Testimony Before

The Joint Committee on Economic Development, 1987
Kansas Legislature

Representative Rochelle Chronister, Chair
Senator Wint Winter, Jr., Vice Chair

presented by

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PREFACE

The Joint Committee on Economic Development, established pursuant to K.S.A. 46-1604, was charged with the study of thirteen topics during the 1987 legislative interim period. Of these topics, the Institute for Public Policy and Business Research provided testimony and support materials on ten. The testimony and support materials have been collected in this report for easy reference. Funding support for this activity was provided by the Kansas Department of Commerce.

The staff of the Institute for Public Policy and Business Research enjoyed working closely with the Department of Commerce, Kansas, Inc., and, in particular, Lynne Holt of Legislative Research. Institute staff who worked on this project include Shirley Sicilian, Carolyn Coleman, Gina Sanborn, Kathleen Bryant, Don Eskew and Kathleen Harnish.

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*Numbers refer to the topics as listed in the December 9, 1987 interim report of the Joint Committee on Economic Development.

TOPIC II:

DEFINING KANSAS' ECONOMIC BASE

Anthony Redwood
October 16, 1987

DEFINING THE ECONOMIC BASE

Current Kansas economic development legislation describes Kansas' economic base in several different ways which often do not provide very definitive guidelines for determining which types of firms and organizations are to be included or excluded under the legislation. This includes legislation on venture capital, the Kansas Technology Enterprise Corporation and the Department of Commerce (see appendix for a listing of this legislation). Some of the definitions in the legislation are too broad and indefinite, and others are too restrictive. A clear, consistent and flexible definition of the economic base industry is needed to allow for the most efficient use of the State's economic development resources. In order to come up with such a definition it is necessary to look at some of the theory behind the economic base concept.

Theory

Economic base analysis is one method for studying the economic structure of a state or local economy. The theory underlying an economic base analysis is that economic activity can be divided into two sectors, basic and nonbasic. The basic sector includes those firms which produce goods and services locally but sell them outside the local or state area. The basic sector provides the means of payment for imports into the area. It also supports the nonbasic sector-those activities that produce goods and services locally for local consumption and service the basic sector.

The basic sector is considered to be the foundation of the local economy and source of growth in the area. The non-basic sector derives income from transactions within the local area and its income is determined by the level of income existing within the local community. In contrast, the basic sector is independent of the amount of wealth in the community, but is instead dependent on sales to the regional, national and international markets. The basic sector has the potential to expand employment and output and thereby expand the non-basic sector. Increased sales and employment in the basic sector lead to increases in the sales and employment of the nonbasic sector. Since the basic sector's exports pay for the area's imports and support the nonbasic sector, the health of the overall economy in an area is a reflection of the health of the basic sector of that economic area.

Economic base theory provides a measure of the effect of growth in the basic sector on the overall economy in a ratio called the multiplier. The multiplier is the ratio of total economic activity to basic sector economic activity for the state or local area. Indicators which are commonly used as measures of economic activity are employment and income. The multiplier represents the increase in the number of total jobs in the economy attributed to the increase in one job in the basic sector when employment data is used. When income data is used, it represents the increase in the number of dollars of income in the total economy attributed to the increase of a dollar of income from the basic sector. The multiplier effect is the total impact on the economy due to an initial increase in the basic sector.

Since a total economy is assumed to expand due to an expansion in its basic sector, it is important to concentrate economic development efforts on this important sector. The nonbasic sector is dependent on what takes place in the basic sector, so the nonbasic sector is indirectly effected by development efforts in the basic sector. By concentrating efforts on creating growth in the basic sector one can stimulate growth throughout the economy. Economic development efforts can have the greatest impact on the overall economy when they are focused on the basic sector.

Proposal for Change

However, before one can begin such an effort to concentrate development efforts on the basic sector, it is necessary to identify the businesses and organizations that make up this sector. Unfortunately, a clearcut list of the industries which make up the basic sector is not possible. Various methods of identification are flawed and the Standard Industrial Code (SIC) system for classifying businesses is outdated in light of today's rapid changes in technology and business organization. It is not possible in this changing environment to draw up a definitive list of industries in a local or state economy, classified according to SIC code labels, which make up the basic sector for that economy. Hence it is necessary to have an identification system which is flexible enough to include firms which are a part of the basic, exporting sector, although they are in an industry which is not normally considered to be a part of the basic sector. Such a flexibility would also allow the identification system to reflect changes which occur in businesses over time.

Rather than using just a simple list of current basic sector industries which could easily become outdated, criteria should be developed based on the conceptual idea of the economic base to enable identification of firms which are truly a part of Kansas' basic sector even though they are in industries which are not usually considered to be a part of Kansas' economic base. These criteria can be used as a supplement to a general list of industries considered to make up the basic sector and can be used for assistance under economic development legislation if they are not included in an industry generally considered to be a basic industry. A list of industries which are generally accepted as the basic industries of Kansas can be used to streamline the process of deciding which firms are included in the basic sector; however, a list of generalized criteria can supplement this list of industries to ensure a definition which is flexible enough to include all firms which are a part of the basic sector.

We propose that the following list be used to define those industries which are generally assumed to make up the basic sector:

1) Agriculture, except for locally consumed production.

2) Mining, except for locally consumed production.

3) Manufacturing, except for locally consumed production.

4) Interstate transportation.

5) Wholesale distribution that is principally multistate in activity.

6) Financial services principally engaged in interstate or international transactions.

7) Business services principally serving an out-of-state market.

8) Research and development of new products, processes or technologies.

9) Tourism activities that are principally engaged in attracting tourists from out of state.

10) Corporate or regional headquarters of a multistate firm used for the supervision of business activities, when the majority of such business activities (measured in dollars of sales) takes place outside the boundaries of the state.

We propose that the following list of criteria be used to supplement the above list of specific industries in order to provide flexibility in the definition of Kansas' economic base. A firm should be considered a part of Kansas' basic sector if it is:

1) A firm which designs, develops or produces products, processes or services principally sold out of state.

2) A firm which provides products or services which predominantly attract out-of-state consumers into the state.

3) A firm which produces raw materials, ingredients or components for other

firms that are exporting the majority of their product beyond the boundaries of the state.

4) A national or regional firm which is principally engaged in interstate commerce.

Legislation Which is Effected by Defining Kansas' Economic Base

K.S.A. 74-5047, Department of Commerce. Statute establishing the purpose of the division of trade development.

K.S.A. 74-8102, Technology Enterprise Corporation. Statute defining the purpose of the Kansas Technology Enterprise Corporation.

K.S.A. 74-8104, Technology Enterprise Corporation. Statute which describes the authority of the Kansas Technology Enterprise Corporation.

K.S.A. Supp. 74-8106, Technology Enterprise Corporation. Statute which amends legislation on the functions of the centers of excellence.

K.S.A. Supp. 74-8302, Kansas Venture Capital Company Act. Legislation which amends the Kansas Venture Capital Company Act.

K.S.A. Supp. 74-8306, Kansas Venture Capital Company Act. Statute which defines qualifications for certification of a venture capital company.

K.S.A. Supp. 74-8307, Kansas Venture Capital Company Act. Amendment which restricts the use of funds invested by Kansas Venture Capital, Inc. for Kansas business and venture capital companies.

K.S.A. 74-8307, Kansas Venture Capital Company Act. Legislation which defines requirements for the continued certification of a Kansas venture capital company.

TOPIC III:

THE KANSAS INDUSTRIAL RETRAINING PROGRAM
H.B. 2515

Charles E. Krider
August 21, 1987

In a study conducted last year for the Department of Labor, the Rand Corporation disclosed two important facts. Nearly 40 percent of U.S. workers have taken part in training programs while on the job (Brody, *Fortune*, 6/8/87). And the biggest clients of the nation's community-technical college systems are U.S. companies seeking to supplement their in-house training programs with courses offered through the state education system (ibid.). Illinois, Missouri and North Carolina are a few of the states that have already committed substantial resources to training and retraining programs for their state's work force.

House Bill No. 2515 establishes two such programs for Kansas: the Kansas Industrial Training Program (KIT), which provides customized training for new or expanding firms, and the Kansas Industrial Retraining Program (KIR), which provides customized retraining for firms that are or introducing new technology or new products. This bill would contribute to the economic development potential of Kansas by helping to create new jobs and to retain existing jobs through skill enhancement of the Kansas labor force. We, therefore, recommend the enactment of HB 2515 and the establishment of the KIT and KIR programs.

The importance of training and retraining workers is achieving greater recognition across the United States. Reasons for this include:

- steady increases in the complexity of high-technology occupations, which requires continual skill enhancement for the nation's work force (report to the Business Training Task Force of the Kansas Legislature);

- declining youth populations, which causes increased competition for entry-level workers and occasions higher priority status for retraining older workers (Berstein, *Business Week*, 8/10/87); and

- policy discussions that link job training issues to the economic well-being of a state (report to the Business Training Task Force of the Kansas Legislature).

In Kansas, these same factors are at work. Labor market projections from the Kansas Department of Human Resources predict that some of the fastest growing job categories in the state will be in high-technology fields (see Table 1). Population trends for Kansas show a decline in youth groups through 2000 (see Table 2). And economic development issues here have been extremely important priorities for Kansas policymakers during the past two years (Eco-Devo Report, Volume II).

The growth capacity of a state's economy is heavily dependent on the ability of its industries to adapt to changing market conditions. And, to achieve successful adaptation, the state's work force must be versatile enough to accommodate any new production technologies. As changing technologies force worker adaptation, it becomes increasingly important for the state to invest sufficient resources in programs that develop the skills and knowledge necessary for a higher qualified labor force. KIT and KIR are two programs that can meet this objective.

KIT provides easy access to training programs for companies that create new jobs. The value of using the KIT program has already been discovered by many companies across the state (see Appendix), and the program has established many business linkages in Kansas communities (see Appendix). Funding has also increased: total project moneys have risen from $16,512 in 1973 to $1,366,113 in 1987 (see Table 3).

While KIT provides training for newly created jobs, Kansas does not have a program for retraining workers already in the labor force. As new technologies are introduced, and as the youth population decreases, state investment in retraining programs will be required to keep worker skills sufficiently up-to-date. In order to survive, Kansas industry must be technologically competitive, and the absence of retraining assistance in Kansas may provide an incentive for businesses to move out of the state when technology makes retraining necessary.

State investment in retraining programs is necessary for the health and retention of Kansas industry. By establishing the development of human capital as an important investment priority, the legislature makes a strong policy statement of financial support and encouragement. The enactment of KIT and KIR training programs reinforces Kansas' commitment to its new and expanding industry and to its economic future.

TABLE 1
KANSAS
SELECTED FAST GROWING OCCUPATIONS
1982 to 1990

	Employment 1982	Employment 1990	Growth 1982-1990	Percent Change 1982-1990
Office Machine Servicers............	790	1,440	650	82.3
Computer Operators..................	2,470	4,200	1,730	70.0
Machine Assemblers..................	2,430	4,020	1,590	65.4
Electrical Engineers................	1,230	1,980	750	61.0
Drill Press Operators...............	1,150	1,850	700	60.9
Systems Analysts....................	1,570	2,500	930	59.2
Lathe Machine, Metal, Operators......	1,420	2,240	820	57.8
Machine Tool Operators..............	1,440	2,260	820	56.9
Electric Machine Equipment Assemblers	1,340	2,100	760	56.7
Machinists..........................	2,160	3,370	1,210	56.0
Drafters............................	2,600	4,050	1,450	55.8
Civil Engineers.....................	1,420	2,190	770	54.2
Welders.............................	6,610	10,160	3,550	53.7
Electric and Electronic Assemblers...	3,750	5,570	1,820	48.5
Tool and Die Makers.................	1,510	2,240	730	48.3
Computer Programmers................	2,100	3,090	990	47.1

Source: Kansas Department of Human Resources

TABLE 2
PROJECTIONS OF KANSAS POPULATIONS BY AGE GROUP

Age Group	1980 Actual	%	1990 Projection	%	2000 Projection	%
Under 5	180,877	7.7	199,200	8.1	174,200	7.0
5-14	344,378	14.5	373,300	15.2	374,100	15.0
15-19	217,721	9.2	166,200	6.7	192,900	7.7
20-24	232,788	9.9	178,300	7.2	175,100	7.0
25-34	374,618	15.9	404,800	16.4	308,500	12.4
35-44	249,600	10.6	359,900	14.6	379,800	15.2
45-59	351,300	14.9	342,200	13.9	458,900	18.4
60-69	200,241	8.4	203,800	8.3	180,100	7.2
70 and Over	212,055	8.9	235,800	9.6	250,800	10.1
Total	2,363,679	100.0	2,463,500	100.0	2,494,400	100.0

Source: Department of the Census

TABLE 3
KANSAS INDUSTRIAL TRAINING PROGRAM
1973-1987

Fiscal Year	Number of Companies	Trainees	KDED Amount	Voc-Ed Amount	Total Projects	Average Amount Per Trainee
1973	1	57	$ 16,512	$ 0	$ 16,512	$ 289.68
1974	5	164	42,708	0	42,708	260.41
1975	5	288	99,799	0	99,799	346.52
1976	7	463	97,734	0	97,734	211.09
1977	1	70	41,796	0	41,796	597.09
1978	6	268	84,638	0	84,638	315.81
1979	None	-----	----------	----------	----------	---------
1980	3	121	32,513	0	32,513	268.70
1981	3	72	31,384	0	31,384	435.89
1982	4	72	32,531	69,208	101,739	1,413.04
1983	4	178	45,957	92,812	138,769	779.60
1984	18	503	146,905	408,623	555,548	1,104.47
1985	15	1,087	210,071	415,455	625,526	575.46
1986	15	725	231,847	272,666	504,513	695.88
1987	23	4,700	844,456*	521,657	1,366,113	290.66
Totals	110	8,768	$1,958,851	$1,780,421	$3,739,292	$ 426.47

*Department of Commerce Amount

Data Compiled by Legislative Research, August 1987

KANSAS INDUSTRIAL TRAINING PROGRAM (KIT)

	COMPANY	CITY	# OF TRAINEES	KDED AMOUNT	VOC-ED AMOUNT	TOTAL PROJECT
FY73	LaCrosse Furniture	LaCrosse	57	$16,512	---	$16,512
FY74	Salina Sportswear Co.	Salina	35	6,561	---	6,561
	Ace Forms, Inc.	Pittsburg	28	6,000	---	6,000
	Unit Rail Anchor Co.	Atchison	17	17,461	---	17,461
	Emerson Electric Co.	Independence	74	10,502	---	10,502
	Balderson	Wamego	10	2,184	---	2,184
	TOTAL		164	42,708	---	42,708
FY75	Braun Athletic Co.	Parsons	12	5,733	---	5,733
	General Battery Corp.	Salina	98	37,218	---	37,218
	Mathias Klein & Sons, Inc.	Moran	38	20,750	---	20,750
	Gates Learjet Corp.	Wichita	100	25,098	---	25,098
	TRW Crescent Wire & Cable	Lawrence	40	11,000	---	11,000
	TOTAL		288	99,799	---	99,799
FY76	Mathias Klein & Sons, Inc.	Moran	29	3,472	---	3,472
	Gates Rubber Company	Iola	110	21,033	---	21,033
	U.S. Railway Mfg. Co.	Junction City	100	4,437	---	4,437
	Dean Machinery Co.	Elwood	10	4,523	---	4,523
	Brown Cargo Van, Inc.	Lawrence	30	12,960	---	12,960
	Chatham Potters, Inc.	Oswego	15	5,664	---	5,664
	Sterling Drug, Inc.	McPherson	169	45,645	---	45,645
	TOTAL		463	97,734	---	97,734
FY77	TRW Crescent Wire & Cable	Lawrence	70	41,796	---	41,796
FY78	Brown Cargo Van	Lawrence	20	10,080	---	10,080
	Amdevco Packaging Films	Edwardsville	23	8,201	---	8,201
	Sterling Drug, Inc.	McPherson	98	24,680	---	24,680
	The Flesh Company	Parsons	51	18,624	---	18,624
	Kustom Electronics	Chanute	51	13,976	---	13,976
	Wolverine Aluminum	Lawrence	25	9,077	---	9,077
	TOTAL		268	84,638	---	84,638
FY79	None					

KANSAS INDUSTRIAL TRAINING PROGRAM (KIT)
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	COMPANY	CITY	# OF TRAINEES	KDED AMOUNT	VOC-ED AMOUNT	TOTAL PROJECT
FY80	Neosho County Community College	Chanute	24	$ 4,228	---	$ 4,228
	Industrial Bearing and Transmission Co.	Overland Park	59	16,333	---	16,333
	Federal-Mogul Corp.	Salina	38	11,952	---	11,952
	TOTAL		121	32,513	---	32,513
FY81	Furniture Designs by Erie	Erie	8	12,606	---	12,606
	Chimes, Inc.	Oswego	29	8,598	---	8,598
	Milwaukee Electric Tool Corp.	Hutchinson	35	10,180	---	10,180
	TOTAL		72	31,384		31,384
FY82	TRW-Globe Motor Div.	Manhattan	39	26,646	61,442	88,088
	Vacu-Blast	Abilene	8	3,456	4,666	8,122
	Pioneer Wood Products	Osborne	10	1,616	1,688	3,304
	Oakley Chamber of Commerce	Oakley	15	813	1,412	2,225
	TOTAL		72	32,531	69,208	101,739
FY83	Sterile Design	Olathe	68	31,764	76,435	108,199
	Mid America Fabrication	Parsons	10	2,418	---	2,418
	Gott Corporation	Winfield	100	6,175	16,377	22,552
	Acrometal ~~(pending)~~	Olathe	*	5,600	---	5,600
	TOTAL		178	45,957	92,812	138,769
FY84	Acrometal ~~(pending)~~	Olathe	54	15,139	95,620	110,759

* FY83 and FY84 Acrometal projects involve a total of 54 trainees.

NOTE: KIT annual budget FY73 to FY77 - $100,000; FY78 - $85,000; FY79 to FY82 - $32,532; and FY83 - $46,000.

