

Approved: 3/21/94  
Date

MINUTES OF THE SENATE COMMITTEE ON COMMERCE.

The meeting was called to order by Vice-Chairperson Pat Ranson at 8:00 a.m. on March 18, 1994 in Room 123-S of the Capitol.

Members present: Senators Burke, Downey, Feleciano, Gooch, Harris, Kerr, Petty, Ranson, Reynolds, Salisbury, Steffes and Vidricksen

Committee staff present: Jerry Ann Donaldson, Legislative Research Department  
Bob Nugent, Revisor of Statutes  
Mary Jane Holt, Committee Secretary

Conferees appearing before the committee Grant MacKinnon, Export Finance Director, Kansas Department of Commerce and Housing  
Jeff Willis, Director, International Marketing Trade Development Division, Kansas Department of Commerce and Housing

Others attending: See attached list

**Hearing on HB 2971-Reduces limitations on export loan guarantee fund**

Kansas Inc. submitted testimony recommending the Committee report HB 2971 favorably, see attachment 1.

Grant MacKinnon, Export Finance Director, Kansas Department of Commerce and Housing, testified HB 2971 modifies the Kansas Export Finance Act in two ways. 1). Increases the loan guarantee maximum from 30% to 50% of the Guarantee Fund balance. 2). Expands the Export Loan Guarantee Review Committee from three to five members. Increasing the percent limitation from 30% to 50% of the Fund would permit loan guarantees up to \$300,000. The increase would not require additional funding. Requirements of the expanded Export Loan Guarantee Review Committee would be: 1. two members have experience in international finance; 2. not more than three members be of the same political party; 3. three members constitute a quorum; 4. at least two members have derived their experience in commercial finance from a borrowers perspective, see attachment 2.

The hearing on HB 2971 was closed.

**Hearing on HB 2972-Encourages attendance at international trade shows located in the United States**

Kansas Inc. submitted testimony recommending the Committee report HB 2972 favorably, see attachment 1.

Jeffrey Willis, Director, International Marketing Trade Development Division, Kansas Department of Commerce and Housing, testified HB 2972 expands the Kansas Trade Show Assistance Program to include trade shows held within the boundaries of the United States but which are international in scope. At the present funding level of \$272,420, up to \$81,726 could be set aside for domestic international shows and still have \$190,694 available for international shows. The highest usage of \$182,783 was in FY 92. The recommended level for FY 95 is \$247,420. HB 2972 would allow for much greater flexibility in assisting Kansas companies to expand their markets and increase sales, see attachment 3.

Senator Feleciano moved and Senator Kerr seconded to report HB 2966 favorably for passage. The motion carried on a roll call vote.

Senator Burke moved and Senator Reynolds seconded to report HB 2971 favorably for passage. The

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON COMMERCE, Room 123-S Statehouse, at 8:00 a.m.  
on March 18, 1994.

motion carried on a roll call vote.

Senator Feleciano moved and Senator Steffes seconded to report HB 2972 favorably for passage. The motion carried on a roll call vote.

The meeting was adjourned at 9:00 a.m.

The next meeting is scheduled for March 21, 1994.

## GUEST LIST

COMMITTEE: SENATE COMMERCE COMMITTEE

DATE: 3/18/94

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**KANSAS INC. TESTIMONY**  
**House Bill 2971 and 2972**  
**March 18, 1994**

Soon after the release of "A Kansas Vision", the state's economic development strategy, Bob Knight requested that Kansas Inc. conduct a review of the Department of Commerce & Housing and make recommendations to ensure that the efforts of department staff and programs were consistent with reaching goals and objectives of the state's new strategy.

Over the next few months, Kansas Inc. met with the staff of five divisions of the Department, to share information and ideas. The insight gained through these meetings was used to develop a report containing 35 recommendations. House Bills 2971 and 2972 are a direct result of two recommendations made in that report. These two initiatives were presented to the Kansas Inc. Board of Directors in December and were approved for inclusion in our 1994 Legislative Agenda.

