

Approved: 3/30/93
Date

MINUTES OF THE HOUSE COMMITTEE ON TAXATION.

The meeting was called to order by Chairperson Keith Roe at 9:00 a.m. on March 24, 1993 in Room 519-S of the Capitol.

All members were present except: Representative Larkin, excused

Committee staff present: Tom Severn, Legislative Research Department
Chris Courtwright, Legislative Research Department
Lynne Holt, Legislative Research Department
Don Hayward, Revisor of Statutes
Bill Edds, Revisor of Statutes
Lenore Olson, Committee Secretary

Conferees appearing before the committee:

Robert Miller - Speaker of the Kansas House of Representatives
Dr. Charles Warren - President, Kansas, Inc.
Wayne Youngers - Youngers & Sons Manufacturing Company, Inc.
Donna Avery - Strother Field Airport/Industrial Park
David Lindley - Sealright Company, Inc.
Tom Riederer - Kansas Industrial Developers Association
Alan Cobb - Kansas Association for Small Business
Bernie Koch - Wichita Chamber and Wichita/Sedgwick County
Partnership for Growth

Others attending: See attached list

Chairperson Roe opened the hearing on Substitute for SB 73.

Substitute for SB 73 Economic development assistance for qualified firms.

Robert Miller, Speaker of the Kansas House of Representatives, testified in support of the Substitute for SB 73 and said that this bill contains a new approach to providing incentives for small and medium sized firms in Kansas to become competitive in the global economy. Speaker Miller also said that Kansas is a state of small and medium sized businesses that face intense competition and must meet growing demands for increased quality (Attachment 1).

Dr. Charles Warren, President, Kansas, Inc., testified in support of Substitute for SB 73. Dr. Warren said that Kansas faces a growing economic crisis brought about by a decline in the productivity of its firms and workers and a relatively slower growth of personal income compared to the rest of the United States. He also said that this bill proposes a new and innovative approach toward business incentives and assistance for existing and new Kansas firms that will provide substantial support to firms that strive toward high performance (Attachment 2). Dr. Warren responded to questions and said that this program is a Kansas-born idea and he hopes that it will provide a national model .

Wayne Youngers, Youngers & Sons Mfg. Co., Inc., testified in support for Substitute for SB 73. He said that he believes that this bill is an excellent way to move this State in the right direction in relation to training (Attachment 3).

Donna Avery, Strother Field Airport/Industrial Park, testified in support of Substitute for SB 73. Ms. Avery said that this proposed legislation is one more step toward keeping Kansas companies competitive with leading firms in other states and overseas, and in our attempts to assist business in keeping and creating good jobs in Kansas (Attachment 4).

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON TAXATION, Room 519-S Statehouse, at 9:00 a.m. on March 24, 1993.

David Lindley, Sealright Co., Inc., testified in support of Substitute for SB 73. Mr. Lindley said that his company is planning to construct a manufacturing plant to be completed by September 1994. He also said that this bill offers the only income and sales tax incentive available to Sealright from the State of Kansas and that the company is considering potential locations in both Kansas and Missouri (Attachment 5). Mr. Lindley responded to questions and said that passage of this bill would allow Sealright tax credits that amount to approximately \$1.5 million over the next seven years.

Tom Riederer, Kansas Industrial Developers, testified in support of Substitute for SB 73, stating that this bill will help Kansas encourage companies to expand and grow in Kansas. He also said that companies come into our state because of the work force, training, quality of life, and incentives (Attachment 6).

Alan Cobb, Kansas Association for small business, testified in support of Substitute for SB 73, stating that this bill provides assistance to the small manufacturer to both raise wages and increase productivity. Mr. Cobb requested the bill be amended to alter the wage requirement and to allow credit for man-hours worked, as shown on (Attachment 7).

Bernie Koch, Wichita Chamber and Wichita/Sedgwick Counter Partnership for Growth, testified in support of Substitute for SB 73. Mr. Koch said that this bill can be a useful tool in the efforts to recover from the major layoffs being experienced in Sedgwick County and that many of the manufacturers who might qualify for the benefits of this act are subcontractors to Boeing (Attachment 8).

Written testimony in support of Substitute for SB 73 was submitted by the Kansas Chamber of Commerce and Industry (Attachment 9).

Chairperson Roe concluded the public hearing on Substitute for SB 73 and called on Dr. Charles Warren to respond to questions from the Committee.

Dr. Warren said that as the Kansas, Inc. tax studies have demonstrated, if you are a new business to Kansas, you can get abatements and sales tax exemptions and incentives and you're very competitive in the region. However, Kansas' existing mature industries are not competitive and that is what this program is designed to help. He also said that in the big scheme of things, this bill isn't going to cause a giant jump in the Kansas economy; it will operate at the margins, but it should help to keep several firms in Kansas.

A motion was made by Representative Brown, seconded by Representative Crowell, to report Substitute for SB 73 favorable for passage.

A substitute motion was made by Representative McKinney, seconded by Representative Wiard, to amend Substitute for SB 73 to change the number of employees in an eligible firm from 500 to 700 full-time equivalent employees.

The meeting adjourned at 10:04 a.m. with no vote taken on the motion.

Testimony of
Robert H. Miller, Speaker of the House

Substitute for Senate Bill 73

House Committee on Assessments and Taxation
March 24, 1993

Mr. Chairman, members of the Committee, I appear before you to support Substitute for Senate Bill 73 and the new approach it contains to providing incentives for small and medium sized firms in Kansas to become competitive in the global economy. As a member of the Kansas Inc. Board of Directors, I participated directly in the strategic planning that has been underway during the past year. Kansas faces some very significant challenges. Our personal income has declined relative to the rest of the United States and our manufacturing productivity has dropped dramatically. Kansas is a state of small and medium sized businesses that face intense competition and must meet growing demands for increased quality.

The 1993 economic development strategy prepared by Kansas Inc. has correctly identified the problems our businesses face, and has set an ambitious goal of increasing the standard of living of our citizens. This goal can only be met if we are able to help our small businesses increase their investments in new technology and equipment and, at the same time, significantly increase the training and skills of their workforce.

Current incentive programs operate without regard to the quality of jobs created and do not help firms that educate their workers. This proposal is based on the understanding that those small manufacturers that pay above average wages and that make the investments that will make them more competitive and productive will be helped in their efforts by state government.

This legislation will provide a valuable tool to retain existing businesses, to help them expand, to encourage them to invest in their workforce and to pay higher wages. In my opinion, this is an innovative proposal that deserves your support. It is the most important action this Legislature can take in 1993 for economic development.

Thank you.

3/24/93
House Taxation Cmte
Attachment 1

Testimony of

Charles R. Warren
President, Kansas Inc.