FY 84 - Kansas Industrial Training Program

Company (New/Expansion)	Town	Product	Starting/ Ending Dates	#Trainees	KDED	Vocational Education	Total
1.) Acrometal Companies (New)	Olathe	Mfg. Industrial Sanders	7-1-83 thru 5-31-84	54	$15,139	$95,620	$110,759
2.) Chimes, Inc. (Expansion)	Oswego	Mfg. Ceramics	4-26-83 thru 6-30-84	11	--	3,855	3,855
3.) Focii Antenna System (New)	Topeka	Mfg. Antenna Systems	12-12-83 thru 6-30-84	14	6,057	3,888	9,945
4.) Frito-Lay, Inc. (Expansion)	Topeka	Mfg. Snack Foods	3-19-84 thru 7-19-84	33	10,017	--	10,017
5.) Grandview Products (Expansion)	Parsons	Mfg. Kitchen Cabinets	11-4-83 thru 11-5-83	20	--	1,975	1,975
6.) The Green Co. (Expansion)	Lenexa	Mfg. Jewelry	6-4-84 thru 4-30-85	9	4,708	12,011	16,719
7.) Kaw Valley, Inc. (New)	Leavenworth	Mfg. Animal Health Products	3-1-84 thru 9-30-84	6	2,055	2,950	5,005
8.) Life & Safety Products (New)	Kansas City	Mfg. First Aid Kits	4-1-84 thru 9-30-84	36	11,810	39,200	51,010
9.) Packraft, Inc. (Expansion)	Chanute	Mfg. Plastic Bags	1-15-84 thru 5-15-84	50	4,560	19,440	24,000
10.) Philips Industries (Expansion)	Chanute	Mfg. Aluminum Doors & Windows	9-5-83 thru 4-13-84	70	24,547	53,892	78,439
11.) Philips/Ruskin Division (Expansion)	Parsons	Mfg. Air Handling Equipment	3-26-84 thru 9-26-84	43	2,640	49,140	51,780
12.) Pittsburg Pottery (Expansion)	Pittsburg	Mfg. Pottery	12-12-83 thru 6-8-84	38	10,920	12,355	23,275
13.) Robbie, Mfg., Inc. (Expansion)	Lenexa	Mfg. Plastic Packaging Film	4-16-84 thru 12-31-84	16	2,456	22,716	25,172
14.) Roto-Vac Plastics (Expansion)	Overland Park	Mfg. Plastic Products	8-15-83 thru 2-15-84	15	9,030	9,700	18,730
15.) Schlage Lock Co. (New)	Lenexa	Distribution - Securtiy Locks	1-2-84 thru 4-2-84	20	9,300	15,047	24,347
16.) Schuetz Tool & Die (Expansion)	Hiawatha	Tool and Die	1-23-84 thru 6-30-84	4	1,546.60	6,473	8,019.60
17.) Tasty Frozen Products (New)	Lenexa	Mfg. Frozen Bread Dough	1-3-84 thru 6-30-84	40	19,700	45,628	65,328
18.) Western Commerce Corp. (New)	Kansas City	Honey Processing	8-15-83 thru 2-10-84	24	12,420	14,753	27,173
Total	---	---	---	503	146,905.60	408,623	555,548.60

KIT PROGRAM - FY85

Company	Town	KDED	VOC-ED	TOTAL	JOBS
Palco, Inc.	Baxter Springs	$ -0-	$ 37,278	$ 37,278	24
Midland Brake	Iola	6,315	42,300	48,615	56
Phillips Industries	Parsons	25,200	27,216	52,416	120
Chermac International	Overland Park	6,156	7,506	13,662	10
Sallie Mae	Lawrence	15,275	24,257	39,532	61
Val-Agri	Garden City	8,400	24,948	33,348	200
Northwest Pipe	Atchison	26,100	48,384	74,484	45
Doerr Electric	Lenexa	38,000	93,960	131,960	126
AMS Nordisk	Osawatomie	4,000	-0-	4,000	25
Landoll Corp.	Marysville	-0-	61,776	61,776	100
Woodworks	Lawrence	-0-	4,044	4,044	12
Grandview Products	Parsons	-0-	2,127	2,127	20
M[illegible]ley Homes	Osage City	31,200	10,420	41,620	90
Continental Healthcare	Overland Park	9,425	31,239	40,664	58
Dayco Corp.	Ft. Scott	40,000	-0-	40,000	140
		$210,071	$415,455	$625,526	1,087

KIT - FY86

Company	Town	KDED	VOC-ED	Total	Jobs	New/ Expansion
Labels Unlimited	Lawrence	$10,640	$ -0-	$10,640	24	New
Dayco Corp.	Fort Scott	-0-*	56,669	56,669	*	New
Marley Homes	Osage City	-0-*	13,932	13,932	*	New
Southeast Mfg.	Neodesha	15,360	25,078	40,438	35	Expansion
Sallie Mae**	Lawrence	28,000	23,760	51,760	60	Expansion
Williams Foods	Lenexa	14,400	10,584	24,984	25	New
Walker Division	Manhattan	12,800	15,995	28,795	30	New
General Motors**	Kansas City	25,000	27,000	52,000	50	Expansion
El Dorado Motor	Salina	12,480	14,830	27,310	90	New
Dayton Industries	Lenexa	22,000	25,056	47,056	55	Expansion
Continental Healthcare	Overland Park	15,000	50,750	65,760	56	Expansion
Casework Concept	Chanute	38,800	-0-***	38,800	100	New
Maric Packaging	Pittsburg	18,367	3,900	22,267	20	New
Murphy Industries	Junction City	19,000	-0-***	19,000	150	Expansion
Tri-Fiberglass	Junction City	-0-	5,102	5,102	30	New
		231,847	272,666	504,513	725	

* Job figures for Dayco (140) and Marley (90) are listed under FY85 totals. KDED's portion of the Dayco and Marley projects were funded with FY85 special appropriation funds.

** These projects received additional funding via VOC-ED's Carl Perkins Fund (Sallie Mae-$26,000 and General Motors - $2~~00,0~~00).

*** VOC-ED portion comes out of FY87 funds (Casework - $12,100 and Murphy - $13,508).

FY87 INDUSTRIAL TRAINING

Company	Product	Community	New/ Expanding	# Trainees	New Jobs	KDOC (KIT)	Voc-Ed	JTPA(b)
General Motors(a)	Auto mfg.	Kansas City	Expanding	3,911	0	$614,464	$ 51,840	-0-
Ag-Dynamics	Sunflower Seed Processing	Goodland	New	15	15	11,997	5,076	$ 3,440
C-E Enterprise	Metal Fabrication	Enterprise	Expanding	87	57	24,553(c)	33,060	23,000
Met-First	Financial Services	Overland Park	New	75	75	39,724(d)	18,792	-0-
Central Power Products	Diesel Engine Overhaul	Emporia	Expanding	40	10	9,000	7,776	8,000
Heartwood Cabinetry	Wood Cabinet Mfg.	Iola	Expanding	15	15	21,100	26,136	1,820
Mineral-Right	Zeolite Mfg.	Phillipsburg	New	15	15	5,337	-0-	16,430
Myron's Dental	Dental Products	Kansas City	Expanding	10	10	11,800	10,972	12,000
C-E Raymond	Metal Fabrication	Concordia	Expanding	93	20	10,312	11,832	8,600
Orthopedic Casting Lab.	Orthopedic Goods Mfg.	Eudora	Expanding	20	20	14,450	16,537	10,000
Teledyne, Inc.	Jet Engine Repair	Independence	New	50	50	32,600	79,488	20,000
BMB Company	Metal Fabrication	Holton	Expanding	77	20	-0-	12,693	-0-
Student Loan Marketing Assoc.	Financial Services	Lawrence	Expanding	75	75	13,920	22,378	20,000

Company	Product	Community	New/ Expanding	# Trainees	New Jobs	KDOC (KIT)	Voc-Ed	JTPA(b)
J.I. Case	Metal Fabrication	Wichita	Expanding	180	160	-0-	118,152	30,000
Casework Concept	Wood Products Mfg.	Chanute	Expanding	(e)	(e)	-0-	12,100	-0-
Murphy Industries	Electronic Assembly	Junction City	Expanding	(e)	(e)	-0-	13,608	20,000
Barnet	Mfg. Bumpers	Kansas City	New	50	50	-0-	29,929	-0-
Stanley	Hardware Distribution	Kansas City	New	39	39	1,500	19,116	(f)
Continental Extrusion	Printing	Hutchinson	New	15	15	-0-	15,174	(f)
Idelman	Telemarketing	Wichita	New	40	40	5,497	16,998	-0-
Stricker Farms	Clothing Mfg.	Russell	Expanding	23	18	3,156	-0-	(f)
Value Furniture Inc.	Wood Cabinet Mfg.	Emporia	New	(g)	(g)	20,300	-0-	(f)
Hancock Electric Motor	Motor Remanu-facturing	Lyons	New	(g)	(g)	6,000	-0-	(f)
TOTALS				4,700	654	$844,456	$521,657	$173,290

(a) General Motors total FY87-88 training needs total approximately $900,000; $225,000 of KDOC funds have been committed for FY88 to complete the training project.

(b) This column represents projected training expenditures by Department of Human Resource programs -- Job Training Partnership Act (JTPA), Rural Employment Assistance Program (REAP), and the Veterans Program. Unlike KDOC and Voc-Ed monies which are committed upfront at the beginning of a training program, JTPA and other on-the-job training (OJT) funds are committed on an individual trainee basis as JTPA-eligible employees are hired during the training period. Firm numbers will be available at the end of each training project; figures are based on an estimate of 102 OJTs slots for all projects in FY87.

(c) Contract obligated $31,989 but only $24,553 was expended through the completion of the contract.

(d) Contract obligated $42,500 but only $39,724 was expended through the completion of the contract.

(e) FY86 projects - Voc-Ed used FY87 funds for their portion; KDOC's portions were $38,000 - Casework (100 trainees) and $19,000 - Murphy Industries (150 trainees).

(f) JTPA OJT slots have been committed for FY88 for these projects.

(g) FY88 projects - Voc-Ed has obligated FY88 funds for their portion: Value Furniture-$33,761 (45 trainees) and Hancock-$13,133 (12 trainees).

Prepared by Kansas Department of Commerce, Industrial Development Division, August 6, 1987.

TOPIC IV:

SMALL BUSINESS INCUBATORS

Anthony Redwood
July 20 & 21, 1987

TO: Joint Committee on Economic Development

Outline of Remarks by Tony Redwood, Institute for Public Policy and Business Research, University of Kansas, July 20 & 21, 1987.

RE: Incubators

I. Why are incubators needed

A. Job Creation

1. Kansas is a state of small business. Seventy to eighty percent of new job creation will occur in small businesses.

2. Much of our economic development strategy is geared to

i. entrepreneuring new activity with an emphasis on innovative products and processes, and

ii. developmental activity that is local community engendered.

3. Further dimension: quality jobs for Kansas.

B. Incubator Recommendations

1. R/K #34 (attached)

2. 1987 Legislative Commission on Economic Development; Higher Education Task Force (attached)

II. Role of Incubators

A. 6 problems encountered by new businesses.

1. 3 out of 5 small business ventures fail

2. Failure is often due to bad ideas, but also due to set of other factors.

3. Inadequate management, marketing and accounting skills.

4. Inability to obtain adequate capital, i.e., under-capitalization.

5. Problems associated with space, including poor quality, high cost and inappropriate size.

6. Problems associated with businesses services including high costs, poor quality and availability.

B. Solutions addressed by incubators.

1. Offering below-market-rate space on flexible terms: These rates are negotiable but usually from $.50 to $4.00 per square foot for rents.

2. Eliminating building maintenance responsibilities: This allows new entrepreneurs the freedom from such typical maintenance as loading docks, lunch areas, conference rooms, reception areas, furniture, equipment, etc.

3. Allowing tenants to share equipment and services that would be otherwise unavailable or unaffordable. Such services are typically divided into three major categories:

    a. offices and communications services such as typing, copying and phone answering.

    b. business services such as business planning and financial planning.

    c. Facilities and equipment services including a reception area, conference rooms and computers.

4. Increasing entrepreneurs' awareness of and access to various types of financial and technical assistance that may be available.

5. Providing an environment where small businesses are not alone, thereby reducing the anxiety of starting a new business.

6. Increasing business tenant's visibility to the community.

C. Benefits to the Community

1. Transformation of under utilized property into a center of productivity.
2. Creation of opportunities for public private partnerships.
3. Diversification of the local economic base.
4. Enhancement of the locality's image of a center of innovation and entrepreneurship.
5. Revitalization of the immediate surrounding area.
6. Increased employment opportunities.

III. Fives Types of Incubators (Multiple types according to circumstances. See attachment for distinction between public and private.)

A. Publicly-sponsored: These are organized and managed through city economic development departments, urban renewal authorities, or regional planning and development commissions. job Creation is the main objective of the publicly-sponsored incubator.

B. Non-profit-sponsored: These are organized and managed through industrial development associations of private industry, chambers of commerce, or community-based organizations with broad community support and/or a successful record in real estate development. Area development is the major objective of nonprofit-sponsored incubators.

C. University-related: Many of these university organized and managed facilities are spin-offs of academic research projects. Most of these are considered science and technology incubators. The major goal of university related incubators is to transfer the findings of basic research and development into new products or technologies.

D. Privately-sponsored: These are organized and managed by private corporations. Their goal is, of course, to make a profit and, in some cases, to make a contribution to the community. Most often, through, it is a business and thus the goal is to make a profit.

E. Public-private partnerships.

IV. Role of States

A. Most common: issuance of grants or loans designed to leverage private and/or local investment in an incubator.

B. Formally fund an incubator.

C. Provide the building, directly or through a university, the building in which the incubator is housed.

D. Supply managerial and administrative support for the incubator.

See attachment: STATE FUNDED INCUBATOR PROGRAMS

V. Issues/keys to Success

A. Private sector opposition.

To avoid charges of unfair competition, incubator sponsors are encouraged to create an advisory board to set policy and oversee operations. The board, if composed of important members in the local business community, could not only provide keen management insight, but also act as a resource network and support base for incubator activities. Many incubators in the U.S. have no such arrangements.

B. Applicability of incubator to local area.

1. Sponsor and objectives: coordination of sponsoring agency with the community goals and congruency of those goals during the incubator development.

2. Building type and location: careful consideration and planning of location of incubator and type of building.

3. <u>Rent, fee, and graduation policies</u>: structured and results-oriented.

4. <u>Nature of local industry</u>: markets for the new firms can then be identified.

5. <u>Pool of potential entrepreneurs</u>: with a study of the skills of the local labor force.

C. Services Offered to Tenants

1. Financial

   a. Incubator managers can work with tenants and local lenders to increase loan availability to the firms in the incubator. Lenders may believe that the ongoing management assistance and lowered costs found in an incubator make participating firms better credit risks and, therefore, may be more willing to lend money.

   b. Incubator managers can bring prospective venture capitalists into contact with tenants.

   c. The organization developing the incubator can establish its own revolving loan fund to finance tenants.

   d. Incubator managers can help firms apply for government support including U.S. Small Business Administration loans and state and local business loan programs.

2. Management

   a. Incubators managers can work with educational institutions and business management professionals to provide management education and assistance to owners. Often this occurs on-site through classes or individual consultation.

b. An on-site incubator manager, trained in business management, provides businesspeople with day-to-day management, marketing and accounting assistance.

c. Business people in incubators, because of their proximity to one another, have increased opportunities to share advice and solve problems collaboratively.

d. An advisory board or board of directors composed of local professionals and businesspeople can offer tenants low or no-cost expertise and advice.

D. Firm Selection

1. Types of firms to exclude; based on goals (i.e., job creations).

a. retail

b. wholesale

c. personal service

2. Choosing individual firms for an incubator based on

a. potential for success

b. degree of need

E. Small Town Considerations

1. The existence of a large enough pool of potential entrepreneurs willing to start a business. A lack of potential entrepreneurs makes it difficult to attract enough tenants to fill a facility. When this occurs an incubator may need an aggressive marketing strategy to recruit local and nonresident entrepreneurs.

2. Difficulty in obtaining the financial and technical support needed to start an incubator. One solution is to turn to

state economic development departments for assistance.

3. Locations may preclude the location of some businesses there. High transport costs or poor transportation networks may prove disadvantageous to a firm located in a small town.

4. Higher costs or the unavailability of certain business services or supplier firms may make the location of some businesses uneconomical.

VI. Conclusions

A. Incubators not immune to failure

-- Poor management, lack of capital, and other factors may provide the death knell for even the most promising project.

B. Attention should not be focused only on offering cheap rent to attract tenants

-- The main feature that differentiates the business incubator facility from multi-tenant commercial/industrial space is the provision of business development services for the incubator tenants. The business incubator can provide the tenant with the management and financial network that improves the firm's ability to grow to a <u>self-sufficient</u> stage.

C. State should pay a "catalytic" role

-- Financial and technical support given to local applicants, direct program administration allowed to remain with localities. Funding match assures financial commitment from both ends.

D. Incubators cannot work by themselves

-- Must be part of broader state economic development program; must have support of other goals and of other economic development participants.

E. Some principles to follow:

1. Favor loan program, preferably no-interest or low-interest basis.

2. Be flexible enough to support diversity of initiatives, i.e., have broad eligibility basis and permit support for different types. Incubators must respond to needs and resources within the local community INVESTMENT, DEVELOPMENT, and BUSINESS SERVICES ENVIRONMENTS.

3. Focus activity on the start-up and early stages of incubators development, and not be involved in subsidizing non-viable facilities.

4. State funds are primarily to leverage incubator development where other organizations are taking the lead and will be responsible for their continuation.

5. Support incubator development tied to higher education institutions, including community colleges.

6. Overall level of funding support: adequate to encourage viable incubator development but not as to subsidize development that would not otherwise occur.

7. Restrict tenants to economic base i.e., have restrictions on primary usage of the facility that state will support.

Differences Between Public and Private Incubators

Characteristics	Differences
Size and Tenant Capacity	Privately-sponsored are twice the size of publicly sponsored facilities and have a median tenant capacity of 45 compared to 14 for public initiatives.
Incubator Governance	Publicly-sponsored incubators have executive or advisory boards while privately-sponsored do not.
Tenant Selection	Publicly-sponsored criterion is job creation potential with stricter entry standards while privately-sponsored incubators seek profit potential in their tenants and thus do not have strict entry barriers.
Exit Policy	The public facilities have a time limit on tenant residency while private incubators tend to allow residents to stay or grow out of the facility.
Rent	Private incubators charge higher rents (usually 2 or 3 times more than public facilities) per square foot.
Services	While both sectors have centralized services, the concentration is different. Privately-sponsored tend to provide physical and human services (i.e., space, secretarial, maintenance, conference rooms, etc.), whereas, the publicly-sponsored concentrate more on financial and business services.
Financial Sources	Privately-sponsored incubators have a majority of the financing sources in the private sector (77% according to King and Allen, 1985) whereas, the publicly-sponsored initiatives are widely distributed among private, governmental, and industrial development financial sources.

Operating Revenue	Both types of incubators (public and private) utilize the money from rent and services for their operating income. The difference arises in the non-rent revenue that is needed additionally to operate the incubator. Publicly-sponsored incubators receive most of this revenue from government sources. The privately-sponsored incubators rely to a great extent upon private sources which allows them the opportunity to receive, on the average, more money.
Staff	Private incubators have larger staffs than do public facilities (medium size of 5 as opposed to 1.7). Consulting staff size tends to be about the same; however, the incubator managers of private-sponsored facilities possess more business experience than do their public counterparts.
Growth Patterns	Publicly-sponsored incubators, which as mentioned earlier, place a greater emphasis on job creation, have registered a higher level of growth in employment (15%) than the privately-sponsored incubators (31%). However, in sales growth, the privately-sponsored facilities, which placed emphasis on net profit of the tenants, demonstrated a larger increase (75%) than the private facilities (35.2%).

Information adapted from Allen's (1985) studies and Mihailo and Campbell (1984).

TOPIC V:

STATE ASSISTANCE FOR LOCAL INFRASTRUCTURE PROJECTS

Anthony Redwood
July 21, 1987

TO: Joint Committee on Economic Development

Outline of remarks by Tony Redwood, Director, Institute for Public Policy and Business Research, University of Kansas

RE: LOCAL INFRASTRUCTURE

I. Why is infrastructure important for Kansas?

A. An adequate physical infrastructure is of great importance as a primary foundation for economic development to occur. It is one of the necessary conditions for economic growth.

The Five Fundamentals of Economic Development:

1. Infrastructure Capital - the extent to which a state possesses and invests in infrastructure critical for business attraction and expansion.
2. Innovation Capital - the extent to which there are accessible education/research institutions, technologies, management skills and concepts.
3. Human Capital - the extent to which an area possesses a skilled and adaptable work force (its human capital) in a rapidly changing competitive environment, maintains strong education and training institutions, and encourages public-private collaboration to meet the skill needs of business and the training and retraining need of individuals.

4. Financial Capital - the extent to which capital is available for all types of business needs through a variety of lending sources, including regional financial institutions and venture capitalists; and the extent to which the availability of capital is encouraged ny state regulatory and other policies.

5. Commitment Capital - the extent to which the catalysts of leadership and citizenship are present as sparks and energy needed to follow through with economic development efforts.

Two Dimensions:

1. General overall level of state investment in public infrastructure.

   See Edward Flentje "Capital Finance and Public Infrastructure," <u>Kansas Policy Choices</u> 1986.

   <u>Kansas Economic Development Study</u> Recommendation #47 is attached and based on the Flentje study conclusion.

2. Local infrastructure related to economic development projects.

   <u>Kansas Economic Development Study</u> Recommendation #35 (Revolving Loan Pool) and #39 (State CDBG) are relevant (also attached).

