussion was hosted in Overland Park, engaging such agencies as the USDA Foreign Agriculture Service and the United States Department of Commerce, as well as private consultants and contractors. The Division continues to coordinate efforts with suppliers and Kansas wheat industry representatives, including the American Institute of Baking, Kansas Wheat Commission, and Kice Milling, to explore and establish small-scale, community-based milling operations in Iraq. These efforts are being coordinated to establish local milling operations that would benefit the local economies and communities, as well as the Kansas wheat industry.

Buyer's Team

The Division hosted two buyer's teams in 2003 interested in purchasing Kansas products. Buyer's teams are a regular occurrence for KDOC, and a continuing effort is made to facilitate interaction between perspective buyers and Kansas companies. In March of 2003, a Chinese buyer's team visited Kansas with interests in agricultural machinery. In May of 2003, a Japanese buyer's group visited Kansas with interest in various food products from Kansas food processing companies.

Market Studies

The Kansas-Mexico Office in Mexico City, Mexico, is conducting a market research study for Original Juan Specialty Foods of Kansas City to assess entry ability of their products into the Mexico market, determine competition, and

narrow the products produced by the company that will be most successful. Research will also include labeling specifications, in-store analysis of similar products, and customs requirements.

FY03 Agriculture Value-Added Center Projects

The loan portfolio of the APPD continues to show the diversity and ingenuity of Kansas agriculture producers. The variety and scope of the projects funded show that both small and large projects can benefit from the efforts of the Division. By leveraging limited state funds, the Division has been able to maximize the economic impact of the funding and enable rural communities and producers to capture additional revenue for their efforts.

For the fiscal year 2003, the Agriculture Value-Added Center (AVAC) loaned a total amount of \$592,886.00 to value-added projects. That funding leveraged \$3,150,122.33 in matching funding by clients, other government agencies, and commercial lenders.

The graph below shows sales to date for AVAC funded clients.

Insert Graph here.

The following is a summary of the projects funded for fiscal 2003:

KSU Meat Science Pilot Plant (Statewide): \$10,000 was provided to K-State Research and Extension Value-Added Meats program to serve Kansas meat and poultry processors and entrepreneurs. The pilot plant assists clientele in development of value-added meat products, enhance processing skills and knowledge, and to improve the quality, safety and competitiveness of meat products processed in Kansas. This funding has provided 575 clients with meat product testing services, saving them \$32,991.75 in costs for these services.

KSU Food Science Pilot Plant (Statewide): \$50,000 was provided to K-State Research and Extension Value Added Food Systems Program which serves food companies and entrepreneurs, and provides technical assistance for clientele in the development and commercialization of value-added food products, improving the safety and quality of their products, and enhancing their technical skills and knowledge base. This funding has provided 350 clients with food product testing services, saving them \$466,588 in costs for these services.

Jason Wiebe Dairy (Marion): Jason Wiebe, a dairy producer in Duram, KS with approximately 125 cows, constructed a cheese processing facility on his farm. Previously, Jason was processing cheese on a small scale and decided to upgrade to an inspected

plant. More than 20 retail locations in central Kansas now carry his cheese as the market continues to expand. The value-added center provided \$30,000 to assist Jason with his equipment purchases.

Dinah's Noodles, Inc. (Cloud): Located in Clyde, Kansas, Dinah's Noodles, Inc. produces egg noodles utilizing Kansas wheat. The project expanded her company's processing capabilities for noodles. However, Dinah has discovered that the consumption of noodles is seasonal in nature, so she is also adding the equipment needed to produce a line of salad dressings to supplement the seasonal business. A loan from the value-added center for \$79,500 for noodle equipment and \$52,000 for a CO² tank helped with the expansion. The Division continues to provide technical and marketing assistance to this business as it expands its product offering.

Cooperative Agricultural Services, Inc. (Gove): This farmer-owned cooperative with 2400 members covering five counties in northwest Kansas utilized the loan funds to put in a soybean crush facility. Previously, the cooperative was transporting soybeans a considerable distance to process before utilizing them in their feed rations. The new facility will allow the cooperative to save money on transportation costs and will increase flexibility by utilizing locally produced soybeans in feed rations. Not only has Co-Ag used APDD funding and technical assistance, but also funding for training and retraining dollars through the Business Development Division's KIT and KIR programs.