House Committee on Assessments and Taxation
The Kansas Legislature

March 24, 1993

on

Substitute for Senate Bill 73

3/24/93

House Taxation Cmte
Attachment 2

One of the major goals of the 1993 Kansas Economic Development Strategy is for "Kansas businesses [to] compete successfully in the global marketplace through high quality, high value added products and services." Achievement of this goal will depend on increasing significantly the number of high performance firms within the state. The state's current incentives and business assistance programs must be focused sharply on helping firms become competitive in a global economy.

Kansas faces a growing economic crisis -- brought about by a decline in the productivity of its firms and workers and a relatively slower growth of personal income compared to the rest of the United States.

- o In 1985, Kansas ranked 4th in the U.S. in manufacturing productivity; by 1990, the state's rank fell to 30th.
- o Per capita income in Kansas remains below the national average. In 1991, it declined again to 96 percent of the U.S. average.
- o From the 2nd quarter 1991 to the 2nd quarter 1992, real personal income in Kansas grew at only .8 percent -- exactly half the rate of growth enjoyed by our peer states in this region.

Unless dramatic steps are taken by Kansas firms and workers to reverse these alarming trends, and unless aid and encouragement to take bold actions is forthcoming from the State of Kansas, our businesses will fall further behind their competitors in the U.S. and overseas.

Research conducted by Kansas Inc. and a growing body of evidence from other countries demonstrates that today's successful firms are those that make dual investments in their workforce and in technologically advanced machinery and equipment.

The anomalous situation that Kansas currently faces of employment growth exceeding the national rate and personal income growth below the U.S. rate is believed to be directly attributable to the failure of a sufficient number of small and medium sized Kansas firm to follow this dual investment strategy. Unless a significant number of Kansas firms attain "high performance" status, the wage levels of Kansas workers will erode further and the standard of living of the state residents will fall below their expectations.

The existing incentives and business assistance programs offered by the State of Kansas and its local governments do not encourage greater investments in machinery and equipment, nor do

they provide significant incentives to increase workforce skills. Existing job tax credits are awarded solely on the basis of the quantity of jobs created, without attention to job quality or a firm's commitment to worker training and advancement. Recent constitutional changes that raised the classification rate on industrial machinery and equipment from 20 to 25 percent has had the effect of penalizing new investment in technological equipment.

Senate Bill 73 proposes a new and innovative approach toward business incentives and assistance for existing and new Kansas firms that will provide substantial support to firms that strive toward high performance. This can be accomplished by rewarding "qualified firms" with significantly higher levels of tax credits and other direct assistance. The concept is to encourage firms to invest simultaneously in new technologies and the upgrading of their workforce, and to provide assistance that will improve their productivity and quality.

The main objective of this proposal is to increase investments in technology and work force on the part of small to medium-sized manufacturing firms. Small firms are facing the toughest, competitive pressures and it is coming not only from foreign competitors but from large firms that are customers.

A recent letter from General Electric to: "Dear Valued Supplier" demanded a 7% price reduction on all materials and services purchased. The GE letter also notes that they are "in the process of reducing our supplier base." "Our focus is to develop a cadre of suppliers who demonstrate a willingness to work together with us toward continuous productivity, delivering world-class quality, and the best total value for our customers."

This example has been repeated in Kansas. The Coleman Company told the Interim Joint Committee on Economic Development that it has reduced its supplier base from over 50 companies to six. The Boeing Company indicates that Kansas firms are having difficulty in meeting demanding quality specifications and overseas suppliers are being relied on increasingly.

This proposal is designed so that a very high commitment to work force training and education would have to be demonstrated to receive the expanded incentives. While during the first year, eligibility can be established by a firm's participation in KIT/KIR or the SKILL program, the continued granting of incentives would be dependent on the firms' investment of their own resources in training and education. The intent here is to use the state training programs to move firms into a condition of high performance.

Our goal through this program is to create a group of role models or "superstars" that other Kansas firms will desire to emulate. The proposal is not intended as a "give-away" but a clear

quid pro quo or partnership between state government and a select number of firms that strive to be high performance.

This program of expanded incentives does not detract from the existing set of incentives or assistance now available to Kansas firms. It is applicable equally to firms in rural or metropolitan areas. The program is also entirely voluntary. Firms are not required to make these investments, but if they do the state will reward them.

It is difficult to estimate the direct cost to the State of this proposal. Costs are dependent on the number of firms that qualify and the dollar size of their investments and profits. It is clear that this bill will stimulate additional investment by Kansas firms -- investments unlikely to occur without this legislation. Costs of the proposal should be considered against the increased revenues that will be received from the business retention and expansion that will occur as a result of the program. This bill will keep some firms in Kansas that are now considering relocation. We also expect this bill to generate higher wages and increased personal income tax revenue.

There are 3,318 manufacturing firms in Kansas with 500 or fewer employees. According to the American Society for Training and Development, .5% of the nation's employers account for 90 percent of the total private training dollars. If the same holds true for Kansas, we can expect .5% of Kansas firms to meet the 2% expenditure requirement, or 17 manufacturing firms.

Approximately 60 Kansas firms are funded each year through the KIT/KIR programs. Analysis of those firms indicates that 45 of them may qualify for this program, and that about 12 of those will be firms recruited from out-of-state. Each of those firms will spend about \$2.5 million on capital equipment and facilities.

We also estimate that 880 manufacturing firms in Kansas will not have to meet the wage requirement because they are the only firm in an SIC code in the county in which they are located. Yet, only a small percentage of those will meet the 2% requirement.

Attached is a chart showing the estimated relationship between a firm's investments and the dollar value of the incentives it would receive under this bill.

Also attached are two hypothetical examples of firms that would qualify and the amount of investments they might make and the incentives they might receive.

I urge you to support this bill. It will enable us to begin immediately implementing the new strategy and will help us raise the incomes and standard of living of our workers and their families.

**A "QUALIFIED FIRM" IS ONE THAT
EMPLOYS LESS THAN 500**

and either

PAYS HIGHER THAN
AVERAGE WAGES

or

IS SOLE TWO DIGIT
SIC IN COUNTY

and either

SPENDS AT LEAST 2% OF TOTAL
PAYROLL ON WORKER TRAINING

or

PARTICIPATES IN KDOC&H'S
KIT/KIR OR SKILL PROGRAMS

**THESE "QUALIFIED FIRMS"
WOULD THEN BE ENTITLED TO:**

Proposed: Sales Tax exemption on
purchases related to new
investment in facility.

Existing Law: Same incentive
but exemption is tied to job creation.

Proposed: 10% Investment Tax Credit against
corporate income tax on any amount
exceeding \$50,000.

Existing Law: 1% Investment Tax
Credit. Firm must create at least 2 new jobs.