B. State capital expenditures are decreasing.

Outstanding Public Debt in Kansas, 1861 to 1984

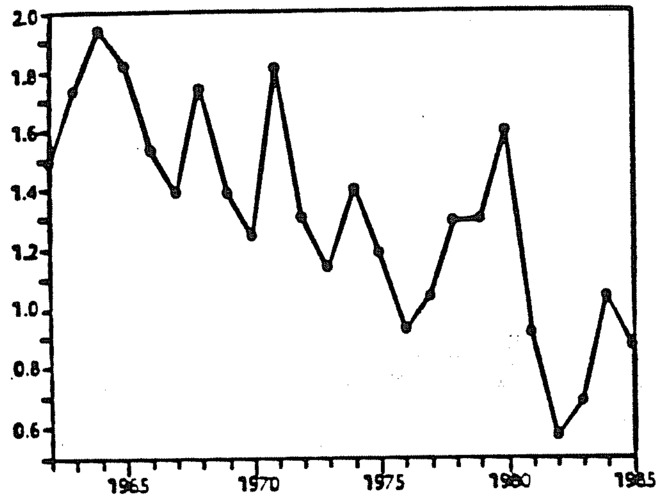
Year	Total debt (in millions) State	Total debt (in millions) Local	Debt per capita State	Debt per capita Local	Local to state debt ratio
1861	$ .2	N.A	$ 1.30	N.A.	N.A.
1872	1.3	$ 10.7	3.68	$ 29	8.0
1880	1.1	14.0	1.07	14	13.1
1890	.8	36.5	.56	26	45.6
1900	.7	32 4	.47	23	46.8
1913	.5	47.4	.31	28	89.6
1920	.0	72.1	.00	41	∞
1930	24.5	137.5	13.02	73	5.6
1940	14.0[a]	100.3	7.77	56	7.2
1950	5.5	110.6	2.87	58	20.1
1960	202.3	534.5	92.87	245	2.6
1970	223.6	938 3	99 42	417	4.2
1980	438 1	2,838.5	185.32	1,200	6.5
1984	356 1	5,204.1	145.35	2,124	14.6
1985	318.9	5,675	130.2	2,316.3	17.8

Sources: These data were compiled from four different sources that may not have completely consistent definitions of debt, the sources are James Ernest Boyle, *The Financial History of Kansas*; *Summary History of Kansas Finance, 1861-1937*; Kenneth E. Beasley, *State Supervision of Municipal Debt in Kansas*; and U.S. Census.

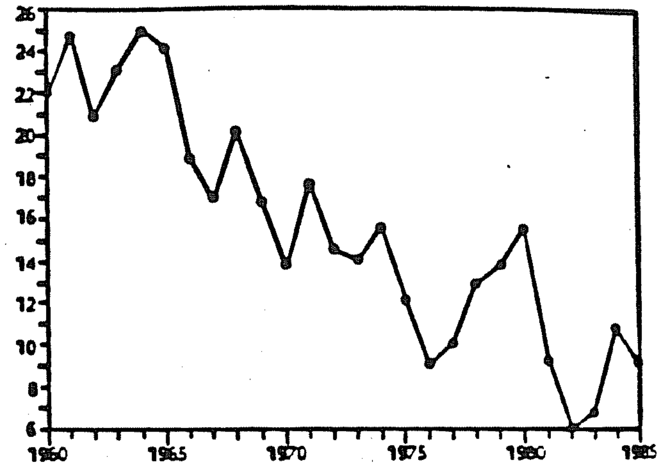
Note. Public debt includes both guaranteed and nonguaranteed debt, although nonguaranteed debt did not appear in these figures until 1950.

[a]Estimate

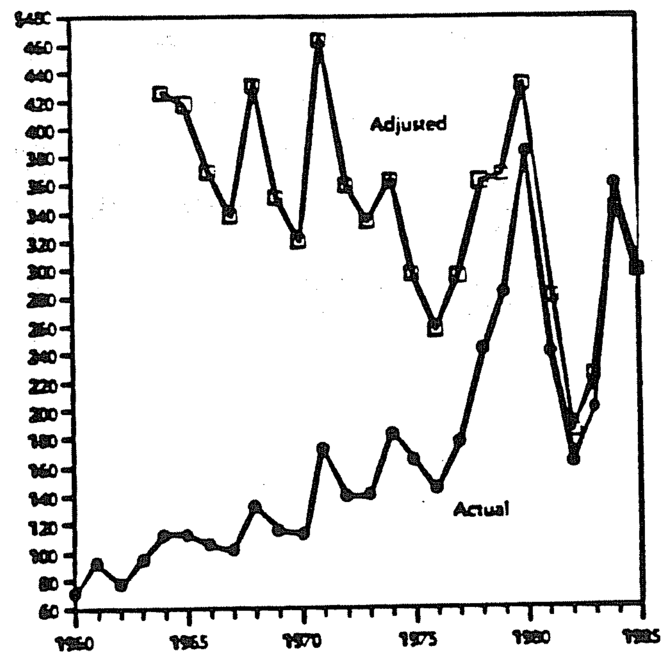
Capital Improvement Expenditures from All Funds as a Percentage of Kansas Personal Income, 1962-85



Capital Improvement Expenditures as a Percentage of State Expenditures from All Funds, 1960-85



Capital Improvement Expenditures from All Funds, Actual and Adjusted Dollars, 1960-85 (in millions)



Source: Governor's Budget Report, FY 1962-FY 1987.
Note: In adjusted dollars, 1985 = 100.

From: Edward Flentje "Capital Finance and Public Infrastructure." Kansas Policy Choices 1985.

C. Local government has shouldered the burden.

State and Local Debt in Kansas Compared to State and Local Debt in the Nation, 1962-82 (dollar amounts in millions)

	State debt			Local debt		
	Nation	Kansas	%	Nation	Kansas	%
1962	$ 22,023	$206	0.94	$ 58,799	$ 659	1.12
1967	32,472	256	0.79	81,187	758	0.93
1972	54,253	215	0.40	120,705	1,050	0.87
1977	90,200	403	0.45	169,458	1,860	1.10
1982	147,470	398	0.27	257,109	4,703	1.83

Source. U.S. Bureau of the Census (Census of Governments:) *Compendium of Government Finances*.

From Edward Flentje "Capital Finance & Public Infrastructures," Kansas Policy Choices 1986.

D. The Kansas Economic Development Study surveys the importance of adequate infrastructure for business location and growth.

1. From the IPPBR and MRI survey of new or recently expanded manufacturers:

Most Important Factors in Site Location to Firms Which Recently Located or Expanded in Kansas

Rank	Factor
1	State's Location
2	Right-to-Work Law
3	Personal Opinions About Kansas
4	Labor Force Characteristics
5	Transportation Conditions
6	Business Climate
7	Taxes
8	Utility Costs

2. From IPPBR survey: Why firms which considered locating in Kansas subsequently chose not to do so.

a. Factors in the site location decision.

> 3 = disadvantage

3 = neutral

< 3 = advantage

i. availability of good water	3.12
ii. adequate/safe waste disposal	2.9
iii. road/transportation system	2.9

3. Kansan's perception of Economic Development issues.

   a. assets

      -availability of/cost of good water

      -transportation system - rail & road

   b. liabilities

      -adequate/safe waste disposal

4. Conclusion: Infrastructure has been a relatively neutral issue as far as attracting and retaining industry. Given the declining levels of expenditure on infrastructure, however, this factor is likely to become negative in the future.

II. Sources of Funding for Infrastructure Development

   A. Kansas Department of Transportation: Economic Development Set Aside Program.

      1. local governments submit candidate road projects.

      2. State Highway Advisory Commission makes recommendations.

      3. $11 million budgeted in FY 87.

B. Kansas Department of Health & Environment: EPA Grants for waste treatment works.

1. for municipalities & counties
2. $21 M - 21.7 M for FY 87.
3. beginning in FY 88 programming being phased out; replaced with revolving loan program, state will be required to put matching funds in.

c. EDA Title 1, 3, and 9 grants.

1. Title 1
   a. public work grants
   b. $120 M
   c. not for profit and public institutions (cities, counties, states)
2. Title 9
   a. economic adjustment division
      i. sudden & severe dislocation - 13M
      ii. long term dislocation - 13M
   b. not for profit & public institutions (cities, counties, states)
3. Title 3
   a. planning
      i. 24M
      ii. to planning districts to fund planning activities
      iii. economic development districts
   b. technical assistance
      i. university center, 5M: to universities to promote economic development.

ii. local technical assistance, 1M: for feasibility studies, local in scope.

iii. national technical assistant, 1M: economic problem national in scope to create seminars, fund research.

iv. research, 1M: to universities, national organizations economic problem, national in scope; rural in scope.

D. State CDBG

E. Federal CDBG

F. Revolving Loan Fund

III. Mechanisms: Examples from other states.

1. Focus of program
2. Criteria of award
3. Device
4. Who is eligible
5. Source of funds

A. Indiana Industrial Development Infrastructure Program

1. Eligible activities include storm sewer/water lines, water storage tanks, access roads.
2. Funds awarded based on economic development criteria (i.e., number of jobs created, amount of private sector investment, meeting Indiana's economic development goals.
3. Device: grants, loans.
4. Any city, town, or county is eligible for funds.

5. Source: N/A

B. Missouri Commission on Infrastructure Development Opportunities

1. Eligible activities include streets, bridges, water supply/distribution systems, and wastewater treatment facilities.

2. N/A

3. Device: low interest loans, grants.

4. Local political subdivisions and state agencies are eligible for funds.

5. Source: N/A

C. Oregon Infrastructure Revolving Loan Fund

1. Eligible activities include local infrastructure projects that promote economic development. (i.e., sewage treatment, water supply network, streets, roads.)

2. Funds awarded based on the projects potential for economic development. Originally projects were rated in an annual competition based on the probability of a firm moving to a given local. Currently projects are continually rated based on a firm's definite commitment to a location, or on a firm's threat to leave a local. Criteria include firm/business commitment, probability of success, municipal need, leverage.

3. Device: mainly loans (at 5% interest), some grants
4. Cities, counties, and public agencies are eligible for the funds. Each biennium 1/3 of the funds must go to urban projects, 1/3 to non-urban projects, and the remaining third may go to either type.
5. 34% of the total lottery proceeds are appropriated to economic development. The infrastructure revolving loan fund receives a dollar amount of that percentage.

   85-87 biennium: $15 M

   87-89 biennium: $7.2 M

D. Washington Public Works Trust Fund

1. Eligible projects include street and roads, storm sewers, sanitary sewer, and domestic water.
2. Awarded on basis of an area's economic distress, (i.e., unemployment rates) and the local effort in meeting public works needs.
3. Device: Variable rate loans dependent on local share (from 1-3%).
4. Local government entitys are eligible for funds.
5. The program is financed by dedicated tax revenues (sales tax on local water, sewer, and garbage collection) and repayment of previous loans.

1986	$17.1 M in loans
1987	17.5 M in loans
1988	25 M in loans

E. Iowa Community Economic Betterment Account Program

1. Eligible activities include local economic development projects. One use local subdivisions may make of the funding is to provide an interest or principal buy-down to a local business that is seeking private financing. Site development in relation to a specific industrial project may also be eligible for funding.
2. Funds awarded based on economic benefits, economic distress (unemployment rate), local match, and private contributions.
3. Device: loans, grants.
4. Any political subdivisions eligible to apply for funds. 25% of the revolving loans funds must go to cities with a population of less than 5,000, 50% to cities with more than 5,000, and the remaining 25% to cities of any size.
5. Lottery revenues are used to finance the program. $5 M of the initial $10M was used to start a revolving loan program, and the remaining was used for both grants and loans.

F. See attached "Possible Actions for State Governments," National Conference of State Legislators. From Rebuilding America, Barker.

IV. Key Principles, re: State Support of Local Infrastructure Projects:

A. Capacity to respond promptly to local needs and initiatives.

B. Availability on the basis of cost-benefit criteria relating to economic development.

C. Perception of state role as one of leveraging local level initiative and collaboration.

D. Primary reliance on loans, but with scope for grants on complementing basis.

TOPIC VI:

FEDERAL PRIME CONTRACT DATA TABLES

Charles E. Krider
September 18, 1987

FEDERAL PRIME CONTRACT DATA

Explanation of Tables

Table 1

The first section of this table shows the proportion of federal prime contracts that are awarded to Kansas entities to total federal prime contracts awarded. In 1986, Kansas received 1.16 percent of total prime contracts. Since Kansas has about 1.03 percent of the U.S. population, we could say that Kansas is getting a little more than its fair share.

In the second section, however, we see that in 1986, Kansas received 0.91 percent of contracts awarded to small business: Kansas small business is not quite getting its share of prime contracts.

Table 2

This table shows the dominance of the Defense Department over other federal sources of contracts in the United States and in Kansas. In 1985, nearly 95 percent of total contracts in Kansas and nearly 77 percent in the United States were from the Department of Defense.

Comparing Kansas and the United States, we can see that Kansas contractors consistently rely much more heavily on Defense contracts than do businesses in the nation as a whole. Further, over the three-year period, U.S. contractors' reliance on the Defense Department decreased slightly while Kansas's increased.

This heavy dependence on the Department of Defense may have benefits for small business in Kansas because military prime contrators are more likely to subcontract than non-military contractors, and small business benefits from subcontracting. One estimate is that small firms account for 53 percent of the dollar volume of subcontracts.[1]

Table 3

This table shows that in 1985, Kansas, which has about 1.03 percent of the U.S. population, won 1.53 percent of Defense contracts.

Kansas is getting more than its share of Defense contracts, and they are more important to the Kansas economy than they are to the economy of the nation as a whole. In 1985, Defense contracts made up 5.5 percent of estimated state product and 3.5 percent of gross national product.[2]

Summary

These tables show that on a per capita basis, Kansas has won a fair share of federal prime contract dollars and nearly its share of federal prime contracts to small business. This success, however, has been due to a disproportionate emphasis on Department of Defense contracts, with an underrepresentation of other federal sources. In terms of non-defense contracts, Kansas is not getting its share.

[1] *The State of Small Business: A Report of the President*, transmitted to Congress, 1986.

[2] Calculated from figures in: Institute for Public Policy and Business Research, *Kansas Statistical Abstract, 1985-86*, 1986, U.S. Department of Commerce, *Statistical Abstract of the United States, 1987*.

Table 1
Federal Prime Contract Actions: Kansas and the United States
(in millions of dollars)

Total

Fiscal Year	Kansas	US Total	Kansas/US
1986*	2,112	182,559	1.16
1985	2,258	182,604	1.24
1984	2,496	157,226	1.59
1983	1,681	144,016	1.17

Small Business for Kansas and the United States

	Kansas	US Total	Kansas/US
1986*	280	30,721	0.91
1985	219	33,196	0.66
1984	216	24,843	0.87
1983	116	21,008	0.55
1982	155	22,696	0.68

*1986 figures are slightly understated in relation to prior years: 1986 figures include all actions over $25,000, while prior years include all actions over $10,000. According to the Federal Procurement Data Center (Standard Report, February 1, 1985), less than 8.8 percent of total actions were under $10,000 in fiscal 1984.

The Kansas population is about 1.03 percent of the U.S. population.

Sources: Federal Procurement Data Center, "Special Report J6374A," May 16, 1985; Federal Procurement Data Center, Federal Data System, 1986; and Liz Smith, Federal Procurement Data Center; U.S. Department of Commerce, Statistical Abstract of the United States, 1987.

TABLE 2
Federal Prime Contract Actions: Defense and Total
(in millions of dollars)

	Fiscal Year	Defense	Total	Defense/Total
Kansas				
	1985	2,139	2,258	94.73
	1984*	2,362	2,496	94.63
	1983*	1,575	1,681	93.69
U.S.				
	1985	140,096	182,604	76.72
	1984*	124,015	157,226	78.88
	1983*	118,744	144,016	82.45

*Defense contracts are slightly understated in relation to totals for 1984 and 1983: Department of Defense figures are for contracts over $25,000, while totals for these years are for contracts over $10,000.

Sources: U.S. Department of Defense, Prime Contract Awards by State, annual, in U.S. Department of Commerce, Statistical Abstract of the United States, 1986 and 1987. Totals are from Table 1.

TABLE 3
Department of Defense Prime Contract Awards: United States and Kansas
(in millions of dollars)

Fiscal Year	Kansas	United States	Kansas/U.S.
1985	2,139	140,096	1.53
1984	2,362	124,015	1.90
1983	1,575	118,774	1.33
1982	1,420	101,276	1.40

Source: U.S. Department of Defense, Prime Contract Awards by State, annual, in U.S. Department of Commerce, Statistical Abstract of the United States, 1986 and 1987.

TOPIC VII:

REGULATORY OVERSIGHT AND BUSINESS IMPACT ANALYSIS

Kathleen Bryant
Charles E. Krider
August 21, 1987

REGULATORY OVERSIGHT AND BUSINESS IMPACT ANALYSIS

Members of the Committee:

Thank you for the opportunity to appear before you regarding the oversight of agency regulations and their impact on the Kansas economy, our business climate, and our resident industries. We strongly endorse any efforts by the Kansas legislature to strengthen the oversight program of Kansas. And, we recommend that this be accomplished through more rigorous determinations of economic and small-business impact and through the establishment of a new review function that will impose greater agency accountability for the consideration, <u>and implementation</u>, of alternative approaches to overly burdensome regulations. To do so can more effectively direct the attention of Kansas regulators to legislative priorities for economic development, and will thereby constitute a definite economic advantage for the state of Kansas.

The final recommendation of the <u>Kansas Economic Development Study</u> to the Kansas Economic Development Commission states,

> **"The impact of regulations on state economic development should be added to the criteria that regulatory bodies must use in carrying our their regulatory responsibilities, and, where they exist, be given greater emphasis. Existing and proposed regulations should be reviewed by (an appropriate authority) to insure that they are not unnecessarily impeding economic development."**

The objective of this recommendation is to insure that regulatory agencies in Kansas explicitly weigh the impact of proposed regulations on economic development against other priorities: A restrictive regulatory environment can erect significant barriers to the state's economic growth and development. To minimize those barriers, Kansas policymakers should consider instituting additional safeguards to avoid overly restrictive regulations--regulations that can be very costly to Kansas business and that are very difficult to remove once in place.

The current oversight program of Kansas authorizes the review of regulations for correct form, legality, authority, and legislative intent. And the Kansas statutes direct promulgating agencies to prepare fiscal/financial impact statements and to attempt to reduce the impact of proposed regulations on small businesses throughout the state. Statutory authority for oversight activities, however, does not specify any decision rules for the consideration of economic impact, nor does Kansas legislation define the scope of an "attempt" to reduce a regulation's impact on small business. In reality, both of these considerations are implemented at the discretion of an agency.

We propose that the committee consider three major innovations to the current program of regulatory oversight in Kansas. Each of these mechanisms has been implemented in various forms by other states.

- First, expand the existing program of regulatory oversight to include a more systematic review and consideration of economic and small-business impact;
- Second, specify cost-benefit accounting as the decision rule for activating a new rule or regulation; and
- Third, establish a new review authority whose mission it is to weigh social benefits against economic costs; empower that review authority to impose some measure of accountability on the promulgating agency.

Without regulatory accountability and the discipline of cost-benefit accounting, legislative priorities for economic development may not receive the considered attention of Kansas regulators. Because the long-term growth potential of Kansas business--especially Kansas small business--and the state economy is high dependent on a hospitable business climate, an enhanced program of regulatory oversight is important to the design of a comprehensive state policy of economic development.