Prairie Pride Inc. (Butler)-Utilizing new technology, Prairie Pride will be partnering with Silver Creek Dairy to establish a mini dairy plant and retail store to provide added value for farmers. This operation will produce a wide variety of dairy products, such as cheese, yogurt, bottled milk, and sour cream to provide added value for farmers. The equipment can also produce jellies and jams, tomato paste, soups, rice and pasta.

Davenport Orchards & Vineyards (Douglas): A family-owned winery, which started as a hobby outgrew its original facilities. Loan funds will be used to upgrade a grape harvesting and wine production facility. With this building, Davenport has the capacity to increase production to 10,000 gallons per year, or 50,000 bottles of wine, from its current capacity of 2,500 gallons per year or 12,500 bottles of wine.

Smoky Hill Vineyard & Winery (Saline): Smoky Hill will utilize loan funding to construct a grape harvesting and wine production building. Currently producing 8,500 gallons per year, production will increase to 25,000 gallons per year with the expansion. The expansion plans include a facility with crush pad and an ozone processor to maintain quality control in a cost effective and environmentally friendly manner.

Rainbow Organic Farms (Franklin, Johnson, Bourbon): In a partnership with Newhouse Dairy Processing LLC in Wellsville, KS, Rainbow Organic utilized their AVAC loan funding to purchase glass milk bottles for use in retail marketing. Rainbow is marketing the products through House and Price Chopper stores in the Kansas City area.

From the Land of Kansas Trademark Program

The 671 members in FY03 received education, marketing consultation, and business development assistance to help their businesses grow and prosper.

The Trade Show Assistance program encourages FLOK members to promote their products through the trade shows as part of their strategic marketing plans. Eight FLOK members were assisted in FY03, with funding awards totaling \$2,000. Sales generated from the shows totaled \$10,691.00. Companies using Trade Show Assistance were:

Mom & I's Candy	Everest (Doniphan)	\$250.00
Smoky Hill Bison Co.	Lindsborg (McPherson)	\$250.00
Butterfield Books Inc.	Lindsborg (McPherson)	\$250.00
Unique Equine	Valley Center (Sedgwick)	\$250.00
Farm Shed Goods & Gifts	Inman (McPherson)	\$250.00
The Pantry Shelf Co.	Hutchinson (Reno)	\$250.00
Pyle Meat Co.	Eudora (Douglas)	\$250.00
Treehouse Berry Farm	Linwood (Leavenworth)	\$250.00

The Business Enhancement program provides a dollar-for-dollar match for businesses to foster business development. Funds awarded this year totaled \$1,710.00. The program funds marketing campaigns, collateral materials development, web site development, and other business development efforts. The following companies utilized the program funds in FY03:

Central Supply	Great Bend (Barton)	\$500.00
Connie Morris	St. Francis (Cheyenne)	\$500.00
Maudie's Sweet Salsa	Ottawa (Franklin)	\$210.00
Fieldstone Enterprises	Overbrook (Osage)	\$500.00

Kansas Department of Commerce
Ag Marketing Division
Statute Summary:

Patty Clark

Objectives: "include, but not limited to"

- ◆ provide technical assistance to existing and potential value added facilities, including incubators
- ◆ develop a network for collecting and distributing information to individuals involved in value added processing
- ◆ initiate pilot plant facilities to act as research and development labs for existing and potential small scale value added processing endeavors
- ◆ provide technical assistance to new value added businesses
- ◆ develop and promote communication and cooperation among private businesses, state government agencies and institutions of higher ed
- ◆ establish R&D programs in technologies that have commercial potential for food and nonfood ag products to achieve substantial and sustainable continuing growth for the Kansas economy
- ◆ act as a catalyst for industrial agriculture
- ◆ establish an industrial ag industry in the state
- ◆ commercialize the industrial ag technologies in smaller communities and rural areas
- ◆ develop investment grade agriculture value added technologies and products
- ◆ develop a market referral program by matching distribution to buyers in coordination with other state agencies concerned with marketing Kansas products
- ◆ assist private entrepreneurs with facilities and markets for new value added ag endeavors
- ◆ introduce coordinated programs to develop marketing skills of existing value added processors

Acts to be performed for more advantageous marketing of ag products:

- ◆ study marketing of farm products
- ◆ promote sales and distribution
- ◆ furnish information and assistance
- ◆ study and recommend efficient and economical methods of marketing
- ◆ provide for market studies and research
- ◆ gather and diffuse market information
- ◆ conduct market development activities and develop new markets with exterior partners (commodity groups, trade and producer organizations, etc.)
- ◆ render assistance to above groups and development activities and make a reasonable service charge for those services
- ◆ accept other state and federal monies for research, investigation and/or market development

Trademark:

- ◆ promulgate policy on use
- ◆ print, reproduce or use trademark in educational and promotional materials
- ◆ fix, charge and collect fees for use of trademark

Reports:

- ◆ on or before February 1 of each year report to House and Senate Ag Committees regarding performance

Mission Statement

To enhance the value of agricultural products through new and existing markets and new uses in order to provide a greater return to producers, processors and rural communities.

Definition of "Value Added Agriculture"

Further processing and/or alternative marketing of agricultural products to capture more of the end consumer dollar at the producer level.

Fiscal Year 2003 Budget

\$1,127,670 with \$505,129 was dedicated to the AVAC Loan Fund

From the Land of Kansas Trademark Program

Mission Statement

To efficiently and effectively utilize the specialized state-registered trademark program to assist Kansas companies in the promotion of their products, enhance their sales and increase their profitability.

Initiatives for 2004:

- To ensure the trademark consistently signifies high quality value to the consumer in coordination with regulatory agencies and food processor inspection services.
- Update, with assistance from the Division's administrative assistant, the FLOK directory/database and develop an outcomes-based tracking system to track sales and return on investment from trade show participation, etc.
- Distribute inventory of FLOK indoor/outdoor banners and other collateral materials to better promote the Trademark and trademark program.
- Develop and maintain a database of qualified Kansas food companies for promotion to institutional food service (restaurants, hotels, convention facilities, etc.) and for use by state agencies, the administration and the legislature for state sponsored meals/meetings.
- To create greater loyalty of Kansas consumers to purchase Kansas products from Kansas companies through the efficient use of print, radio and television media.
- To enhance the profitability of Kansas food companies through direct marketing seminars and other marketing education efforts.
- To develop a strategic campaign to use National Ag Week/National Ag Day as a springboard for promotion of Kansas food producers and processors to Kansas consumers.
- To work with Travel & Tourism Division to highlight Kansas-made products in tourism efforts, and use those products as a doorway to agri-tourism experiences.

**Testimony on Overview of the Trade Development Division
to
The Senate Committee on Commerce**

**by John Watson
Director of Trade Development
Kansas Department of Commerce**

January 28, 2004

The main role of the Trade Development Division is to support Kansas small business in international markets. By encouraging Kansas companies to export, the division strengthens business enterprise, creates jobs and prepares Kansas companies for the challenges of operating in a global economy. Complementing the division's work in export promotion, we also recruit new investment from international sources. The end result of our effort is stronger Kansas companies able to compete globally and the creation of jobs in Kansas from international investment.

We are pursuing these initiatives because the marketplace is a global arena. The most current export statistics for Kansas conservatively estimate a **\$6.0 billion export economy** with thousands of jobs generated in Kansas as a result of international sales. The top three export markets by destination are Canada, Mexico and Japan, which account for approximately 55% of the state's annual total exports. Kansas is strategically positioned to work in these markets, and our division dedicates a substantial portion of its resources to take advantage of our market strengths.

Our customer base for export services is Kansas small business. To deliver our services and provide market opportunities, we have an aggressive outreach program to identify potential exporters in Kansas. During the past year, the division conducted educational seminars and instruction on the subject of "International Marketing Strategies Using the Internet" at five Kansas locations, including Salina, Hutchinson, Topeka, Pittsburg and Overland Park. To provide a fresh perspective on specific international markets, the Kansas office representatives in Japan, Mexico and Europe gave additional briefings in Kansas on current business opportunities in their respective areas. Our intent in offering these seminars is to motivate Kansas companies to pursue new international business opportunities and make them aware of the services offered by our overseas representatives.

How do we serve the customer? The mix of export services available from the Trade Development Division is diverse and comprehensive. We help companies to define an entry strategy to markets, provide specific market research relevant to their products or services, provide cash incentives through the Kansas International Trade Show Assistance Program (KITSAP) for participation at trade show events, and organize trade missions for Kansas businesses to market their products under the guidance of the

Senate Commerce
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experienced division staff. In addition, the Kansas international office staff accompanies Kansas companies to appointments when requested.