Kansas Inc. urges the Committee to report favorably on H.B. 2971 and 2972.

*Commerce*  
*3/18/94*

*Attachment 1*

Testimony on House Bill 2971, as amended  
before the  
Senate Commerce Committee  
March 18, 1994

D. Grant MacKinnon  
Export Finance Director  
Kansas Department of Commerce & Housing

*Commerce*  
*3/18/94*

*Attachment 2-1*

## House Bill No. 2971

House Bill No. 2971, as amended, was requested by the Department and modifies the Kansas Export Finance Act in two ways: firstly, it increases the loan guarantee maximum from 30% to 50% of the Guarantee Fund balance; secondly, the Export Loan Guarantee Review Committee (ELGRC), is expanded from three to five members.

MISSION: The Kansas Export Finance Act provided the basis for the KDOC&H to establish the Office of the Export Finance Director. Its purpose is a) to provide Kansas companies with export finance technical support and b) direct financial assistance by means of loan repayment guarantees.

Technical support consists of consultative assistance to exporters on the various financial aspects of exporting, ie., formulating and negotiating acceptable international payment terms, especially those relating to letters of credit; evaluating and managing the new risks associated with the extension of credit to overseas companies; managing foreign exchange risk; accessing the financing programs of federal agencies such as EXIMBANK, SBA, OPIC; and, accessing EXIM's political and commercial risk insurance programs, which protect exporters against nonpayment of their foreign accounts receivable.

Additionally, the Export Finance Act provides an effective tool to assist Kansas exporters when they experience difficulty in borrowing money needed to produce and ship their products and services to foreign

markets. The Kansas Working Capital Loan Guarantee facility enables the KDOC&H to encourage Kansas banks to lend needed working capital funds to Kansas exporters in support of their export transactions. The guarantee of loan repayment for ninety percent of such loans, up to a maximum of \$180,000., is provided to Kansas banks with this facility.

Attached is an activity report for the Kansas Export Loan Guarantee Program. The Program goal anticipated receiving 6 applications per year, and we are right on target. It looks like the Program is gaining in acceptance with banks and exporting companies.

The Bill is an effort to fine tune and improve the loan guarantee program and increase its usage, which will lead to additional Kansas exports and job creation/retention.

K.S.A. 74-5072 currently limits loan guarantees for export transactions to 30 percent of the Kansas Export Loan Guarantee Fund (FUND), the backup reserve maintained in support of guarantees issued by the KDOC&H. The FUND was initially appropriated at the level of \$500,000. Since its creation, the FUND has grown due primarily to interest earnings (the FUND is kept invested by the Pooled Money Invest Board) and modest guarantee and application fees collected. Currently at a balance of \$599,000., the FUND supports a guarantee of \$180,000. for an export transaction.

The loan guarantee program is not able to address the trade financing needs of companies with export transactions ranging in size from \$200,000 to \$350,000. Several companies during the past years would have utilized the Kansas Export Loan Guarantee Program had it

been able to issue a guarantee of sufficient size.

Increasing the percent limitation from 30% to 50% of the FUND would permit loan guarantees up to \$300,000. This significant increase would not require additional funding, would permit the Kansas Export Loan Guarantee Program to support larger export transactions thus reaching a broader range of exporting companies, and would not represent an undo leveraging of the FUND.

The second change we are recommending is an expansion of the Export Loan Guarantee Review Committee (ELGRC). The idea for this change originated with the current Committee members, which sees a need to expand the Committee from three members to five. This committee's primary function is to review loan guarantee applications and to approve those transactions which it deems to represent reasonable risks and to have a sufficient likelihood of repayment.

