Approved: <u>2-19-07</u>
Date

MINUTES OF THE HOUSE ECONOMIC DEVELOPMENT AND TOURISM COMMITTEE

The meeting was called to order by Chairman Lana Gordon at 3:30 P.M. on February 15, 2007 in Room 519-S of the Capitol.

All members were present except:
Gene Rardin- excused

Committee staff present:
Kathie Sparks, Kansas Legislative Research Department
Hank Avila, Kansas Legislative Research Department
Jason Long, Revisor of Statutes
Ann Deitcher, Committee Assistant

Conferees appearing before the committee:
Joan Wagnon, Secretary, Dept. Of Revenue
Marlee Carpenter - Kansas C of C
Derrick Sontag - NFIB
Allie Devine - Ks Livestock Assoc.
Christy Caldwell - Topeka C of C
Ashley Sherard - Lenexa C of C
Betty Nelson – CBIZ Accounting

Others attending:
See attached list.

<u>HB 2496 - an act concerning taxation; relating to credits; enacting the Kansas investment credit act and the Kansas jobs credit act.</u>

The Chair introduced Marlee Carpenter who told the Committee that her organization had worked up a business proposal regarding **<u>HB 2496</u>** that would reduce the threshold for both the investment tax credit and the jobs credit. (<u>Attachment 1</u>).

She also offered testimony in support of the overall goal of **<u>HB 2496</u>**. (<u>Attachment 2</u>).

Derrick Sontag appeared as a proponent of **<u>HB 2496</u>**. (<u>Attachment 3</u>).

Allie Devine addressed the Committee in support of **<u>HB 2496.</u>** (<u>Attachment 4</u>).

Joan Wagnon addressed the Committee about the Department of Revenue's actions toward **<u>HB 2496</u>**. (<u>No written testimony was provided</u>).

Christy Caldwell spoke of her organization's support for the concepts embodied in **<u>HB 2496</u>** with some recommendations for change. (<u>Attachment 5</u>).

Ashley Sherard offered testimony in favor of **<u>HB 2496</u>**. (<u>Attachment 6</u>).

Betty Nelson testified as a proponent for **<u>HB 2496</u>**. (<u>Attachment 7</u>).

Questions and answers followed.

Written only testimony in support of **<u>HB 2496</u>** was distributed from Kelly Schoen, CEO, Z3 Graphics, (<u>Attachment 8)</u>; Lee Harris, President, Cohen-Esrey Real Estate Services, Inc., (<u>Attachment 9)</u> and Roxanne Helphingstine, President, Mission Electronics, Inc. (<u>Attachment 10</u>).

The meeting was adjourned at 4:50 p.m. The next meeting is scheduled for Monday, February 19, 2007.

HOUSE ECONOMIC DEVELOPMENT & TOURISM
COMMITTEE GUEST LIST

DATE: 2-15-07

Emily Geier	HLF
Mark Schreiber	Westar Energy
Allie Devine	Ks. Livestock Assoc.
TERRY HOLDREN	KANSAS FARM BUREAU
Derek Sontag	MFIB
Mike Reecht	Greater KC Chamber of Comm
[illegible]	Carter Group
Ted Warner	KS Govt. Consulting
Christy Caldwell	Topeka Chamber of Com
Bill Thompson	Commerce
Dan Korber	Kansas Inc
J. Kent Eckles	O.P. chamber of Commerce
Ashley Sherard	Lenexa Chamber
Bob Wilson	CBIZ

HB 2496
Business Proposal

Investment Tax Credit

- Threshold reduced to $150,000
- Threshold reduced to $50,000 in opportunity zone
- Maintain Training Tax Credit with computer based training allowed to meet requirement

Jobs Credit

- 5 net new job threshold
- 2 net new job threshold in opportunity zone
- 20 net new job threshold maintained for headquarters and back-office facilities

Economic Development & Tourism
Date: 2-15-07
Attachment # 1-1

Legislative Testimony

HB 2496

February 15, 2007

Testimony before the Kansas House Economic Development Committee
By Marlee Carpenter, Vice President of Government Affairs

THE KANSAS CHAMBER

The Force for Business

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Chairman Gordon and members of the committee;

The Kansas Chamber and our over 10,000 members encourages the Kansas Legislature to look at pro-growth business tax policy that will encourage capitol investment and job creation in the state. The Kansas Chamber represents business of all sizes and from all part of the state. More than 95% of our members have less than 50 employees so we speak on behalf of large medium and small business.

The Kansas Chamber is here is support of HB 2496, the simplification of the tax credits. The current HPIP program is the flagship economic development program of the state. The current HPIP program is so complicated and complex that only very sophisticated taxpayers that have access to accountants or lawyers can claim this credit. The proposed simplification is overdue and supported by our business members. Our concern comes with the threshold increase. We believe that the proposed $1 million threshold is much too high. Many small and medium sized businesses that make significant investments in the state would not qualify for tax credits. We believe that a threshold amount between $100,000 and $200,000 would be more reflected of the types of investments make in Kansas.

The same is true with the new Jobs Credit. We believe that the 20 jobs requirement is too high, even in the metro area. We would suggest that this number is reduced below Missouri's 10 net new job credit.

In addition, the Kansas Chamber would advocate for the investment tax credit to be claimed by a unitary group. Kansas is a unitary state and companies must report income on a combine basis. This is a very complicated and fact specific area. Currently, only the company that generates the tax credit can claim it, even if their income is grouped together with other related entities for income tax purposes. There is much litigation around this area of tax law and we believe that if income is combine for income tax purposes, then tax credits should apply to income taxed in Kansas from the unitary group.

The Kansas Chamber is supportive of the overall goal of the bill and is ready and willing to continue to work with the Department of Revenue and Department of Commerce to come to an agreement so that these pro-jobs, pro-business measures advance though the legislative process and gain passage.

Thank you for your time and I will be happy to answer any questions.

The Kansas Chamber, with headquarters in Topeka, is the statewide business advoca(becoming the best state in America to do business. The Kansas Chamber and its affilia Chamber Federation, have more than 10,000 member businesses, including local and and trade organizations. The Chamber represents small, medium and large employers

Economic Development & Tourism
Date: 2-15-07
Attachment # 2

NFIB
The Voice of Small Business®

Legislative Testimony
Derrick Sontag, NFIB State Director
House Bill 2496
February 15, 2007

Madam Chair and members of the committee:

Thank you for the opportunity to appear before you in support of House Bill 2496.