In the last fiscal year, 192 companies received personalized export counseling services. The assistance included 70 market research reports and 32 distributor/agent searches prepared by the Kansas international offices. Leveraging the KITSAP program funds to attend trade shows, 41 Kansas companies reported export sales of \$12.96 million from their participation in international trade shows.

Mission activity plays a prominent role in accomplishing both our trade promotion and investment recruitment objectives. With the state's economic strength in aviation and aerospace, our past efforts include sponsoring of Kansas pavilions at the Farnborough and Paris Air shows. These events allow us to promote the state as a good location for international aircraft suppliers to establish U.S. operations and also offer an opportunity for Kansas exhibitors to market their products at major international events with our assistance. Recent mission activity includes Lt. Governor John Moore's initiatives to create market opportunities for Kansas agriculture products in Cuba and the Administration's participation in Midwest U.S.-Japan Association annual conferences. Leadership participation in these marketing initiatives makes a significant difference in the number and quality of business opportunities identified on the mission.

Each year, to honor the state's exporting community and provide a role model for Kansas companies to pattern their own marketing initiatives, the Governor announces the **"Exporter of the Year Award"**. This year's winner, American Crane and Tractor of Kansas City, is an excellent example of a company that through hard work and smart decisions, has bootstrapped their way to a prominent position in the industry as a global supplier to construction machinery parts customers. Following the June award, we encourage the winner to speak to other Kansas businesses about their international experiences and share the "secrets to their export success". Testimonials are often an effective way to motivate small business to take on new challenges.

Our own challenge in the division is the search for new clients who have the potential and capacity to export. Our experience in marketing the services of the division can be summarized as an issue of timing. Unless a company is open and receptive to examining their ability to work in international markets, the division's message often falls on deaf ears. Our direct mail campaigns and seminars seeking new clients result in follow up staff appointments about ten percent of the time. We believe we can be most effective by teaming up with Chambers of Commerce, World Trade Centers, universities and economic development organizations to deliver our export message and services. These institutions often have great networks into the business community, and we can use their influence to attract customer interest.

We have two geographic areas in the world that are underserved by Kansas. **The Greater China Area and South America** are potentially lucrative markets for Kansas exporters. Currently, we have a team of market researchers in place in Chile, Argentina and Brazil to assess markets for our clients. We expect by June to have in place a similar presence in

Beijing, Shanghai and Taipei to promote the sale of Kansas products. Mission activity is scheduled for March in South America, and Asia missions are being planned for 2004. As resources become available, we expect to be more aggressive marketing in Asia and South America. Our long-term goal is to build a larger Kansas office presence in these strategic areas.

In addition to the export promotion work of the division, **we also use the state's international offices to recruit investment to Kansas.** Nearly 80 percent of all inbound investment to the United States originates from three areas in the world: Western Europe, Canada and Japan. By attending trade shows, organizing missions, conducting good public relations and nurturing international contacts, the division staff is increasing the international business presence in Kansas. Affiliates of international corporations employ nearly 40,000 Kansans.

Marketing is conducted through international missions and industry-specific trade shows (e.g. aerospace, renewable energy), as well as promotional activities in targeted geographic markets, such as participation in the Midwest U.S.-Japan Association. The international offices help to build our international network through direct mail initiatives, media relations, and regular contact with overseas companies that have an interest in Kansas. In addition, the Trade Division staff participates in Business Development Division's business recruitment marketing activities such as hosted events for site location consultants and business executives to develop new international leads.

Last fiscal year, the Trade Division using Commerce incentive programs landed four new international investments for Kansas. The four companies invested a total of \$29.8 million in capital investment resulting in 280 new jobs. More recently, a Northern Ireland company, UPU Industries, began construction of a new manufacturing facility in Junction City to produce hay bale netting for agriculture markets. The \$14 million investment is expected to be operational in June 2004 and will employ over 70 Kansans.

Now as never before, we have a unique opportunity to capture export markets and recruit international investment for Kansas. The gradual elimination of worldwide tariffs in WTO negotiations combined with free trade agreements concluded by the US federal government have given Kansas companies greater access than ever before to international markets. We intend to provide leadership and direction to Kansas international business in pursuit these marketing objectives.

Thank you for the invitation to update the Committee on Commerce's international initiatives.