In the report given to you this morning, we present research on the philosophies and programmatic innovations of the federal government and several states: Arizona, New York, Kentucky, and Maine. The state oversight programs are suggested as possible models for the design of an enhanced program for Kansas:

- Arizona, for its Governor's Regulatory Review Council. The GRRC is a public/private partnership <u>and</u> political coalition that has veto power over any existing or proposed regulation and that must systematically consider economic and small-business impact;

- New York, for its Office of Business Permits and Regulatory Assistance. The OBPRA has the power to postpone the adoption of a rule until certain compliance criteria and policy priorities are incorporated into proposed regulations. In addition, the OBPRA must systematically consider economic and small-business impact;

- Kentucky, for its regulatory tiering requirement. Regulations in Kentucky must be adapted to the size of a regulated business, an arrangement that is particularly sensitive to the special problems of the state's small businesses;

- Maine, for its efforts to foster cooperative working arrangements among the state's legislators, regulators, and business leaders.

What is important to the Kansas economy, however, is not so much <u>how</u> the state's regulatory oversight program is improved as <u>that</u> the program is expanded to include more systematic considerations of economic and small-business impact. Kansas should gather data about the economic costs of regulations to Kansas business, and link that data to a cost-benefit evaluation process that weighs their impact against other regulatory priorities. An improved program of regulatory oversight will greatly enhance the state's competitive position as its attempts to meet accelerating pressures from other states of the nation and other nations of the world.

TOPIC IX:

KANSAS MANUFACTURED EXPORTS

Charles E. Krider
September 18, 1987

KANSAS MANUFACTURED EXPORTS

Explanation of Tables

Table 1

This table shows the percentage of shipments in each industry that were export related in 1983 for both Kansas and the U.S. Three industries in Kansas exported a higher percentage of total shipments than the industries did in the U.S.: Food & Kindred Products, Rubber & Miscellaneous Plastics Products, and Primary Metal Industries.

Overall, Kansas does not export as high a percentage of manufactured goods as does the U.S. Kansas exports 7.4% of total manufactured goods, compared with 11.3% for the nation as a whole.

Table 2

This table shows how the percentage of exported manufacturing shipments in each Kansas industry has changed over the 1980-1983 period. Every industry except Fabricated Metal Products shows a decline from 1980 to 1983. Since 1981, every industry has shown a decline except Food & Kindred Products and Machinery, Except Electrical.

Overall, Kansas' percentage of exported manufacturing shipments has declined from 10.2% in 1980, to 10.1% in 1981 and to 7.4% in 1983. U.S.' percentages for these three years were 13.5% in 1980, 13.4% in 1981 and 11.3% in 1983. So, the U.S. performed better in each year, but also has a declining percentage of manufacturing shipments being exported. The U.S. decline was not as drastic as the Kansas decline: Kansas' 1983 exported manufacturing shipments were 82.8% of those for 1980; United States' 1983 exported manufacturing shipments were 93.5% of those for 1980.

As a comparison against other states percentages of manufactured shipments being exported, ranks have been calculated for Kansas against the 50 states and District of Columbia. In 1980, Kansas ranked 41st; in 1981, Kansas ranked 42nd; in 1983, Kansas ranked 46th. So, Kansas is not doing as well compared with other states.

Table 3

Employment related to manufactured exports decreased from 1981 to 1983. Kansas' percentage of total employment related to manufactured exports has been less than the U.S. percentage for each year shown. Kansas' rank against other states worsened between 1981 and 1983 considerably.

Table 4

Table 4 shows the percentage changes in the employment figures from Table 3. Although both Kansas and the U.S. remained fairly stable in employment related to manufactured exports between 1980 and 1981, both showed large percentage drops from 1981 to 1983. Kansas percentage declines were much larger in all three categories shown.

Summary

In summary, these four tables show that Kansas has not been doing as well as the United States with respect to exports of manufactured goods over the 1980-83 period. On the basis of rankings, it is also not performing as well as other states have over the period.

Table 1

Export Related Shipments as a Percentage of Total Shipments in Manufacturing Industries, 1983

SIC code	Industry	Percentage of Total Shipments in Kansas Industries that were Export Related	Percentage of Total Shipments in U.S. Industries that were Export Related	Point Difference Between Percentage of Exported Shipments from Kansas and U.S. Industries*
--	Manufacturing	7.4	11.3	-3.9
20	Food & Kindred Products	8.5	5.0	3.5
23	Apparel & Other Textile Products	0.9	2.6	-1.7
24	Lumber & Wood Products	3.4	9.2	-5.8
25	Furniture & Fixtures	1.0	2.2	-1.2
26	Paper & Allied Products	7.8	10.1	-2.3
27	Printing & Publishing	1.7	2.5	-0.8
28	Chemicals & Allied Products	8.3	17.5	-9.2
29	Petroleum & Coal Products	3.7	5.8	-2.1
30	Rubber & Misc. Plastics Products	13.2	11.0	2.2
32	Stone, Clay & Glass Products	3.8	7.9	-4.1
33	Primary Metal Industries	20.1	18.2	1.9
34	Fabricated Metal Products	5.7	11.0	-5.3
35	Machinery, Except Electrical	15.5	20.9	-5.4
36	Electric & Electronic Equipment	11.0	14.2	-3.2
37	Transportation Equipment	7.1	14.3	-7.2
38	Instruments & Related Products	10.8	16.8	-6
39	Misc. Manufacturing Industries	4.4	8.8	-4.4

*Positive numbers indicate that Kansas exports a higher percentage of shipments than the U.S. industry. Negative numbers indicate that Kansas exports a lower percentage of shipments than the U.S. industry.

Source: 1983 Annual Survey of Manufactures: Origin of Exports of Manufactured Products publication M83(AS)-5, issued March 1986
U.S. Department of Commerce, Bureau of the Census, Washington, DC

Table 2

Export Related Shipments as a Percentage of Total Shipments in Manufacturing Industries
1980, 1981, 1983

SIC code	Industry	Percentage of Total Shipments in Kansas Industries that were Export Related, 1983	Percentage of Total Shipments in Kansas Industries that were Export Related, 1981	Percentage of Total Shipments in Kansas Industries that were Export Related, 1980
--	Manufacturing	7.4	10.1	10.2
20	Food & Kindred Products	8.5	7.1	9.1
	Textile Mill Products	---	13.3	---
23	Apparel & Other Textile Products	0.9	5.9	10.6
24	Lumber & Wood Products	3.4	4.1	5.5
25	Furniture & Fixtures	1.0	1.5	1.4
26	Paper & Allied Products	7.8	8.8	8.7
27	Printing & Publishing	1.7	2.2	3.0
28	Chemicals & Allied Products	8.3	11.1	9.9
29	Petroleum & Coal Products	3.7	4.9	4.7
30	Rubber & Misc. Plastics Products	13.2	17.8	17.5
31	Leather & Leather Products	---	---	6.5
32	Stone, Clay & Glass Products	3.8	5.8	4.9
33	Primary Metal Industries	20.1	24.1	21.8
34	Fabricated Metal Products	5.7	5.8	5.4
35	Machinery, Except Electrical	15.5	15.4	17.6
36	Electric & Electronic Equipment	11.0	14.6	13.2
37	Transportation Equipment	7.1	19.9	17.3
38	Instruments & Related Products	10.8	20.6	7.4
39	Misc. Manufacturing Industries	4.4	3.5	4.7
	Rank Against Other States	46th	42nd	41st

Source: 1983 Annual Survey of Manufactures: Origin of Exports of Manufactured Products publication M83(AS)-5, issued March 1986 and Annual Survey of Manufactures 1976: Origin of Exports of Manufacturing Establishments, M76(AS)-8, Supplement 3, issued August 1979 U.S. Department of Commerce, Bureau of the Census, Washington, DC

Table 3

Employment Related to Manufactured Exports
Kansas - 1980, 1981, - 1983

	1983	1981	1980
Manufacturing Employment Related to Manufactured Exports	14,400	23,300	23,000
Nonmanufacturing Employment Related to Manufactured Exports	17,900	23,900	23,500
Total Employment Related to Manufactured Exports	32,300	47,200	46,500
Total Employment Related to Manufactured Exports as a Percent of Civilian Employment - Kansas	2.9%	4.3%	4.1%
Total Employment Related to Manufactured Exports as a Percent of Civilian Employment - United States	3.7%	4.7%	4.8%
Kansas' Rank Against 50 States and DC	35th	25th	30th

Source: 1983 Annual Survey of Manufactures: Origin of Exports of Manufactured Products, M83(AS)-5, Issued March 1986;
1981 Annual Survey of Manufactures: Origin of Exports of Manufactured Products, M81(AS)-5, Issued May 1983.
U.S. Department of Commerce, Bureau of the Census.

Table 4

Change in Employment Related to Manufactured Exports
Kansas and United States

	% Change 1981-83		% Change 1980-81	
	Kansas	U.S.	Kansas	U.S.
Manufacturing Employment Related to Manufactured Exports	-38.2	-20.4%	+1.3%	-1.3%
Nonmanufacturing Employment Related to Manufactured Exports	-25.1%	-15.6%	+1.7%	+1.0%
Total Employment Related to Manufactured Exports	-31.6%	-19.1%	+1.5%	-0.3%

Source: 1983 Annual Survey of Manufactures: Origin of Exports of Manufactured Products, M83(AS)-5, Issued March 1986;
1981 Annual Survey of Manufactures: Origin of Exports of Manufactured Products, M81(AS)-5, Issued May 1983.
U.S. Department of Commerce, Bureau of the Census.

TOPIC IX:

CURRENT SERVICE AND FINANCING PROGRAMS WHICH SUPPORT EXPORT DEVELOPMENT

Charles E. Krider
September 18, 1987

TYPES OF EXPORT SERVICE AND FINANCING PROGRAMS

Note: The following lists are not complete lists of all current programs, but are merely samples of the types of programs currently used and some of the states which have these programs.

I. Information, Marketing & Coordination Services

A. State Information & Marketing Services

Publications - directories of state companies, trade lead bulletins, guidebooks for exporters, state product catalogs
Individual Counseling
Seminars, Conferences, Workshops, Training
Distributing Information on Leads
Database Systems - to match state companies with trade leadss
Trade Shows
Catalog Shows
Trade Missions
Intermediary Services with Eximbank, SBA, & other agencies/sources of funds
Marketing Research
Support of Reverse Investment

B. Regional Activities

example - MidSouth Trade Council (Alabama, Arkansas, Louisiana, Mississippi, Tennesee) - Trade Events

C. Federal/State Initiatives

Eximbank Delivery System - pilot program involving Wisconsin, Minnesota, Illinois & Michigan - gives these states limited authority to commit Eximbank guarantees.

D. Cultural Education

Language and culture requirements in curricula at all educational levels.
Sponsorship of scholarships and other educational travel programs.
Sponsorship of exchange students and foreign scholars.
International business programs at colleges and universities.

II. Export Financing

A. Types of Export Financing

Loan Guarantees
Pre-Shipment Exporter Risk Guarantee (working capital loan guarantees)

Post-Shipment Exporter Risk Guarantee (guarantee loans to help exporter extend terms to the foreign buyer)
Combination Exporter Risk Guarantee (combination of pre- and post-shipment loan guarantees)
Exporter Retention Guarantee (help exporters obtain financing for a larger percentage of the contract value than normally would be available)
Bankers Acceptance Guarantee (lowers cost of pre-export financing by guaranteeing a percentage of a banker's acceptance)
(Additional descriptions of these guarantees can be found in the handout titled "Guide to the Michigan Export Development Authority.")

Loans
Direct to Company
Thru Financial Institutions

Insurance (FCIA Umbrella Policy or arrangement through an insurance broker)

Interest Buydowns (state provides funds to lower the effective interest rate on an exporter's loan)

Tax Benefits (deductions, deferments)

Support for Reverse Investment (assist exporters in obtaining financing from the foreign company)

Insurance for Bid Bonds (state purchases insurance so exporters can make bid deposits to land foreign contracts)

B. Sources of Funds for Export Financing

Bonds and other obligations
State appropriations
Combination of federal/state Funds
Private funds

SOME OTHER STATES CURRENTLY USING EXPORT SERVICE AND FINANCING PROGRAMS (by type of program)

I. Information and Marketing Service Programs

Overseas Offices
- Illinois - Hong Kong, Japan, Brazil, Brussels, People Republic China
- Massport - Antwerp
- California - Tokyo, London
- Florida - Frankfurt, Tokyo
- New York - London, Montreal, Tokyo, Toronto, Weisbaden
- S. Carolina - Brussels, Tokyo
- Wisconsin - Frankfurt, Hong Kong
- Iowa - Frankfurt, Tokyo, Hong Kong
- Minnesota - Stockholm, Oslo

Trade Missions
- Illinois
- Massport
- Michigan
- Florida
- New York
- Iowa
- California

Information & Marketing Assistance
- Illinois (catalog exhibitions, trade exhibitions, distributor search program, reverse investment support)
- Massport (seminars, guidebooks, arrangements on trade missions, counseling)
- Michigan (publications, market research, seminars)
- California (credit information services, training, computerized trade lead system)
- Delaware (database and directory of state companies)
- Florida (trade shows, catalog shows, training, seminars, market research, database)
- Minnesota (seminars, conferences, trade shows, trade leads, counseling, training, database)
- New York (seminars, trade shows, database and bulletin of trade leads, guide to exporting)
- Wisconsin (counseling, trade show, mentor program - larger business counsels a smaller exporter, seminars, Eximbank program)
- S. Carolina (market research, seminars, workshops, counseling, data base, directory)
- Iowa (counseling, trade shows, trade leads)

Language Assistance
- Nevada - language bank hotline in the Las Vegas airport for foreign trade visitors

II. Export Financing Programs

Loans and/or Loan Guarantees
- Minnesota
- S. Carolina - has the authority but hasn't used to date
- California
- Illinois
- Louisiana
- S. Carolina
- Tennessee
- Wisconsin
- Michigan
- Louisiana
- New Jersey
- Massport - loans to cover travel expenses on trade missions

Insurance
- Minnesota
- Illinois
- Wisconsin - authorized, but hasn't used
- California
- Missouri
- Colorado
- Ohio

Tax Incentives
- Delaware - setting up a regional program to take advantage of a federal tax exemption; provides state tax deduction
- S. Carolina - deferment on income tax for export income

Reverse Investment
- Wisconsin - uses its appropriated funds to support reverse investment
- Illinois

Buy-Down Grants
- Iowa - pre- & post-export, lowers the interest rates on loans, Iowa offers 5% interest buy-down grants

Eximbank Experiment
(states have limited authority to commit Eximbank guarantees)
- Wisconsin
- Illinois
- Michigan
- Minnesota

Trading Companies
- N. Dakota
- Virginia
- New York/New Jersey

Intermediary Services

Michigan & California provide aid with the following 4 services:

- SBA's Export Revolving Line of Credit
- Eximbank's Working Capital Guarantee Program
- Eximbank's FCIA New-to-Export Insurance Policy
- Eximbank's Umbrella Insurance Policy

TOPIC IX:

GUIDE TO THE MICHIGAN EXPORT DEVELOPMENT AUTHORITY

Michigan Department of Agriculture
Lansing, Michigan

Charles E. Krider
September 18, 1987

Summary

The following is a description of the Michigan Export Development Authority (MEDA), established as an independent body within the Michigan Department of Agriculture. Information about MEDA is being provided to the committee because MEDA is a relatively comprehensive program which includes not only export financing services, but also non-financial services for supporting small business exporters.

MEDA is governed by a Board of Directors and is authorized to borrow and lend money, procure insurance, issue guarantees, provide financial counseling, and carry out other functions to support export development. It is permitted to issue bonds in the amount of $50 million to fund its operation.

Five financial programs are offered by MEDA:

1) Pre-Shipment Exporter Risk Guarantees
2) Post-Shipment Exporter Risk Guarnatees
3) Combination Exporter Risk Guarantees (pre- & post-shipment)
4) Exporter Retention Guarantees, and
5) Bankers Acceptance Guarantees.

Each of these programs are described in greater detail in the following draft. Loan guarantees by MEDA may not exceed $350,000 and must be collateralized. The maximum term of MEDA guaranteed loans will average 180 days or less, but may extend to 360 days under some circumstances. The guaranteed funding is provided to financial institutions located in the state, which then finance eligible export transactions.

Four non-financial programs are also offered by MEDA:

1) The Foreign Buyer Credit Information Service

2) The Foreign Country Creditworthiness Service

3) The Export Finance Information Service, and

4) The Export Credit Training Service.

A description of each of these programs can also be found in the attached draft.

The Michigan departments of commerce and agriculture also offer marketing assistance to exporters. Programs include:

1) Collection and distribution of foreign trade leads, and information on export regulations and procedures.

2) Publication and/or distibution of directories of Michigan exporters.

3) Market research for Michigan products.

4) Seminars on international marketing.

5) Communication with foreign buyers, government officials and U.S. attaches abroad.

6) Participation in domestic trade missions, shows and exhibits.

7) Hosting of foreign trade delegations and visitors.

Additional information on these programs is also attached.

STATE OF MICHIGAN

JAMES J. BLANCHARD, Governor

DEPARTMENT OF AGRICULTURE

P.O. Box 30017, Lansing, Michigan 48909

PAUL E. KINDINGER, Director

DRAFT

GUIDE TO THE MICHIGAN EXPORT DEVELOPMENT AUTHORITY

I. Organization and Purpose

The Michigan Export Development Authority (MEDA) is an independent body established within the Michigan Department of Agriculture, with its own Board of Directors and staff. The Authority was legally constituted under the Michigan Export Development Act (Act No. 157, July 6, 1987).

MEDA's initial administrative expenses are covered by a State appropriation of $500,000 approved by the Legislature in 1986 for purposes of developing export financing programs.

The purpose of MEDA (Sec. 3) is to promote economic prosperity and employment throughout Michigan by fostering the expansion of exports; to cooperate with other public and private export promotion organizations; to establish a source of guaranteed funding and insurance to support export development not otherwise available; and to provide information and referrals to potential and existing exporters.

MEDA is given numerous powers related to the financing of eligible export transactions, defined (Sec. 2) as the sale of goods or services, or the development of goods or services for sale outside of the United States. The goods or services must have at least 51% of their value created within Michigan, and their sale or development must create or maintain employment in the state.

Guaranteed funding is to be provided to participating financial institutions located within the state for the purpose of financing eligible export transactions.

MEDA is given a variety of financial powers (Sec. 7) including borrowing and lending money, procuring insurance, issuing guarantees, providing financial counseling services, and other functions necessary to carrying out the purposes of the Act. The Authority is expressly permitted (Sec. 9) to issue bonds in the amount of $50 million to provide funds for the creation and operation of the Authority.

The governing power of MEDA is vested (Sec. 4) in a Board of Directors consisting of twelve members, three of whom are designated as the Director of the Department of Commerce, the Director of the Department of Agriculture, and the State Treasurer. The remaining nine members are to be appointed by the Governor with the advice and consent of the senate.

I. Financial Programs of the Authority

MEDA offers five types of financial programs: (1) Pre-shipment Guarantee, (2) Post-shipment Guarantee, (3) Combination Guarantee, (4) Exporter Retention Guarantee, and (5) Bankers Acceptance Guarantee. All of these guarantees are issued to participating financial institutions, but preliminary commitments may be issued to interested exporters to assist them in shopping for a suitable financial institution.

These programs are intended to function in close cooperation with Michigan lenders, encouraging them to be more active and supportive of export financing for small and medium-sized firms and agricultural exporters. MEDA also cooperates fully with federal export financing facilities, relying where possible on their expertise and participation and encouraging and assisting federal agencies to do more for Michigan firms.

