

MINUTES OF THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT.

The meeting was called to order by Chairman William G. Mason at 3:35 p.m. on February 3, 2000 in Room 522-S of the Capitol.

All members were present except: Vice Chair Vickrey - E
Representative Gerald Geringer - E
Representative Broderick Henderson - E

Committee staff present: April Holman, Legislative Research Department
Renae Jefferies, Revisor of Statutes
Bob Nugent, Revisor of Statutes
Lynne Holt, Legislative Research Department
Rose Marie Glatt, Committee Secretary

Conferees appearing before the committee: Randy Speaker, Director of Housing, KDOC&H
Charles Ranson, President, Kansas, Inc.
Mitch Woolery, Partner, Polsinelli, White, Vardeman &
Shalton, K.C., MO.
Dr. David L. Barkley, Professor of Applied Economics
Clemson University, Clemson, S.C.

Others attending: See Attached List

Representative Stone moved, seconded by Representative Campbell that the minutes from the February 1 meeting be approved. The motion carried.

The Chairman introduced Randy Speaker, Director of Housing. He distributed copies of the Governor's Commission report presented to the Governor December 1, 1999 ([Attachment 1](#)). He noted that the report was done by the Governor's Commission and not necessarily an endorsement by KDOC&H. He reviewed the background of the Governor's Commission on Housing noting the purpose and methodology of the report. They identified seven trends of the other housing finance agencies and summarized five areas where improvement could be achieved. He spoke of related issues, housing trust fund, quasi-public status and administration's leadership. They suggested five potential solutions, describing four potential models for implementation. The Governor's Commission recommended Model #4, listing 11 key reasons. Using that model, the housing programs and staff would be transferred to the Kansas Housing Development Corporation. They listed five activities in which the Kansas Housing Finance Agency should not participate. The report had attachments of (A) Statistical data on Kansas counties regarding assistance and loans, (B) organizational charts of four models and (C) Housing Activities Analysis and Comments, and Ballots of the Governor's Commission.

Discussion followed regarding the limitations of the current projects. The Chairman appointed a sub-committee: Representative Aday-Chair, Representatives Campbell and Sharp to review the report and come back with recommendations.

The Chairman opened discussion on **HB 2688**. He noted that there were issues and questions that had been raised during the hearing and he introduced Charles Ranson to clarify those concerns and changes that had been made in the bill. Mr. Ranson stated that the issues raised were over the use of the name "Capco". He stated that the Kansas program is a hybrid, not patterned after the traditional Capco programs that use insurance companies for funding. He stated that to solve the problem, hereafter these programs would be called Kansas Capital Formation Companies.

Mr. Ranson recognized Mr. Mitch Woolery, Partner, Polsinelli, White, Vardeman & Shalton, P.C. who testified on his own behalf and not as a representative of the Firm or any of its clients ([Attachment 2](#)). He reiterated his support of the bill, referring to the amendment regarding value added agriculture programs. He spoke to four areas of criticisms of **HB 2688**: (1) appropriateness of insurance companies as investors in Capcos, (2) violation of the Commerce Clause of the Federal Constitution (3) size of the Capcos and (4) uniqueness of the Kansas bill. In conclusion he stated that **HB 2688** is in the best interests of the State of Kansas and its businesses. It is drafted for Kansans by Kansans. Discussion followed regarding net worth of qualified investors and he stated that he would be available for further discussion in the Senate if requested.

Mr. Ranson introduced Dr. David Barkley, Professor at Clemson University. He provided information on the research project, completed by a team from five universities, concerning *Public Involvement in Venture Capital*

Funds (Attachment 3). The response to the perceived venture capital shortage is increased public involvement in venture capital programs and he stated five goals of those programs. His policy brief described the experiences and lessons learned of state-assisted venture capital programs and assesses the advantages and disadvantages of three program types: (a) Publicly funded, publicly managed venture capital funds (b) Publicly funded, privately managed venture capital funds and (c) Certified capital companies (CAPCOs). He discussed the reasoning and objections expressed by existing companies regarding the Kansas model, page 11. In summary he stated that the proposed Kansas program addressed all the shortcomings inherent in all the earlier programs, which were programs provided by the Capco industry. Equally important, the Kansas program identified the capital needs within the state, identified seed and pre-seed capital and then designed a program to meet those particular needs. The Kansas program is a hybrid, well-designed experiment. His testimony included a table of Case Study Institutions, by Program Type.

The Chairman shared his conversation with Tom Blackburn, KVCI. Mr. Blackburn said that he was very supportive of the legislation. He also spoke about a conference call he had with Phil Thomas and Scot Sajac, a managing partner of one of the Missouri Capcos. They discussed Capco models used in other states and the incompatibility of the Kansas plan to fit under that umbrella. Upon learning that Kansas would change the name of their program, they were willing to discontinue efforts to lobby as an opponent to the bill.

Chairman Mason reviewed the fiscal note dealing with actual expenses in administering and operating the fund. He advised the committee that he had sent the fiscal note back, questioning the requirement for a legal and investment specialist. It would be appropriate and is included in the bill that fees are allowed to recover costs associated with the program. What is not covered is the loss of revenue coming into the state due to the tax credit but that is expected to turn over due to the nature of the bill.

Bob, Nugent, Revisors, suggested a substitute bill due to the name change. He highlighted changes in the bill: page 1, lines 15-16 - strike *and to support the modernization and expansion of the state's rural economy*, page 1, line 33 - change *manager to managing*, page 2, line 25 - add *which is certified by the secretary to have been*, page 2, line 41 - 42, substitute *remitted to equity holders of* with *made by*, page 3, line 28 - strike *in the case of an early stage business*, page 4, lines 22-26 - strike entire section 4, page 4, line 33 - strike *transferable, nonrefundable*, page 4, line 39 and 42 - strike *vested*, page 4, line 41 - change *use to claim*, page 5, line 36 - strike *annually*, page 6, line 20 - add a new (e) and reletter accordingly. *The secretary shall not certify any capco if the commissioner's report includes any affirmative findings pursuant to subsection (d)*, page 7, line 11 - add *Total capital investment deemed certified for the purpose of earning tax credits shall not exceed \$10,000,000 in a single capco*, page 8, line 33 - strike *cumulative and to equity holders*, page 9, line 11 - strike *from whom the certified capital investment was received*, page 9, line 42 - add by a capco, page 10, line 3 - change *may to shall*, page 10, line 26 - add *or transferees*.

Discussion followed clarifying the changes. Representative Kuether moved that on page 4, section D, line 14-15, be struck, Representative Osborne seconded and the motion carried.

Representative Kuether moved that on page 1, line 16, the statement stands but the word *rural* be struck. Representative Campbell seconded the motion and the motion carried.

Representative Stone moved the rest of the balloons be accepted, Representative Sharp seconded and the motion carried.

Discussion followed regarding the name of the company. Representative Kuether moved, seconded by Representative Campbell that the Kansas Capital Formation Companies be called CFCs. The motion carried

Representative Aday moved that the bill be moved out favorably as amended as a substitute bill for HB 2688. Representative Compton seconded and the motion carried.

The Chairman thanked everyone, especially Kansas, Inc. for the work that had been done. He adjourned the meeting at 4:57 p.m.