**Testimony on Overview of the Community Development Division
to
The Senate Committee on Commerce**

**by Matt Jordan
Director of Community Development
Kansas Department of Commerce**

January 28, 2004

Chairwoman Brownlee and members of the Commerce Committee, my name is Matt Jordan, and I serve as the Director of the Community Development Division in the Kansas Department of Commerce. It is a pleasure to have an opportunity to provide you an overview of activities conducted by the Community Development Division and to explain how those activities fit into the overall efforts to realize prosperity in Kansas.

The mission of the Community Development Division is to partner with Kansas communities to help enhance their livability by providing financial, technical, and business assistance. This mission is built upon the belief that vibrant and healthy communities are vital to economic development. In other words, excellent quality of life is an important attribute that impacts how a state is able to fulfill its economic development initiatives.

The Division employs 20 community development professionals who over the past five years have **allocated 141-million dollars in grants for small and rural communities across Kansas.** These grants were matched with local resources to account for 465-million dollars in community betterment activities. Community Development programs are geared to provide:

- Entrepreneurship and small business assistance
- Funding for improvements to community facilities
- Leadership development training for small communities
- Strategic planning resources for community betterment
- Downtown revitalization strategies

The first category of programs is **Financial Assistance** of which account for approximately 25-million dollars in annual funding for local governments and nonprofit organizations.

1) The State of Kansas receives 20-million dollars annually from the US Department of Housing and Urban Development for the **Small Cities Community Development Block Grant (CDBG)** program to address the following important needs: improvements to community facilities, downtown revitalization, water and sewer infrastructure, emergency needs affecting health and safety, and neighborhood redevelopment. One of three national objectives must be met. The national objectives, as defined by Federal Law, involve:

- benefit to low- and moderate-income individuals;
- removal or prevention of slum or blighted conditions;
- or resolution of an immediate threat to health or safety where local funds are not available.

These funds are designated for cities with a population under 50,000 and counties with a population under 200,000, which covers approximately 1.5 million Kansas residents. A recent study by Kansas, Inc. notes

that Rural counties (population less than 10,000) are the primary recipients of these funds at a level of \$47.33 per capita. Mid-Size counties (non-Metro counties with populations over 10,000) receive \$16.88 per capita followed by Metropolitan counties at \$3.05 per capita.

Since FY 1999, CDBG funding provided community improvements that serve 471,000 people of which 258,000 were classified as low- and moderate-income. These projects helped strengthen neighborhoods and communities by making improvements to more than 1,000 houses, 50 public facilities, and 440 miles of water or sewer lines.

2) Community Service Tax Credits worth 4.13-million dollars are awarded once per year on a competitive basis to nonprofit and healthcare organizations to encourage individuals and businesses to financially support projects that meet vital community needs. Nonprofit recipients must provide services for children, health care, or nongovernmental crime prevention to be eligible. An income tax credit of 70 percent is allowed in communities of less than 15,000, and 50 percent in communities greater than 15,000. The minimum donation is \$250.

Between 1995 and 2002, the Community Service Program generated 47-million dollars in donations to organizations receiving tax credits, which represents a return of \$1.65 in charitable donations for every \$1.00 in tax credits issued. It has helped fund a wide array of community betterment projects conducted by 322 organizations in 76 counties.

3) Flood Mitigation Assistance (FMA) Grants -- Three communities participated in this program during FY03 to conduct \$165,000 in flood mitigation activities.

4) Community Capacity Building (CCB) Grants -- During FY03, a total of \$157,000 helped 12 Kansas communities to complete strategic and comprehensive planning projects.

The second category of activities conducted by Community Development staff is **Technical Assistance** to small communities.

First, in FY03, Community Development staff provided **professional development and technical training** sessions to 1,900 local government and nonprofit professionals representing 454 organizations in Kansas. Staff also conducted 383 site visits, consisting of approximately 1,600 hours, to help communities meet federal grant guidelines and implement economic development plans.

Second, **the PRIDE program** is a volunteer grassroots effort to improve the quality of life in communities. Each Kansas community is unique yet they share common bonds, which are a rich heritage of self-reliance and community pride. Since 1970, the Kansas PRIDE program has assisted and encouraged communities to prepare for the future by building on their assets and forming a vision of the future. This is a joint effort between Commerce, KSU Research and Extension, and PRIDE Inc., a nonprofit organization consisting of companies and member communities.