As you may know, NFIB/KS determines its' legislative agenda by balloting the more than 5,400 NFIB members in Kansas. A large majority of those balloted must respond on the prevailing side, in order for NFIB to support or oppose the issue in question. This process allows the organization's legislative agenda to be determined by the thousands of Kansans who are operating small and independent businesses on a daily basis.

Specific to this issue, the members of NFIB have long supported the existence of tax incentives that recognize the contributions small businesses make to the Kansas economy.

The simplification of the tax incentive process, as described in HB 2496, is noted and greatly appreciated by NFIB members. Often times, small businesses do not have the adequate resources in place to pursue tax credit incentives that have often been complicated and confusing. The work done by the departments of Revenue and Commerce in simplifying this process directly addresses this problem.

However after reviewing the legislation, concerns exist as it relates to the eligibility requirements. I would like to take this time to discuss the proposed eligibility requirements for both, the investment tax credit and the job credit.

Investment Tax Credit

Under current law, the investment requirement is $50,000. NFIB has members that have reached that threshold by making further investments in their business. The existence of the tax credit provided an added incentive to make that investment and in some cases, helped solidify the decision.

House Bill 2496 sets the minimum investment requirement at $1,000,000. Most small businesses will never make a single investment of that magnitude, thus eliminating them from consideration for receiving this investment tax credit.

NFIB recently heard from a member who has been in business for more than 37 years. During that time, the business has achieved significant growth throughout the state and has offices in three Kansas communities. The business is prepared to embark upon another growth project in 2007. However, this will be the first time that a single, $1million plus investment will be made by the company. For 37 years this Kansas small business, that employs more than 100 people, has been contributing to the Kansas economy. Yet it just now will make an investment worthy of a tax credit as proposed by HB 2496.

National Federation of Independent Business – KANSAS
3830 SE 33rd Ter • Topeka KS 66605 • 785-213-9769 • derrick.sontag@nfib.c

Economic Development & Tourism
Date: 2-15-07
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NFIB encourages the committee to explore lowering the minimum investment requirement to an amount more accessible to small business. An amount that is closer to the $100,000, as proposed in the Opportunity Zones Program, would be satisfactory.

Job Credit

HB 2496, as written, would allow businesses that create at least 20 new net jobs to seek a job credit in the amount of $1,500 for each new employee. Considering that the average small business has ten employees, this proposal would eliminate a large majority of businesses from seeking this credit.

NFIB encourages the committee to consider lowering the new net job requirement to a number that makes it more accessible for a greater number of small businesses.

According to the Small Business Administration (SBA), small businesses annually are responsible for at least 60% of new net jobs and are responsible for employing 54% of the state's non-farm private work force. These are businesses that already contribute to the growth of the Kansas work force and economy. Simply lowering the threshold requirements would provide further incentive for small businesses to continue adding employees.

Thank you for your time and consideration on this important matter.

Derrick Sontag
Kansas State Director
National Federation of Independent Business
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KANSAS LIVESTOCK ASSOCIATION

Since 1894

TESTIMONY

To: House Economic Development and Tourism Committee
Representative Lana Gordon, Chair

From: Allie Devine, Vice President and General Counsel
Kansas Livestock Association

Date: February 15, 2007

Re: HB 2496

Good afternoon, my name is Allie Devine, I am Vice President and General Counsel of the Kansas Livestock Association. KLA is a trade association representing nearly 5,000 farmers and ranchers involved in all aspects of the cattle industry from cow calf producers to commercial cattle feeders.

Today, I'd like to give you some background on the economic impact of the cattle industry in Kansas and why we support this bill. At the end of my testimony we are asking for some slight modifications that we believe will make the bill even more beneficial to livestock producers.

Background:
In 2003 KSU's John Leatherman produced a report entitled "Economic Contributions of Livestock Production and Meat Processing in Kansas" (see attached). In that report, Leatherman analyzed industry sales as a portion of gross state product; employment figures as a portion of total state employment; labor; proprietary and total income; and finally exports within and outside of Kansas.

In 2000, the most current data when the report was generated, the Kansas economy was valued at $170 billion, had $1.8 million jobs and over $85 billion in total income. Livestock production accounted for about 1 percent of the state's exports. Meat processing industries accounted for about 1 percent of total jobs and income. Meat processing also accounted for about 10 percent of the state's exports.

There are "ripple" effects meaning what happens when one segment of the economy buys and sells goods to another; and when households spend income on a variety of goods and services. Here the example would be the meat packer that receives an order for $1 million of product that needs additional workers who then spend their wages on a wide variety of goods and services.

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6031 SW 37th Street • Topeka, KS 66614-5129 • (785) 273-5115 • Fax (785) 273-3399 • **Attachment #** 4-1

When the "ripple" effect is analyzed for the 31 counties of western Kansas the "ripple effect" of livestock and meat packing is significant. These counties account for 10 percent of total state sales and exports and 6 percent of state employment and income. Livestock and meat processing combined account for about 50 percent of total sales in the region;15 percent of employment and income; and 72 percent of regional exports.

Putting this all into perspective, in the western third of Kansas counties, livestock and meat processing accounts for 39% of total income; 26% of total household income; and 62% of total sales.

The Issue:
Kansas has enjoyed a vibrant cattle industry because of our relatively warm climate, economies of scale, and plentiful grain supply. It has allowed us to grow the industry to a point where Kansas now markets nearly six million head of cattle each year. Every animal consumes approximately $300 worth of agricultural commodities. The cattle industry represents nearly two thirds of all agricultural cash receipts. Increasing growth of this industry by even a small percentage has a significant impact on the state and in particular the western third.

In the past year, subsidized ethanol plants in Northern corn producing states have started to draw cattle production back to those areas where ethanol byproduct is plentiful. Corn prices have risen, which is good for the overall agricultural economy, but puts Kansas livestock producers at a transportation disadvantage to those feedyards in the North. Our feedyards will need to start adjusting to these changing economics. Expansions of pens or modifications of grain facilities may be needed. (See CME article.)

In addition, the industry is facing another round of environmental pressure from EPA to manage nutrients from waste. These new regulations may mean additional purchases of land for waste management and control.

