

Approved March 29, 1988  
Date

MINUTES OF THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT

The meeting was called to order by Phil Kline at  
Chairperson

3:37 ~~xxx~~ p.m. on Tuesday, March 22, 1988 in room 423-S of the Capitol.

All members were present except: Representatives Mainey, Barkis and Heinemann. -Excused.

Committee staff present:

Jim Wilson, Revisor  
Lynn Holt, Research  
Elaine Johnson, Secretary

Conferees appearing before the committee:

Harland Priddle, Secretary, Department of Commerce  
Senator Dave Kerr  
Mark A. Burghart, General Counsel, Kansas Department of Revenue  
Brenda M. Manske, Executive Director, Southeast Kansas Tourism Region, Inc.  
Nick Jordan, President, Travel Industry Association of Kansas  
Kevin M. Carr, Vice President, KTEC  
Bud Grant, Vice President, Kansas Chamber of Commerce and Industry

Chairman Phil Kline called the meeting to order and opened the hearing on S.B. 470. The first conferee recognized was Harland Priddle.

Secretary Priddle testified in support of S.B. 470, stating that the Department of Commerce believes S.B. 470 gives direction and provides definitions for identifying Kansas' basic industries. He believes that the key to this bill is definition and targeting. (Attachment 1).

Senator Dave Kerr was the next conferee. He stated that the only way to be really successful with the limited amount of money available to us is to use that money in a targeted way. We are talking about those areas that can be called incentives. The state has provided the incentive to help raise the venture capital where KTEC might be involved. The incentives or even subsidy kind of benefits that we are providing to try to move economic development along. These are the areas that need to be targeted. The bill tries to define the target at which we are really aiming the monies that we have available for incentive type help. The bill is a definition of a Kansas basic industry. All of the really important things are in the first couple of pages after that much of the remaining pages due to a miscommunication with the revisor are probably not necessary. At the Senate hearing there was a great deal of concern that agriculture had been dropped out in many areas because of lack of communication. Agriculture has been put back in, it was never the intention to delete it. On page 2 of S.B. 470, lines 61, 62 and 63 the Senate amended to delete "except production for local consumption" because the goal is to target those industries who are importing capital and jobs from out of state. It was pointed out to us that we were probably being too restrictive with that language because so many industries or businesses that are eventually able to become importers of jobs and capital start by providing local consumption. We saw no good reason for providing these direct incentives or subsidies to someone who is merely moving the jobs from one side of town to another. Real goal of S.B. 470 is to limit the uses of our money for those things that are true importations of capital and not merely moving them across town. We not only dealt with the subsidies we passed two years ago, we made a major policy change on the job expansion tax credits and sales tax exemptions. We do not need to be spending our limited resources for the mere movement around town of jobs, we need to be spending it for importation.

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT

room 423-S, Statehouse, at 3:37 ~~xxx~~ a.m./p.m. on Tuesday, March 22, 1988

The next conferee was Mark Burghart. Mr. Burghart stated that the Department of Revenue has no formal position on the merits of S.B. 470 but would like to comment on certain aspects of the bill which affect the availability of various tax benefits for capital expenditures made by businesses in the state. (Attachment 2). If the House Committee is inclined to favorably consider this bill the Department of Revenue asked that they adopt the approach chosen by the Senate Committee.

Brenda Manske was recognized next. The Southeast Kansas Tourism Region submits that travel and tourism is a diverse, growth-oriented, existing statewide industry that significantly expands the state's economic base in urban and rural communities by creating new, direct revenue in at least six different areas: conventions and trade shows, sport hunting and fishing, sporting events, attractions, entertainment and the film industry. They support S.B. 470. (Attachment 3).

Nick Jordan testified in support of S.B. 470. The Travel Industry Association of Kansas feels the visitor industry fulfills the important criteria for economic development; the visitor industry imports new dollars; the visitor industry creates jobs and also expands the tax base. (Attachment 4).