Proposed: Workforce Training Tax
Credit on training expenditures above
2% total payroll. Limit \$50,000

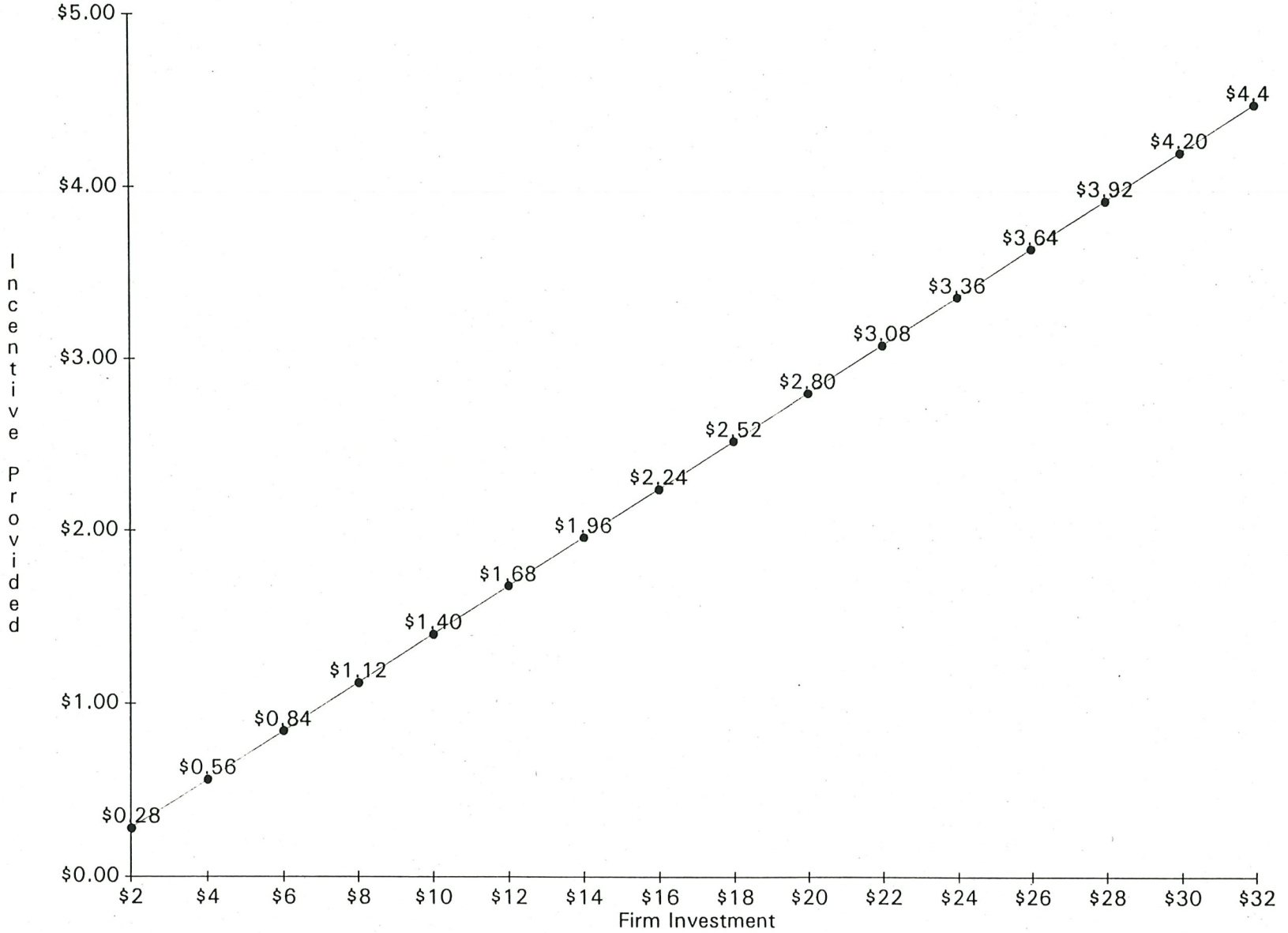
Proposed: Matching funds for MAMTC
and approved private consultants. Financed
through proposed High Performance Incentive
Fund administered by KDOC&H.

Proposed: Priority consideration for
other business assistance programs within
KDOC&H, KTEC, and MAMTC.

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Investment to Incentives
Comparison (Millions)

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**Estimated Number of firms
by County
That may qualify by virtue of being sole SIC in County**

| | | | | | |
|------------|----|--------------|----|--------------|-----|
| Allen | 8 | Meade | 6 | | |
| Anderson | 8 | Mitchell | 6 | | |
| Atchison | 5 | Montgomery | 10 | | |
| Barber | 5 | Morris | 8 | | |
| Barton | 15 | Morton | 3 | Metro Co's | |
| Bourbon | 8 | Nemaha | 11 | | |
| Brown | 4 | Neosho | 6 | Douglas | 19 |
| Chase | 3 | Ness | 2 | Johnson | 52 |
| Chautaugua | 3 | Norton | 6 | Leavenworth | 12 |
| Cherokee | 10 | Osage | 15 | Sedgwick | 33 |
| Cheyenne | 1 | Osborne | 6 | Shawnee | 19 |
| Clark | 2 | Ottawa | 4 | Wyandotte | 17 |
| Clay | 10 | Pawnee | 7 | Miami | 9 |
| Cloud | 12 | Phillips | 5 | Butler | 19 |
| Coffey | 12 | Pottawatomie | 12 | Harvey | 7 |
| Comanche | 5 | Pratt | 13 | | |
| Cowley | 12 | Rawlins | 5 | | |
| Crawford | 8 | Reno | 18 | | |
| Decatur | 5 | Republic | 7 | Metropolitan | 187 |
| Dickinson | 18 | Rice | 7 | Non-Metro | 693 |
| Doniphan | 10 | Riley | 14 | | |
| Edwards | 6 | Rooks | 5 | Total: | 880 |
| Elk | 0 | Rush | 7 | | |
| Ellis | 11 | Russell | 8 | | |
| Ellsworth | 6 | Saline | 16 | | |
| Finney | 13 | Scott | 5 | | |
| Ford | 9 | Seward | 4 | | |
| Franklin | 18 | Sheridan | 3 | | |
| Geary | 13 | Sherman | 4 | | |
| Gove | 7 | Smith | 7 | | |
| Graham | 4 | Stafford | 6 | | |
| Grant | 5 | Stanton | 1 | | |
| Gray | 6 | Stevens | 3 | | |
| Greeley | 2 | Sumner | 9 | | |
| Greenwood | 11 | Thomas | 6 | | |
| Hamilton | 1 | Trego | 4 | | |
| Harper | 16 | Wabaunsee | 7 | | |
| Haskell | 2 | Wallace | 1 | | |
| Hodgeman | 2 | Washington | 11 | | |
| Jackson | 7 | Wichita | 3 | | |
| Jefferson | 13 | Wilson | 3 | | |
| Jewell | 4 | Woodson | 3 | | |
| Kearny | 1 | | | | |
| Kingman | 10 | | | | |
| Kiowa | 2 | | | | |
| Labette | 11 | | | | |
| Lane | 3 | | | | |
| Lincoln | 2 | | | | |
| Linn | 8 | | | | |
| Logan | 2 | | | | |
| Lyon | 13 | | | | |
| McPherson | 17 | | | | |
| Marion | 10 | | | | |
| Marshall | 7 | | | | |