The five financial programs are described below:

o The Pre-shipment Exporter Risk Guarantee applies when financing is required prior to shipment of the related goods, and covers up to 85% of each eligible export transaction or $350,000, whichever is less, provided that Foreign Credit Insurance Association (FCIA) or another insurer is covering the post-shipment credit risks on the transaction and has made its own inspection to determine that the exporter is viable (evidenced by issuance of a short term policy which is valid throughout the request guarantee period). Alternatively, the related export may be covered by a letter of credit confirmed by a U.S. bank or issued by a first-class bank in an acceptable country. MEDA's Pre-shipment Exporter Risk Guarantee does not cover any of the risks assumed by the FCIA, but does cover all risks of non-payment of financing extended by the financial institution caused by the exporter's inability or unwillingness to perform. In the event of claim payment by MEDA, MEDA will look to the exporter for repayment of amounts paid to the financing bank. The financing institution is required to take collateral equal in value to the guaranteed loan and to share that collateral pro rata with MEDA in the event of claim payment. The maximum term of the guarantee is 360 days, and the guarantee fee is 1% of the guaranteed amount.

o The Post-shipment Exporter Risk Guarantee covers, after shipment of the related goods, up to 85% of each eligible export transaction or $350,000, whichever is less, provided that FCIA or another insurer is covering the foreign buyer risks on the transaction and has made its own inspection to determine that the exporter is viable (evidenced by issuance of a short-term policy which is valid throughout the requested guarantee period) or that the transaction is covered by a letter of credit confirmed by a U.S. bank or issued by a first-class bank in an acceptable country. MEDA's Post-shipment Exporter Risk-Guarantee does not cover any of the risks assumed by FCIA but does cover all risks of non-payment after shipment caused by the exporter's inability or unwillingness to perform or of contract disputes. In the event of claim payment by MEDA, MEDA will look to the exporter for repayment of amounts paid to the financing institution. The maximum term of the guarantee is usually 180 days, and the maximum guarantee fee is 1% of the guaranteed amount depending on length and circumstances of exposure.

o The Combination Exporter Risk Guarantee applies when financing is required prior to the shipment of the related goods as in the Pre-shipment Exporter Risk Guarantee, but the terms of the export transaction permit inspection prior to the buyer's obligation to pay (this does not apply to third party pre-shipment quality or quantity inspection). This occurs in the event the terms of sale are open account, documents against acceptance, retention clauses in letters of credit or the terms otherwise permit all or a major portion of the funds required for loan repayment to be subject to a buyer's decision after inspection of the goods or services. The maximum term of the guarantee is 360 days and the pre-shipment guarantee fee of 1% will be increased relative to this additional risks.

o The Exporter Retention Guarantee covers up to 8% of each eligible export transaction (4/5 of the exporter retention usually required for commercial risks) or $350,000 whichever is less, on a shipment covered by FCIA's Umbrella or New-To-Export policy. MEDA's Exporter Retention Guarantee covers the same lender risks covered by these FCIA policies and provides the equivalent "hold harmless" provisions extended by FCIA to assignee banks. These risks include non-payment by the foreign buyer on post-shipment financing categorized by FCIA as commercial (i.e., insolvency of the buyer, or failure of the buyer to pay to the insured within six months after the due date of payment the amount due for products delivered to and accepted by the buyer). Political risks are 100% covered in any event under the two FCIA policies mentioned above. The maximum term of the guarantee is 180 days and the guarantee fee is 1% of the guaranteed amount.

This guarantee is intended primarily for highly leveraged export management and trading company transactions. MEDA reserves the right of recourse against the foreign buyer and/or the exporter in contrast to the non-recourse provision of the underlying foreign credit insurance.

- o <u>The Bankers Acceptance Guarantee</u> covers up to 50% of a bankers acceptance pertaining to each eligible export transaction or $350,000 whichever is less, provided that FCIA or another insurer is covering the post-shipment risks on the transaction, has issued a contract form endorsement to include selected pre-shipment coverage, and has made its own inspection to determine that the exporter is viable (evidenced by issuance of a multibuyer policy which is valid throughout the requested guarantee period). Alternatively, the related export may be covered by a letter of credit confirmed by a U.S. bank or issued by a first class bank in an acceptable country. MEDA's Bankers Acceptance Guarantee will cover all risks of non-payment of the bankers acceptance by the exporter on due date, and claims will be payable on demand. The standard Form 06 guarantee will be used for purposes of this bankers acceptance program except that the assignability clause in Section 5b will be automatically waived. MEDA will then proceed against the insurer or the exporter for repayment of amounts advanced. The maximum term of the guarantee will be 180 days and the guarantee fee will be 1% of the guaranteed amount.

  This guarantee is intended to encourage use of this form of financing in pre-export situations and for smaller firms that might not otherwise be considered eligible.

III. <u>Exporter and Export Product Eligibility</u>

The goods, services or commodities comprising the export transaction to be financed must have a Michigan content in excess of 51% of the total F.O.B. dock value. For purposes of determining this minimum percentage of Michigan content, the applicant may include, in addition to manufacturing or growing costs, all other labor, materials, freight, direct costs, profit and other overhead originating in Michigan or paid to Michigan-based firms. In the case of manufacturers, if the final manufacturing process is conducted in Michigan, a detailed analysis of components within the final manufactured article is <u>not</u> required. The exporter is required to certify in his application that the transaction exceeds 50% Michigan origin. The exporter in all cases must be domiciled in Michigan and, if any doubt exists, must present proof of the payment of Michigan state taxes. In addition, the manufacturer, agricultural enterprise, or exporter must have a minimum of one year of successful business experience that is relative to the transaction in question, depending on the circumstances. The exporter must otherwise also be able to provide a satisfactory "track record". If the primary experience and operational records prove otherwise satisfactory, but indicate lack of substantial export experience, acceptable export consulting or management services must be retained in lieu thereof.

If any questions arise regarding product eligibility, banks are encouraged to contact MEDA staff to clarify eligibility criteria.

IV. <u>Non-Financial Programs of MEDA</u>

In addition to counseling the exporter regarding his particular transaction, marketing plan, or loan application on a case-by-case basis, MEDA will initially offer four non-financial programs: (1) Foreign Buyer Credit Information Service, (2) Foreign Country Creditworthiness Service, (3) Export Finance Information Service, and (4) Export Credit Training Service. The first three services will bring together current information from a variety of sources, for which a nominal fee may be charged. The export credit training will be organized by MEDA, utilizing personnel from other sources, and will be rendered without charge.

- <u>The Foreign Buyer Credit Information Service</u> will provide a rapid, accurate and low cost source of information on foreign buyers to help Michigan exporters decide on whether to extend credit in connection with their sales.

- <u>The Foreign Country Creditworthiness Service</u> will provide a centralized source of information on what problems Michigan exporters may exerience in arranging credit because of the economic or political conditions in buying countries and ways to minimize those problems. The country creditworthiness service will provide a report on Eximbank's latest reading on country conditions, FCIA's requirements for providing insurance in the market, together with country condition reports from other public and private sources.

- <u>The Export Finance Information Service</u>, in response to an exporter's request, will draw together in one report as much information as possible on potential sources of financing based on the type of exporter, type of transaction, and country of buyer. This will provide accurate, up-to-date information on the terms and conditions of Federal Government loans, guarantees and insurance possibilities and of private sector lenders interested in handling the type of transaction in question. This service will, in essence, target for an exporter the sources he should contact for assistance.

- <u>The Export Credit Training Service</u> will include general services designed to familiarize Michigan exporters with the mechanics of the different export programs offered in cooperation with organizations such as the Export-Import Bank of the United States, the International Trade Administration of the U.S. Department of Commerce, the Foreign Credit Insurance Association (FCIA), and export trade associations, as well as the availability of other public and private organizations designed to provide export assistance and export-related financing. In addition, MEDA staff will provide special seminars and meetings on the MEDA's programs for individual banks and export organizations. In the case of the latter groups, the basics of preparing financial packages will also be addressed.

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In addition to the above, MEDA staff will always be available to help exporters locate the best possible sources of financing for their transaction, to advise them on what they need to do to be competitive in the financing arena, and to help them meet the application and other requirements of financing organizations. As reinforcement and assistance to all of the above, MEDA will make available to the exporter a library on export affairs and export financing techniques.

V. Operating Guidelines of MEDA for Financial Intermediaries

The policies and operating guidelines applicable to the financial programs of MEDA are stated fully in MEDA's statement of Policies and Procedures, which have been adopted by MEDA's Board an which may be amended from time to time. A copy of this document may be obtained from the Director of MEDA. Some of these policies pertinent to the role of financial intermediaries are referred to in this Guide to the Michigan Export Development Authority under the heading "Financial Programs of MEDA", on pages 2, 3 and 4.

Additional guidelines and policies of significance to financial intermediaries include the following:

- MEDA Exposure Limit Per Guarantee

The exposure of MEDA under any guarantee may not exceed $350,000.

- Collateral

All loans guaranteed by MEDA must be collateralize with collateral acceptable to MEDA. The lender may be required to obtain a first lien position and is asked to explain his rationale for valuation of the collateral. Collateral can consist of, but need not be limited to, inventory and receivables, including insured foreign receivables (FCIA or other). An assignment of proceeds from letters of credit, documentary collections of FCIA insurance will usually be required. A personal guarantee in support of the exporter's obligation is often requested. A UCC filing will be made where and when applicable. In the event of a claim payment, applicable collateral, mutually agreed upon between the lender and the MEDA, must be shared with MEDA pro rata in the same ratio as the risk is shared on the credit extension. For insured transactions the lender should have in his possession all documents required by the insurer for presentation of a claim, as well as a complete copy of the insurance policy.

o <u>Final Commitment Availability Period</u>

Final Commitments to issue guarantees will have a 90-day availability period for <u>commencement</u> of disbursements. <u>Loans disbursed more than 10 days prior to receipt of the guarantee fee are not eligible for coverage.</u>

o <u>Disbursement Period for MEDA Guaranteed Loans</u>

Additional disbursements against a loan guaranteed by MEDA having been first disbursed within the above 90-day period, may be made over a period not exceeding 180 days after the date of the MEDA Guarantee or until the final shipment date specified in the underlying letter of credit or insurance policy, or the expiration date specified on Item 14 of Transactions Attachment (Form 07), whichever is earlier. Applications for extension of the disbursement period will be considered by MEDA. MEDA must b advised on Disbursement Notice, Form 03, as disbursements are made against the guaranteed loan. The guarantee fee covering the disbursement should be included with this notice.

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o <u>Maximum Term of MEDA Guaranteed Loans</u>

This is a transaction oriented, short-term program. Therefore, repayment terms on guaranteed loans will average 180 days or less, but under some circumstances may extend to a maximum of 360 days.

o <u>Interest Coverage of MEDA Loan Guarantees</u>

Interest is covered to date of claim payment or to 270 days from final maturity date, whichever is less, at either the loan rate or at 1% over Treasury Bill rats for similar maturities, whichever is less.

VI. <u>Application for "Participating Financial Institution" Status in the MEDA</u>

To be able to utilize the financial guarantee programs of MEDA, the financial institution need on to take the following steps:

A. Write MEDA requesting status as a "Participating Financial Institution".

B. Name one or more appropriate liaison bank officers, depending on the number of regions in Michigan in which the bank operates and proposes to utilize the program. We ask that these loan officers become familiar with MEDA. The EFO staff will arrange a meeting for this purpose on your premise or in our office.

C. Enclose your most recent published financial statement. Upon receipt of this request and material, MEDA will confirm your "Participating Status", subject to the Export Finance Board Credit Committee's review of the financial statement provided.

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VII. Application for Commitment and Guarantee

A. Application for Preliminary Commitment By Exporter

Section A of Form 01 is to be completed by the exporter. When approved and signed by MEDA and returned to the exporter, it constitutes MEDA's Preliminary Commitment to issue the guarantee requested. The commitment is valid for 90 days. The exporter will present the Preliminary Commitment to a financial institution as evidence that MEDA proposes to issue its Final Commitment and/or its Guarantee to an eligible participating financial intermediary under the conditions described in the Preliminary Commitment.

B. Application for Guarantee By a Financial Institution

Section B of Form 01 is to be completed by the participating financial intermediary which has been asked by the exporter, and/or has agreed to furnish the financing contemplated in the Preliminary Commitment. When Section B has been completed by the financial intermediary and returned to MEDA, it will be processed promptly. On approval, a guarantee will be issued by MEDA and returned to the financial institution. Both Sections A and B may be submitted simultaneously to MEDA if appropriate. If the application is for an Exporter Retention Guarantee, the related Special Buyer Credit Limit (SBCL) of FCIA must accompany the submission of Section B. In the event the intermediary does not wish the guarantee to become fully activate until certain financial details of the transaction are completed and can be detailed, or items called for in the "Conditions Precedent" are provided, MEDA will issue an interim Final Commitment to guarantee by signing page 1B, 4 of the lender's application. Please note that the "Transaction Attachment", Form 07, becomes an integral part of the general Guarantee Form 06 and must be approved by signature of the lender as well as the Guarantee Form 06 itself.

C. <u>Request for Amendments</u>

Requests or amendments to Preliminary Commitments, Final Commitments or Guarantees should be made in writing by the Financial Intermediary and addressed to the Director of MEDA.

VIII. <u>Claims and Rescheduling Procedure of Guarantee Loans</u>

A. <u>Rescheduling</u>

MEDA's written permission must be obtained before any loan or credit covered by its guarantee may be rescheduled. Rescheduling of guaranteed loans will ordinarily be discouraged, except in special circumstances.

B. <u>Claims Procedures</u>

1. <u>Waiting Period</u>

MEDA's different types of guarantees have different <u>minimum</u> waiting periods during which the financial intermediary must stand by before filing a claim for payment of the guaranteed amount.

a. <u>Pre-shipment Export Risks Guarantee</u>

Claim may be filed 30 days after the exporter fails to make a required payment.

b. <u>Post-shipment Exporter Risks Guarantee</u>

Claim may be filed after 90 days, but in no more than 120 days, after the foreign buyer fails to make payment, alleging that the exporter has failed to comply with his responsibilities, and it is plain that the cause of loss is not covered by FCIA's or other insurers' standard post-shipment insurance.

c. <u>Combination Exporter Risks Guarantee</u>

Claim may be filed 30 days after exporter fails to make a required payment, if shipment has not yet been made. After shipment has occurred, the Post-shipment Guarantee rule applies. That is, claim may be filed after 90 days, but not later than 120 days, after the foreign buyer's failure to make payment as recited above.

d. Exporter Retention Guarantee

The waiting period for making a claim is the same as that established by Eximbank or FCIA for the type of loss in question.

e. Bankers Acceptance Guarantee

There is no waiting period and claim may be filed the day after non-payment or default of the guaranteed transaction occurs. The claim will be paid immediately without further examination.

f. Maximum Waiting Period in all MEDA Guarantees for Insured Transactions

The maximum waiting period in all MEDA's guarantee for insured transactions during which a claim may be filed is 30 days after the minimum waiting period required by Eximbank or FCIA, or other insurer.

2. Filing of Claim

After the appropriate waiting period, the financial intermediary may file for claim payment, using MEDA Form 04 with appropriate supporting documents, or Form 05 in the case of the Exporter Retention Guarantee.

MEDA requests the financial intermediary's cooperation in reporting anticipated problems. It is the policy of MEDA to meet valid claims promptly from MEDA funds available for this purpose. MEDA anticipates close mutual cooperation with the lender in the effort to subsequently collect or liquidate defaulted loans to minimize losses and share such recoveries on a pro-rata basis with the lender.

IX. Lender's Interest Rate and Fees

MEDA does not impose any interest rate ceiling or limitation on fees the lender may charge, but will monitor the rates and fees being charged. Lenders, however, should appreciate that one of the purposes of the program and the guarantees is to help small and medium-sized exporters be more competitive through providing financing at the lowest possible cost.

X. Information and Assistance

MEDA staff members will be pleased to assist in any way possible. The MEDA office address and telephone number are:

MICHIGAN EXPORT DEVELOPMENT AUTHORITY
MICHIGAN DEPARTMENT OF AGRICULTURE
P.O. Box 30017
Lansing, MI 48909
Telephone: (517) 373-1054

* SBA's Export Revolving Line of Credit (ERLC) which offers up to $500,000 of preexport financing. In addition, since 1980 any of SBA's business loans can be used for financing exports.

* Eximbank's Working Capital Guarantee Program which applies to 90% of the principal amount of the loan and interest up to the U.S. Treasury rate plus 1%.

* Eximbank's FCIA New-to-Export Insurance Policy providing 100% political risk protection and 95% commercial risk protection for a fee of .25% to 1.00% of sales value.

* Eximbank's Umbrella Insurance Policy whereby the Authority would act as policy administrator, relieving exporters of administrative responsibilities and providing the same low rates as the new-to-export policy.

Integrating Michigan's Export Development Initiatives

Part of the task of accomplishing the Authority's goals of export expansion and job creation lies in focusing, coordinating, and promoting existing state and federal efforts in such a way that they are more widely utilized by exporters and lenders and thus have a measurable effect on export volume.

Trade Development. Existing programs in the Michigan departments of agriculture and commerce offer marketing assistance in a variety of forms, such as:

* Collection and distribution of foreign trade leads, and information on export regulations and procedures.
* Publication and/or distribution of directories of Michigan exporters and other informational items.
* Market research to explore potential sales of Michigan products overseas.
* Seminars on international marketing including transportation, packaging, financing, and documentation.
* Regular communication with foreign buyers, governmental officials, and U.S. attaches abroad.
* Participation in foreign and domestic trade missions, shows, and exhibits.
* Hosting of foreign trade delegations, dignitaries, and visitors.

Both departments work with regional and federal agencies such as the U.S. Department of Commerce both in Washington and in the Detroit and Grand Rapids district offices, the Mid-America International Agri-Trade Council, and the Foreign Agricultural Service of the U.S. Department of Agriculture.

Michigan's existing international trade programs provide vital marketing services and can function as a key access point for exporters into a future system of specialized financial services established by the Authority.

Federal Export Finance Programs. Existing Eximbank and SBA programs may offer substantial assistance to Michigan exporters if they are streamlined, tailored to our needs through negotiations with federal officials, integrated into Michigan Export Development Authority efforts, and aggressively explained and promoted to commercial lenders. Examples of such programs include:

TOPIC IX:

ALTERNATIVE STATE EXPORT PROMOTION PROGRAMS

Counsel for Community Development
Boston, Massachusetts

Charles E. Krider
September 18, 1987

ALTERNATIVE STATE EXPORT PROMOTION PROGRAMS

State and local governments are increasingly pursuing economic development through export promotion and assistance programs. Nationwide, spending by state development agencies for international trade activities grew from over $21 million in 1984 to over $39 million in 1986. All 50 states currently have some type of trade development program with annual budgets ranging from $25,000 to $5.7 million. At least 30 states have foreign offices, for a total of 67 offices in 15 different countries.

What is the origin of this State involvement? The pursuit of international trade is fueled by one simple realization: exports mean jobs. And the most underutilized source of potential exports are small companies with limited resources.

Today, about 100 large companies account for half of all U.S exports and only 30,000 of the nation's 250,000 manufacturing firms are engaged in export trading. Many small and medium sized companies fail to export because of lack of knowledge and expertise in international trade, and, perhaps most importantly, a lack of financial and technical support.

Alternative Approaches:

Not surprisingly, the size and scope of state programs designed to increase exports among small companies differ substantially. New York's trade program, which was instituted in the early 1960s, now has an annual budget of more than $2.5 million and offices in four foreign countries. Smaller states, such as South Dakota and Vermont, often employ just one person to coordinate trade promotion and have program budgets of about $50,000 annually.

The goal of state trade promotion programs is generally to identify new markets and assist local firms in gaining access to these markets. The approach each takes in reaching these goals can include the following:

1. <u>Informational and Marketing Services</u>: publications; counseling and educational assistance; intermediary services; identifying agents and distributors; promoting and assisting with trade shows; and coordinating federal, state and local efforts to promote trade.

2. <u>Export Financing</u>:

The largest hurdle for small and medium-sized businesses in generating exports is a financial one. Major financial institutions have too high a threshold for these firms' small transaction size, while smaller financial institutions are not involved in export financing at all. In addition, the Federal Export-Import Bank has generally focused on providing loans to larger firms. Even if export financing is available, smaller firms may not be able to bear all the burdens and risks associated with exporting.