Kevin Carr then testified on S.B. 470. He stated that the bill is generally consistent with KTEC's mission of developing research, manufacturing and service industries which sell a major portion of their product either outside of Kansas or in companies which add value to such products and in turn sell outside the state. Such industries are the driving force of the economy in that they bring in dollars from outside the state rather than merely leading to movement of dollars within the economy. Most concerns KTEC had with S.B. 470 have been alleviated with the way the bill is now written. The remaining concern KTEC has involves the process of determination of whether or not a particular existing or emerging company may qualify as a basic industry. KTEC's Board of Directors, staff and ex-officio committee members must maintain the authority to fund projects for the betterment of economic development in Kansas using good faith and sound judgment. If outside organizations have any control over KTEC's decisions in this area, it is much less likely that the best decision will be made. Because the KTEC President did not get on board until last October, KTEC has other recommended changes to statutes that have been recommended to the Ways and Means and Appropriations Subcommittees dealing with KTEC's budget. (Attachment 5).

Dr. Tony Redwood of the Institute of Public Policy and Research at Kansas University was unable to appear before the Committee but sent written testimony for the record. (Attachment 6).

Representative Clarence Love circulated a balloon of S.B. 470 with recommended changes that he will request.

The last conferee was Bud Grant, who testified in opposition to S.B. 470. He stated that S.B. 470 would reverse for the first time, the job creation philosophy contained in the passage of the Job Expansion and Investment Credit Act in 1976. For the first time, a bill will reduce those types of organizations which would qualify under the provisions of that Act. The KCCI also has a great concern with the elimination of any type of retail operation from the provisions of the Job Expansion and Investment Credit Act. The Kansas Chamber of Commerce and Industry's concern is that the passage of S.B. 470 eliminates the availability to many Kansas businesses, those programs which are vitally needed to deal with the stunted market in Kansas. When we no longer need an incentive to create jobs, then it may be time for S.B. 470. Now, it's ahead of its time. (Attachment 7).

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT,  
room 423-S, Statehouse, at 3:37 XX a.m./p.m. on Tuesday, March 22, 1988

Mr. Grant also passed out a statement from Kansas Industrial Developers Association in opposition to S.B. 470. (Attachment 8).

The minutes of the March 14, 15 16 and 17 meetings were approved.

The meeting adjourned at 4:35 p.m.





TESTIMONY

on

SENATE BILL 470

Before the

HOUSE ECONOMIC DEVELOPMENT COMMITTEE

By

HARLAND E. PRIDDLE  
SECRETARY OF COMMERCE

March 22, 1988

*House Eco Devo  
Attachment 1  
3/22/88*

Mr. Chairman and Members of the Committee, I appreciate the opportunity to provide brief comments to you concerning the subject of basic industries and its definition as it applies to the industries in Kansas. The intent of the proposed legislation is to provide economic development incentives to only those enterprises which are basic to the state's economic structure and which have the greatest potential for affecting economic growth. Senate Bill 470 gives definitions and outlines parameters that are to be used by the Department of Commerce and others, as necessary, in allocating incentives and resources for current and future programs (i.e. emphasis is placed on the development of industries which provide sale of goods beyond the normal state marketing horizon and looks for markets in the national and international area). We believe this is appropriate, and specific data was recently released concerning the narrow marketing horizons of Kansas industries. At the present time, 82 percent of the industries surveyed within 10 Kansas communities indicated their market horizons were within the state. Fifty-five percent of those industries sold their products locally.

Senate Bill 470 also addresses and identifies selected basic industries by type. This will assist the Department of Revenue, as well as the Department of Commerce, in administering programs currently authorized and those projected into the future. The membership of Kansas Inc. and Kansas Technology Enterprise Corporation were also realigned to provide a broader selection

but allocating specific appointments to selected industries, such as agriculture, oil and gas, and aviation, and allowing additional members from other basic industry categories.

The Department of Commerce believes Senate Bill 470 gives direction and provides definitions for identifying Kansas' basic industries.