Using the 2% training expenditure qualifier,
approximately .5% of these firms would qualify
at the present time. (5 Firms)

Source: County Business Patterns, 1990, U.S. Dept. of Commerce, Bureau of the Census

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HYPOTHETICAL FIRM EXAMPLES
Substitute for Senate Bill No. 73

Example No. 1

Firm Example:

1. A Fabricated Metal Products manufacturing firm with 300 employees that pays annual average wages of \$26,863.
2. The average hourly wage of \$12.91 is above the median wage for firms in this SIC code and in the county in which it is located.
2. Total Payroll of the firm is \$10,073,625. (\$26,863 plus benefits @ 25% X 300.) Two percent of payroll is \$201,472.50.
3. Employment at the firm remains stable at 300 employees throughout the tax year.

Firm Investments:

1. The firm makes cash expenditures for worker training and education of \$250,000 in a single tax year.
2. The firm invests \$750,000 in new machinery and equipment.
3. It purchases personal property (safety equipment and office furniture) at a retail price of \$100,000.
4. The firm also engages a private consultant under contract for \$75,000 to implement a total quality management system and increase the efficiency of its manufacturing process.

Benefits and Incentives to the Firm:

1. A workforce training tax credit against its corporate income taxes of \$48,527.50 available in the single tax year claimed. (\$250,000 minus \$201,472.50)
2. An investment tax credit of \$70,000 that can be carried forward for 10 years or until used in its entirety. (\$750,000 minus \$50,000 = \$700,000 X .10 = \$70,000)
3. A sales tax exemption of \$5,900. (sales tax on \$100,000 purchases of 4.9% state and 1% local)
4. Business assistance subsidy from the "high performance incentive fund" of KDOCH of \$37,500. (50 percent of the \$75,000 paid for consulting services)

RECAPITULATION - FIRM NO. 1

Investments by the Firm:

| | |
|---------------------|--------------|
| Worker Training | \$250,000.00 |
| New Machinery | 750,000.00 |
| Personal Property | 100,000.00 |
| Consulting Services | 75,000.00 |

Total of Investments \$1,175,000.00

Incentives provided the Firm:

| | |
|-------------------------------|-------------|
| Workforce Training Tax Credit | \$48,527.50 |
| Investment Tax Credit | 70,000.00 |
| Sales Tax Exemption | 5,900.00 |
| Business Assistance grant | 37,500.00 |

Total of Incentives: \$161,927.50

Example No. 2

Firm Example:

1. A small, rural cabinet maker with 30 employees that pays an annual average wage of \$21,551.
2. The average hourly wage of \$10.36 is above the industry median for that SIC code, but the firm is the only one in the county of that type, so the wage requirements do not apply.
3. Total payroll of the firm is \$808,162.50 (\$21,551 plus benefits @ .25 X 30) Two percent of payroll is \$16,163.25.
4. Employment at the firm remains stable with 30 workers.

Firm Investments:

1. The firm makes cash expenditures for worker training and education of \$25,000.
2. The firm invests \$100,000 in new machinery and equipment.
3. It expands its shop area and purchases construction materials at retail value of \$20,000.
4. It engages MAMTC to devise a new a quality control system under a contract for \$15,000.

Benefits and Incentives to the Firm:

1. A workforce training tax credit against its corporate income taxes of \$8,836.75. (\$25,000 minus \$16,163.25)
2. An investment tax credit of \$5,000 that can be carried forward for 10 years or until used in its entirety. (\$100,000 minus \$50,000 X .10 = \$5,000).
3. A sales tax exemption of \$1,180. (sales tax on purchases of \$20,000 of 4.9% state and 1% local)
4. Business assistance subsidy of \$7,500 from the "high performance incentive fund" of KDOCH. (50 percent of the \$15,000 contract with MAMTC)

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RECAPITULATION - FIRM NO. 2

Investments by the Firm:

| | |
|------------------------|--------------|
| Worker Training | \$ 25,000.00 |
| New Machinery | 100,000.00 |
| Construction Materials | 20,000.00 |
| MAMTC Consulting | 15,000.00 |
| Total of Investments: | \$160,000.00 |

Incentives Provided the Firm:

| | |
|-------------------------------|--------------|
| Workforce Training Tax Credit | \$ 8,836.75 |
| Investment Tax Credit | 5,000.00 |
| Sales Tax Exemption | 1,180.00 |
| Business Assistance Grant | 7,500.00 |
| Total of Incentives | \$ 22,516.75 |

TESTIMONY ON SENATE BILL NO. 73 FOR THE HOUSE COMMITTEE ON
TAXATION

Provided by Wayne Youngers, President, Youngers & Sons Mfg.
Co., Inc.

March 24, 1993

As a possible qualifying firm for S.B. 73, I would like to testify to the actual and potential needs of my firm and firms in our industry, so we can visualize the benefits of S.B. 73.

Youngers & Sons Mfg. Co. Inc. is a CNC Machining and Weld fabrication contract manufacturing business. We are a company on the leading edge of technology. We have been in business for 20 years and have experienced rapid growth since 1985 and now employ approximately 50 people. Our location is Southwest of Wichita in rural Sedgwick County.

We currently have approximately 30 customers in the commercial markets. As a leading edge company we have made investments in several areas:

- Computerized Manufacturing System
- Employee Training
- Strategic Planning
- SPC Electronic Data Collection
- Marketing
- ISO-9000 Training
- 14 Pcs. of CNC Equipment under 6 years old
- Developed a Manufacturing Engineering Dept.

Along with investments in the company, Youngers & Sons Mfg. Co. Inc. has been a member of the National Tooling and Machining Association (NTMA), Kansas Association for Small Business (KASB), Wichita Chamber of Commerce, Kansas Manufacturers Association (KMA) and we are also an active supporter of the Machinist Apprentice Program (MAP).

As a firm that has invested heavily in high tech equipment and is pursuing ISO-9000 registration, training costs have become an issue. We all know that in the long run training always pays and seldom costs. But we also know that the pay back is not realized immediately, but over time. In my business, the demands of keeping up with technology in a highly competitive market make training very necessary but difficult to justify on a day to day basis.