States have thus been encouraged to look at how their limited resources can be put to use in financing and promoting exports. More than 30 states currently have export finance statutes designed to promote export trading, and a dozen more states are considering such legislation.

States have taken a variety of approaches in initiating these programs: direct loans to companies; loan guarantees; export credit insurance programs; interest buydowns; and tax benefits. The source of state funds can include taxable bonds (the use of tax-exempt bonds for this purpose has been ruled in violation of the tax statute), general fund monies, combined federal/state funds, or private funds.

Some of these approaches are outlined in greater depth on the following pages.

3. Regional Activities:

In addition to in-state coordination of services, some states have pooled their resources to provide export assistance. The most active of these groups is the Midsouth Trade Council (MSTC), comprised of the trade directors from Alabama, Arkansas, Louisiana, Mississippi and Tennessee.

These states share recruitment, organization and other responsibilities and costs for trade events. MSTC cooperatively manages five or six overseas trade events a year, substantially more than each state could attend independently. The Council organizes international trade events, trade missions, trade shows, and catalog exhibitions; educates state policy makers and institutions on exports; promotes a favorable international trade climate at home, and enhances the image of the U.S. as a dependable trading partner.

4. Federal/State Initiatives:

A recent program launched by the Department of Commerce attempts to link federal efforts with state international trade efforts. Seven states are participating in a "pilot project" to increase exports through expanded cooperation and joint activities with the Commerce Department's field offices. Agreements with the states include plans for joint activities such as publications, seminars, trade shows and missions, and sharing facilities and personnel.

Several states also participate in a pilot project with the Eximbank to administer a working capital guarantee program and an export credit insurance umbrella policy targeted to small and medium-sized firms. Under the working capital guarantee program, eligible commercial banks may make loans for up to $300,000 for export-related purposes. The lender must certify that the loan would not have been made without Eximbank's guarantee. The guarantee is for up to 90 percent of the loan or the line of credit.

The export credit insurance umbrella policy is designed to expand the distribution network for Foreign Credit Insurance Association insurance. States, banks, export management and trading companies and any other organization serving exporters can become an umbrella policy holder, and as such, administer FCIA insurance on behalf of a group of exporters. Each exporter insured under the umbrella is covered for 90 percent commercial and 100 percent political risk of non-payment by foreign buyers.

Issues to Consider:

If the State of Michigan is contemplating expanding its export promotion efforts to include financing, the following outlines questions it should consider in selecting the most appropriate approach:

Demand: Is there sufficient demand for some form of financing program? What types/sizes of companies should the state target?

Cost: What would the cost of such a program be? What kind of resources is the State willing to dedicate to such a program? Is the State willing to issue taxable bonds?

Competition: What are the competing State and Federal programs? Would a program offered by the State of Michigan be superfluous to these other avenues of financing?

Criteria: What criteria should the State use to select candidates? Should there be a local content requirement for funding?

Form of Assistance: Is the State interested in committing its funds for direct loans, or would loan guarantees or an insurance program be more suitable?

Several possible drawbacks of these programs should be noted. First, these programs tend to compete with each other. Second, questions have been raised about the legality of these programs under the International General Agreement on Tariffs and Trade (GATT). As a result, these programs will likely come under additional scrutiny, or be open to post-hoc revisions, because of their potential impact on federal international relationships.

CALIFORNIA - WORLD TRADE COMMISSION

Creation of the California World Trade Commission in 1982 signaled a profound shift in the attitude of the state toward international trade and a recognition of the importance of trade to the state's economy. Before the Commission was formed, California spent comparatively little -- less than $400,000 a year -- on trade promotion. By contrast, the current budget is $1.5 million, and the Commission administers a $2 million export finance program that provides loan guarantees to small and medium-sized exporters.

Established in 1983 as a bipartisan, 15-member panel, the Commission has since evolved into a unit of the governor's office. Seven of the Commission's 11 private sector members are appointed by the governor, two by the speaker of the state Assembly, and two by the president pro tempore of the Senate. The governor, lieutenant governor, and secretary of state serve on the Commission, but only as ex officio members. The Commission has a professional staff of 14.

In January 1987, the Commission established its first overseas office in Tokyo. A second overseas office, scheduled to open in London in the next few months, will serve European markets.

Export Finance Program:

The export finance program is aimed at helping small and medium-sized companies that have firm export orders but cannot find a lender to finance the transaction. To entice these lenders, the program provides loan guarantees. The maximum guarantee offered is $350,000 and the maximum term is 180 days. Collateral or security is required from the exporter and a guarantee fee, usually 1 percent of the guaranteed amount, is required.

Four types of guarantees are offered:

- Preshipment Exporter Risks Guarantee covering up to 85 percent of a working capital loan to an exporter. The company must have firm export orders, and postshipment risks must be covered either by the Foreign Credit Insurance Association, the insurance agent for the Export-Import bank, or other forms of insurance.

- Postshipment Exporter Risks Guarantee covering up to 85 percent of the postshipment financing, it is provided to help the exporter extend terms to a foreign buyer for purchase of California goods. Postshipment guarantees usually are extended in conjunction with guarantees from the Export-Import Bank, FCIA, or private insurers.

- o <u>Exporter Retention Guarantees</u> covering up to 8 percent of an eligible export transaction on a shipment insured by FCIA. Such guarantees enable exporters to obtain financing for a larger percentage of the contract value than normally would be available.

- o <u>Bankers' Acceptance Guarantees</u> that lower the cost of pre-export financing by guaranteeing 85 percent of a banker's acceptance created to finance an export transaction. FCIA, another insurer, or letter of credit must be used to cover postshipment risks.

In its first year of operation, the export finance program supported more than $15 million worth of export sales. The fund began with $2 million in 1985 and a $1 million addition is proposed in the state budget for fiscal 1988.

California officials have found that the Export Finance Program actually is stimulating more private sector lending for export sales because of the Commission's involvement in preparing the applications. In fact, in some cases the lender has been willing to make the loan without the state guarantee if the Commission is involved.

<u>Informational and Marketing Services</u>:

The Export Finance Office offers four informational services to exporters:

The <u>Foreign Country Creditworthiness Service</u> warns California exporters of economic or political risks in buyer countries that may interfere with credit arrangements.

<u>The Export Finance Information Service</u> offers comprehensive reports on sources of financing, allowing potential exporters to target those sources.

<u>The Foreign Buyer Credit Information Service</u> helps California exporters decide whether to extend credit to particular foreign buyers.

<u>The Export Training Service</u> acquaints exporters with the many export assistance programs offered by the Department of Commerce, the U.S. Export-Import Bank, and FCIA.

The Commission is also very active in the areas of marketing assistance. It has helped small companies participate in trade fairs. For example, the Commission assembled 10 small California aerospace companies and bought three booths at the 1985 Paris Air Show. It also organized 50 small companies to participate in the "Made in USA" trade fair in Nagoya, Japan.

A computerized trade lead system has also been developed. The data gathered at trade shows and from other sources helps exporters target potential buyers all over the world.

ILLINOIS - INTERNATIONAL BUSINESS DIVISION

Illinois has long been one of the most active Great Lakes states in export promotion activities. In 1987, the state devoted $2.5 million to the effort. The division maintains overseas offices in Hong Kong, Japan, Brazil, Belgium; and the People's Republic of China. A new office in Tokyo is to be opened this year.

Export Financing:

In 1985, the Illinois Legislature authorizêd an independent authority with a grant of $1 million to assist small and medium-sized businesses export their products. The program was launched in July 1986 when the Illinois Export Development Authority (IEDA) issued $15 million in taxable export development bonds and established lines of credit for nine participating banks. Since February of this year, the IEDA has approved $6.7 million in direct loans to small and medium-sized businesses. Twenty-nine exporters have been approved thus far.

IEDA arranges for exporters to borrow up to 90 percent of the value of their transactions from participating financial institutions.

Exporters are eligible for direct funding, insurance and guaranteed credits to support export activities when no other financial support is available. The financing is limited to Illinois firms, at least 50 percent U.S. content, and at least 25 percent of the final value added must have resulted from work performed in Illinois.

The maximum loan available under the program is $500,000, with a maximum term of 180 days. In most cases, the export receivable is the only collateral required for the loan. All borrowers must be approved for insurance by the Foreign Credit Insurance Association, the insurance arm of the Eximbank Bank. This insurance is for both political and credit risks.

The IEDA will advance up to 90 percent of the cost of the transaction, at a fixed interest rate. Interest rates have tended to be about 50 basis points above the prime rate. A participating bank must advance the remaining 10 percent, at an interest rate that it determines. IEDA's fixed rate is expected to be below the U.S. Export-Import Bank working capital guarantee program rate. The only collateral required by the participating bank is the internationally destined receivable.

FLORIDA - BUREAU OF INTERNATIONAL TRADE

Florida's Bureau of International Trade and Development is small and education-oriented. The program has a staff of eight professionals. The state has voluminous trade with Caribbean and South and Central American nations. In 1986, Florida firms exported goods and services worth a total of $9.3 billion. About 70 percent of that amount went to countries in those three regions; about 16 percent went to European nations.

Florida maintains an office in Frankfurt, West Germany, and has been represented in the past by a consulting firm in Tokyo, Japan. The office also has a contract with a consulting firm in London.

Export Assistance:

None is currently provided.

Informational and Marketing Assistance:

The State's program is designed to promote and facilitate the sale of Florida goods in overseas markets by organizing trade missions, trade shows, and catalog shows. Information on all aspects of exporting is available, and export training is provided through seminars, conferences, and private in-plant consultations. The department also supplies firms with export market research and uses a computerized matching system for trade lead referrals.

MINNESOTA TRADE OFFICE

The Minnesota Trade Office (MTO) was established in July 1983 as a division of the Minnesota Department of Agriculture. The office now has a staff of 36 and an annual budget of $2.1 million. In 1986 the office was reorganized and is now within the state's Department of Economic Development.

In keeping with the strong ethnic ties to, and recent investments by Scandinavian countries in the upper Midwest, the MTO has established branch offices in Stockholm, Sweden, Oslo, Norway.

Export Financing:

The Export Finance Authority (MEFA), established in 1984, was one of the first operational state export funding program in the United States. The Authority can guarantee a maximum of $8.5 million in loans. Since its creation, MEFA has approved 18 loan guarantee requests totaling $2.25 million and accounting for $5.2 million in exports.

MEFA is designed to facilitate the financing of exports by small and medium-sized businesses in Minnesota through a pre-export program, which provides a guarantee of up to 90 percent of an exporter's working capital loan, up to a maximum of $250,000 per exporter. To qualify, the exporter must have had a loan application rejected by a bank, and the product or service for export must originate, or be processed, in Minnesota. In addition, the transaction may have to be supported by a confirmed letter of credit or foreign risk insurance.

Minnesota also administers a short-term Foreign Credit Insurance Association umbrella policy.

Informational and Marketing Assistance:

The MTO offers a variety of programs to exporters, including numerous seminars, conferences and trade shows. More than 1600 trade leads are forwarded by the office each month to Minnesota businesses. The Export Services Division of the MTO also provides one-on-one counseling, conducts small group training seminars throughout the state, and generates and distributes computer-matched trade leads.

Officials in the state trade office seek out potential markets for Minnesota's target industries, which include high technology, medical technology, agricultural processing, and wood products The office then acts as a broker, bringing together potential customers for Minnesota products or partners for joint-venture operations. The MTO also provides information regarding export financing, communications and shipping procedures.

IEDA has also created a taxable variable-rate demand obligation, which they believe may have wide applicability as a replacement for the tax-exempt industrial revenue bonds. The chief market for the VRDO's is expected to be taxable money market funds. Because they can be redeemed at par with as little as seven day's notice, taxable VRDO's can compete with U.S. government securities, commercial paper, certificates of deposit, and bankers' acceptances.

The IEDA relies on letters of credit issued by major banks to provide AA or better ratings for the VRDOs. They are priced approximately at the 90-date Treasury bill rate plus 35 basis points.

Informational and Marketing Assistance:

Services offered by the department include catalog exhibitions, in which individual companies' product literature is displayed in central locations, trade missions and international trade exhibitions either sponsored by the Division itself or co-sponsored with the U.S. Department of Commerce. The individual distributor search program assists Illinois companies in locating potential agents, distributors, and joint venture partners. Finally, reverse investment is encouraged, with specialists located in Osaka, Hong Kong, and Brussels offices.

Minnesota Trade Office personnel both arrange and lead trade missions to countries with promising markets for state firms. Targeted as potential markets are China, Japan, Korea and Taiwan, as well as some European nations. The office has sponsored 30 trade missions since its inception.

The State promotes its exports through catalog shows sponsored in Europe and hopes to participate in similar catalog shows in Japan. It also is developing a computerized trade leads system. A data base will include information obtained through a survey of approximately 250 companies. The State Development Board also publishes an export resource directory.

NEW YORK INTERNATIONAL DIVISION

The International Division of the New York State Department of Commerce, established in 1962 to promote exports from the Empire State, is one of the oldest state trade offices in the nation. The division, headquartered in New York City, operates with a staff of 25 and an annual budget of approximately $2.6 million, $1.4 million of which is earmarked for trade development.

The state has offices in London, Montreal, Tokyo, Toronto and Weisbaden, West Germany. The offices concentrate primarily on reverse investment activities. The London office, however, has hired a trade specialist to facilitate the state's new European Representative Service, which is designed to put New York State manufacturers in touch with prospective sales representatives.

Export Financing:

New York has no specialized export financing facility yet. Legislation establishing such a facility has been introduced, but not yet adopted.

Informational and Marketing Assistance:

The trade division offers a number of seminars around the state. These seminars cover topics ranging from basic export documentation programs to industry- or country-specific programs.

A major division activity is company representation at overseas trade shows. Staff select the eight to 10 most appropriate events for New York firms; companies are then solicited for participation. These companies may either send a representative with the New York delegation, or choose to be represented by the staff of the trade office.

In addition to participating in the larger overseas trade fairs, the division sponsors shows in the Far East Canada. Trade leads gathered by the division through a network of connections are disseminated through an export opportunities bulletin issued several times per month. The bulletin includes an addendum highlighting state products. The division also produces a number of other publications, including a guide to selling in foreign markets for both new and experiences exporters.

WISCONSIN BUREAU OF INTERNATIONAL DEVELOPMENT

Wisconsin's export promotion activities were formally incorporated as the Bureau of International Development in August 1984. The state operates two foreign offices, one in Frankfurt, West Germany, and another in Hong Kong. Of the bureau's total budget of $750,000, about $200,000 is devoted to reverse investment activities.

Export Financing:

The Wisconsin Housing and Economic Development Authority is authorized to issue up to $50 million in bonds for export financing activities, but that authority has never been used because Wisconsin participates in an ongoing pilot program with the U.S. Export-Import Bank.

Informational and Marketing Assistance:

Services offered by the bureau include export counseling; coordination of trade show; a "mentor program," in which large firms assist small businesses on a one-to-one basis; and sponsoring or co-sponsoring of seminars and conferences on international trade. The bureau works closely with the regional District Export Council and the U.S. Commerce Department.

IOWA INTERNATIONAL DEVELOPMENT COMMISSION

The International Trade and Promotion Section of the Iowa Development Commission tries to help potential exporters in the state through the use of individual consultations, coordination of overseas trade missions, trade shows, and the dissemination of trade leads. The six-person office operates with an annual program budget of $500,000.

The Iowa Development Commission operates overseas offices in Frankfurt, Tokyo and Hong Kong.

Export Financing:

Iowa's General Assembly authorized the Iowa Department of Economic Development to initiate a $1 million export finance interest buy-down grant program in 1986 to assist small and medium sized Iowa companies in entering the competitive international marketplace by lowering the interest rates on transaction costs. Any Iowa company can qualify for the 5 percent interest buy-down grants for both pre- and post-export expenses if it is new to exporting, expanding its export sales into a new market, exporting a new product to market, or experiencing new competitive circumstances in an existing market.

The interest buy-down applies on a sale-by-sale basis, with a minimum sale size of $25,000, and can be used to offer term financing exceeding 90 days to the buyer. Individual companies may receive up to $150,000 in program assistance during Iowa's fiscal year. During the first six months of operation the program has provided 30 grants, supporting $11.6 million in export sales to qualified Iowa exporters.

SOUTH CAROLINA STATE DEVELOPMENT BOARD

South Carolina's international trade program is administered by the State Development Board. All South Carolina firms are entitled to seek assistance from the Board, but the program is targeted to small and medium-sized businesses.

The division has a staff of six. The FY 1986-87 international budget for export promotion and investment work is $350,000.

South Carolina maintains trade offices in Brussels and Tokyo.

Export Financing:

Since early 1985 the state's export finance program's primary focus has been on aiding the development of loan guarantees through the U.S. Export-Import Bank and the federal Small Business Administration. However, in 1983, the South Carolina legislature authorized the Jobs Economic Development Authority to provide low-interest export loans to eligible exporters. This authority has not been utilized to date.

In 1986, South Carolina also began to offer export tax incentives. Companies are permitted to defer payments of state income tax on taxable income attributable to an increase in gross income from foreign trading receipts. The tax incentive formula distinguishes between beginning exporters and those that have already achieved a consistently high sales volume.

Informational and Marketing Assistance:

The division provides general international trade information and conducts limited market research for South Carolina firms interested in doing business overseas. Each year, the division co-sponsors six export seminars, workshops, and conferences with the U.S. Department of Commerce and other agencies.

The state also sponsors a workshop program designed to provide match selected companies with an experienced exporter who will provide advice. State officials meet with company representatives to discuss the firm's specific interests. The state then performs a brief market survey for the company to identify potential export markets. Next, the potential exporter is matched up with a firm already exporting to that market.

TOPIC IX:

ADDITIONAL INFORMATION ON KANSAS' MANUFACTURED EXPORTS

Charles E. Krider
September 24, 1987

Table 11

Table 11 shows which Kansas' industries are most important in terms of the export of manufactured goods. This table gives the value of exported manufacturers' shipments in each industry in Kansas in millions of dollars. It also shows each industry's percentage of total Kansas exported manufactured goods. From these percentages one can see that Food & Kindred Products, Machinery Except Electrical, and Transportation Equipment are the biggest exporters of manufactured goods from the state. Of total Kansas manufactured goods which were exported in 1983, 30.9% were attributed to the Food & Kindred Products industry, 19.3% to Transportation Equipment, and 14.5% to Machinery Except Electrical.

Table 12

Table 12 shows the value of exported manufacturers' shipments in millions of dollars for 1980, 1981 and 1983. This table also breaks the exported shipments down into two categories: direct exports and supporting exports. As the footnotes explain, direct exports are manufactured products exported by the producing plants and supporting exports are other products, such as components, parts and supplies, which are used by plants producing the export product.

Table 6 (cont.)

EAST SOUTH CENTRAL		
Alabama	4.3	27
Kentucky	3.8	35
Mississippi	3.9	32
Tennessee	5.3	13
MOUNTAIN		
Arizona	5.0	17
Colorado	4.6	24
Idaho	3.3	40
Montana	2.5	46
Nevada	1.4	50
New Mexico	1.8	47
Utah	3.9	32
Wyoming	1.7	48
PACIFIC		
Alaska	4.9	19
Hawaii	1.5	49
Oregon	5.8	8
Washington	7.7	1

Source: 1983 Annual Survey of Manufactures: Origin of Exports of Manufactured Products. Publication M83(AS)-5, issued March 1986. U.S. Department of Commerce, Bureau of the Census, Washington, DC.

Table 8 (cont.)

