

Approved: 3-19-98  
Date

MINUTES OF THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT.

The meeting was called to order by Chairman Bill Mason at 3:30 p.m. on March 18, 1998 in Room 423-S of the Capitol.

All members were present except: Barbara Allen (A)  
Lisa Benlon (E)  
Ethel Peterson (E)  
Bonnie Sharp (E)

Committee staff present: Lynne Holt, Legislative Research Department  
Renaee Jefferies, Revisor of Statutes  
Rose Marie Glatt, Committee Secretary

Conferees appearing before the committee: Tom Blackburn, Kansas Venture Capital, Inc.  
Mikel Wojcicki, KTEC

Others attending: See attached list

Chairman Mason opened the hearing on SB 487 and SB 554. In order to answer questions from last week's meeting he requested that Tom Blackburn and Mike Wojcicki review the bills with the committee.

Tom Blackburn, Kansas Venture Capital, Inc., gave the committee a broad overview of Kansas Venture Capital, Inc. He discussed the following: Capital structure and Capital flows, Goals and Track Record, Preferred Stock Investment Summary and SB 487 Provisions (Attachment 1).

He answered questions from Representatives Osborne and McCreary regarding the amount of money the state had invested and clarified the source.

Mikel Wajcicki, KTEC. (No written testimony) He explained that **SB 554** simply extends currently authorized investment tax credits to anyone who would be purchasing the state's interests in the two Ad Astra funds. These tax credits are already on the books and this bill would simply shift who would benefit from those tax credits. The benefit of this would make it easier for the state to divest of its interest in the Ad Astra funds.

He talked about the amendment suggested last week by Rich Bendis that would offer those tax credits in purchasing KTEC interest to a purchaser making further investments in the Ad Astra fund. He advised the committee that in hindsight they are not sure that that amendment would actually cover the intent of what they are suggesting. He had talked with Bob Nugent, Revisors office, and he had an alternative draft in process. They are asking for a conceptual approval.

General discussion followed regarding: Clarification on who would be eligible for tax credits, Ad Astra I and II sold as a package, tax credit used to attract more companies, length of time the state will have liability for the tax credit.

Chairman Mason directed the committees attention to SB 487. Representative Vickrey moved that SB 487 be moved out favorably. Representative Beggs seconded the motion and the motion carried.

Chairman Mason directed attention to SB 554.

Discussion followed regarding the amendment changes. Renaee Jefferies advised the committee of her conversation with Bob Nugent and that approval was needed to reconcile the two bills. There are three provisions in each bill: 74-303, 74-8204, 74-8401 that are amended and basically it would make the amendments the same.

Chairman Mason asked the committee if they were comfortable with a conceptual amendment based on the information they have heard.

General discussion seeking clarification followed.

Representative Kuether suggested that there were enough questions from everyone that the comfort level, especially talking about money, isn't there.

Chairman Mason suggested that the committee pass over **SB 554** and come back with exact language tomorrow to ensure a greater comfort level. Discussion on **SB 554** was suspended. Without passing SB 554 a reconciliation of the bills is unnecessary. The amendment will be ready tomorrow afternoon.

Chairman Mason opened the hearing on **HR 6008**. He explained the intent of Speaker Shallenburger resolution was to bring attention to the importance of International trade. The resolution itself was of no value and could not be used for his purpose, therefore with Speaker Shallenburger's consent Chairman Mason presented balloons on **HR 6008** (Attachment 2) It requests that Kansas Inc., do a study overall on International trade.

General discussion followed regarding: funding and feasibility of passing this out to the Joint Committee of Economic Development.

Representative McCreary moved that **HR 6008** be passed out as amended and amending it further to stipulate that the report go to the Joint Committee on Economic Development. Representative Compton seconded the motion and the motion carried.

Representative Osborne moved that the minutes from the March 10, 11, & 17 be approved. Representative Compton seconded the motion and the motion carried.

The next meeting is March 19.

Chairman Mason adjourned the meeting at 4:10.

