

MINUTES OF THE SENATE COMMERCE COMMITTEE

The meeting was called to order by Chairman Susan Wagle at 8:15 a.m. on January 25, 2011, in Room 548-S of the Capitol.

All members were present.

Committee staff present:

Ms. Margaret Cianciarulo, Committee Assistant
Mr. Reed Holwegner, Kansas Legislative Research Department
Ms. Dorothy Noblit, Kansas Legislative Research Department
Mr. Ken Wilke, Kansas Office of the Revisor of Statutes

Conferees appearing before the Committee:

Mr. Pat George, Acting Secretary, Department of Commerce
Mr. Nick Jordan, Acting Secretary, Department of Revenue

Others attending:

See attached list.

Overview of the Department of Revenue

Upon calling the meeting to order, the Chairperson called on Acting Secretary Jordan who offered an overall view of the Department of Revenue including its four divisions:

1. Tax Operations
2. Alcoholic Beverage Control
3. Property Valuations
4. Division of Motor vehicles (This Department does have a lot of regulatory enforcement duties and they will continue to do those in a fair manner, for example upholding the statutes.

Regarding Governor Brownback's vision of economic growth in Kansas:

1. The number one goal is to grow the economy.
2. The Governor has laid out an agenda which included changes in tax law (his first request of the Legislature and certainly his Cabinet, is a comprehensive tax policy in Kansas to create a good environment for citizens and businesses.)
3. He has established an Economic Growth Team from the Commerce, Agriculture, Revenue, Labor, Transportation, and Health & Environment Departments to work together to create jobs.

Regarding the Governor's Council on Economic Advisory Committee, it is a restructuring of Kansas Inc. to be moved to the Governor's office. This group of key business leaders from across Kansas, Chaired by the Governor, will meet quarterly and charged with reviewing how the economy in Kansas is progressing, what policy will help economic growth in the business community in Kansas. and be responsible for holding everyone accountable for the implementation of that plan. Secretary Jordan feels all departments will be held to performance metrics.

Regarding tax policy, at the federal level they recently put in 100% "expensing" and the Governor will be introducing this into Kansas. But for this year, a Kansas company will be getting the same from the federal government, but once this is over, an "expensing" bill will be introduced by the Governor, making us the only state in the country to have this. It will not be at 100% because they need to work around a few budget items and try to work with the current budget, but it will allow a company to capture a prime value for their money on investments (ex. equipment, machinery, and software.)

In order to accomplish this and some other changes they want to :

1. Have a list of tax credits we are suggesting be examined and may be deleted from our books. One in particular they are reviewing is the HPIP tax credit that is important to our aviation industry. He said, he and Acting Secretary George are trying to figure out how to work HPIP in "expensing."

CONTINUATION SHEET

Minutes of the Senate Business and Labor Committee at 8:15 a.m. on January 25, 2010, in Room 548-S of the Capitol.

2. They would like to restructure IMPACT and develop a contingency fund that can be used to close the deal when companies are sitting at the table.

3. They have several investments in the regents to continue research. For instance, NIAR, the aviation research facility in Wichita. \$5M was put in the base of the budget so that for the next three years, Wichita does not have to come and ask for money because it will already be in the budget. This is a commitment the Governor has made, and in return, he would like to have a 15-20 year plan of what results of that money are suppose to be with and benchmarks to follow as we go over the next three years. It is the same thing with the training facility and The Cancer Institute, and Kansas State University for NBAF and animal health, money in the base and benchmarks to follow.

Lastly, he stated other investments which Acting Secretary George will probably talk about, is the restructuring of KTEC which will be moved to the Department of Commerce except for EBSCoR which will be going to the Regents for their work. A copy of his testimony is (Attachment 1) attached and incorporated into the Minutes as referenced.

The Chair thanked Acting Secretary Jordan and stated that since he and Acting Secretary George both needed to leave at 9 a.m , she would recognize Acting Secretary George for his testimony and then open up for questions if there is time.