Due to a strong emphasis on leadership development and community betterment, cities in the PRIDE program completed more than 1,500 projects that involved 50,000 hours of volunteer labor by citizens committed to strengthening their communities.

The final category of programs conducted by Community Development staff involves support for entrepreneurs in small businesses. The Kauffman Foundation defines entrepreneurship as "the ability to amass the necessary resources to capitalize on new business opportunities." The following five programs

demonstrate the commitment by the Community Development Division to provide **Business Assistance** to entrepreneurs.

1) **Economic Development grants** are made to cities or counties, which then use the monies to make gap-financing loans to qualified private businesses creating or retaining permanent jobs. Funding is also available under this category for infrastructure improvements directly tied to the creation or retention of jobs. Repayment is required for most Economic Development categories. These monies are awarded annually in six competitive rounds, and projects must meet federal requirements to qualify. Each year, approximately 3.5-million dollars are available through this revolving loan fund.

2) **The Main Street program** is the cornerstone to preserving and revitalizing downtown commercial districts in Kansas. This program is actively developing strategies for re-energizing central business districts in 22 designated Main Street cities and 25 Kansas Downtown Development Association (KDDA) cities. The main economic centers of many Kansas communities are the historic buildings located in downtown areas. Enhancing the viability of these commercial districts preserves the heritage of communities while boosting their economic vitality. The program offers management training, consulting, evaluation, design assistance, and financial resources from the Incentives Without Walls (IWW) program.

3) **IWW** is a flexible program that assists small businesses within the designated Main Street area to make improvements, expand, or otherwise enhance operations. The local Main Street organization applies for a low-interest loan or, in the case of historic preservation projects, a grant, in two competitive rounds per year. Main Street communities received approximately 1.3-million dollars through IWW grants funded by EDIF revenues since 1999. These grants generated 10.8-million dollars in private investment to small businesses in downtown districts. This represents a return of \$8.48 in private investment for every \$1.00 in grant funds issued. We believe this demonstrates a good use of state resources that helps support a vital economic development priority.

Since FY 1999, Economic Development Loans and Main Street Grants provided 24-million dollars in direct financial assistance to businesses in Kansas. This financial support created 3,585 jobs, which equates to more than new 700 jobs per year.

4) **The Micro-loan Program** provides grants of up to \$100,000 through a competitive process to rural counties that do not have a current CDBG revolving loan fund. The county or its designated authority may make loans up to \$25,000 to businesses with five or fewer employees at interest rates below the prime-lending rate. The county must demonstrate it has the capacity to provide business training to sub-recipients and document benefit to low- and moderate-income individuals through the creation or retention of jobs. One million dollars is allocated to this program per year to fund up to ten new revolving loan funds.

5) **Enterprise Facilitation** is a person-centered approach to community and economic development consisting of free and confidential small business assistance. This process is controlled and managed at the grassroots of a community by a local board of management comprised of civic leaders, community professionals, and economic development practitioners. In calendar year 2002, the Division funded five Enterprise Facilitation demonstration projects consisting of a 30-month start up period. These projects cover 24 rural counties in western, central, and eastern Kansas with a combined population of 175,000 residents.

Kansas is a leader nationally in this approach to entrepreneurship development. There are 17 projects underway across the United States. Thus, the five projects in Kansas are gaining increasing attention as models for implementation of Enterprise Facilitation. The following accomplishments have been realized by the five projects:

- Introduced more than 3,000 potential entrepreneurs to the Enterprise Facilitation process.
- Served more than 400 clients to help them develop plans to open or expand a business.
- Created 37 new businesses and retained or expanded 28 existing businesses.
- Created more than 130 jobs through expansion or creation of businesses.
- While not quantifiable, the impact of stronger regional cooperation and the value of local leadership exhibited by more than 100 active volunteers to the economic development potential of participating counties is very significant.

As you can see, the Department of Commerce views support for small businesses, especially in rural communities, as a very important means to realize prosperity in our state. I will now review briefly two new proposals generated from the Prosperity Summit process that are intended to further strengthen the department's ability to support entrepreneurship in our state.