We are not certain exactly what adjustments will be needed. Traditionally these adjustments mean capital expenditures. We want to be able to take advantage of the same tax and job incentives other businesses have to keep our business strong.

In the past, feedyards have benefited from enterprise zones. We support the concepts. We think HB 2496 is a good opportunity to improve upon some of the shortcomings of prior law. We have generally discussed with the Department amendments to the bill that would allow for feedlots to take full advantage of all the tax and job credits by adding our NAICS code into key sections. In the past, some of our smaller businesses have not been able to meet the enterprise zone requirements of hiring 5 new employees. HB 2496 continues this employment requirement. We believe removing or lessening this requirement would allow the smaller to midsize facilities to expand and receive the benefits of the program.

We appreciate the committee's efforts and look forward to working with you on this legislation.

Economic Contributions of Livestock Production and Meat Processing in Kansas

John Leatherman
Department of Agricultural Economics
Kansas State University

November 11, 2003

Social Accounting Matrix (SAM) analysis is a system of accounting for the economic transactions occurring in a state or regional economy over a period of one year. A SAM model creates a "computerized spreadsheet," charting the flow of dollars between business sectors, households, government, and other non-local consumers of locally-produced goods and services. SAM analysis enables estimates of how spending in one area of the economy "ripples" through the economy to other sectors.

In this report, estimates of the direct and total economic impacts of livestock production and meat processing in Kansas are presented along with comparisons of other economic sectors. The direct impacts refer to direct employment, income, etc. within the industry sectors. The total impact captures all of the indirect (ripple) effects and adds them to the direct impacts.

Several types of economic impact are reported. Industry sales serve as the broadest measure of economic activity, and can be thought of as a gross state product. Employment figures represent estimates of total employment, including all full- and part-time jobs. Several measures of regional income are reported. Labor income represents employee compensation (salaries and wages) plus proprietary income from farming and small business proprietorships. Total income is the broadest income measure and represents the total income resources (e.g. labor income, dividends, rents, royalties, profits, indirect business taxes, etc.) controlled by households, enterprises, and governments in the region that is generated through the process of regional economic production. Finally, exports include the value of shipments to domestic and foreign markets outside of Kansas.

In 2000, the most recent year for which necessary data were available, the Kansas economy directly generated about $170 billion worth of economic activity, 1.8 million jobs, and over $85 billion in total income (Table 1). Livestock production accounted for a little over 3 percent of total sales and about 1 percent of jobs and total income. Livestock also accounted for about 1 percent of the state's exports. Meat processing industries accounted for about 4 percent of total sales, about 1 percent of total jobs and income. Meat processing also accounted for about 10 percent of the state's exports.

When considering questions relating to the relative contribution of different economic entities, direct measures of sales, jobs and income provide one indication. It is well known, however, that different economic sectors, households, and other entities are closely tied such that activity in one area of the economy "ripples" to affect other economic sectors and entities. More precisely, there are two primary sources for the "ripple effect." The first arises from businesses buying and selling to one another during the process of producing goods and services. The second source of impact arises from households spending income for typical household goods and services. This household spending tends to broadly distribute the economic impact of an industry or event. For example, if a meat packer gets a new order for $1 million worth of meat, the firm will call in more labor who, in turn, will spend their wages on a wide variety of goods and services.

A SAM can be used to measure the ripple effect of individual economic sectors. This is done by creating economic multipliers for each of the industry sectors. Multipliers are estimated for households, as well, to capture the effects of household spending.

To estimate the total "economic impact" of the industry and household sectors, it is important to distinguish between the various sources of impact. To be fair, distinctions should be made between the impact that arises as a result of interactions between entities exclusively *within a region* and the interactions between regional entities and the *rest of the world.*

For this analysis, we only consider economic activity associated with out-of-state demand for state-produced goods and services as well as other income attracted to the state from sources originating outside the state. It's the capacity to draw income/revenue from outside the state that creates impact beyond that which would otherwise exist serving only in-state demand. Thus, to complete the analysis of the impact of agriculture (and other sectors), we multiply the matrix of industry multipliers by the value of demand for state-produced goods and services (money coming from outside the state).

Table 2 shows the share of economic activity associated with various industry sectors and household income groups. Three types of shares are shown: total sales, total income (income generated from state production activities), and household income (income from all sources, including Social Security and non-local pensions and investments).

To interpret the information in the table, read down the columns. For the industry sectors, the values represent the share of total sales (total income and household income) associated with external demand for the goods and services produced by that sector. For the household income groups, the values represent the share of total sales (total income and household income) associated with externally-generated income.

In Kansas, livestock production accounted for about 1 percent of total sales associated with industry production of goods and services, and about 0.5 percent of income in 2000. Meat processing accounted for about 8.5 percent of total sales and between about 3 and 4 percent of income.

It's well known that cattle and other livestock production and meat processing is a major component of the western Kansas economy. Restricting the analysis to only that portion of the state, the relative importance of these sectors appears quite different.

Here, western Kansas is defined as the 31 counties comprising the three western-most agricultural statistics reporting districts. This portion of the state accounts for about 10 percent of total state sales and exports, and about six percent of state employment and income. As shown in Table 3, livestock production and meat processing combined to directly account for about 50 percent to total sales in the region, 15 percent of employment and income, and 72 percent of regional exports in 2000. Exports, in this case is shipments anywhere outside of the 31 county area, including other destinations in Kansas.

When all the direct and indirect economic impacts are tallied, livestock production accounted for about four percent of industry sales, three percent of total income and two percent of household income in 2000. Meat processing, on the other hand, clearly is the dominant economic activity in the region, accounting for nearly 58 percent of total sales, 36 percent of total income generated from regional production, and 24 percent of all household income. Payments originating from outside the region (e.g. Social Security, pensions, farm support payments, non-local investments, etc.) accounted for nearly 42 percent of all household income.

While the reported impacts are reasonable estimates of the effects that livestock production and meat processing have on the state and western Kansas economy, it would not be appropriate to suggest that the economy would shrink by these amounts were the industries not present. Some portion of the land, labor, and capital invested in these industries would have alternative uses.