The Committee is currently composed of three members appointed by the Governor for terms of four years. Other legislative requirements are:

1. all members must have appropriate experience in areas of commercial finance,
2. one member must have experience in international finance
3. not more that two members shall be of the same political party
4. two members constitute a quorum for the transaction of business

\*\*\*\*\* It is proposed that the ELGRC membership be increased from



three to five members, adjusting the related criteria as follows:

1. provide that two members have experience in international finance

2. provide that not more than three members be of the same political party

3. provide that three members constitute a quorum

4. provide that at least two members have derived their experience in commercial finance from a borrowers perspective.

The above changes would require only minimal additional cost which can be covered by our current budget and would accomplish the following:

1. Provide a broader base of expertise to review and approve loan guarantee applications.

2. Enhance the marketing of the loan guarantee program.

3. Provide flexibility to accommodate situations where ELGRC members are unavailable (business travel / vacations) or need to abstain from voting on a proposal because their employer is the proposed recipient of the loan guarantee.

Based upon the above, we request the Senate Commerce Committee to give the bill favorable consideration.

Thank you for hearing our testimony.

## Kansas Export Loan Guarantee Program Activity

| Trans.<br>No. | Application<br>Date | Export Sale<br>\$ | Guarantee<br>\$ | Term<br># days |
|---------------|---------------------|-------------------|-----------------|----------------|
| 1             | 2/15/91             | \$100,564         | \$90,000        | 180            |
| 2             | 4/15/91             | \$82,000          | \$73,500        | 60             |
| 3             | 6/15/91             | \$127,380         | \$95,850        | 94             |
| 4             | 8/15/91             | \$68,370          | \$62,180        | 99             |
| 5             | 11/15/91            | \$200,000         |                 | 180            |
| 6             | 12/15/91            | \$160,000         |                 | 150            |
| 7             | 1/15/92             | \$150,000         |                 | 90             |
| 8             | 2/15/92             | \$3,000,000       |                 | 120            |
| 9             | 7/15/92             | \$85,000          | \$50,000        | 60             |
| 10            | 12/11/92            | \$171,271         | \$134,074       | 60             |
| 11            | 4/19/93             | \$59,809          | \$47,940        | 40             |
| 12            | 5/12/93             | \$93,933          | \$79,500        | 60             |
| 13            | 6/10/93             | \$245,068         | \$168,750       | 60             |
| 14            | 6/10/93             | \$125,927         | \$103,361       | 60             |
| 15            | 8/18/93             | \$202,631         | \$108,450       | 122            |
| 16            | 8/25/93             | \$84,594          | \$69,300        | 45             |
| 17            | 9/20/93             | \$103,004         | \$84,342        | 49             |
| 18            | 9/29/93             | \$66,585          | \$54,720        | 60             |
| 19            | 9/30/93             | \$51,246          | \$42,165        | 60             |
| 20            | 10/21/93            | \$124,536         | \$86,670        | 60             |
| 21            | 12/29/93            | \$144,046         | \$118,370       | 60             |
| 22            | 12/29/93            | \$66,284          | \$54,406        | 60             |
| 23            | 12/29/93            | \$39,818          | \$32,168        | 60             |

### SUMMARY DATA

|   |             |
|---|-------------|
| Total Applications Received:                      | 23          |
| Total Export Sales for all applications received: | \$5,552,066 |

#### For Applications Approved by ELGRC:

|                     |             |
|---------------------|-------------|
| Total Export Sales  | \$2,042,066 |
| Average Export Sale | \$107,477   |

|                           |             |
|---------------------------|-------------|
| Total Guarantees Approved | \$1,555,746 |
| Average Guarantee         | \$81,881    |
| Number of Guarantees      | 19          |

#### Guarantee Term:

|                |     |
|----------------|-----|
| Fewest # Days  | 40  |
| Most # Days    | 180 |
| Average # Days | 82  |

NOTES TO THE  
KANSAS EXPORT LOAN GUARANTEE PROGRAM ACTIVITY  
report dated 3/11/94

1. Guarantees were not issued or approved for transactions 5, 6, and 7 due to a variety of reasons. The primary reason on two transactions was that the export order was never concluded between the Kansas company and the foreign buyer. On another, the financial condition of the exporter, coupled with the resistance of an out of state bank to release export related inventory and receivables precluded the use of the guarantee program.