## KANSAS DEPARTMENT OF REVENUE

*Office of the Secretary*

**Robert B. Docking State Office Building**

**Topeka, Kansas 66612-1588**

M E M O R A N D U M

To: The Honorable Phil Kline, Chairman  
House Committee on Economic Development

From: Mark A. Burghart, General Counsel  
Kansas Department of Revenue

Re: S.B. 470

Date: March 22, 1988

The Department of Revenue has no formal position on the merits of S.B. 470. However, we would like to comment on certain aspects of the bill which affect the availability of various tax benefits for capital expenditures made by businesses in the state.

Section 38 of the bill (as amended by the Senate Committee) amends the statute which provides certain tax benefits to businesses locating within designated enterprise zones. As the Committee is aware, in order to qualify for enterprise zone benefits, a taxpayer must first qualify for the credit under the Job Expansion and Investment Credit Act of 1976. Under existing law, a taxpayer may claim an income tax credit for any investment in a qualified business facility if at least two new employees are hired as a direct result of the investment. Assuming that a taxpayer qualifies for the income tax credit, it would also qualify for a sales tax exemption for all purchases associated with the qualified facility. The sales tax exemption is the most attractive tax incentive cited by taxpayers. The current definition of qualified business facility in K.S.A. 1987 Supp. 79-32,154 is sufficiently broad to cover most types of business operations in the state, including service companies. The original intent of S.B. 470 was to develop a definition of Kansas basic enterprise which would reward only primary job creation activities. The proposed definition would have significantly reduced the number of businesses which would qualify for enterprise zone benefits.

Although the definition of Kansas basic industry which was devised was acceptable for Department of Commerce purposes, the Department of Revenue believed that the definition was too generalized for tax credit purposes. The lack of a clear definition would lead to problems of interpretation for both the taxpayer and the Department in the future. For example, the language in New Sec. 1(a)(2)(C) (of the amended bill) regarding the enticement of out-of-state purchasers can be construed so broadly that any business would qualify as a Kansas basic enterprise. On the other hand, it could also be construed so narrowly that only those businesses which could document by actual statistics that the production of goods or services actually attracts out-of-state buyers would qualify as Kansas basic enterprises.



With the absence of specific guidelines as to the types of qualifying businesses, it is possible that the Department of Commerce and the Department of Revenue could have conflicting interpretations of the same statutory language. The Department of Commerce would construe the language broadly in furtherance of the economic development objective. The Department of Revenue on the other hand would narrowly construe the language because tax credits are at stake and by law such tax credit language must be construed strictly against the taxpayer. The language of the statute should be such that these conflicts may be avoided. The original bill was inadequate in that respect.

Recognizing the difficulty which the Department of Revenue would experience with the original bill, the Senate Committee on Economic Development amended the bill to no longer require that the definition of Kansas basic enterprise be applied in the tax credit area. Instead, the Committee simply disqualified retail establishments and professional offices from claiming both the job expansion and investment credit and enterprise zone benefits. The approach taken by the Senate Committee has some definite advantages. First, it does reduce the number of businesses which qualify for enhanced tax benefits and targets the tax benefits to primary job creation industries. Secondly, the Department will be able to utilize a significant body of administrative law which has developed over the past 12 years regarding the current statutory definitions. This would increase the timely processing of claims and reduce taxpayer discontent.

In conclusion, we would ask the Committee to adopt the approach chosen by the Senate Committee if the Committee is inclined to favorably consider this bill.

PRESENTATION

to

HOUSE ECONOMIC DEVELOPMENT  
COMMITTEE

by

BRENDA M. MANSKE

Executive Director  
Southeast Kansas Tourism Region, Inc.  
P.O. Box 100  
Yates Center, Kansas 66783

March 22, 1988

*House Eco Dev  
Attachment 3  
3/22/88*



## **Southeast Kansas Tourism Region**

P.O. Box 100  
Yates Center, Kansas 66783  
(316) 625-3559

### Southeast Kansas Tourism Region, Inc. Supports SB 470

In order for the State of Kansas to develop a more favorable economic structure through expansion of the state's economic base, the travel and tourism industry must be recognized as a basic industry with an economic impact comparable to the state's acknowledged core industries: agriculture, energy and aviation.