Table 1. Structure of the Kansas Economy, 2000$					
Industry	Industry Sales (millions)	Employment (number)	Labor Income (millions)	Total Income (millions)	Total Exports (millions)
Livestock	5,518.189	25,281	521.300	863.731	757.322
Other Agriculture	3,743.832	67,746	553.646	1,424.443	2,955.426
Mining	2,950.835	15,647	372.861	967.971	323.946
Construction	12,694.368	115,409	4,147.026	4,701.654	0.000
Meat Processing	7,271.582	20,251	688.313	854.966	5,522.668
Other Manufacturing	41,517.453	193,760	8,944.507	12,529.004	27,393.121
TCPU	19,248.391	90,809	5,162.395	10,406.835	9,479.755
Trade	20,544.865	377,629	8,989.143	14,483.968	1,742.828
FIRE	18,324.230	113,208	3,493.898	12,524.848	2,417.316
Services	25,331.818	476,271	12,783.031	14,835.967	2,597.376
Government	12,973.930	283,675	9,618.211	11,698.630	1,977.341
TOTALS	169,993.209	1,788,919	55,357.304	85,165.730	54,103.277

TCPU is transportation, communication and public utilities. FIRE is finance, insurance and real estate. Columns do not sum to totals due to the exclusion of minor accounting categories.

Source: IMPLAN Professional, Minnesota IMPLAN Group.

Table 2. Percentage of Total Economic Activity Associated with Industries and Households in Kansas, 2000

Industry	Industry Sales	Total Income	Household Income
Livestock	0.9%	0.5%	0.4%
Other Agriculture	2.9%	2.6%	1.7%
Mining	0.5%	0.5%	0.3%
Construction	11.9%	10.9%	8.8%
Meat Processing	8.4%	4.3%	3.1%
Other Manufacturing	31.9%	25.8%	19.2%
TCPU	10.8%	11.8%	7.9%
Trade	3.2%	4.2%	2.9%
FIRE	2.9%	3.8%	2.1%
Services	4.0%	4.7%	3.8%
Government	11.7%	17.9%	14.5%
Households	11.0%	13.0%	35.4%
TOTALS	100.0%	100.0%	100.0%

TCPU is transportation, communication and public utilities. FIRE is finance, insurance and real estate.

Source: author's calculations.

Table 3. Structure of the Western Kansas Economy, 2000$					
Industry	Industry Sales (millions)	Employment (number)	Labor Income (millions)	Total Income (millions)	Total Exports (millions)
Livestock	3,435.099	7,410	190.966	332.294	400.672
Other Agriculture	1,140.436	12,077	81.384	230.457	962.677
Mining	458.143	2,280	55.875	154.596	251.235
Construction	800.623	8,130	235.498	270.315	0.000
Meat Processing	4,752.405	12,354	400.330	491.978	4,093.572
Other Manufacturing	542.461	2,989	100.218	144.988	81.952
TCPU	1,472.370	6,201	254.284	541.541	265.977
Trade	1,185.245	26,643	515.102	831.002	45.199
FIRE	990.247	6,018	159.903	680.882	27.969
Services	1,175.866	25,146	540.482	647.963	10.827
Government	813.565	23,933	624.385	714.513	23.211
TOTALS	16,762.195	134,039	3,165.426	5,036.292	6,218.296

TCPU is transportation, communication and public utilities. FIRE is finance, insurance and real estate. Columns do not sum to totals due to the exclusion of minor accounting categories.

Source: IMPLAN Professional, Minnesota IMPLAN Group.

Table 4. Percentage of Total Economic Activity Associated with Industries and Households in Western Kansas, 2000

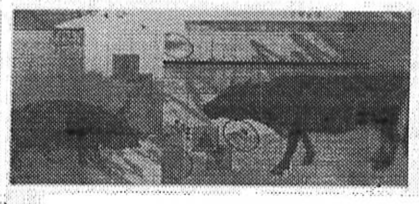
Industry	Industry Sales	Total Income	Household Income
Livestock	4.1%	2.8%	1.7%
Other Agriculture	8.4%	8.5%	4.8%
Mining	2.7%	3.5%	2.0%
Construction	6.2%	8.3%	6.1%
Meat Processing	57.6%	36.2%	23.7%
Other Manufacturing	1.1%	1.3%	0.9%
TCPU	4.0%	5.5%	3.2%
Trade	1.1%	2.3%	1.5%
FIRE	0.6%	1.2%	0.6%
Services	1.1%	2.0%	1.5%
Government	6.5%	16.2%	12.4%
Households	6.7%	12.2%	41.6%
TOTALS	100.0%	100.0%	100.0%

TCPU is transportation, communication and public utilities. FIRE is finance, insurance and real estate.

Source: author's calculations.

CME Commodity Products

Daily Livestock Report



Livestock market information provided by Steve Meyer and Len Steiner.

Volume 5, Issue 18 **January 29, 2007**

E-Livestock Volume:	1/29	1/26	1/22
LE (E-Live Cattle):	356	933	995
GF (E-Feeder Cattle):	4	5	10
HE (E-Lean Hogs):	3427	3206	1344

Another record was set today for CME E-Lean Hogs contracts — 3427! Sorry we didn't forecast that one, too, but the orange bridge in San Francisco is still on the market. And no, we don't want to trade for ocean-front property in Arizona. Kansas, maybe, but not Arizona. It's too hot there.