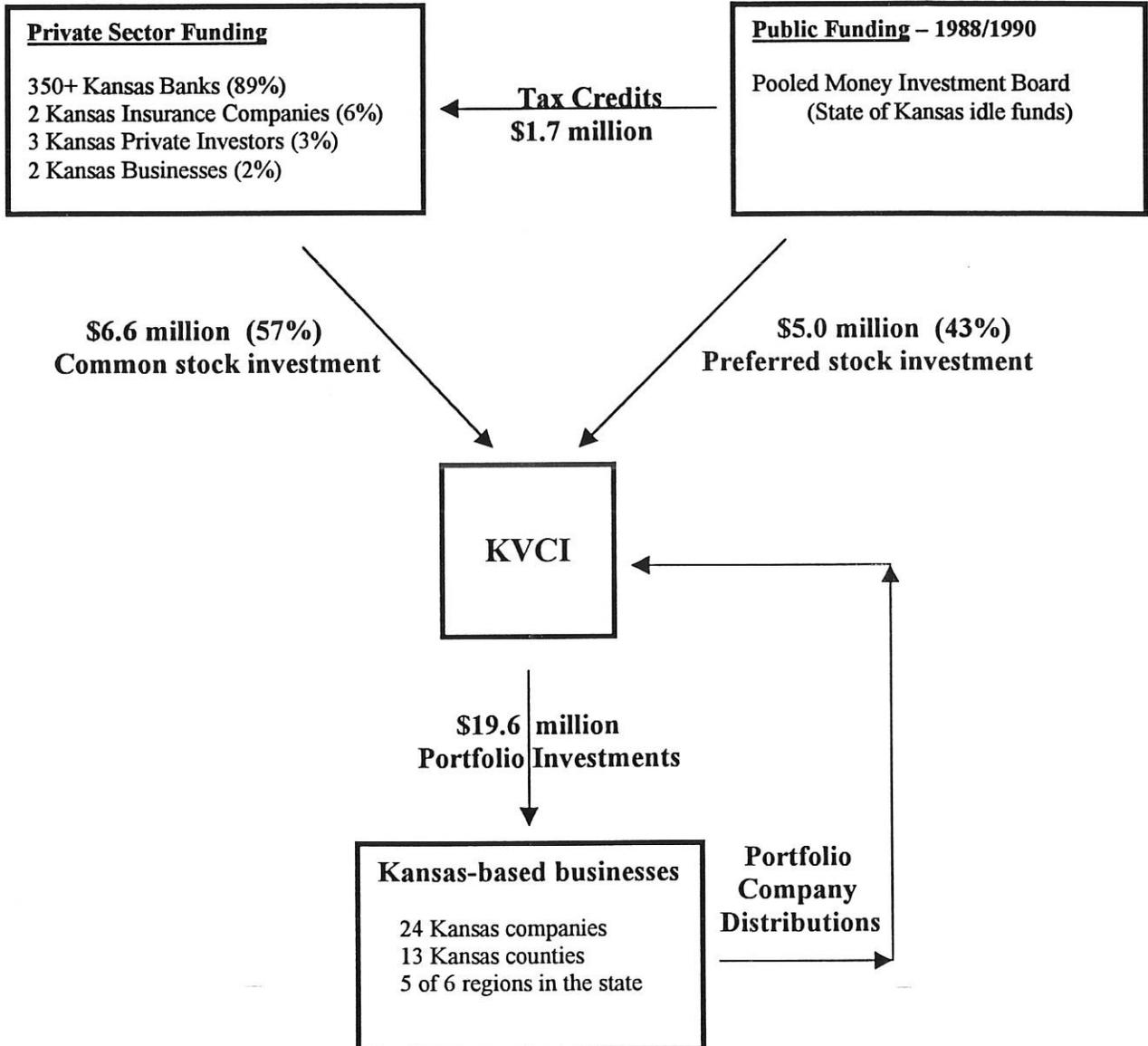
HOUSE ECONOMIC DEVELOPMENT COMMITTEE  
COMMITTEE GUEST LIST

DATE: March 18, 1998

NAME	REPRESENTING
Mark Barcellona	KDOCAH
Bill Sneed	Ks Venture Capital
Tom Blackburn	KUCT
Doug Emmert	DOBS
Cindy Diehl	KTEC
Roger Frazzao	Nation'sbank

# KANSAS VENTURE CAPITAL, INC.

## CAPITAL STRUCTURE AND CAPITAL FLOWS



Economic Development Comm  
MARCH 18, 1998  
Attachment 1

# KANSAS VENTURE CAPITAL, INC.

## GOALS AND TRACK RECORD

### ORIGINAL LEGISLATIVE GOALS

- Economic development through financing assistance provided to Kansas businesses
- Development of venture capital markets in Kansas
- Creation of a long-term self-sustaining entity to assist Kansas businesses

### KVCI TRACK RECORD

- Economic development accomplishments
  - KVCI has invested in 24 companies located in 13 counties in Kansas
  - 2,800+ jobs created or retained by KVCI portfolio companies
  - \$310+ million in payrolls paid to employees of KVCI portfolio companies
  - \$50+ million in federal, state and local taxes paid by KVCI portfolio companies
  - \$9+ million of state and local taxes paid by KVCI portfolio companies
  - \$55+ million in capital expenditures made by KVCI portfolio companies
  - 88% of KVCI portfolio companies increased sales
  - 88% of KVCI portfolio companies increased employment
  - 100% of KVCI portfolio companies invested in capital equipment or facilities
  - 83% of KVCI portfolio companies continue as going concerns
  - 100% of KVCI portfolio companies leveraged KVCI funding with other private sector financing

*The economic development returns on the State's investment have been outstanding.*

- Development of venture capital markets in Kansas
  - \$19.6 million invested by KVCI in Kansas-based businesses
  - \$26.6 million invested by other venture capital firms in Kansas-based businesses
  - \$11 million of public market equity raised by KVCI portfolio companies
  - KVCI was the sole or lead investor in 73% of all portfolio investments
  - KVCI has been the primary conduit for importing institutional venture capital to Kansas-based small businesses