EAST SOUTH CENTRAL		
Alabama	11.0	19
Kentucky	9.6	35
Mississippi	9.4	36
Tennessee	11.0	19
MOUNTAIN		
Arizona	14.5	6
Colorado	10.9	22
Idaho	10.4	28
Montana	6.8	48
Nevada	9.9	33
New Mexico	6.4	49
Utah	9.7	34
Wyoming	5.2	50
PACIFIC		
Alaska	25.4	1
Hawaii	7.7	45
Oregon	12.2	9
Washington	24.1	2

Source: 1983 Annual Survey of Manufactures: Origin of Exports of Manufactured Products. Publication M83(AS)-5, issued March 1986.
U.S. Department of Commerce, Bureau of the Census, Washington, DC.

Table 9

EMPLOYMENT RELATED TO MANUFACTURED EXPORTS BY MAJOR ECONOMIC SECTOR IN KANSAS

ECONOMIC SECTOR	NUMBER OF EMPLOYEES BY SECTOR		
	1980	1981	1983
Total Civilian Employment	1,143,000	1,092,000	1,120,000
Total Private Sector Employment	966,000	919,000	847,000
Total Employment Related to Manufactured Exports	46,500	47,200	32,300
In Manufacturing Industries	23,000	23,300	14,400
Direct Export Related *1	13,300	14,200	7,500
Supporting Exports *2	9,700	9,100	6,900
In Nonmanufacturing Industries	23,500	23,900	17,900
Trade	8,200	9,100	8,300
Business Services	5,400	5,100	2,300
Transportation, Communication and Utilties	2,800	2,400	1,700
Other (including Mining and Agriculture)	7,100	7,300	5,600

*1 - Employment is limited to paid employees in manufacturing plants producing the export product.
*2 - Manufacturing employment at establishments producing components, parts, supplies, etc., for use by plants producing for export.

Source: 1983 Annual Survey of Manufactures: Origin of Exports of Manufactured Products. Publication M83(AS)-5, issued March 1986.
U.S. Department of Commerce, Bureau of the Census, Washington, DC.

Table 8

States' Rank and Percentage of Manufacturing Shipments Related to Manufactured Exports, 1983 (by region)

Geographic Area	Manufacturing Shipments Related to Manufactured Exports as a Percentage of Total Manufacturing Shipments	State Ranking (compared with the 50 states and District of Columbia)
UNITED STATES	11.3	---
WEST NORTH CENTRAL		
Kansas	7.4	46
Iowa	9.0	42
Minnesota	10.3	30
Missouri	10.1	31
Nebraska	8.2	44
North Dakota	9.1	41
South Dakota	7.1	47
WEST SOUTH CENTRAL		
Arkansas	11.6	17
Louisiana	11.3	18
Oklahoma	10.8	23
Texas	11.8	12
EAST NORTH CENTRAL		
Illinois	10.1	31
Indiana	11.8	12
Michigan	13.3	8
Ohio	12.1	10
Wisconsin	9.3	37
NEW ENGLAND		
Connecticut	15.0	4
Maine	9.3	37
Massachusetts	13.8	7
New Hampshire	10.6	25
Rhode Island	10.7	24
Vermont	14.8	5
MIDDLE ATLANTIC		
New Jersey	9.3	37
New York	10.4	28
Pennsylvania	10.5	27
SOUTH ATLANTIC		
Delaware	11.7	14
District of Columbia	3.9	51
Florida	11.7	14
Georgia	8.3	43
Maryland	9.3	37
North Carolina	10.6	25
South Carolina	11.7	14
Virginia	11.0	19
West Virginia	16.1	3

Table 10

'Value of Manufacturer's Shipments Related to Manufactured Exports for Kansas, 1983
(in millions of dollars)

Total Value of Manufacturers' Shipments		27,500.7
Total Value of Export Related Manufacturers' Shipments		2,043.8
Total Value of Direct Export Manufacturers' Shipments *1	1,144.4	
Total Value of Supporting Export Manufacturers' Shipments *2	899.4	

*1 - Includes only the value of manufactured products exported by the producing plants.
*2 - Includes shipments of components, parts, supplies, etc., used by plants producing the export product.

Source: 1983 Annual Survey of Manufactures: Origin of Exports of Manufactured Products. Publication M83(AS)-5, issued March 1986.
U.S. Department of Commerce, Bureau of the Census, Washington, DC.

Table 11

Value of Exported Manufacturers' Shipments from Kansas, 1983
(in millions of dollars)

SIC code	Industry	Total Export Related Manufacturing Shipments	Industry's Exports as a Percent of Total Manufactured Exports
20	Food & kindred products	631.2	30.9%
23	Apparel & other textiles	8.9	0.4%
24	Lumber & wood products	9.6	0.5%
25	Furniture & fixtures	0.8	0.0%
26	Paper & allied products	40.2	2.0%
27	Printing & publishing	25.6	1.3%
28	Chemicals & allied products	137.3	6.7%
29	Petroleum & coal products	165.5	8.1%
30	Rubber & misc. plastics	120.4	5.9%
32	Stone, clay & glass products	27.1	1.3%
33	Primary metal industries	56.7	2.8%
34	Fabricated metal products	36.4	1.8%
35	Machinery, except electrical	296.4	14.5%
36	Electric & electronic equip.	67.4	3.3%
37	Transportation equipment	393.9	19.3%
38	Instruments & related produc	18.5	0.9%
39	Misc. manufacturing industri	6.7	0.3%
Total Kansas Manufacturing Exports		2,043.8	100.0%

Source: 1983 Annual Survey of Manufactures: Origin of Exports of Manufactured Products. Publication M83(AS)-5, issued March 1986.
U.S. Department of Commerce, Bureau of the Census, Washington, DC.

Table 12

Value of Manufacturer's Shipments Related to Manufactured Exports for Kansas, 1983
(in millions of dollars)

	1980	1981	1983
Total Value of Manufacturers' Shipments	24,121.4	26,474.1	27,500.7
Total Value of Export Related Manufacturers' Shipments	2,468.4	2,677.9	2,043.8
Total Value of Direct Export Manufacturers' Shipments *1	1,439.4	1,516.6	1,144.4
Total Value of Supporting Export Manufacturers' Shipments *2	1,029.0	1,161.3	899.4

*1 - Includes only the value of manufactured products exported by the producing plants.
*2 - Includes shipments of components, parts, supplies, etc., used by plants producing the export product.

Source: 1983 Annual Survey of Manufactures: Origin of Exports of Manufactured Products. Publication M83(AS)-5, issued March 1986.
U.S. Department of Commerce, Bureau of the Census, Washington, DC.

state resources to enhance market driven opportunity is the most efficient use of very limited resources. On the other hand, opportunity may have more scope to evolve successfully in the more distressed areas if given some extra support or preference by the state. Taken to some lengths however, preferential targeting could result in the state frittering away its scarce resources for very little return.

The arguments against targeted rural policy are more economic in nature. The arguments for targeting are tied to social goals and notions of the social value of the rural lifestyle.

II. The Concept of Targeting Areas for Economic Development or Transition

A. The Equimarginal Principle

We have advocated the equimarginal principle for state funds: They should be spent where Kansans can get the best 'bang for the buck.' However,some benefits are difficult to measure and easy to overlook--The equimarginal principle may not preclude targeting rural areas.

B. Transition Policy or Development Policy?

If we are to allocate state dollars to distressed areas, our objectives must be clear. Do we wish to rase transition, or do we wish to enhance economic development? The two objectives are not mutually exclusive, since a transition program may be required to tide over an area designated for long-term development.

TOPIC X:

TARGETING FUNDS FOR RURAL DISTRESSED AREAS

Anthony Redwood
July 21, 1987

TO: Joint Committee on Economic Development

FROM: Anthony Redwood, Director, Institute for Public Policy and Business Research, University of Kansas.

DATE: July 21, 1987

QUESTION: Should the state target funds to rural distressed areas for economic development programs?

I. The Issue

The rural economy is undergoing significant economic change. Incomes and Employment are growing much more slowly in rural areas than in urban areas. Economic activity is becoming increasingly concentrated in certain geographic areas, for example in Kansas in the industrial loop of I-35, I-135, and I-70.

Employment in Kansas

	1976	1986	Percent Growth
Non-urban	535,775	546,890	2.10
Urban	504,925	621,140	23.01
Total Kansas	1,040,700	1,168,030	12.24

Source: Kansas Department of Human Resources

This uneven development is driven by the market and such structural factors as international forces, the shift to a service economy, deregulation, and changes in the agricultural economy.

The various economic development measures passed and proposed for the state are largely designed to support development wherever opportunity exists in the state. Unfortunately, opportunity will not occur evenly, but will be largely market driven. The use of

A revolving loan fund was established with a million dollar EDA grant in 1980. The foal is to help create and retain jobs in the region. The program was designated for manufacturing businesses and wholesale distributors that are unable to secure adequate private financing. Funds may be used for acquisition of land; installation of infrastructure; and construction, renovation, and rehabilitation of buildings, as well as for working and start-up capital.

The loans are offered at a low interest rate, with the maximum loan being $200,000. Each dollar lent must be matched by two dollars in private funds. Between 1980 and 1985, closed loans came to $1.9 million.

The Connecticut Development Authority administers the fund. Funds may be used for acquisition of land; installation of infrastructure; and construction, renovation, and rehabilitation of buildings, as well as for working and start-up capital.

2. Northeast Connecticut Capital Assistance Loans

During the past 30 years northeastern Connecticut has been losing its textile industry. Unemployment in the region has been high. Income in the area and education levels

Table 5

States' Rank and Percentage of Employment Related to Manufactured Exports, 1983
(By rank order)

Geographic Area	Employment Related to Manufactured Exports as a Percent of Total Private Sector Employment	State Ranking (compared with the 50 states and District of Columbia)
United States	4.8	
Washington	7.7	1
Connecticut	7.3	2
Vermont	6.4	3
Michigan	6.2	4
Ohio	6.1	5
Massachusetts	6.1	5
Delaware	6.0	7
Oregon	5.8	8
Rhode Island	5.8	8
Indiana	5.7	10
New Hampshire	5.4	11
North Carolina	5.4	11
Tennessee	5.3	13
California	5.2	14
Minnesota	5.2	14
Wisconsin	5.1	16
Arizona	5.0	17
Pennsylvania	5.0	17
Illinois	4.9	19
Alaska	4.9	19
New Jersey	4.9	19
South Carolina	4.9	19
New York	4.8	23
Colorado	4.6	24
Iowa	4.5	25
Arkansas	4.5	25
Missouri	4.3	27
Oklahoma	4.3	27
Alabama	4.3	27
West Virginia	4.2	30
Maine	4.1	31
Utah	3.9	32
Mississippi	3.9	32
Georgia	3.9	32
Kansas	3.8	35
Kentucky	3.8	35
Virginia	3.8	35
Texas	3.5	35
Nebraska	3.4	39
Idaho	3.3	40
Florida	3.2	41
Louisiana	3.2	41
Maryland	3.1	43
North Dakota	3.1	43
South Dakota	2.6	45
Montana	2.5	46
New Mexico	1.8	47
Wyoming	1.7	48
Hawaii	1.5	49
District of Columbia	1.4	50
Nevada	1.4	50

Source: 1983 Annual Survey of Manufactures: Origin of Exports of Manufactured Products. Publication M83(AS)-5, issued March 1986.
U.S. Department of Commerce, Bureau of the Census, Washington, DC.

Table 7

States' Rank and Percentage of Manufacturing Shipments Related to Manufactured Exports, 1983
(By rank order)

Geographic Area	Manufacturing Shipments Related to Manufactured Exports as a Percentage of Total Manufacturing Shipments	State Ranking (compared with the 50 states and District of Columbia)
United States	11.3	
Alaska	25.4	1
Washington	24.1	2
West Virginia	16.1	3
Connecticut	15.0	4
Vermont	14.8	5
Arizona	14.5	6
Massachusetts	13.8	7
Michigan	13.3	8
Oregon	12.2	9
Ohio	12.1	10
California	11.9	11
Indiana	11.8	12
Texas	11.8	12
Florida	11.7	14
South Carolina	11.7	14
Delaware	11.7	14
Arkansas	11.6	17
Louisiana	11.3	18
Tennessee	11.0	19
Alabama	11.0	19
Virginia	11.0	19
Colorado	10.9	22
Oklahoma	10.8	23
Rhode Island	10.7	24
North Carolina	10.6	25
New Hampshire	10.6	25
Pennsylvania	10.5	27
Idaho	10.4	28
New York	10.4	28
Minnesota	10.3	30
Missouri	10.1	31
Illinois	10.1	31
Nevada	9.9	33
Utah	9.7	34
Kentucky	9.6	35
Mississippi	9.4	36
Wisconsin	9.3	37
Maryland	9.3	37
New Jersey	9.3	37
Maine	9.3	37
North Dakota	9.1	41
Iowa	9.0	42
Georgia	8.3	43
Nebraska	8.2	44
Hawaii	7.7	45
Kansas	7.4	46
South Dakota	7.1	47
Montana	6.8	48
New Mexico	6.4	49
Wyoming	5.2	50
District of Columbia	3.9	51

Source: 1983 Annual Survey of Manufactures: Origin of Exports of Manufactured Products. Publication M83(AS)-5, issued March 1986. U.S. Department of Commerce, Bureau of the Census, Washington, DC.

are the lowest in the state. In order to retain and increase employment in the area, the Connecticut Development Authority offers capital assistance loans of up to $300,000 at low interest rates. The loans cannot be used for start-up capital.

3. In addition, the Connecticut legislature established the Comprehensive Readjustment of the Northeast Economic Region initiative (CORNER) in 1986. The program includes the establishment of a $2 million loan fund to stimulate job creation through business startups, expansions, and relocations in a 19-town region, with a maximum loan of $300,000 and a maximum term of 15 years. The CORNER Revolving Loan Program offers low-cost working capital and fixed-asset financing for manufacturing, research and distribution companies.

C. The Iron Range Area of Minnesota.

The Iron Range of Minnesota once produced taconite pellets for steel manufacturing. In the past few years, Brazilian taconite has replaced Minnesota taconite. The state has begun a program of tax and job incentives for manufacturing and tourism start-ups or relocation in the Iron Range. In certain cases the state pays up to $4/hr of new job wages. The Iron Range Resources

1. transition objectives - short-run

   a. easing human resource adjustment

   b. easing public infrastructure adjustment

   c. supplementing rural incomes

2. development objectives - long-run modification of structural changes to produce a more diversified rural economy

   a. infrastructure investment

   b. business development

   c. information dissemination (promotion)

III. State Programs Targeting Geographic Areas - Illustrations

A. Urban and county enterprise zones

Thirty-three state have urban or county enterprise zones. A recent Housing and Urban Development study found enterprise zones to be "an effective and flexible addition to the local arsenal of economic development weapons." The study also showed that the concept might be more effective as a marketing tool than the tax relief incentives.

B. Connecticut Programs

1. Nagatuck Valley Revolving Loan Fund

Nagatuck Valley was the location of significant production of textiles, footwear, brass and other traditional industries. Unemployment in the area increased when these industries either moved out of the area as demand for the products decreased.

Rehabilitation board has also begun an import substitution program. Businesses in the Range are being surveyed to find what they buy from outside the area. Next, the feasibility of producing these imports within the Range will be examined.

D. Colorado Initiatives Program (outline attached)

One of Colorado's goals has been to extend economic development beyond the front range metropolitan areas. Last year the Colorado Division of Commerce and Development began a community-based program for non-metropolitan areas. Communities apply to be in the one-year program. If they are accepted, they sign a memorandum of understanding that commits their resources and state resources to be used for development planning. The communities in the program each have access to $4,000 for consultant and Mountain Bell grants $150,000, which the communities spend on carrying out projects planned during the program.

E. Most other state do not target development activities geographically.

IV. Some Considerations

A. Most of non-metropolitan Kansas is distressed economically. If targeting were to be justified for most of the state, would it be preferable to have only state-wide programs?

Table 6

States' Rank and Percentage of Employment Related to Manufactured Exports, 1983
(By region)

Geographic Area	Employment Related to Manufactured Exports as a Percent of Total Private Sector Employment	State Ranking (compared with the 50 states and District of Columbia)
UNITED STATES	4.8	---
WEST NORTH CENTRAL		
Kansas	3.8	35
Iowa	4.5	25
Minnesota	5.2	14
Missouri	4.3	27
Nebraska	3.4	39
North Dakota	3.1	43
South Dakota	2.6	45
WEST SOUTH CENTRAL		
Arkansas	4.5	25
Louisiana	3.2	41
Oklahoma	4.3	27
Texas	3.5	38
EAST NORTH CENTRAL		
Illinois	4.9	19
Indiana	5.7	11
Michigan	6.2	4
Ohio	6.1	5
Wisconsin	5.1	17
NEW ENGLAND		
Connecticut	7.3	2
Maine	4.1	31
Massachusetts	6.1	5
New Hampshire	5.4	11
Rhode Island	5.8	8
Vermont	6.4	3
MIDDLE ATLANTIC		
New Jersey	4.9	19
New York	4.8	23
Pennsylvania	5.0	17
SOUTH ATLANTIC		
Delaware	6.0	7
District of Columbia	1.4	50
Florida	3.2	41
Georgia	3.9	32
Maryland	3.1	43
North Carolina	5.4	11
South Carolina	4.9	19
Virginia	3.8	35
West Virginia	4.2	30

KANSAS MANUFACTURED EXPORTS

Explanation of Tables

Table 5

Table 5 gives the percentage of total private sector employment that is related to manufactured exports for each state. Each state is also ranked based on this percentage, and the states are listed in rank order. This table shows Kansas is 35th.

Table 6

Table 6 gives the same information as Table 5, but it lists the states by region. This table shows how other states in Kansas' region are doing in comparison with respect to employment attributed to manufactured exports. With the exception of Minnesota and Iowa, all states in the region are below the median percentage of employment related to manufactured exports.

Table 7

Table 7 gives the percentage of manufacturing shipments which are export related for each state. Each state is also ranked based on this percentage, and the states are listed in rank order. On this basis, Kansas is ranked 46th.

Table 8

Table 8 provides the same information as Table 7, but it lists the states by region. This table shows that all states in Kansas' region are below the median percentage of shipments related to manufacturing exports.

Table 9

Table 9 shows the number of employees whose jobs were related to manufacturing exports by major economic sector in 1980, 1981 and 1983. In Kansas in 1983, 14,400 jobs related to manufactured exports were in manufacturing industries and 17,900 were in nonmanufacturing industries which provided services to support the export of manufactured goods from the state. This represents a 14,900 decline in total jobs related to manufactured exports between 1981 and 1983 in Kansas.

Table 10

Table 10 shows the percentage of total employment related to manufactured exports in each major economic sector in Kansas in 1983. Manufacturing industries in Kansas provided 44.6% of the total jobs related to manufactured exports and nonmanufacturing industries provided 55.4%.

B. There are serious difficulties in determining geographic areas to be targeted, particularly in relation to ascertaining which ones offer more promise for future growth.

C. The primary device available to implement targeting would be business incentives, infrastructure development, and human capital programs. The approach adopted by the state to date has been to minimize the use of incentives to influence location decisions. Further, the evidence seems to be that this device has only limited impact on industrial location because of the primary importance of basic factors like market access and resources availability.

Institute for Public Policy and Business Research
University of Kansas

1987 Funding for Selected Small Business Development Centers

	State	Federal
Kansas	769,302	669,500
Nebraska	450,630	442,000
Oklahoma	557,395	562,124
Missouri*	1,391,000	1,362,610
Iowa*	1,190,248	825,000

*Funding for fiscal 1986.

Source: Small Business Administration, Office of Business Development

PRESENT VALUE ANALYSIS OF TAX CREDIT TO STATE

An analysis similar to that discussed previously was applied to determine the present value cost to the state of reducing the deduction period from 4 years to 1 year. A $6,000,000 tax credit ceiling was assumed for this analysis as provided in the legislation. Appendix C provides the complete table of calculations for three discount rates: 10%, 12% and 8%. The calculations using 10% are shown below:

Credit taken over x yrs.	Annual State Credit	Net Present Value of Credit	Net PV Dollar Savings	Effective Tax Credit (%)
4	$1,500,000	$5,203,278	$796,722	21.8%
3	$2,000,000	$5,471,074	$528,926	22.8%
2	$3,000,000	$5,727,273	$272,727	23.9%
1	$6,000,000	$6,000,000	$0	25.0%

The fourth column entitled "Net PV Dollar Savings" indicates the savings which the state realizes with the 4, 3, and 2 year deduction periods when compared to a 1 year deduction period. In other words, with the current 4 year deduction period the state realizes a $796,722 savings over providing a 1 year deduction period.