Southeast Kansas Tourism Region submits that travel and tourism is a diverse, growth-oriented, existing statewide industry that significantly expands the state's economic base in urban and rural communities by creating new, direct revenue in at least six different areas: conventions and trade shows, sport hunting and fishing, sporting events, attractions, entertainment and the film industry.

In addition to the direct revenue captured through expenditures in these main areas, the travel industry stimulates the following subordinate businesses: service stations, restaurants, retail stores, hardware and plumbing suppliers, grocery stores, insurance agencies, advertising agencies; real estate agencies, lawyers and suppliers of fuel and electricity.

According to a 1986 U.S. Travel Data Center study, the travel and tourism industry is the second-largest employer in Kansas. In 1985 this industry generated 42,000 Kansas jobs with a wage and salary

March 22, 1988

income of \$374 MILLION. In that same year, travel and tourism expenditures amounted to \$1.9 BILLION in Kansas, creating \$63.5 million in state taxes and \$23.2 million in local tax revenue. The industry experienced a 9.7 percent growth in Kansas over 1984, outpacing the national growth rate of 7 percent for that same period of time. Travel-generated employment rose 4.1 percent across the state in 1985, compared to a 3.9-percent increase in total state non-agricultural employment for the same period.

Travel and tourism in Kansas has demonstrated its strength and diversity at a time when the state's three traditional core industries have become weakened. Travel and tourism in Kansas is growing faster than the national growth rate, while the state's three traditional core industries and their service sectors are predicted to experience little, if any, growth during the next decade.

Kansas is now 47th in the nation in size of state travel and tourism agency budgets. To date, Kansas has never allocated funds for an out-of-state tourism advertising campaign. Designating tourism as a basic industry will remove a major barrier to development of travel and tourism in Kansas. Statutory recognition of its role in economic development will stimulate the tourism industry by attracting the development of innovative new outdoor recreational sites, attractions and resorts. Stimulation of travel and tourism will encourage entrepreneurship and will strengthen bases for local community development because travel and tourism offers the opportunity for direct revenue to urban and rural communities alike.

LEGISLATIVE TESTIMONY

Senate Bill 470 Designating  
Basic Industries in Kansas

HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT  
TUESDAY, MARCH 22, 1988

BY  
NICK JORDAN  
PRESIDENT  
TRAVEL INDUSTRY ASSOCIATION OF KANSAS

*House Eco Dev  
Attachment 4  
3/22/88*

Mr. Chairman and members of The Committee, thank you for this opportunity to speak in support of Senate Bill 470.

The opening line of Senate Bill 470 states, "The legislature, in recognition of the scarcity of state resources, hereby declares that the provision of economic development incentives should be limited to those enterprises which are basic to the economic structure of this state and which have the greatest potential for effecting economic growth that is essential to the well being of the state and it's people."

The visitor industry in the State of Kansas fulfills the criteria in this statement and the other provisions within the bill.

The visitor industry fulfills the important criteria for economic development.

THE VISITOR INDUSTRY IMPORTS NEW DOLLARS

\*U.S. travelers spent nearly \$1.9 billion in Kansas during 1985, 9.7 percent more than 1984.

\*The visitor industry touches everyone of the 105 counties in Kansas.

THE VISITOR INDUSTRY CREATES JOBS

\*41.9 thousand jobs in 1985.

\*Kansas's travel generated employment rose 4.1 percent in 1985, compared to a 3.9 percent increase in total non-agricultural employment.