Acting Secretary George offered:

1. A brief history of the Department of Commerce.

2. Stated they are funded entirely by EDIF (Economic Development Initiative Fund) and the workforce group is federally funded. There is no state general fund.

3. Their goal is to be proactive in bringing business and jobs to Kansas.

4. They hope to morph IMPACT which in his view, has gotten away from its mission. (2% of withholding go into a fund and used to close deals and somewhere along the line we started bonding so we can award. The 2% equals up to \$42M, but now with what we have added on in the last year, up to \$28M of it is spent every year. They would like this to discontinue, but we are still obligated for many years to pay that debt. We would like to create a fund to give the Department Secretaries of Revenue and Commerce and an appointee from the Governor's office, that could use those funds with guidelines, to close the deal, the intent is to be nimble. (We are charged to work as partners with business at their speed. A copy of his testimony is (Attachment 2) attached and incorporated into the Minutes as referenced.

Chairperson Wagle thanked Acting Secretary George and referred the Committee to page 3 of his handout, slide 13, stating all of the magazine advisers have rated Kansas in the Top 10 in eight of 20 categories for these different economic development packages. Also, that the Governor stated they will have uniform standards so we can take all these economic development tools and look at them with the same standards, looking for consistency in evaluations to track success.

The Chair asked for questions or comments from the Committee which came from Senators Lynn, Wagle, Masterson, Faust-Gaudeau, Emler, and Holland including:

1.) Clarification of "expensing" and is there a time frame for this? (The concept was explained and hope to make the policy permanent.)

2.) Referring to Acting Secretary Jordan's presentation of incentives for large businesses that would eventually trickle down to help small businesses, could you elaborate? (Trying to find a balance, so we know what kind of tax policy makes us the most attractive to incoming businesses and those already located to help them grow?)

3.) Regarding KTEC integration into the Department of Commerce, what does this look like, where do I send a constituent, what kind of wind down process are they in, are they still producing? Hope is to provide the same services with the same standards and any start up companies they will manage.)

CONTINUATION SHEET

Minutes of the Senate Business and Labor Committee at 8:15 a.m. on January 25, 2010, in Room 548-S of the Capitol.

4.) What differences do you see between the Governor's Council and Kansas Inc. ? (Feels this governor is making economic growth a stronger priority and wants to be directly involved. Kansas Inc. has come up with a lot of recommendations but, for whatever reasons a number of those have not seen the light of day. Structurally the Council probably will not be a whole lot different, still a CEO and still accountable.)

5.) What are you doing from the perspective of the middle class, their confidence level? (Example: Untapped equity in our agricultural partners and find ways to open up and to free up capital.)

6.) Will the "expensing" policy only apply to companies located physically in Kansas or have nexus in Kansas. For example: A GM plant in KCK, but the seats in the cars were made in Missouri and does it have to be more capital investment? (Have to be Kansas domiciled and broadly defined, any machinery or software bought.)

Confirmation hearing on the reappointment of Mr. Kyle Elliott

As there were no further questions, comments or discussions the Chair announced the next order of business was the confirmation for the reappointment of Mr. Kyle Elliott, a KTEC Board member adding that since this was a reappointment, Mr. Elliott did not need to be here, so she would like to action.

Senator Steineger asked if KTEC is going to be dissolved as is the Health Policy Authority, why are we appointing people to agencies that are going away? The Chair said, the KTECH reorganization bill has not passed yet, and until KTEC is reorganized, we must follow protocol.

The Chair recognized Senator Emler who said someone could file suit saying that the action that was taken by that group was illegal because the person was not properly confirmed at the time the action was taken. So until the changes are made we still have to confirm the people so that any actions taken are deemed legal. Senator Holland made a motion to recommend the reappointment of Mr. Elliott. It was seconded by Senator Emler and the motion passed.