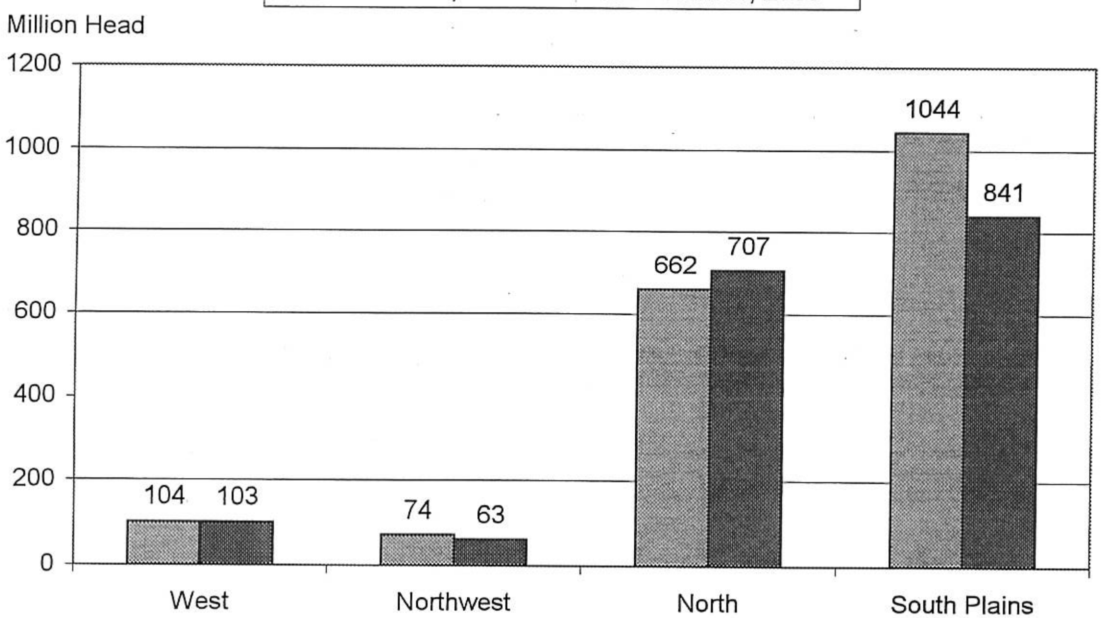
One aspect of last Friday's Cattle on Feed report that is receiving very little attention but, will be a continuing market influence for both the immediate and foreseeable future is the regional distribution of Cattle On Feed. The imbalance of fed cattle supplies is a direct reaction to the disparity in feed cost that has escalated over the past year. Increased demand for corn and increased offerings and lower costs for distillers grains (DGS) in the Corn Belt because of increased ethanol production have provided some feed cost advantages to Corn Belt feeders. Escalating transportation costs for both trucks and railroads are also contributing to the disparity in feed costs. As a result there have been growing advantages to feeding cattle in the north.

Cattle on Feed inventories in the North region (comprised of Colorado, Iowa, Nebraska, South Dakota and the Other States) were 4,750,000 head as of January 1, compared to 4,560,000 head a year earlier, a 4% increase. The Northwest Region (Idaho and Washington) had feedlot inventories of 444,000 head, compared to 427,000 head a year earlier, also a 4% increase. The Western Region (comprised of Arizona and California) had 884,000 head on feed on January 1, virtually the same as one year ago. Finally the South Plains Region that is comprised of Kansas, New Mexico, Oklahoma and Texas saw on-feed numbers decline 1% form last January's 5.933 million to a total of 5.896 million at the beginning of this year.

Placements in December (chart at left) show the imbalance growing. The Western Region that in many aspects is a closed system where calves move from ranches to lots to packers, showed placements down 1%. The Northwest Region showed a 15% reduction in placements and the South Plains Region a 19% reduction. By contract, feeders in the North Region, where the benefits of DGSs will likely be the greatest, placed 7% more cattle than a year ago.

Given the feed cost disparity between regions, the current placement pattern will likely continue. That, in turn, will cause the price spread between the North and South Plains Regions to grow even wider. The disparity will likely have an impact on grading rates and the availability of choice grade beef during the spring and summer. It could ultimately result in the migration of cattle feeding back toward the Corn Belt and that, in turn, could force beef plant closings in the South Plains. The caveat to this, though, is that beef feeding and slaughtering did not move to the High Plains and Southern Plains because of feed costs — they moved because of economies of scale, expertise and better weather. Lower cost DGSs don't solve any of those issues and the environmental situation in the Upper Midwest is less conducive to cattle feeding now than it was in the '60s when the feedlot business began to move.

FEEDLOT PLACEMENTS BY REGION



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10-H

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Testimony: HB 2496
House Economic Development and Tourism Committee
Tuesday, February 15, 2007
By: Christy Caldwell, Vice President Government Relations
Greater Topeka Chamber of Commerce
ccaldwell@topekachamber.org

Chairwoman Gordon and member of the Committee:

The Greater Topeka Chamber of Commerce would like to express our support for the concepts embodied in HB 2496, regarding tax credits for investment and job creation, with some recommendations for change.

This last summer, the President of the Greater Topeka Chamber of Commerce was asked by Secretary of Revenue Wagnon to participate in a working group to review Kansas tax policy and recommend changes that could make our state more competitive. He and the other members of a working group were able to make suggestions and propose concepts intended to help grow the Kansas economy. HB 2496 embodies some of those recommendations.

This bill proposes to modify the investment and jobs tax credit programs currently available to qualified companies growing and locating in Kansas. For some businesses the unwieldy nature of the current programs and the uncertainty of gaining or retaining the credits from year to year has been a disincentive to participate. This legislation makes significant strides to simplify the process to utilize the tax credits, which we greatly appreciate.

One of the challenges that remains in the proposed legislation is the significant hike in the thresholds required to attain the tax credits. HB 2496 requires $1 million in new investment, instead of the current $50,000 and the creation of 20 new jobs instead of 2 manufacturing jobs (or 5 non-manufacturing jobs) in existing law. This is a significant departure from what are now the current thresholds to access the program. We are concerned these very high investment and job creation requirements will result in many small and mid-sized companies no longer eligible to participate. The program will have become simplified but less effective. Our state and community may miss some great opportunities to assist smaller companies today in growing to become the giants of industry tomorrow.

We commend this Committee for your efforts to further encourage the growth of investment and jobs in Kansas. In the past this Committee has been very supportive of efforts here in the capital city as we work to retain and grow our local business and industry. Additionally, a giant step was made last year by the Legislature and Administration with the removal of property tax on newly purchased machinery and equipment. We greatly appreciate that all actions that make our state more competitive and business-friendly. We all benefit with the creation of more jobs and more investment anywhere in Kansas; you have been a significant partner in this goal.

As you continue to examine state policy to incent the growth of business, we would suggest an examination of the possibility of providing cash-based, front-end incentives. Other states are already out there with such programs and are having great success. Many companies who are ready to expand or build find the early costs of growing their business most challenging, cash assistance can be a very attractive means to draw their interest when they are making location decisions.

Locally, the citizens of Shawnee County have seen the benefit of using local tax revenues to provide similar cash support; these front-end investments have assisted our efforts to attract new investment and jobs and retain companies on the verge of leaving our community. The state's involvement in a similar program could enhance our local efforts and assist all Kansas communities in their efforts to draw new business investment and jobs.