I mentioned that we are pursuing ISO-9000 registration. For those of you not familiar with this term, ISO-9000 is the European Community Quality Standard that is rapidly becoming the standard for world trade. Although my company does not sell on the world market, my customers do sell world wide. In the past 6 months, I have received notification from 4

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Attachment 3

specific customer recommending that my company pursue ISO-9000 registration.

The importance of S.B. No. 73 to this is that ISO-9000 requires a real cultural change and complete training of all personnel within a company. The cost to a company to make such a change is not well defined, but estimates from complying companies are that you will invest 2-4 individual man years of time in addition to employee training requirements. As you can see cost in excess of \$100,000.00 can be expected even in a company the size of Youngers & Sons Mfg.

I believe aggressive training incentives offered by the State will help our manufacturing firms prepare for and make this type of investment. It is in the best interest of everyone in this State to have our businesses prepared for a world market.

Here are some specifics of how our company's current and projected data relates to S.B. No. 73. In our most current year we have spent 1.8% of our wages on training and we see this percentage growing in the coming year. As we further pursue ISO-9000, our training dollars will be both internal & external. ISO-9000 requires complete training on company procedures to all effected employees, virtually all people within the company. For this reason internal training expenses can be more than external expenses.

I would voice one concern about the current wording of the proposed legislation. The comparison of the qualifying companies wage and the prevailing wage of your county by SIC code called for in S.B. 73 does not fit my company well, in that we employ people from 4 counties because of our location. We have employees from Sedgwick, Sumner, Harper & Kingman counties. I suggest some type of average wage of these counties be allowed to more fairly represent the wage participating companies should pay.

It has become my conviction that either I invest in technology and training, an extremely expensive choice for me, or risk being shut down within three to five years. And even if I choose not to invest and do survive, my company will most certainly be doing lower quality work and be paying lower wages.

I believe that S.B. 73 is an excellent way to move this State in the right direction in relation to training. My company will make use of this legislation if passed as we move to ISO-9000 registration and into a global market place.

I would like to now make myself available for any questions that you may have.

Thank You

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TESTIMONY

of

Donna J. Avery, Manager

Strother Field Airport/Industrial Park

Before the House Committee on Taxation

March 24, 1993

Mr. Chairman and members of the Committee on Taxation. I appreciate the opportunity to appear before you today to make comments on the substitute for Senate Bill No. 73. I previously had the opportunity to testify before the Senate Committee on Commerce, and was extremely pleased to hear that the bill received such favorable treatment when it went to the Senate.

I am Donna J. Avery, Manager of the Strother Field Airport/Industrial Park. Strother Field is located in Cowley County, midway between Arkansas City and Winfield. Strother Field is owned and operated by the two cities.

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Attachment 4

Some four to five years ago many counties in Kansas (ours among them) embarked on strategic planning processes. In Cowley County we used the name FOCUS ON THE FUTURE for our planning exercise and subsequent action plan. Whether the county population was 10,000 or as in our case nearly 38,000, I think I would be safe to say that most of the committees or task forces looked at business climate, quality of life, and education. In doing a full scale analysis, all the groups undoubtedly asked many of the same questions, most particularly:

WHAT'S IMPORTANT TO OUR AREA?

WHAT IS ESSENTIAL AS WE MOVE TOWARD THE 21ST CENTURY?

I would be terribly surprised to find that any strategic plan which evolved did not include as an answer to those two questions:

JOB CREATION

And, since we know that 75% to 80% of jobs are created by existing industries (and in many, many areas that figure is even higher) I believe that most strategic action plans contained some kind of a "retention/expansion program". For example, in Cowley County we projected the use of the Business Retention program through the Kansas Department of Commerce and Housing, which we subsequently did in late 1992.

Cowley County is a very fortunate county. We have one of the best and most diversified manufacturing bases of any county in Kansas outside the few metropolitan areas. We have nearly 30 businesses classed as manufacturers. Of that number, only two employ over 500 persons.

When the results of our survey were compiled, we found that nine of those manufacturers had corporate headquarters outside of Kansas; eight firms had expanded their physical plants in the last two years; eight firms stated they are planning a physical plant size increase within the next two years, with seven of those expansions proposed to be in Cowley County.

We firmly believe that this survey underscores the importance of retention and expansion programs and efforts directed at existing businesses. While it may sound simplistic, we all cannot deny the standard rule:

BUSINESS WILL LOCATE WHERE IT IS WANTED --

BUSINESS WILL STAY AND GROW WHERE IT IS WELL TREATED.

Some two years ago in Cowley County, Kansas, a small, but dedicated group, formed a Quality Improvement Network, subsequently chartered and named the Two Rivers QIN. This small network has grown to include in excess of 100 people representing every sector of

business, education, and government in the county. 60 to 70 people meet on the second Monday morning of each month, alternately between Winfield and Arkansas City, and devote an early morning hour (7:00 a.m. to 8:00 a.m.) to an examination of and adherence to the qualities of total quality management.

During the past calendar year, the manufacturing sector in Cowley County grew by 325 jobs -- all created from existing/expanding businesses -- small businesses which will be served under this proposed bill.

When I attended the monthly QIN breakfast for March, I explained the premises incorporated within this bill and asked for opinions. I asked for permission to use the names of Total Petroleum -- Montgomery Elevator -- Greif Brothers -- KSQ Blowmolding -- Archer, Daniels, Midland Milling -- Gordon Piatt Energy Group -- Gilliland Printing -- and without exception they expressed a very positive opinion of the concept of "qualified" companies who would be willing to commit dollars to training in exchange for tax credits. They believed this would be a very workable incentive for job creation.

Steve Gilliland of Gilliland Printing, Inc. provided me with a letter of support which I attached to the testimony before the Senate Committee. With a payroll of over \$1.8 million, he tells how his company has doubled in size within a five-year period, using many state incentives, including property tax abatements and the Kansas

Industrial Training and Retraining Programs. Steve says: "we could not have otherwise funded our growth". In my opinion, this proposed bill provides one more building block incentive.

The March edition of Nation's Business features as the cover story an article entitled: " Training Workers for Tomorrow."I refer to the text to further underscore this testimony.

The article begins with the story of a 120 employee firm with total annual sales of \$18.5 million. In 1988, the company discovered that 70 percent of their product had to be reworked after customers put them in use. The found that workers were having difficulty reading blueprints and that overall workplace deficiencies were costing the company \$1 million a year.

The owner decided that for his company to survive in a highly competitive industry, he had to move quickly to upgrade his workers' skills. He established a broad quality-management program that included targeted programs to improve reading and math skills. Costs of the training for 1992 and 1993 are expected to total about \$500,000, but the owner believes such initiatives are vital in an increasingly high-tech era.