SUMMARY OF KANSANS' PERCEPTIONS OF THE TAX CREDIT FOR CERTIFIED VENTURE CAPITAL COMPANIES

Overall, there is satisfaction with regard to the structure of the current tax credit for certified venture capital companies. To date, this credit has provided fund managers with an additional marketing tool in their attempts to raise funds. However, it is clear that while the tax credit may be a necessary condition for raising capital, it is not a sufficient condition. Rather, investors rank the track record of the management team as predominant with anticipated risk-adjusted rate of return and fund objectives as second and third criteria.

Obviously, the more attractive the tax credit the more significant is its role in the decision-making process. For this reason, some individuals expressed their support for reducing the time period for taking the tax credit from 4 years to 2 years or less. In addition, the amount of the tax credit coupled with the deduction time frame effects the investor's calculation of the risk-adjusted rate of return; a decision criteria mentioned above.

Finally, many individuals noted that it takes a great deal of time and effort to raise capital particularly in a marketplace where the concept is relatively new. This comment is supported in the experience of other states.

Credit taken over x yrs.	Annual State Credit	Net Present Value of Credit	Effective Tax Credit (%)
4	$2,875	$10,025	21.79%
3	$3,833	$10,486	22.80%
2	$5,750	$10,977	23.86%
1	$11,500	$11,500	25.00%

Reviewing these 10% discount figures, we find that the 25% tax credit actually represents an effective credit of 21.8% given the present requirement of a four year deduction period. The effective rate increases as this time period decreases until it reaches 25% if the full credit is allowed in the first year. The effective rate is even lower when federal tax implications are considered ranging from 15.7% for a four year period to 18% for a one year period (see additional calculations shown in Appendix A). These effective rates do not change if we assume an investment level other than $46,000.

Table 2 (Appendix B) presents similar information as it applies to corporations. Here a $72,000 cash investment is assumed which represents the average amount a corporation contributed to the Research Capital Management Group Fund in Lawrence. Again, the effective tax credit rates do not change if we assume a different investment level. The corporate effective rate, assuming no federal tax implications, matches the individual rate. When federal taxes are assumed, the effective rate is lower for corporate investors due to their higher average tax rate.

OTHER STATE VENTURE CAPITAL TAX CREDIT PROGRAMS

Arkansas

Description:

-Legislation passed in 1985
-33% tax credit which can all be taken in the first year; carry forward provisions available

Activity:

-No activity to date; possible explanations:

1) No direct solicitation by the state
2) Firms interested in venture capital are working through other organizations within the state e.g. private sector initiative through Southshore Bank, Chicago and Arkansas Business Council supported by Sam Walton and Don Tyson.

Indiana

Description:

-Enabling legislation passed in 1981
-One-time fund "drive" with a two-year investment window for eligibility for a 30% tax credit
-30% tax credit to be taken in the year of the investment with a 5 year carry forward provision available

Activity:

-The $5,000,000 available for the tax credit was utilized resulting in a venture capital fund of $16,667,000
-Major investors included Indiana headquartered insurance firms, banks, utilities and industrial concerns with a sizable Indiana presence

Role of Tax Credit:

-Considered crucial as it provided visibility that the fund otherwise would not have received
-Credit was large enough to "get attention" but not "that great". When the effects of federal tax liabilities were considered, the effective tax credit rate was calculated as less than 20%.
-Tax credit was a necessary but not sufficient condition for success of the venture capital fund. Other important factors included:

1) Sense of responsibility to economic development
2) Obtain a "window" on new technology

RECOMMENDATIONS

There are three options which exist regarding the current tax credit for venture capital companies. First, the credit may be retained in its present form; 25% over a four year period. Second, the tax credit percentage could be increased to 30%; the rate provided in the Indiana legislation. Finally, the tax credit deduction period could be decreased from its present time frame of 4 years to 2 years or less as is legislated in the majority of states we surveyed.

It is our recommendation that the current legislation be amended to decrease the deduction period from 4 years to 1 year. This change has two distinct advantages. First, the accounting complexity required by both the investor and the state to track the credit over a four year period of time is reduced. This reduction in complexity results in an administrative cost savings to both the investor and to the state. Secondly, with the reduction to a one year time period, the effective rate of the tax credit matches the legislated or "advertised" rate of 25% as shown in the previous present value analysis.

Activity:

- In the final stages now of presenting the first prospectus to a group of investors. This would establish the first of the five qualified contribution funds.

Montana

Description:

- Original legislation passed in 1983
- Provided a 25% tax credit which is required to be taken in year of investment if possible, carry forward and carry back provisions are provided
- Original legislation amended in 1987 as only $2.4 million in venture capital had been raised resulting in $400,000 in tax credits over the four year period since the legislation was first adopted
- New law provides a 50% tax credit with same time frame provisions and increases the maximum tax credit per individual from $25,000 to $125,000

Activity:

- Since the passage of the new legislation in July 1987, one capital company is in the process of raising the $1.5 million minimum capitalization level
- Slow activity attributed to the character of the people in Montana, the lack of knowledge and education in venture capital and a general fear of these riskier funds

North Dakota

Description:

- Original legislation passed in 1985, amended in 1986/87 to allow insurance companies and banks to contribute funds
- 25% tax credit to be taken over four years, carry forward and carry back provisions included
- $500,000 minimum capitalization

Activity:

- Slow; the first application is in process

APPENDIX A

EFFECTIVE TAX CREDIT
CERTIFIED VENTURE CAPITAL COMPANIES
INDIVIDUALS

TABLE 1

Assumptions : $46,000 Cash Investment
25% tax credit or $11,500
Discount rate of 10%
No federal tax consequences

Credit taken over x years:	Annual State Credit	Net Present Value of Credit	Effective Tax Credit (%)
4	$2,875	$10,025	21.79%
3	$3,833	$10,486	22.80%
2	$5,750	$10,977	23.86%
1	$11,500	$11,500	25.00%

Assumptions : $46,000 Cash Investment
25% tax credit or $11,500
Discount rate of 10%
Individual federal tax rate of 28%

Credit taken over x years:	Annual State Credit	Credit Net of Fed Tax	Net Present Value of Credit	Effective Tax Credit (%)
4	$2,875	$2,070	$7,218	15.69%
3	$3,833	$2,760	$7,550	16.41%
2	$5,750	$4,140	$7,904	17.18%
1	$11,500	$8,280	$8,280	18.00%

Assumptions : $46,000 Cash Investment
25% tax credit or $11,500
Discount rate of 12%
No federal tax consequences

Credit taken over x years:	Annual State Credit	Net Present Value of Credit	Effective Tax Credit (%)
4	$2,875	$9,780	21.26%
3	$3,833	$10,312	22.42%
2	$5,750	$10,884	23.66%
1	$11,500	$11,500	25.00%

Assumptions : $46,000 Cash Investment
25% tax credit or $11,500
Discount rate of 12%
Individual federal tax rate of 28%

Credit taken over x years:	Annual State Credit	Credit Net of Fed Tax	Net Present Value of Credit	Effective Tax Credit (%)
4	$2,875	$2,070	$7,042	15.31%
3	$3,833	$2,760	$7,425	16.14%
2	$5,750	$4,140	$7,836	17.04%
1	$11,500	$8,280	$8,280	18.00%

Assumptions : $46,000 Cash Investment
25% tax credit or $11,500
Discount rate of 8%
No federal tax consequences

Credit taken over x years:	Annual State Credit	Net Present Value of Credit	Effective Tax Credit (%)
4	$2,875	$10,284	22.36%
3	$3,833	$10,669	23.19%
2	$5,750	$11,074	24.07%
1	$11,500	$11,500	25.00%

Assumptions : $46,000 Cash Investment
25% tax credit or $11,500
Discount rate of 8%
Individual federal tax rate of 28%

Credit taken over x years:	Annual State Credit	Credit Net of Fed Tax	Net Present Value of Credit	Effective Tax Credit (%)
4	$2,875	$2,070	$7,405	16.10%
3	$3,833	$2,760	$7,682	16.70%
2	$5,750	$4,140	$7,973	17.33%
1	$11,500	$8,280	$8,280	18.00%

PRESENT VALUE ANALYSIS OF TAX CREDIT TO INDIVIDUALS AND CORPORATIONS

The present value analysis is a financial methodology which recognizes that money has value over time. That is, a dollar received today is worth more than a dollar received next year. This has application to the tax credit for venture capital funds in regard to the timing of the tax credit deduction against state taxes. The full credit received in year 1 will have a greater value than one-fourth of the credit received for each of four years.

Two columns of calculations are presented in both Tables 1 and 2 (Appendices A & B). The left-hand column assumes no federal tax implications. The right-hand column takes into account the increase in federal tax liability that occurs as the state tax liability decreases. This is the issue addressed by Indiana.

As a simplistic explanation, the discount rate in these tables can be said to represent the rate of return an investor could have received on their dollars. A 10% discount rate is assumed in the first row, a 12% rate in the second row and an 8% in the final row. As expected, as the discount rate is increased, the effective percentage of the tax credit decreases for periods 2 through 4.

This Present Value methodology is illustrated first in Table 1 (Appendix A) as it relates to the tax credit for individual's investing in these funds. A $46,000 cash investment is assumed which represents the average amount an individual contributed to the Research Capital Management Group Fund in Lawrence. The calculations which assume a 10% discount rate and no federal tax implications are shown below.

TOPIC XI:

CERTIFIED VENTURE CAPITAL COMPANIES TAX CREDIT

Charles E. Krider
October 16, 1987

APPENDIX B
EFFECTIVE TAX CREDIT
CERTIFIED VENTURE CAPITAL COMPANIES
CORPORATIONS

TABLE 2

Assumptions : $72,000 Cash Investment
25% tax credit or $18,000
Discount rate of 10%
No federal tax consequences

Credit taken over x years:	Annual State Credit	Net Present Value of Credit	Effective Tax Credit (%)
4	$4,500	$15,691	21.79%
3	$6,000	$16,413	22.80%
2	$9,000	$17,182	23.86%
1	$18,000	$18,000	25.00%

Assumptions : $72,000 Cash Investment
25% tax credit or $18,000
Discount rate of 10%
Corporate federal tax rate of 34%

Credit taken over x years:	Annual State Credit	Credit Net of Fed Tax	Net Present Value of Credit	Effective Tax Credit (%)
4	$4,500	$2,970	$10,356	14.38%
3	$6,000	$3,960	$10,833	15.05%
2	$9,000	$5,940	$11,340	15.75%
1	$18,000	$11,880	$11,880	16.50%

Assumptions : $72,000 Cash Investment
25% tax credit or $18,000
Discount rate of 12%
No federal tax consequences

Credit taken over x years:	Annual State Credit	Net Present Value of Credit	Effective Tax Credit (%)
4	$4,500	$15,308	21.26%
3	$6,000	$16,140	22.42%
2	$5,000	$17,036	23.66%
1	$18,000	$18,000	25.00%

Assumptions : $72,000 Cash Investment
25% tax credit or $18,000
Discount rate of 12%
Corporate federal tax rate of 34%

Credit taken over x years:	Annual State Credit	Credit Net of Fed Tax	Net Present Value of Credit	Effective Tax Credit (%)
4	$4,500	$2,970	$10,103	14.03%
3	$6,000	$3,960	$10,653	14.80%
2	$9,000	$5,940	$11,244	15.62%
1	$18,000	$11,880	$11,880	16.50%

Assumptions : $72,000 Cash Investment
25% tax credit or $18,000
Discount rate of 8%
No federal tax consequences

Credit taken over x years:	Annual State Credit	Net Present Value of Credit	Effective Tax Credit (%)
4	$4,500	$16,097	22.36%
3	$6,000	$16,700	23.19%
2	$9,000	$17,333	24.07%
1	$18,000	$18,000	25.00%

Assumptions : $72,000 Cash Investment
25% tax credit or $18,000
Discount rate of 8%
Corporate federal tax rate of 34%

Credit taken over x years:	Annual State Credit	Credit Net of Fed Tax	Net Present Value of Credit	Effective Tax Credit (%)
4	$4,500	$2,970	$10,624	14.76%
3	$6,000	$3,960	$11,022	15.31%
2	$9,000	$5,940	$11,440	15.89%
1	$18,000	$11,880	$11,880	16.50%

- They are considering the formation of a second fund, however, they will attempt raising funds without the benefit of a tax credit now that venture capital has become "visible" in the state.

Louisiana

Description:

- Original legislation passed in 1984, amended in 1986 reducing the capitalization level from a minimum of $3 million to $200,000
- 35% tax credit which may be taken in the first year of the investment with carry forward provisions available
- An additional 5% is given if the capital company invests in a business located in a Louisiana Enterprise Zone

Activity:

- Slow with first application requested in September 1987

Mississippi

Description:

- Enabling legislation passed in 1985, modeled after the Louisiana legislation
- 25% tax credit which may be taken in the first year
- $200,000 minimum capitalization requirement for fund to qualify investors for the tax credit

Activity:

- To date, no one has applied for the tax credit. Just recently, one individual has indicated an interest in establishing a fund and the state is now in the process of drafting the necessary papers. They attribute the low level of activity to the cumbersome and restrictive nature of the bill.

Missouri

Description:

- Enabling legislation passed in 1986 establishing the mechanism to form 5 qualified contribution funds
- Investments in one of the five funds qualifies the investor for a 30% tax credit which may be taken over the first year with a 10 year carry forward tax provision
- Tax credits are negotiable instruments
- $2,000,000 maximum capital contribution per investor

APPENDIX C
EFFECTIVE TAX CREDIT
CERTIFIED VENTURE CAPITAL COMPANIES
STATE OF KANSAS

TABLE 3

Assumptions : $6,000,000 TOTAL TAX CREDIT
Discount rate of 10%
No federal tax consequences

Credit taken over x years:	Annual State Credit	Net Present Value of Credit	Net PV Dollar Savings	Effective Tax Credit (%)
4	$1,500,000	$5,230,278	$769,722	21.79%
3	$2,000,000	$5,471,074	$528,926	22.80%
2	$3,000,000	$5,727,273	$272,727	23.86%
1	$6,000,000	$6,000,000	$0	25.00%

Assumptions : $6,000,000 TOTAL TAX CREDIT
Discount rate of 12%
No federal tax consequences

Credit taken over x years:	Annual State Credit	Net Present Value of Credit	Net PV Dollar Savings	Effective Tax Credit (%)
4	$1,500,000	$5,102,747	$897,253	21.26%
3	$2,000,000	$5,380,102	$619,898	22.42%
2	$3,000,000	$5,678,571	$321,429	23.66%
1	$6,000,000	$6,000,000	$0	25.00%

Assumptions : $6,000,000 TOTAL TAX CREDIT
Discount rate of 8%
No federal tax consequences

Credit taken over x years:	Annual State Credit	Net Present Value of Credit	Net PV Dollar Savings	Effective Tax Credit (%)
4	$1,500,000	$5,365,645	$634,355	22.36%
3	$2,000,000	$5,566,529	$433,471	23.19%
2	$3,000,000	$5,777,778	$222,222	24.07%
1	$6,000,000	$6,000,000	$0	25.00%

The Kansas Constitution, as a result of an amendment passed by voters in 1986, authorizes cities and counties to grant property tax exemptions for economic development purposes. The amendment also specifies that the legislature may place limitations or prohibitions on the granting of exemptions which would be applicable to all cities and counties. The following proposals would govern the application of tax abatements at the local level and help ensure the productive use of such exemptions. These recommendations are guided by several basic principles. First, communities should grant abatements on a limited basis to prevent serious erosion of their tax base; such erosion prevents governments from providing the infrastructure necessary for firms to adequately conduct business. Secondly, abatements should only be granted when benefits to the community exceed costs; unproductive abatements should not be encouraged. And third, unproductive competition among local governments within the state must be prevented to avoid eroding the fiscal capacity of the state as a whole. In light of these principles, we make the following proposals for the use of tax abatements at the local level. The state should consider:

1) Requiring communities to have a written plan with criteria established before granting any abatements. The plan should be available to the public and submitted to the State Board of Tax Appeals and the Department of Commerce. The plan should include the application procedure, the community's criteria for granting an abatement and for establishing the size and length of the abatement, and the review and monitoring process firms must go through in order to maintain their eligibility for an abatement. The community's written plan should provide for the granting of an abatement only when the abatement is a determining factor in a firm's location decision process; abatements should not be made available to firms who intend to locate in the community without the incentive.

2) Requiring that a community explicitly determine the costs and benefits

THE CONSTITUTIONAL AMENDMENT ON TAX ABATEMENTS

Charles E. Krider
October 16, 1987

of an abatement before granting it. An abatement should only be granted upon a clear and factual showing of direct economic benefit to the community. The state should provide a model for the cost-benefit analysis of tax abatements. The Indiana Economic Development Council is currently working on such a model for the state of Indiana, and Kansas, Inc. has expressed interest in developing a similar model for the state of Kansas.

Among costs which should be considered are the foregone tax revenues the firm would have paid if the firm had not received the abatement, and the increase in public expenditures for government services such as education, protection, sanitation and recreation services. Benefits to be considered include increases in property, sales and income taxes attributable to new employees and the multiplier effects of additional investment and employment in the community. Other factors to consider are the kinds of jobs created and salary levels, the amount of utilization of the unemployed in the community, and the degree to which the business improves the diversification of the economy.

3) Requiring that communities obtain an annual report from each firm receiving a tax abatement. This report should provide information to show whether or not the conditions specified for receipt of the tax abatement have been met. For example, have the number of new jobs that were promised been created.

4) In addition to the above requirement that communities monitor firms that they have given abatements, requiring that the communities modify or terminate abatements for which the originally specified conditions have not been met. Require that communities determine a range of acceptable performance based on the claims made in the application regarding the benefits to be provided to the community; if performance does not fall within this range, require that the abatement be rescaled or terminated. 5) Banning the use of a property tax

abatement for a firm moving from one location in Kansas to another within the state to prevent bidding between Kansas communities. A proviso may need to be included in the case of a firm which definitely intends to leave a Kansas community in which it is now located and is choosing between another Kansas community and an out-of-state location. In this type of case the two Kansas communities would not be in competition for the firm - only the second Kansas community and the out-of-state community would be competing.

6) Setting a maximum allowable level of tax abatement for each job created. This would be expressed in dollars of tax revenue abated for each job created.

7) Placing a cap on abatements so that the community cannot use more than a certain percentage of their tax base for tax abatement purposes. By restricting a local tax abatement program through some type of budget constraint, careful targeting of resources and the use of the most cost-effective instruments are encouraged. The limitation of the amount of tax abatements to a set percentage of the tax base can provide a clear guideline for preventing significant erosion of a tax base from the cumulative effects of tax abatements granted over a period of years. Once tax abatements have reached this limit, a community must stop giving abatements until the tax base grows or firms drop from the tax abatement program. However, the percentage limitation should not be too restrictive such that it would prevent a community from exempting a business when it is clearly in the community's favor to do so even though the limitation has been reached.

To give an example of the amounts affected for a Kansas community if a 3-5 percent cap were set, figures have been calculated for the city of Salina, Kansas. The 1987 tax levy for the 1988 budget for the city of Salina is $4,163,000 based on an estimated assessed property valuation of $114,503,000. A 3% restriction would allow the abatement of $3,435,090 of assessed property valuation or $124,890 in taxes. A 5% restriction would allow an abatement of $5,725,150 of assessed property valuation or $208,150 in taxes.