We encourage your support for HB 2496 with modifications to make it more effective. Thank you for the opportunity to address this important issue today.

Economic Development & Tourism
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Lenexa Chamber of Commerce

The Historic Lackman-Thompson Estate
11180 Lackman Road
Lenexa, KS 66219-1236
913.888.1414
Fax 913.888.3770

TO: Representative Lana Gordon, Chairperson
Members, House Eco Devo and Tourism Committee

FROM: Ashley Sherard, Vice-President
Lenexa Chamber of Commerce

DATE: February 15, 2007

RE: **HB 2496—Changes to Economic Development Incentive Programs**

The Lenexa Chamber of Commerce appreciates the opportunity to express its views on House Bill (HB) 2496, which is intended to simplify and streamline key statewide economic development incentive programs.

We strongly support the business-friendly concept represented in HB 2496. The current process businesses must undergo to access and retain certain state economic development incentives is often criticized for being cumbersome and complicated – so complicated that some companies are discouraged from even applying. We believe simplifying and streamlining this process could increase the state's competitiveness in attracting and retaining businesses and help to foster a more healthy and growing statewide economy.

While we applaud this step in the right direction, we do have very serious concerns about other specific proposals in the bill. We believe these proposed changes would simply put economic incentives out of reach of most growing companies and make Kansas much less competitive in attracting new businesses, particularly against our neighboring states.

First, we do not believe increasing the investment tax credit threshold from $50,000 to $1 million is good public policy. This significant jump effectively limits the availability of investment tax credits to only the largest companies and ignores the many growing companies that make up our economic foundation. It also does not make sense to simplify the program's application process to encourage broader participation, and concurrently increase the eligibility criteria to the point that few companies can qualify! We do understand the need to control the fiscal impact of the bill and to also ensure tax credits are awarded to projects that represent meaningful new investment in the state, so we would propose an increase in the minimum investment threshold up to a level of around $100,000.

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Date: 2-15-07
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Second, we do not believe increasing the job creation tax credit from 5 net new jobs up to 20 jobs is good public policy. Again, this significant jump effectively limits the availability of job creation tax credits to only the largest companies – it's simply not realistic for most growing businesses. It would also put us at a specific competitive disadvantage with Missouri, which offers a job creation tax incentive based on the addition of 10 net new jobs over two years (rather than receiving a tax credit, the company is simply allowed to retain its withholding tax.) To maintain a job creation stimulus for smaller growing companies and preserve our competitiveness, we would propose the minimum job creation threshold remain at five net new jobs total.

Lastly, we do not believe eliminating the training tax credit program is good public policy. In a globally competitive marketplace, why would Kansas want to stop encouraging and rewarding employers that spend above-average resources investing in their workforce? More highly skilled workers are both more productive and earn better wages – all of which generates additional revenue for the state. We would propose not only preserving the training tax credit program, but also recognizing the 21st century workplace by including computer-based training among the program's eligible expenditures.

Without these suggested changes, HB 2496 will hurt backbone Kansas businesses like Z3 Graphix, a printing operation with 32 full-time employees located on two sites in Lenexa. Z3 Graphix has consistently added employees and invested $200,000-$500,000 per year in additional equipment and a second operational site, all of which increased capacity and generated new revenue for the state. Z3 Graphix simply would not have been able to make these investments and hire additional employees without the investment tax credit – but under HB 2496, Z3 Graphix would no longer qualify for those incentives.

While we strongly support the simplification provisions embodied in HB 2496, we must oppose other specific details currently in the proposal. We sincerely hope that our concerns can be resolved so that we may fully support the bill, which we believe can enhance business attraction and expansion efforts across Kansas. Thank you very much for your time and attention to these important business issues.

Testimony on House Bill 2496

by Betty Nelson
Senior State Incentive Manager
CBIZ Accounting, Tax & Advisory Services of Kansas City

February 15, 2007

CBIZ is a national leader in accounting, tax and advisory services with 140 offices in 34 major cities throughout the country. We are one of the nation's leading providers of outsourced business services, including accounting and tax, benefits and insurance, and a wide range of consulting services.

CBIZ is headquartered in Cleveland, Ohio with our mid-west regional office in Leawood, KS. CBIZ moved our regional office from Missouri to Kansas in July of 2003 based on the incentive package we received from the State of Kansas for committing to $20,000,000 of new investment and 540 net new jobs.

I am part of our State and Local Tax (SALT) group and work with clients every day that are expanding, creating jobs and adding capital investment. We prepare our clients' State and Federal tax returns and advise them on related issues such as tax credits, training grants and sales tax exemptions. Taxes are important to business. Business decisions are affected by them. Job creation and retention, site selection, competition and numerous other decisions hinge on them. Our clients make location decisions based on our advice.

Currently, companies have three *separate* ways to invest in the State of Kansas:

1. Invest in capital by purchasing or leasing new equipment and/or expanding facilities.
2. Create net new jobs, thereby increasing payroll.
3. Invest in training initiatives by spending greater than 2% of their gross payroll on training their workforce (both existing and new employees).

We are extremely concerned that HB 2496 will adversely affect our clients' desire and determination to move to or expand in Kansas. Although we applaud the State's efforts to simplify the document preparation, we believe that the raising of the thresholds and elimination of the training tax credit will diminish Kansas' ability to compete with its neighbors.

Until now, Kansas has been very effective at winning new businesses in the state based on the incentive packages they have offered to those who are considering opening a business or moving an existing business to the state. If the tax credits for smaller businesses are removed, the state will certainly not be in a competitive position and will struggle to catch up with the surrounding states.

Investment Tax Credit

Current investment level required

- Currently all companies must subtract out the first $50,000 of investment and can earn a 10% tax credit on qualified investment greater than $50,000.

New Legislation proposed

- Raise the investment threshold to $1,000,000.

Our proposal

- Investment threshold (if it must be raised) should be no more than $200,000 to account for companies making routine investment in their business.

Job Creation Tax Credit

Current job creation level required

- Manufacturers must create two net new jobs in all areas of the state.
- Retail businesses must create two net new jobs in all areas of the state.
- Non manufacturing/non-retail businesses must create five net new jobs.
- Business headquarters and ancillary support must create 20 net new jobs in all areas of the state.