The article is full of statistics and examples of cooperative and collaborative efforts and I recommend the study of some of the facts and figures.

Recently Dr. Willard Daggett was in Cowley County to make presentations to both educators and lay persons, on the future of education in the United States. I am sure I don't have to tell any legislators that this topic touches a hot button with most people. Dr. Daggett is obviously a recognized authority who bears an excellent reputation as a person who understands education and its relationship to the real world of business and industry.

His stories and statistics graphically underscore the training and retraining needs that will continue to face business and industry through the rest of this century if our nation is going to be a competitor in a global economy.

In the article I just referred to, the author made this statement:

"As knowledge of the gap between skills and jobs becomes more widely understood, an emerging consensus holds that business, labor, and government must work together to eliminate it."

I would contend that this proposed legislation is one more step toward keeping Kansas companies competitive with leading firms in other states and overseas -- and in our attempts to assist business in keeping and creating good jobs in the state of Kansas.

SEALRIGHT[®]
CO., INC.

7101 COLLEGE BOULEVARD
OVERLAND PARK, KS 66210

913-344-9000
FAX: 913-344-9005

3/24/93

Representative Keith Roe, Chairman
House Tax Committee
Members of The House Tax Committee

Sealright Co. Inc., headquartered in Overland Park, intends to relocate its Kansas City, Kansas manufacturing plant to another site in the metropolitan area. Communities in the metropolitan area have made presentations to Sealright during the last two weeks allowing the company to evaluate the various locations with a goal of making a relocation decision within the next few weeks.

Sealright designs and manufactures packaging and packaging systems for food and dairy products, beverages, and household and medical supplies. It is a leader in round paperboard container systems and is the largest supplier of frozen dairy dessert packaging in North America with plants in Kansas City, KS., Fulton, NY. and Los Angeles. CA. The company's Flexible Packaging Group, including Sealright Films and Packaging Industries in San Leandro, CA., Jaite Packaging in Akron, OH., and Venture Packaging in Charlotte, NC., manufactures packaging films and supplies flexible packaging, labeling, and label-application equipment.

Sealright Co., Inc. has a 75-year history and is a public company. It has 1900 employees throughout the United States including 540 in the Kansas City area. The Kansas City, Kansas plant dates back to the year 1932 and has been in continuous operation since that time. Because of the age of the plant, limitations of the layout, reduced efficiencies and inability to expand, the decision was made, by the Board of Directors on November 11, 1992, to relocate the plant within the metro area.

Sealright's plan is to construct a manufacturing plant with approximately 400,000 square feet on a minimum of 40 acres. The estimated total investment is \$20,000,000. Furthermore, the plan is to occupy the new manufacturing facility by September, 1994.

Sealright's situation is one that, due to the planned construction of a new state-of-the-art manufacturing plant, no new jobs will be created. According to the Kansas Department of Commerce and Housing, Industrial Development Division, at least 2 new jobs must be created at the beginning of the project in order to receive any income tax credits or sales tax exemptions from the State of Kansas. However, if Sealright relocated to the State of Missouri, the current 350 jobs at the Kansas City, Kansas plant would be considered new jobs to the State of Missouri. Therefore, sales tax exemptions and income tax credits would be available to the company from the State of Missouri.

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In evaluating the Kansas locations, the effect of Senate Bill #73 must be considered. It is the only income and sales tax incentive available to Sealright from the State of Kansas, according to the Kansas Department of Commerce and Housing, Industrial Development Division.

This relocation is only a shift of jobs within the metropolitan area. However, an additional 350 jobs within a community, the economic benefits associated with these jobs, the construction impact, and the annual operational impact are real tangible benefits to a community and state.

The impact to the community and state would first include the direct and indirect economic impact of \$20 million in construction that would take place within the Kansas community. Secondly, the impact would include the direct and indirect annual reoccurring economic impact from Sealright's over \$50 million in sales within the manufacturing sector of the county's and State's economy.

Considering that the ultimate impact of a dollar spent in the economy is a direct function of the amount of time it stays in the economy and the number of businesses and households through which it passes, the real impact of just the construction of the facility is estimated to be an increase in industry output of \$38,628,000, an increase in employment of approximately 567 jobs and an increase in household income of \$12,870,000. The real impact of the annual operation of Sealright Packaging Co. is estimated to be an increase in industry output of \$82,744,000, an increase of employment of approximately 772 jobs, and an increase in annual household income of \$19,644,000.

The statistics above were compiled by the Johnson County Economic Research Institute.

As stated before, this relocation is only a shift of jobs within the metropolitan area. However, through annual retirements, normal attrition, etc..., new jobs to the surrounding communities and State will be generated. Sealright's growth during the last 60 years at the Kansas City, Kansas, plant has created this necessity to construct a new manufacturing facility. Thus, the potential for future expansion and additional job creation in the State is probable, given this 60 year favorable trend. Sealright's average wage rate is \$11.50 per hour or an annual earnings of \$23,920. Sealright's annual payroll at the Kansas City, Kansas plant is approximately \$15,000,000.

Given the estimated investment total of \$20,000,000 and the fact that approximately \$10,000,000 of commercial personal property will be relocated to the new facility, the State's real and personal property tax revenues will increase by approximately \$260,000 per year.

Senate Bill #73 would allow Sealright, a company considering relocation from one Kansas location to another, tax credits that amount to approximately \$1,500,000 over the next 7 years. 512

It was encouraging to us when the Senate overwhelmingly passed this Bill, realizing that it would help retain Kansas jobs. We also appreciate the work of Kansas, Inc. and the Department of Commerce and Housing for the creation of this legislation.

As management of a company which is publicly held, we are responsible to make decisions in the best long term interest of Sealright. If this law is passed, it would greatly improve the economic attractiveness of a Kansas location. At this point, sites in both states remain viable options for Sealright. Within the next few weeks, however, we will be making our decision in order to keep this project on schedule for a projected fall 1994 opening. For this reason, we are asking you to consider and pass this bill with all possible haste, preferably yet this week.

In conclusion, Sealright believes that passage of Senate Bill #73 would be in the best interest of the State of Kansas and its taxpayers. Moreover, we believe this legislation would give many companies, including Sealright, a needed incentive to keep Kansas jobs in Kansas.

Thank-you for the opportunity to present our concerns and interests relative to the Senate Bill #73. We respectfully request your support for this Bill.

David M Lindley

David M. Lindley
Manager, Business Development

Shawn K Nicholas

Shawn Nicholas
Project Manager

SUMMARY

Sealright supports passage of Senate Bill #73 because:

Kansas needs an incentive program designed to prevent migration of jobs and businesses to other states and to keep Kansas jobs in Kansas.