The first proposal consists of a comprehensive **Kansas Rural Entrepreneurship Action Plan** to be implemented by a standing committee within the Kansas Rural Development Council. This committee, which currently includes 18 organizations, will coordinate the programs and resources of all of the state's rural economic development agencies (public and private, regional, state, and federal). The Kansas Small Business Development Centers and the Kansas Department of Commerce will act as co-chairs of this fully functional standing committee. **The Action Plan consists of four strategic priorities: 1) Formation of Capital Networks; 2) Seamless Network of Support Services; 3) Leadership Development Programs; and 4) Recruitment and Retention of Youth.**

The second proposal is the establishment of **Rural Business Development Tax Credits** modeled after the highly successful Community Service Program (but not as a substitute for). This concept, which is a major component of the Rural Entrepreneurship Action Plan, calls for allocation of tax credits worth one million dollars in each of the state's seven economic development regions over a three-year period. These tax credits would encourage cash contributions to establish regional business development funds to make seed capital investments in small, growing companies not able to secure traditional financial backing from banks and regional organizations. Individuals and businesses with a Kansas tax liability would receive a tax credit of 70% of their donation made to the regional business development funds. This program would provide capital for entrepreneurial efforts in rural communities, ensure regional determination of use of the funds, and begin to tap the potential \$350 billion transfer of wealth projected to occur in the next 50 years.

The importance of entrepreneurs to the economic development potential of rural counties cannot be overstated. Job creation and innovation have been almost entirely driven by small businesses over the past 20 years for the overall US economy. These trends are especially true in small and rural communities. Therefore, Community Development staff is focused on ways to improve the quality of life in rural Kansas so it is able to attract and retain entrepreneurs. Programs that promote strategic planning and leadership development further support this goal by ensuring communities are able to provide a suitable living environment and expand economic opportunities.

I wish to thank the committee again for the opportunity to share information about how Community Development programs strengthen communities and promote prosperity in Kansas.

Mission: To partner with Kansas communities to help enhance their livability by providing financial, technical, and business assistance. Community Development programs are geared to provide:

- Entrepreneurship and small business assistance.
- Funding for improvements to community facilities.
- Leadership development training for small communities.
- Strategic planning resources for community betterment.
- Downtown revitalization strategies.

The Division employs 20 community development professionals who between state fiscal years 1999 and 2003 **allocated \$141-million in grants for small and rural communities across Kansas.** These grants were matched with local resources to account for \$465-million in community betterment activities.

Since 1999, **CDBG funding provided community improvements that serve 471,000 people of which 258,000 were classified as low- and moderate-income.** These projects helped strengthen neighborhoods and communities by making improvements to more than 1,000 houses, 50 public facilities, and 440 miles of water or sewer lines.

Over the past five years, **CDBG resources matched \$121-million in federal funds with \$288-million in local funds through more than 400 projects collectively worth \$409-million,** which equates to a return of \$2.37 in local funding to every \$1.00 in federal funding as well as a significant investment in community development across the state.

Between 1995 and 2002, **the Community Service Program generated \$47-million in donations to organizations receiving tax credits,** which represents a return of \$1.65 in charitable donations for every \$1.00 in tax credits issued. It has helped fund a wide array of community betterment projects conducted by 322 organizations in 76 counties.

In FY03, **Community Development staff provided professional development and technical training sessions to 1,900 local government and nonprofit professionals** representing 454 organizations in Kansas. Staff also conducted 383 site visits, consisting of approximately 1,600 hours, to help communities meet federal grant guidelines and implement economic development plans.

Main Street communities received approximately \$1.3-million through IWW Grants funded by EDIF revenues since 1999. These grants generated \$10.8-million in private investment to small businesses in downtown districts. This represents a return of \$8.48 in private investment for every \$1.00 in grant funds issued.

Since 1999, **Economic Development Loans and Main Street Grants provided \$24-million in direct financial assistance to businesses in Kansas.** This financial support created 3,585 jobs, which equates to more than 700 new or retained jobs per year.

Kansas is a leader nationally in the grassroots approach to entrepreneurship development called "**Enterprise Facilitation.**" There are 17 projects underway across the United States. Thus, the five projects in Kansas that cover 24 rural counties are gaining increasing attention as models for implementation of this person-centered method to community and economic development consisting of free and confidential small business assistance. In less than one full year of operation, the five Kansas projects: Introduced more than 3,000 potential entrepreneurs to the Enterprise Facilitation process; Served more than 400 clients to help them develop plans to open or expand a business; Created 37 new businesses and retained or expanded 28 existing businesses; and, Created more than 130 jobs through expansion or creation of businesses.

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Senate Commerce
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Attach #10

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