Adjournment

As there was no further business, Chairperson Wagle adjourned the meeting. The time was 9:30 a.m.

The next meeting is scheduled for January 26, 2011.

SENATE COMMERCE COMMITTEE GUEST LIST

DATE: Tuesday, 1-25-11

NAME	REPRESENTING
Derek Hein	Hein Law Firm
Michelle Butler	Cap. Strategies
Phil Bradley	KLBA, RVFWA, KCBG
Bill Sneed	Polsinelli
Michelle Wilson	KFEC
Eric Stafford	KS Chamber
Danahie Bright	WIBF
Dale Guter	Wichita
Harry A. White	KFB - Manhattan
Ron Secker	RGFA
Caleb Reed	Sen. Pyle

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Thk U - Committee Secy.

Kansas Department of Revenue

Testimony
Kansas Department of Revenue
Secretary Nick Jordan
January 25, 2011

Kansas Department of Revenue collects taxes and fees, administers Kansas tax laws, issues a variety of licenses and provides assistance to Kansas citizens and units of government.

The Kansas Department of Revenue is committed to hard work every day for the people of Kansas; to treat our taxpayers, our employees, and each other with respect; to conduct business with integrity, fairness and civility; and to be held accountable for our efforts.

Secretariat- Administrative Services

The Chief Administrative Officer and Appointing Authority of the Department of Revenue is the Secretary of Revenue, who is appointed by and serves at the pleasure of the Governor. The Secretary is responsible for the management of the Department's four divisions: Tax Operations, Alcoholic Beverage Control, Property Valuation and Vehicles. There are five Secretariat Service Bureaus: Office of the Secretary, Resource Management, Legal, Policy & Research, Audit Services and Information Services. The Secretariat assists the Governor's and Legislature's staffs with policy development and economic forecasting. The Secretary provides revenue analysis through the development of simulation models; historical data analysis; analysis of economic trends, and the effect of legislative action. The Secretary of Revenue serves as the contact point for the department in its numerous interactions with local and county governments and their various entities.

Alcoholic Beverage Control

The Director of Alcoholic Beverage Control (ABC) has the responsibility of administering laws governing the manufacture, distribution, sale and consumption of alcoholic beverages in Kansas. The ABC director, staff and agents ensure that out-of-state suppliers, in-state distributors, and retail-level Kansas licensees comply with the state liquor laws. Additional Duties include enforcing laws against selling cigarettes to underage persons and collecting the tax on illegal drugs.

The division works to improve voluntary compliance of tax laws as well as the laws regulating liquor, and cigarettes and tobacco products by providing education and training to industry members and local law enforcement agencies.

Tax Operations

The Kansas Taxation Division is responsible for administration and compliance of a variety of Kansas taxes. The taxes are categorized by either personal or business.

The administration of personal taxes includes filing and payment of taxes, verification of the accuracy of tax filings, refund information, and providing customer services on the various tax types.

Senate Commerce Committee
Date: January 25, 2011
Attachment 1

Kansas Department of Revenue

The Director of Taxation oversees the operations of three subprograms: Channel Management, Customer Relations, & Compliance Enforcement. The Director's office works very closely with these four areas.

- Channel Management converts paper based data into electronic formats in order for associates to retrieve, query and display document images.
- Customer Relations is responsible for reviewing and adjusting tax returns to ensure accuracy, completeness and compliance with Kansas statutes and regulations. This area also provides answers to questions from Kansas taxpayers either by telephone, written correspondence, or to walk-in customers who visit the Taxpayer Assistance Center regarding adjustments, Kansas tax laws and completing returns.
- Compliance Enforcement is also responsible for identifying taxpayers that fail to report taxes, under-report taxes or underpay taxes. The mission of Compliance Enforcement is to ensure the equitable payment of taxes due by developing and applying methods and tools to monitor, assist, encourage and persuade customers to comply with the tax laws of the State of Kansas.
- Electronic Services goal is to reduce or eliminate all paper-based data by capturing data electronically at the source. Electronic Services defines, implements and supports a portfolio of electronic channels for moving information to and collecting information and payments from KDOR customers. This includes web-based software and interactive voice response systems and applications used for the purpose of filing tax returns and reports and for remitting the related payments and fees.