Sealright is a longtime Kansas employer (61 years) and would like the option of relocating to another Kansas site.

Sealright would receive tax benefits of approximately \$1,500,000 over 7 years if it relocates its Kansas City, Kansas, plant to another location in Kansas.

If Sealright builds its new 400,000-square-foot plant in Kansas, the economic impact would be substantial:

| | |
|--|--------------|
| - Annual Sales | \$50,000,000 |
| - Construction Cost | \$20,000,000 |
| - Annual Payroll | \$15,000,000 |
| - Increase In Real and Property Tax | \$260,000 |

The ripple effect of retaining the Sealright plant in Kansas would be significant. According to the Johnson County Economic Research Institute, a new Sealright plant in Kansas would have the following economic benefits:

- Increase Of 567 Jobs
- Increase Of \$12,870,000 In Household Income

This legislation would benefit the State of Kansas and its taxpayers.

Sealright encourages the House to follow the Senate's lead in approving this legislation. Timing is critical, since Sealright must make a decision in the next few weeks on a preferred site in the Kansas City metropolitan area.

Testimony by

Tom Riederer

President
Kansas Industrial Developers

House Taxation Committee
In support of
SB 73
March 24, 1993

Chairman Roe and members of the Committee, My name is Tom Riederer, and I am the President of the Kansas Industrial Developers Association (KIDA). KIDA is an organization with a membership of 150 people who work in the field of Economic Development. KIDA supports SB 73.

We Believe SB 73 will help Kansas encourage companies to expand and grow in Kansas. Since 1986 we have made great strides in our effort to bring companies into our state. They come to Kansas because of the work force, training, quality of life, and incentives we offer. We believe we should offer some of those same inducements to companies who expand in Kansas.

Aside from being the President of KIDA, I am also President of the Lenexa Chamber of Commerce. In Lenexa we have seen as many jobs created by companies expanding as new companies moving in. An example would be the GARMIN Co. They began in Lenexa three years ago, with 3 people. They manufacture portable navigation systems, and in those three years they have expanded 4 times. They now employ over 75 people in Lenexa and market worldwide. As GARMIN continues to grow, we would like them to remain in Lenexa. This

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bill would give us some tools to work with in a very competitive economic development environment.

We have many success stories in our state. Other states are interested in companies such as GARMIN, and we believe we must show the same interest in our existing businesses that we show in those we try to relocate into Kansas.

We hope you will act favorably on SB 73.

Testimony presented to the
House Taxation Committee

March 24, 1993

Chairman Roe, members of the committee, I am Alan Cobb, representing the Kansas Association for Small Business. We are an organization of over 100 small manufacturing businesses located throughout the state.

Last fall, Mary Ellen Conlee, representing the Association, testified before the Joint Economic Development Committee regarding the need for the small manufacturer to remain competitive through high-tech equipment and high worker productivity. Senate Bill 73 provides assistance to the small manufacturer to both raise wages and increase productivity.

The Kansas Association for Small Business supports this bill, and we offer the attached amendments to the bill.

First, we suggest altering the wage requirement. By deleting the language starting on page one, line 27 and continuing through line 31, the wage standard for eligible firms would be all manufacturers in the county with less than 500 employees, rather than only those businesses sharing the same two-digit standard industrial classification code (SIC code) in the same county.

This amendment focuses on the higher-wage manufacturers in Kansas, which is the intention of the legislation. Otherwise, there is the possibility of one firm in a county significantly altering the average wage for the other firms in the county with the same two-digit SIC code. The SIC codes are very broad. For example the two-digit SIC code 37 is transportation, which includes trains, planes and automobiles, and their component parts. With this deletion, both the high wage and low wage manufacturers are essentially thrown in the same pool from which the county-wide standard is set.

The second amendment we suggest is additional language on page two, line nine. This would allow a business to use hours worked as a cash equivalent in order to meet the 2% requirement.

When a small business purchases a \$175,000 computerized numerically controlled machining center, employees must be trained in order to make the investment work. It is not unusual for a business owner to send an employee to a week-long seminar, sponsored by the equipment manufacturer, for training. Although there is no direct payment of training dollars, there is a cost through the wages paid to the employee during that particular week, and through the cost added to the price of the equipment, neither of which would be eligible toward the 2% requirement.

The addition of this language would give greater flexibility to the manufacturer without diluting the intent or purpose of this legislation.

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Attachment 7



Kansas
Association
for
Small
Business

532 No. Broadway
Wichita, KS 67214
316 267-9984

Together
We Can
Make A
Difference.

Substitute for SENATE BILL No. 73

By Committee on Commerce

3-11

8 AN ACT relating to economic development to increase the com-
9 petitiveness of Kansas firms and foster increased investments in
10 worker training and education; providing business assistance and
11 income and sales tax incentives for certain qualified firms; amend-
12 ing K.S.A. 74-50,115 and K.S.A. 1992 Supp. 79-32,160a and re-
13 pealing the existing sections.

15 *Be it enacted by the Legislature of the State of Kansas:*

16 New Section 1. (a) As used in this act: "Qualified firm" means
17 a for-profit business establishment, subject to state income, sales or
18 property taxes, identified under the manufacturing standard indus-
19 trial classification codes, major groups 20 through 39 inclusive, and
20 employs no more than 500 full time equivalent employees. The
21 number of full time equivalent employees is determined by adding
22 the number of full time employees to the number of hours worked
23 by part time employees divided by 40. Additionally, a business
24 establishment must meet one of the following criteria:

25 (1) The establishment provides an average wage that is above the
26 average wage paid by firms located in the same county which employ
27 not more than 500 employees ~~and share the same two-digit standard~~
28 ~~industrial classification code.~~

29 (2) ~~The establishment is the sole firm within its two-digit standard~~
30 ~~industrial classification code in the county in which it is located. In~~
31 ~~this case, the wage requirement in subsection (a)(1) shall not apply.~~

32 (b) The secretary of commerce and housing shall certify annually
33 to the secretary of revenue that a firm meets the criteria established
34 under subsection (a) for a qualified firm and that the firm is eligible
35 for the benefits and assistance provided under this act. The secretary
36 of commerce and housing shall publish rules and regulations for the
37 implementation of this act. Such rules and regulations shall include
38 but not be limited to:

39 (1) A definition of "training and education" for purposes of section
40 2.

41 (2) Establishment of eligibility requirements and application pro-
42 cedures for expenditures from the high performance incentive fund
43 created in section 5.

9-2

(3) Establishment of approval guidelines for private consultants authorized pursuant to section 5.

(4) Establishes guidelines for prioritizing business assistance programs pursuant to section 5.