2. On transaction No. 8, relative to an export of \$3.0 million, the office of the Export Finance Director introduced the exporter to a guarantee program of the SBA called the ERLC, (Export Revolving Line of Credit), brought in the SBA representative to meet with the exporter, thus initiating and facilitating the exporter's successful application for an SBA guarantee. The involvement of the SBA was sought due to the size of the borrowing needs of the exporter for this order, estimated at approx. \$900,000. This was considerably more than the Kansas program could accommodate with a guarantee transaction limit of \$150,000. The SBA can and did, in the instance, issue a loan guarantee of \$750,000. in support of the exporter and the transaction of \$3.0 was successfully concluded.

Testimony on HB 2972 (As Amended)

before the

Senate Commerce Committee

March 18, 1994

Jeffrey Willis  
Director, International Marketing  
Trade Development Division  
Kansas Department of Commerce & Housing

*Commerce*  
*3/18/94*

*Attachment 3-1*

## Kansas Trade Show Assistance Program

Chairperson Salisbury, members of the committee, I appreciate the opportunity to appear here today before you in support of H.B. 2972 as amended. You are being given three handouts on the Kansas Trade Show Assistance Program: The first is a copy of our newest brochure advertising the program; the second is a copy of the FY '93 annual report on the program given earlier this calendar year to the Joint Committee on Economic Development by Secretary Knight; and the third is a copy of this testimony before you today.

H.B. 2972 as amended would expand the Kansas Trade Show Assistance Program to include trade shows held within the boundaries of the United States but which are international in scope. The proposed statutory amendment would allow up to 30% of the budgeted allocation to be used for these shows, with a maximum of \$1,500 per show and \$3,000 per company per fiscal year. Under no circumstances would any Kansas small business concern receive more than \$7,000 in total final assistance under the act in any state fiscal year. The statute currently is for foreign trade shows only.

Since its inception, the Kansas Trade Show Assistance Program (KTSAP) has proven itself to be one of the most effective programs to promote Kansas exports by encouraging Kansas companies to exhibit their products and services at foreign trade shows. Given the great diversity of Kansas products and services, the Kansas Trade Show Assistance Program benefits individual firms by allowing each to select and attend the foreign trade show that is best suited for their product or service, as well as their individual market development strategies. The program is designed to help offset some of the company's direct foreign exhibition related expenses, thereby facilitating face-to-face contact with foreign buyers.

Attached is the Kansas Trade Show Assistance Program Overview showing the activity and diversity that the Program affords to Kansas companies. One of the ways we monitor program effectiveness is by soliciting anecdotal testimony from program participants concerning their satisfaction with the program. We also try to quantify the dollar return to the State on monies spent on the program by comparing that figure to sales generated by the company six months after the funded show. A quick review of this dollar return ratio on the attached program summary shows that the program has consistently yielded returns many times in excess of the amount spent.

Now that the program has matured, we are also working to identify other ways in which we can improve its effectiveness. One step we have already taken is to redesign the promotional brochure and mail it out to all companies on our mailing list. This has already produced a marked increase in interest in the program on

the part of companies that have never before participated as well as a renewed interest from others that have only made limited use of the program in the past. This bill, if passed, would allow us to build upon this effort and reach even greater numbers of small companies ready to begin exporting but still constrained by the cost of foreign show participation.

One of the greatest challenges to the Trade Development Division is to help a Kansas company that is selling only domestically to accept the opportunities of the international market. The commitment to travel abroad is both time consuming and costly, two commodities in short supply to small growing companies. But, we know that in order to survive and thrive in today's global marketplace they must search out the foreign customer.

Most booth space at major U.S. shows is comparable in price to the major shows abroad, making the costs of most of these shows, out of the reach of a small company. If we were to expand the "base of shows" that are eligible for KTSAP funding, a larger percent of Kansas companies would take advantage of the program and, in turn, move more Kansas companies closer to the international market.