Property Valuation

The Kansas Property Valuation Division exercises general supervision over ad-valorem policies and procedures, conducts the valuation of state appraised properties and provides concise and timely property tax information. Property is assessed by county appraisers and collected at the county level. The Administration Bureau provides: (1) direction and policy guidelines for the division and all the Kansas counties; (2) specialized legal services to the division, counties and the public; (3) an annual education program for counties and the public; (4) administrative services for the entire division such as budgeting, purchasing, and legislative analysis.

- The State Assessed Bureau primarily performs two functions: (1) it appraises a variety of public utilities and certifies the appropriate valuations to the counties; and (2) it values, assesses and collect motor carriers property tax.
- The Technical Support Bureau is devoted to providing specialized technical support services to the counties in an effort to assure quality customer service and more accurate, uniform property taxation. The Director to promulgates guidelines for the counties to follow, to assure statutory statewide uniformity in valuations. This bureau's role includes generating and maintaining the commercial sales data base; providing support for CAMA (the computer-assisted mass appraisal program); generating agricultural use valuations; issuing an oil and gas guide and

Kansas Department of Revenue

a personal property guide, and determining valuations/class codes for passenger motor vehicles that are taxed.

- The County Assistance Bureau is devoted to providing county assistance in an effort to assure quality customer service and more accurate, uniform property taxation. This bureau prepares and issues the annual sales ratio report and the annual substantial compliance report required by law.

Motor Vehicles

The Division of Motor Vehicles is committed to serving the public with information and direction, for titling and registration of their personal and commercial vehicles, licensing new/used automobile dealers, licensing drivers, enforcing restrictive driving privileges. The Driver Privacy Protection Act, which protects Kansas citizens' personal information is adhered to in all operations.

- The Titles and Registration function in the Division of Vehicles issues license plates, certificates of title, registration renewals, and collects for all 2.6 million private and commercial motor vehicles. Numerous e-government enhancements will provide the citizens of Kansas with a wider variety of options to meet their customer service needs. Titles and Registrations partners with all 105 County Treasurers to provide motor vehicle services to the citizens of Kansas. The Bureau provides ongoing training and support for county treasurers' motor vehicle staff, and new, used and salvage vehicle dealers. The Titles and Registration Bureau is responsible for providing tags, tag envelopes, decals and forms to County Treasurers. Staff is responsible for maintaining over 50 years of motor vehicle documentation and respond to all requests for vehicle information. Additionally, the state's 9,000 new and used vehicle dealers and salespersons are licensed, renewed and monitored by the Dealer Licensing Bureau Staff and Field Investigators. Investigations are conducted to ensure compliance with statutory requirements and resolve complaints.
- The Motor Carrier Services Bureau issues registrations and cab cards for approximately 2,200 Kansas based carriers as well as registering nearly 20,000 trailers annually.
- The Driver's License Examining Bureau and Driver Control Bureau support the state-wide effort to have safe drivers on Kansas roadways through testing, issuing and renewing drivers' licenses, and maintaining driving records for use by law enforcement officials, courts, and others. The Driver's License Examining Bureau conducts driver's license examinations and issues identification documents. The Driver Control Bureau maintains driving records, processes changes to driving privileges such as restrictions, suspensions, revocations and reinstatements on drivers' licenses, and coordinates administrative hearings.