New Legislation proposed

- All businesses in Metropolitan Statistical Area (MSA) would be required to create 20 net new jobs.
- Retail businesses will not be eligible.
- In Opportunity Zones manufacturers will be required to create five net new jobs.

Our proposal

- Manufacturing and non-manufacturing/non-retail businesses must create five net new jobs
- Business headquarters and ancillary support operation must create 20 net new jobs.

  Twenty jobs are too many for a small to medium business to create in any given year.

Excessive Training Tax Credit

Current Training Tax Credit

- Companies who invest greater than 2% of their gross payroll in training their workforce can earn a dollar for dollar tax credit up to $50,000 for providing Kansas with a well-trained workforce.

New Legislation proposed

- *Eliminate* this tax credit for all businesses.

Our proposal

- Make this a separate tax credit and allow all companies who meet the NAICS code requirements and wage standards to receive a tax credit for investing in human capital for training that exceeds 2% of their gross payroll. Training employees is expensive, especially if your employees leave. However, not training them and having them stay is even more expensive.

Incentives are a natural lightning rod for criticism. Debate often centers on whether they are necessary and effective or simply a waste of resources. Companies seek such objectives as a skilled labor force, the availability of raw materials and a short distance to markets. In the final analysis, however, government incentives are crucial to a company's ultimate decision on where to locate that new facility.

Many of our clients are small businesses that are growing and expanding. These companies pay higher than above average wages. They generate greater than 50% of their revenues from out of state, and they invest in properly training their workforce. These are the types of businesses all of you want in your communities. This legislation, as proposed, will discourage desirable businesses from locating in Kansas from outside of the state and will hinder businesses already located in the state from expanding.

Attached is a spreadsheet showing how the new legislation proposed will affect both a new business coming to Kansas and an existing business that is considering leaving the state.

Thank you for your consideration.

Software business considering locating from out of state into the Kansas Metropolitan Statistical Area (MSA)

Assumptions:

Total investment of $6,500,000 over 5 years
Total jobs of 70 over 5 years
Type of business - Software developer
Job creation is $1,500 per net new job

	Year 1	Year 2	Year 3	Year 4	Year 5	
Investment	$3,000,000	$875,000	$875,000	$875,000	$875,000	$6,500,000
Job creation	30	10	10	10	10	70
Benefits under the current tax credit programs						
HPIP (minus first $50,000)	$295,000	$82,500	$82,500	$82,500	$82,500	$625,000
Business & Job Tax credit	$45,000	$15,000	$15,000	$15,000	$15,000	$105,000
Training tax credit	$50,000	$50,000	$50,000	$50,000	$50,000	$250,000
Sales tax exemption (using 7.225)	$72,250	$63,219	$63,219	$63,219	$63,219	$325,126
Total benefit						$1,305,126
Benefits under the proposed legislation						
Investment tax credit ($50,000 will no longer be deducted)	$300,000	$0	$0	$0	$0	$300,000
Jobs Credit	$45,000	$0	$0	$0	$0	$45,000
Sales tax exemption (using 7.225)	$72,250	$0	$0	$0	$0	$72,250
Training Tax Credit	$0	$0	$0	$0	$0	$0
Total benefit						$417,250

By raising the investment level from $50,000 to $1,000,000 in any given year and raising the job creation requirement from 5 to 20 jobs the company would lose $887,876 in incentives that would be offered under the current incentive programs.

5-4

Existing manufacturing business considering a new location/could locate in either Kansas or Missouri

Assumptions:

Total investment of $1,400,000 over 5 years
Total of 25 jobs added over the next 5 years
Type of business - Manufacturer of electronic components
Job creation is $1,500 per net new job
Existing jobs - 30
One half of the equipment investment each year is for non-manufacturing equipment.
Training tax credit - The company can earn up to $50,000 each year, but we are only estimating the company earns $20,000 each year.
This company is a Sub S and is taxed at the individual level.

	Year 1	Year 2	Year 3	Year 4	Year 5	
Investment	$600,000	$200,000	$200,000	$200,000	$200,000	$1,400,000
Job creation	5	5	5	5	5	25
Benefits under the current tax credit programs						
HPIP (minus first $50,000)	$45,000	$15,000	$15,000	$15,000	$15,000	$105,000
Business & Job Tax credit	$7,500	$7,500	$7,500	$7,500	$7,500	$37,500
Training tax credit	$20,000	$20,000	$20,000	$20,000	$20,000	$100,000
Sales tax exemption (using 7.225)	$7,225	$7,225	$7,225	$7,225	$7,225	$36,125
Total benefit						$278,625
Benefits under the proposed legislation						
Investment tax credit ($50,000will no longer be deducted)	$0	$0	$0	$0	$0	$0
Jobs Credit	$0	$0	$0	$0	$0	$0
Sales tax exemption (using 7.225)	$0	$0	$0	$0	$0	$0
Training Tax Credit	$0	$0	$0	$0	$0	$0
Total benefit						$0

By raising the investment level from $50,000 to $1,000,000 in any given year and raising the job creation requirement from 2 to 20 jobs, the company would lose $278,625 in incentives that would be offered under the current incentive programs.

Testimony on HB 2496
Before the House Economic Development Committee
Kelly Schoen, CEO, Z3 Graphix
February 15, 2007

Z3 Graphix HPIP Program History

- In 1999 I purchased the assets of a Missouri corporation to use as the basis to launch a new business model. The predecessor company had low-tech equipment and pay rates that were low by industry standards. Given that, I purchased the assets with the intention of leveraging them into a "High Value" marketing services company that utilized technology to produce value-based marketing products and services.

- As we built the plan for the new business model, we began the search for a location to launch our new printing & marketing services center. We evaluated properties in both Kansas & Missouri, as the predecessor organization had facilities in both states. During the evaluation process, our realtor introduced us to CBIZ so that they could educate us on the potential tax incentives that might be available if we chose to locate in Kansas. After learning more about the HPIP program, and factoring the tax benefits of the HPIP program into our decision, we chose to locate in the College Crossing business park in Lenexa, Kansas.

- Like most small businesses we struggled with the challenges of meeting our debt service related to the leveraged buy out, while still committing the financial resources necessary to equip the company with the assets necessary to execute our business model. By utilizing the HPIP investment tax credit program, we were able to justify investments that we wouldn't otherwise have been able to make. We averaged over $200,000 in equipment investments per year for a total of over $1,000,000.