*The financial leverage on the State's investment (exceeding 11 to 1) has been significant.*

- Creation of a self-sustaining entity
  - Stockholders' equity exceeded \$13.9 million at December 31, 1997
  - KVCI's current portfolio is healthy and future financial prospects are favorable
  - KVCI was recognized as an industry model in 1994 by the Inspector General of the SBA along with eight other SBICs (of over 200) nationally in a "Best Business Practices" report

*KVCI's financial condition is sound and our strong management team and Board will ensure that KVCI will remain a self-sustaining entity well into the future.*

# KANSAS VENTURE CAPITAL, INC.

## PREFERRED STOCK INVESTMENT SUMMARY AND SB487 PROVISIONS

### TERMS OF THE STATE'S PREFERRED STOCK INVESTMENT

#### ■ Financial Summary of the State's Existing Preferred Stock Investment

<u>Original cost</u>	<u>Book value<sup>(*)</sup> (12/31/97)</u>
\$5.0 million	\$6.0 million
\$10.00 per share	\$12.01 per share

\* - Book value is not represented to be fair market value – no formal market currently exists for KVCI common or preferred stock

#### ■ Primary Terms of the Preferred Stock ("The Current Deal")

- \$5.0 million additional PMIB funding commitment
- Defined liquidity provision – none
- Liquidation preference – all shares to be fully repaid prior to common stock
- Dividend rate – no required dividend
- Dividend/capital appreciation rights – pro-rata, when and if paid to common stock
- Voting rights – none, except in the event of capital impairment
- Board representation – none
- Specified reporting requirements and Board composition
- Geographic investment restrictions - 100 % of investments in Kansas

#### ■ SB487 Provisions ("The Proposed Deal")

- KVCI would redeem all outstanding PMIB preferred stock for \$5.0 million (\$10.00 per share).
- The State's additional \$5.0 million funding commitment (contingent liability) would immediately be extinguished.
- KVCI redemption of PMIB preferred stock would occur at the rate of \$1.0 million per year.
- Scheduled redemptions would begin on July 31, 1998 and occur annually thereafter until paid in full.
- Scheduled redemptions could be deferred by KVCI upon the following:
  - Such redemption would cause KVCI's book value to fall below \$10 million.
  - Such redemption would cause KVCI to be in violation of minimum capital requirements or other SBIC provisions or related rules or regulations thereunder.
- As long as any PMIB preferred stock remains outstanding it would retain all existing liquidation preference and distribution rights.
- All existing KVCI governing statutes (reporting requirements, geographic and industry restrictions, Board composition, etc.) will remain in effect until all PMIB preferred stock is redeemed in full.
- The State would make available up \$1.5 million in unused tax credits for investors who make future investments into KVCI pursuant to the existing venture capital tax credit program. (Kansas Venture Capital Company Act).

# HOUSE RESOLUTION No. 6008

By Representative Shallenburger

1-30

9 A RESOLUTION urging ~~the department of commerce and housing to~~  
10 ~~seek the establishment of a world trade center in the Kansas City-~~  
11 ~~statistical metropolitan area].~~

3 WHEREAS, Foreign export of Kansas goods and services currently  
14 constitute an important portion of the Kansas economy; and

15 WHEREAS, Export oriented businesses provide quality, high-paying  
16 jobs for Kansas citizens; ~~and]~~

17 WHEREAS, The ~~establishment of a~~ world trade ~~center]~~ in Kansas  
18 ~~could] greatly enhance the export of Kansas goods and services. Now,~~  
19 ~~therefore].~~

20 ~~Be it resolved by the House of Representatives of the State of Kan-~~  
21 ~~sas: That [the Secretary of Commerce and Housing be urged to conduct~~  
22 ~~a study assessing the possibility of establishing a world trade center in the~~  
23 ~~Kansas City statistical metropolitan area. Such study should include an~~  
24 ~~analysis of the probability of establishing a center and the procedures~~  
25 ~~which may be necessary to facilitate the center's establishment. The sec-~~  
26 ~~retary should further be urged to report the results of the study as a part~~  
27 ~~of the department's 1998 annual report.]~~

Kansas, Inc. to conduct a study of international and national trade opportunities; relating to the production, marketing and shipping of Kansas products to such markets

centers

; and

WHEREAS, the Kansas Department of Commerce and Housing has responsibility for international and national trade activities within the state: Now, therefore,

Kansas, Inc. be urged to conduct a study assessing the overall trade efforts in Kansas, including the exporting of goods from the state of Kansas. Such study should include an analysis of the adequacy of our present activities and directions to enhance the production, manufacturing, marketing and shipping of Kansas products to international and national markets.

Be it further resolved: That such study should also include recommendations on any procedures that may be necessary to facilitate international and national sales of Kansas products. Kansas, Inc. should further be urged to report the results of the study to the House Committee on Economic Development and Senate Commerce Committee at the beginning of the 1999 legislative session.

ECONOMIC DEVELOPMENT  
MARCH 18, 1998  
ATTACHMENT 2