New Sec. 2. A qualified firm shall be entitled to a credit toward its corporate income tax liability in an amount equal to the portion of the qualified business facility cash investment in the training and education of the firm's employees that exceeds 2% of the firm's total payroll costs. The maximum amount of the credit that may be claimed by a single corporate taxpayer in any single tax year under this section shall not exceed \$50,000. Tax credits earned by a qualified business under this section must be claimed in their entirety in the tax year eligible.

Sec. 3. K.S.A. 74-50,115 is hereby amended to read as follows: 74-50,115. (a) A manufacturing business may be eligible for a sales tax exemption under the provisions of subsection (ee) of K.S.A. 1992 Supp. 79-3606a, and amendments thereto, if the manufacturing business complies with the following requirements:

(1) A manufacturing business shall provide documented evidence of job expansion involving the employment of at least two additional full-time employees; and

(2) a manufacturing business located within the state of Kansas that has documented evidence of job expansion as provided in paragraph (1), which relocates in another city or county within the state of Kansas must receive approval from the secretary prior to qualifying for the sales tax exemption in subsection (ee) of K.S.A. 1992 Supp. 79-3606a, and amendments thereto, except that approval by the secretary shall not be required if the manufacturing business relocates within the same city.

(b) A nonmanufacturing business may be eligible for a sales tax exemption under the provisions of subsection (ee) of K.S.A. 1992 Supp. 79-3606a, and amendments thereto, if the nonmanufacturing business complies with the following requirements:

(1) A nonmanufacturing business shall provide documented evidence of job expansion involving the employment of at least five additional full-time employees; and

(2) a nonmanufacturing business located within the state of Kansas that has documented evidence of job expansion as provided in paragraph (1), which relocates in another city or county within the state of Kansas must receive approval from the secretary prior to qualifying for the sales tax exemption in subsection (ee) of K.S.A. 1992 Supp. 79-3606a, and amendments thereto, except that approval by the secretary shall not be required if the nonmanufacturing business

or 2% of the firm's total manhours worked.

73

TESTIMONY OF BERNIE KOCH
WICHITA AREA CHAMBER OF COMMERCE
SUB. FOR S.B. 73

HOUSE TAXATION COMMITTEE
MARCH 24, 1993

Mr. Chairman, members of the Committee, I'm Bernie Koch with The Wichita Area Chamber of Commerce, appearing in support of Substitute for Senate Bill 73. Thank you for the opportunity to testify today. I'm also appearing on behalf of The Wichita/Sedgwick County Partnership for Growth, the unified economic development agency for Sedgwick County. The Wichita/Sedgwick County Partnership is made of of business, labor, The City of Wichita, the cities of the second and third class in our county, Sedgwick County government, WSU, the Wichita School District, The Chamber and business.

We commend the legislature for moving into this next logical area of economic development. It is an attempt to further refine economic development efforts by focusing on the types of behavior we want to encourage from business.

Substitute for Senate Bill 73 encourages and rewards high paying jobs, increases technology, training, and the improvement of the value that we add to the products that are manufactured in Kansas.

For several years, our efforts have been directed to working with manufacturers in training and the transfer of useful technologies to improve the value added to products. These efforts make our companies more competitive and thus more successful.

If this measure passes and becomes law, we will work to inform businesses of this act and encourage them to qualify. It fits in very nicely with what we've been attempting to do.

We also believe that Substitute for Senate Bill 73 can be a useful tool in the efforts to recover from the major layoffs being experienced in Sedgwick County. Many of the manufacturers who might qualify for the benefits of this act are subcontractors to Boeing. Right now, they are looking for other work to keep them going until Boeing production steps up again, as we believe it will.

This act encourages the types of behavior that will be necessary for these small and medium sized manufacturers to survive and be healthy and ready when the Boeing work returns.

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By putting the emphasis on training for new technology, which adds more value to the products manufactured, these companies make themselves and their employees more valuable to the rest of the country and the world. They can seek and obtain work with others, work which will include non-aviation related manufacturing.

To bid, win, and complete these contracts will necessitate training and re-training of workers, which this act encourages.

There are two common statements about our Wichita/Sedgwick County economy that apply here. The first is that, "Manufacturing is the engine that drives our economy." By helping our manufacturers maintain and improve their competitive edge, this act enhances our economy and the revenues it produces for Kansas.

The second common statement about our South Central Kansas economy is, "We live and die by the quality of our work force." That's true today more than ever. The quality of our work force will improve through the training encouraged by Substitute for Senate Bill 73.

This bill recognizes these economic truths, embraces them, and attempts to build on them. I urge your favorable consideration.

Thank you for the opportunity to appear today.

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LEGISLATIVE TESTIMONY

Kansas Chamber of Commerce and Industry

500 Bank IV Tower One Townsite Plaza Topeka, KS 66603-3460 (913) 357-6321



A consolidation of the
Kansas State Chamber
of Commerce,
Associated Industries
of Kansas,
Kansas Retail Council

Sub. for SB 73

March 24, 1993

KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony Before the
House Committee on Taxation

by

Bud Grant
Executive Director
Kansas Retail Council

Mr. Chairman and members of the Committee:

My name is Bud Grant, Vice President of the Kansas Chamber of Commerce and Industry. I appreciate the opportunity to express my organization's support for the passage of Sub. for SB 73.

The Kansas Chamber of Commerce and Industry (KCCI) is a statewide organization dedicated to the promotion of economic growth and job creation within Kansas, and to the protection and support of the private competitive enterprise system.

KCCI is comprised of more than 3,000 businesses which includes 200 local and regional chambers of commerce and trade organizations which represent over 161,000 business men and women. The organization represents both large and small employers in Kansas, with 55% of KCCI's members having less than 25 employees, and 86% having less than 100 employees. KCCI receives no government funding.

The KCCI Board of Directors establishes policies through the work of hundreds of the organization's members who make up its various committees. These policies are the guiding principles of the organization and translate into views such as those expressed here.

My comments are brief Mr. Chairman, as you have Mr. Charles Warren, President of Kansas Inc., appearing in support of this bill. Mr. Warren certainly has sufficient background data to provide the committee and to answer the "why" questions. *3/24/93*

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There seems to be little doubt that as reports are received from around the world, the issue of training the workforce now commands special attention. Whether it be Europe or the Far East, worker training and increasing the productibility of the workforce is paramount. This does not exclude the retraining of workers to meet new skill requirements.

While a program such as this is appropriate at any time, now seems to be a particularly appropriate time for Kansas. A substantial number of Kansans will soon be on the labor market, with many not possessing the skills to match the jobs available. This program will encourage employers to hire and train to new skills these excellent and proven Kansas workers.

Mr. Chairman and members of the committee, it makes sense now...I urge you to support it now.