- Another thing that most small businesses struggle with is dedicating the financial resources and time to train their workforce. The purchase of higher tech equipment required a higher skilled operator. The HPIP Training Tax Credit program provided us with the incentive to dedicate the resources to train our employees to higher skill levels. The result is that we have a work force with significantly higher skill levels, and in turn can deliver a higher level of value to our customers, and accordingly are compensated at significantly higher levels (average compensation is nearly double that of the predecessor organization).

- More skilled employees operating higher tech equipment led to a higher value of products and services for our clients. In turn, our sales grew at double-digit annual rates (sales growth of approximately $2 mm over the past 5 years). This in turn has allowed us to add new jobs (10 over the past 5 years).

- As we grew sales and added equipment and employees, space became tight. Once again the HPIP investment tax credit program provided us with the incentive to open a new facility in the State of Kansas. In 2005 we opened our second facility in Lenexa.

Primary Concerns With Proposed Legislative Changes To The HPIP Program:

- The raising of the investment threshold from $50,000 would eliminate the incentive for small businesses such as Z3 to continue to invest in equipment and facilities in the State of Kansas. Very often the investment tax credit is the difference maker in allowing a small business to be able to stretch into a deal. Small business provides the majority of jobs and fuel for the economy, and the proposal to raise the investment threshold to a level that is not attainable for most small business would be detrimental.

- The elimination of the training credit would significantly reduce the incentive for small businesses to properly train their employees to be competitive into the future. Because employees in small companies wear a lot of hats, it is extremely difficult to justify the time and expense to train employees to the levels that will enhance their future value. Without the incentive of the HPIP Training Credit, small businesses will be more likely to take a shorter-term approach and reduce or eliminate much of their training. Over time, this will lead to lower skilled and lower paid employees.

- Increasing the jobs creation requirement from 2 to 20 will essentially eliminate the incentive for small businesses. While it may be possible to strive to add 2-5 new jobs per year, it is not realistic to expect to add 20.

Summary

- In summary, I see the proposed legislative changes to the HPIP program as being extremely detrimental to the small businesses of Kansas. It will eliminate much of the incentive for investment and training, which in turn will slow the growth potential for the company, which in turn will slow the growth of the economy.

- I believe the Z3 story is a classic example of how the HPIP program can provide the incentive and capability to expand and grow the company. The result has been a substantial increase in sales which has led to increased sales tax revenue and income tax revenue for the State of Kansas. It has also led to substantially higher wages which has provided increased income tax revenue for the State. Increased equipment has led to increased property taxes.

COHEN-ESREY
REAL ESTATE SERVICES, INC.

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February 15, 2007

House Economic Development Committee
Kansas Statehouse
Topeka, Kansas

RE: ***HB 2496--Proposed Economic Development Tax Incentive Reforms***

Dear Representatives:

I am writing to express my concern regarding the Governor's proposed economic development tax incentive reforms, which I believe will have a tremendously negative impact on small and medium businesses in the State of Kansas. Furthermore, the changes will affect the state's ability to attract new companies to relocate their businesses to Kansas.

Taxes matter to business. They affect business decisions, job creation and retention, plant location, competition and the long-term health of our state's economy. Although some things are beyond our control in creating an attractive business climate, Kansas can direct its own tax policies.

The Governor's proposed changes will most negatively affect small and medium-sized businesses in the following areas:

Qualification for Investment Tax Credit

- Current Standard:
  Invest at least ***$50,000*** at a company's qualified business facility.
- Proposed Standard:
  Invest at least ***$1,000.000*** at a company's qualified business facility. Investments less than that amount (except in Opportunity Zones) will not qualify.

HPIP "Simplifications/Eliminations"

- Current Standard:
  Businesses can receive up to $50,000 in a training tax credit each year.
- Proposed Standard:
  Eliminate the training tax credit altogether.

This will affect ***approximately 90 percent*** *of businesses that are currently HPIP certified in Kansas.*

Economic Development &Tourism
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Job Credit Requirements to Qualify for a Credit of $1,500 for Each Net New Employee

- Current Standard:
  - ***2*** Net New Manufacturing Jobs

  OR
  - ***5*** Net New Non-Manufacturing / Non-Retail Jobs

  (As determined by the net gain in employees on the payroll at year-end)
- Proposed Standard:
  - Minimum of ***20*** Net New Jobs

As our legislative representatives, it is imperative that you protect and foster the business climate in the State of Kansas. Kansas has worked tirelessly to attract new businesses and to retain the ones that it currently has. Why would we now take a step backward, damaging the groundwork that has been laid to create a positive culture for business in our state? Small and mid-size businesses stand to lose and lose greatly in this new equation. With that in mind, I implore you to act in the best interest of those in your districts by taking steps ***now*** to diffuse this situation ***before*** the proposed changes become a bitter reality.

Sincerely,

R. Lee Harris, CRE, CPM
President

MEI
MISSION ELECTRONICS, INC

February 2, 2007

House Economic Development Committee
Kansas House of Representatives
Topeka, KS

Dear Representatives:

I, D. Roxanne Helphingstine, am president of Mission Electronics, a small business in Lenexa. We are an audio visual integrator and have been in business for 27 years. In 1995 when we began to see an increase in internet business, Mission Electronics had to change the direction of its sales and service.

Until that time, we were focused on production equipment sales to television stations and production companies. Those entities began purchasing their equipment on the internet to save on sales tax and pricing. We knew if we did not change our business plan, we would most likely be forced to close our doors.

To do so, we had to expand our staff and hire more technically oriented personnel. In this ever changing technological world, we send our employees to training whenever possible. Consequently, we are very concerned by the proposal to eliminate the training tax credit.

This tax credit has enabled us to send more employees to additional training. We would need to pare down some of that training if this occurs. This tax credit has been a great incentive for us to further educate our employees here at Mission Electronics. As our expenses as a small business have continued to increase (such as in health insurance costs), we appreciate any incentives that are available to us.

I appreciate your consideration in not abolishing the training tax credits.

Sincerely,

D Roxanne Helphingstine

D. Roxanne Helphingstine
President

Economic Development & Tourism
Date: 2-15-07
Attachment # 10