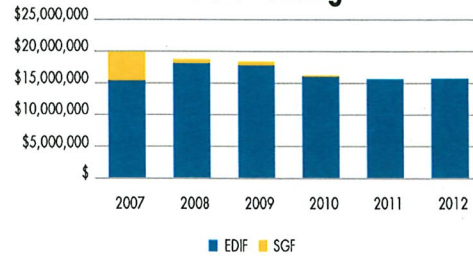
Fiscal Year 2011 YTD Update

Senate Commerce Committee

By Pat George, Acting Secretary
January 25, 2011

Department of Commerce Budget

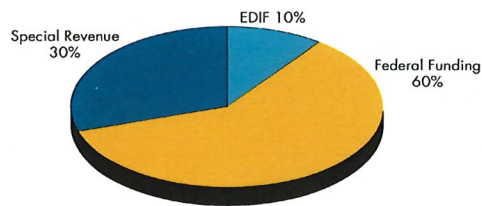
State Funding



2

Department of Commerce Budget

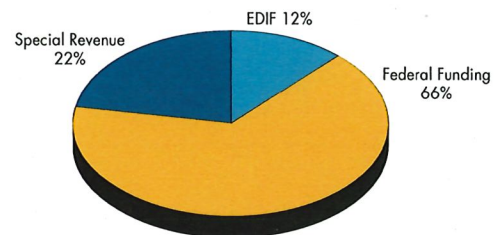
FY 11 Budget



3

Department of Commerce Budget

FY 12 Budget



4

Department of Commerce Budget

Kansas Department of Commerce
State Funding Status - January 14, 2011

Description	Budget	Encumbrance	Expense	Balance
Economic Development Initiatives Fund - Block Grant	\$13,080,487	\$1,235,007	\$4,998,952	\$6,846,528
Older Kansans Employment Program	\$294,682	\$219,366	\$61,821	\$13,496
Rural Opportunity Program	\$1,765,017	\$634,072	\$436,618	\$694,327
Senior Community Service Employment Program - state match ARRA	\$5,200	\$-	\$1,679	\$3,521
Senior Community Service Employment Program	\$3,941	\$-	\$-	\$3,941
Kansas Commission on Disability Concerns	\$201,250	\$-	\$96,952	\$104,298
Strong Military Bases Program	\$307,050	\$-	\$245,640	\$61,410
	\$5,657,627	\$2,088,445	\$5,841,661	\$7,727,521

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Divisions

Business Development
Rural Development
Trade Development
Travel & Tourism
Workforce Services

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Senate Commerce Committee
Date: January 25, 2011
Attachment 2

Target Industries

The Department works to grow all sectors of the economy, with a focus on the following:

- Advanced Manufacturing (aviation, etc.)
- Value-added Agriculture
- Bioscience (animal science, pharmaceuticals, etc.)
- Energy (traditional and renewable sources)
- Professional Services (banking, engineering, etc.)

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Business Development Division

Goal:

- To encourage job creation and capital investment in Kansas through the recruitment of out-of-state firms, the expansion of existing Kansas companies and the creation of new companies.

Products and services:

- Financial incentives such as tax credits and loans
- Site location consultation and cost-benefit analysis
- Assistance in working with State regulatory agencies and community organizations

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Business Development Division

FY2010 recruitment results:

	<u>FY10</u>	<u>FY09</u>
- Projects opened:	178	185
- Successes:	68	42
- Jobs created:	13,870	9,100
- Jobs retained:	1,218	3,546
- Average salary:	\$52,000	\$60,320
- Payroll:	\$721M	\$550M
- Capital Investment:	\$838M	\$900M

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Business Development Division

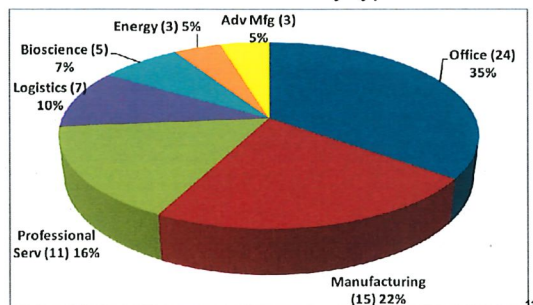
FY2010 recruitment highlights:

- **Cerner**, Kansas City (4,500 jobs, \$170M)
- **General Motors**, Kansas City (1,000 jobs, \$88M)
- **U.S. Bank**, Overland Park (1,100 jobs, \$21M)
- **J.P. Morgan**, Overland Park (650 jobs, \$30M)
- **Regent Asset Mgmt.**, Overland Park (1,250 jobs, \$2M)
- **Tindall**, Newton (400 jobs, \$66M)
- **Redbarn Pet Products**, Great Bend (200 jobs, \$2M)
- **Allen Foods**, Topeka (50 jobs, \$30M)
- **Jupiter Group**, Junction City (169 jobs, \$3.2M)

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Business Development Division

FY2010 recruitment results by type:



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Business Development Division

FY2010 retention/expansion results:

	<u>FY10</u>	<u>FY09</u>
- Projects opened:	150	155
- Successes:	42	84
- Jobs created:	5,584	3,548
- Jobs retained:	1,887	3,921
- Average salary:	\$39,880	\$30,742
- Payroll:	\$222.7M	\$117.6M
- Capital Investment:	\$471.3M	\$1B

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Business Development Division

FY2010 media accolades and ranks:

- Kansas ranked **Top 10** in eight of 20 categories in *Business Facilities* 2010 Rankings Report, our best-ever finish.

Business Facilities
THE LOCATION ADVISOR

- Kansas was ranked **No. 3** in *Southern Business & Development's* "Top Deals and Hot Markets" report, the state's best-ever finish and our second straight Top 5 ranking.

SOUTHERN
BUSINESS & DEVELOPMENT

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Business Development Division

FY2010 media accolades and rankings:

- Kansas was ranked the **No. 7** most pro-business state in the Pollina "Top 10 Pro-Business States" report for the second straight year. It was our third straight Top 10 finish.

Pollina Corporate

- Kansas was ranked **No. 11** in CNBC's annual "America's Top States for Business" report for the second time in three years.

CNBC

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Business Development Division

- *Area Development* magazine named Kansas the **Silver Shovel Award** winner for excellence in job creation and capital investment. This was our fourth Silver Shovel in five years.

AREA DEVELOPMENT
ONLINE

- *Site Selection* magazine named Kansas one of the nation's **Top 10** most competitive states for capital investment and facility development. This was our second straight Top 10 finish.

SITE
Selection

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Business Development Division

FY2011 YTD recruitment results:

- 7,331 jobs
- \$153M in capital investment

FY2011 YTD recruitment highlights:

- Key Bank (600 jobs, \$10M)
- Draka (25 jobs, \$1M)
- Plastikon (126 jobs, \$7.3M)
- Bombardier Learjet (300 jobs, \$600M)

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Business Development Division

FY2011 YTD retention/expansion results:

- 732 jobs
- \$227M in capital investment

FY2011 YTD retention/expansion highlights:

- Zeolyst International (33 jobs, \$83M)
- KOCH-Glitch, LP (40 jobs, \$8.1M)
- Snow Hill Rock Co. (27 jobs, \$15M)
- Philips Lighting Company (10 jobs, \$1.3M)
- WAFFLE-CRETE International (100 jobs, \$2M)

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Rural Development Division

Goal:

- To elevate the focus on rural development and encourage collaboration among rural groups.

Sub-Divisions:

- Agriculture Marketing
- Community Development
- Office of Rural Opportunity

Programs and services:

- Simply Kansas
- Value Added Loan
- CDBG
- Agritourism development
- Main Street
- Tax credits

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Rural Development Division

FY2011 YTD highlights:

- Continue to advance Connect Kansas, a Recovery Act-funded initiative to increase broadband Internet adoption statewide.
- Conducted two mission trips to Russia to promote the sale of Kansas animal genetics.
- Helped Royal Farms Dairy of Garden City present a virtual farm tour at the World Dairy Expo.
- Hosted agritourism workshops statewide.
- Attended the Kansas State Fair to promote Kansas ag producers.

