

SESSION OF 2007

SUPPLEMENTAL NOTE ON SENATE BILL NO. 164

As Amended by Senate Committee on
Commerce

Brief*

SB 164, as amended, would create the Qualified Industrial Manufacturer Act. Under the provisions of the Act, a manufacturer could receive up to \$2.0 million in Kansas income tax withholding paid by the manufacturer to its employees. The maximum period is ten years.

In order to qualify for the Kansas withholding revenue, a qualified manufacturer is a person, corporation, partnership, or other entity engaged in the manufacturing of hydraulics in Reno County, Kansas, and is a company that anticipates paying at least \$12.5 million in annual gross compensation to employees in Kansas.

The qualified industrial manufacturer would make application with the Secretary of Commerce to receive the tax benefits award under the conditions of the Act. The application is to include evidence that the applicant is a qualified industrial manufacturer and that the entity agrees to make certain improvements to such manufacturer's plant located in Hutchinson, Kansas. Once the agreement between the manufacturer and Secretary is executed, the Kansas payroll withholding taxes will be credited to the Special Qualified Industrial Manufacturer Fund. In the first three years of the agreement, 90.0 percent of the qualified industrial manufacturer's Kansas payroll withholding taxes would be paid out and for the following seven years, 40.0 percent of the qualified industrial manufacturer's withholding taxes would be paid out.

The qualified industrial manufacturer would not be allowed to participate in the Investments in Major Projects and Comprehensive Training Act programs. If the qualified manufacturer fails to comply, at any time during the ten-year period, with the terms set forth in the agreement, the Secretary may terminate the agreement, and the manufacturer would not be entitled to further distributions from the Fund.

*Supplemental notes are prepared by the Legislative Research Department and do not express legislative intent. The supplemental note and fiscal note for this bill may be accessed on the Internet at <http://www.kslegislature.org>

The Secretary of Commerce would be required to annually submit to the Governor, the Senate Committee on Commerce, the House Committee on Economic Development and Tourism, the Joint Committee on Economic Development, or any successor committees a report that includes an estimate of jobs created and jobs preserved by the investments; and an estimate of the multiplier effect on the Kansas economy of the investments made under conditions of this Act. The Secretary also would be required to conduct an annual review of the activities required by the Act to ensure that benefits issued are in compliance with the provisions of the Act.

Finally, any violation of the reporting requirements would be grounds for loss of designation as a qualified industrial manufacturer.

Background

Proponents for the bill included Senator Terry Bruce; President of the Reno County Chamber of Commerce; the City Manager of Hutchinson, Kansas; a Reno County Commissioner; a representative of the International Association of Machinists and Aerospace Workers; and written testimony was presented from the General Manager of Eaton Corporation for the Americas.

In addition, the testimony before the Senate Committee provided for the following incentives to be provided to the Eaton Corporation:

City of Hutchinson Economic Opportunity Funding	\$ 1,000,000
Reno Chamber of Commerce	100,000
KEOIF funding from the Kansas Department of Commerce	150,000
Workforce Investment Act (federal) Kansas Department of Commerce	120,000
Enactment of SB 164	<u>2,000,000</u>
Total funding	<u><u>\$ 3,370,000</u></u>

The representative of the International Association of Machinists and Aerospace Workers explained that the Union also has agreed to “freeze” wages and benefits for four years and that all new employees will begin work with the corporation at a reduced starting salary. Finally, the conferees explained that the Eaton Corporation is the third

largest employer and the single largest contributor to the United Way in Reno County. The workforce currently is 450 employees and 300 jobs will remain in Reno County with enactment of this legislation.

The Senate Committee on Commerce made a technical correction to the bill by changing the name of the House Committee to Economic Development and Tourism or any successor committees.

The fiscal note indicates that the Department of Revenue estimates that enactment of SB 164 would decrease revenues to the State General Fund by \$625,000 in FY 2008, FY 2009, and FY 2010 and by \$125,000 in FY 2011. In addition, the Department believes the enactment would have a negligible fiscal effect on the Department's operations. The Department of Commerce indicates it is unable to perform additional administrative responsibilities that require oversight, compliance, reporting, and audit activities without additional staffing and funding. The Department of Commerce indicates that this bill would require an additional 0.50 FTE position to create the application form, manage the application process, and conduct an annual review of the benefits issued under the Act at an expense of \$35,575, including \$28,680 for salaries and wages, \$2,895 for workstation setup, and \$4,000 for travel and training expenses. The Division of the Budget would note that the Department administers other similar incentive programs already in place. Whether additional staff and operating expense would be needed should be evaluated further, but are included here for purposes of the fiscal note. These additional costs would presumably be borne by the State General Fund, as no other funding source is available. Any fiscal effect associated with SB 164 is not reflected in *The FY 2008 Governor's Budget Report*.