At the present funding level of \$272,420, up to \$81,726 could be set aside for "domestic" international shows and still have \$190,694 available for international shows. The highest usage of \$182,783 was in FY92. The recommended level for FY95 is \$247,420.

In summary, this proposed change would allow for much greater flexibility in assisting Kansas companies to expand their markets and increase sales. While many companies have an interest in marketing abroad, most do not have the resources. If this program could be adjusted to allow for growing Kansas companies to take part in "domestic" international trade shows, costs that seemed insurmountable overseas, would become more manageable within the U.S. We, therefore, request your favorable consideration of H.B. 2972 as amended.

Thank you for your time. If you have any questions, I would be happy to answer them.

**KANSAS TRADE SHOW ASSISTANCE PROGRAM  
(KTSAP)**

**PROGRAM OVERVIEW**

The Kansas Trade Show Assistance Program (KTSAP) is managed by the Trade Development Division of the Kansas Department of Commerce & Housing. The program will reimburse successful applicants up to one-half (1/2) of their preapproved expenses directly attributable to the company's participation in a foreign trade show. Eligible companies are those Kansas businesses whose products are manufactured or receive substantial value added processing in Kansas, or those businesses with services originating in the state (excluding banks, freight forwarders, export management companies, and distributors). Company reimbursement shall not exceed \$3,500 per show or more than \$7,000 in total financial assistance during the fiscal year (July 1-June 30). To apply for KTSAP funding, applicants must first submit an application to be reviewed by the KTSAP Overview Committee. Reimbursement of preapproved expenses occurs after the company returns from the trade show and submits their company's invoices/receipts and their post show evaluation report. Additionally, the company's participation in a funded trade show must meet one of the following business objectives:

- target a new market for the company's product or services
- locate an agent, representative, or distributor
- introduce a new product

**PROGRAM SUMMARY**

|                  | <u>FY90</u>    | <u>FY91</u>    | <u>FY92</u>     | <u>FY93</u>     |
|------------------|----------------|----------------|-----------------|-----------------|
| Funding level    | \$100,000.00   | \$150,000.00   | \$200,000.00    | \$220,894.00    |
| Disbursements    | \$ 88,916.61   | \$145,050.01   | \$182,783.05    | \$132,568.29    |
| Sales *          | \$5,092,352.00 | \$6,039,489.61 | \$16,736,423.00 | \$13,900,800.00 |
| \$ Return Ratio  | 57.27:1        | 41.64:1        | 91.56:1         | 104.86:1        |
| # of Allocations | 36             | 62             | 85              | 61              |

Percent (%) of Company Participation by Size

| # of Employees | 1-9   | 10-49 | 50-99 | 100-249 | 250-499 | 500+  |
|----------------|-------|-------|-------|---------|---------|-------|
| FY90           | 16.67 | 27.78 | 19.44 | 25.00   | 0       | 11.11 |
| FY91           | 16.13 | 30.65 | 22.58 | 20.97   | 4.84    | 4.84  |
| FY92           | 14.12 | 29.41 | 20.00 | 30.59   | 2.35    | 1.18  |
| FY93           | 3.45  | 25.86 | 25.86 | 32.76   | 10.34   | 1.72  |

Percent (%) of Funding by Congressional District

|        | #1   | #2   | #3   | #4   | #5   |
|--------|------|------|------|------|------|
| FY90   | 13.8 | 19.7 | 28.3 | 18.0 | 20.2 |
| FY91   | 11.5 | 10.8 | 33.1 | 31.8 | 12.7 |
| FY92   | 6.9  | 14.3 | 39.7 | 13.4 | 25.7 |
| FY93** | 25.5 | 20.9 | 24.3 | 29.3 | **   |

\* - Export sales reported (based on company post show/six month evaluation reports)

\*\* - Represents congressional districts effective 7/1/92