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Rural Development Division

FY2011 YTD highlights:

- Continuing partnerships with the 25 communities in our Kansas Main Street Program, which saw a significant increase in projects between Fiscal Year 2009 and 2010.

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Trade Development Division

Goal:

- To help Kansas companies expand sales to foreign markets and recruit foreign companies to set up facilities in Kansas.

Programs and services:

- Organize trade delegations to foreign countries
- Provide export data and foreign market research
- Provide funds for firms to attend trade shows
- Connect Kansas companies with foreign buyers through our international trade offices
- Recruit international companies to locate in Kansas

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Trade Development Division

FY2011 YTD highlights:

- Arranged for Governor Parkinson to meet with key aviation executives at the Farnborough Air Show in England in July.
- Attended HUSUM WindEnergy 2010, Europe's largest wind energy trade show, next month. Staff will also visit key companies in Denmark and attend a global wind supply chain conference in Germany.

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Trade Development Division

FY2011 YTD highlights:

- Organized an October animal health mission to China, enabling eight Kansas companies to exhibit at the first national convention of the Chinese Veterinary Association in Beijing.
- Working with KSU in their bid to establish a China-U.S. Animal Health Center facility in Kansas.

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Travel & Tourism Division

Goal:

- To increase tourism expenditures in Kansas

Programs and services:

- Marketing
- Product development
- Research
- Industry outreach and education

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Travel & Tourism Division

FY2011 YTD highlights:

- Led fall hunting travel campaign with print ads, e-blasts, website revisions and partnership with Ks. Sport Hunting Association
- Expanded digital marketing to highly targeted leisure travel market deploying 10 e-blasts to 226,137 consumers
- Assisting Flint Hills Tourism Coalition in efforts to develop network of Equestrian Trails
- Launched Scenic Byway marketing campaign and secured grant funding to expand future digital marketing

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Travel & Tourism Division

FY2011 YTD highlights:

- Fulfilled 26,400 Visitor Inquiry packets FY '11 YTD – an increase of 3% over FY '10
- Generated 155,000 unique website visitors since July 1.
- Completed Tourism Satellite Account for 2009
 - Kansas attracted 30.2 million person stays
 - Tourism injected \$7.2 billion in economy
 - Tourism is 3rd largest private sector employer in Ks, with 125,000 direct FTE jobs
 - Every 203 visitors/travelers create a new job in Ks.
 - Tourism generated 27.4% of all state & local tax revenue
 - Out of state visitation grew from 50% to 56% of total

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Workforce Development Division

Goal:

- To link businesses, job seekers and educational institutions to ensure a pool of skilled Kansas labor

Programs and services:

- KIT, KIR and IMPACT programs
- Workforce Centers
- **KANSASWORKS.com**
- Registered Apprenticeship
- Trade Adjustment Assistance and Rapid Response

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Workforce Development Division

FY2011 YTD highlights:

- Collaborated with key industry and agency partners to secure an additional \$26 million in funding to support job growth and training, such as:
 - Green-related training
 - Health professionals training
 - Employment opportunities for hard to serve ex-offenders, veterans, and those with disabilities.
- Recognized nationally as a top 10 state for workforce services by business developers and site locators for the first time ever – ranked number 3.

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Workforce Development Division

FY2011 YTD highlights:

- Partnered with the Kansas Departments of Labor, Education, Corrections and the Board of Regents to integrate web services to better serve users.
- Fully implemented video conferencing throughout the workforce system to better serve customers and saved nearly \$270,000 in travel costs over the past year.
- Partnered with the Kansas Board of Regents to increase the awareness of business and industry-focused training, credentials and certifications.

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