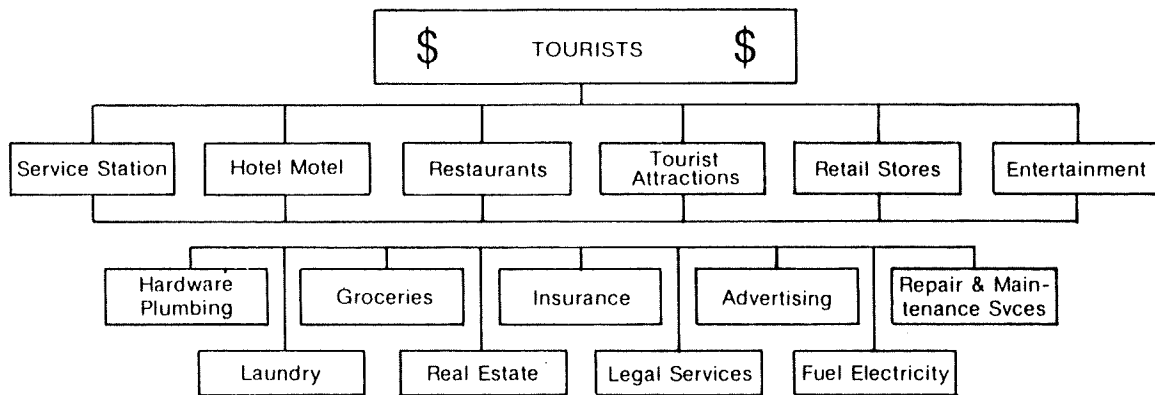
EXPANDS THE TAX BASE

\*Traveler spending in 1985 generated \$63.5 million in state tax revenue.

\*Travel expenditures in Kansas generated \$23.2 million in local tax revenues.

Besides this important triad of economic development the visitor industry also provides economic diversification, creates an identity and image, and adds to the quality of life.

Distribution of the Tourist Dollar



In the Redwood-Krider report of 1986 the following statements were made:

"We need to establish an overall travel and tourism strategy for the State. A funding increase is necessary for the following projects:

1. Research on travel and tourism,
2. Marketing of Kansas attractions in and out of the State, and
3. Development of State parks or other major attractions.

Travel and tourism is a growth industry in the United States, but Kansas is not currently competitive in developing this industry. Kansas's spending on travel and tourism has not kept pace with other states, and Kansas currently ranks 47th (44th when the Redwood-Krider report was done) among states in funding for it's travel and tourism office. We believe Kansas has greater potential in this industry than has previously been recognized." - Redwood-Krider.

Currently the State of Kansas has not committed any funds to out-of-state promotion for visitors. Every current out-of-state promotion by the state is funded by the private sector and convention and visitor bureau's.

We certainly appreciate the tourism industry being included as a basic industry. Hopefully with the passage of Senate Bill 470 we can all work together to develop a strategy to increase visitor spending in our state with proper funding.

The Travel Industry of Kansas is certainly ready to work with the Governor, legislature and the Tourism Commission to develop such a strategy.



Testimony to House Economic Development Committee  
March 22, 1988  
Senate Bill 470  
by Kevin M. Carr, Vice President, KTEC

Mister Chairman and Members of the Committee, I appreciate the opportunity to appear before you today regarding Senate Bill 470.

The bill is generally consistent with KTEC's mission of developing research, manufacturing and service industries which sell a major portion of their product either outside of Kansas or in companies which add value to such products and in turn sell outside the state. Such industries are the driving force of the economy in that they bring in dollars from outside the state rather than merely leading to movement of dollars within the economy.

Advanced technology companies primarily serve narrow niche markets at the national or international scale, and therefore are predominantly "basic." Certain specialty advanced technology companies market their products primarily to local industry (e.g., composite materials producers supplying to Kansas aircraft manufacturers); however, these are defined as basic industry because they provide components to firms exporting their final product outside of Kansas.

Several scenarios warrant discussion:

- (1) It is unreasonable to assume that an existing Kansas company or out-of-state prospect company would share proprietary information to demonstrate whether or not they are basic (with the exception of Seed Capital proposals);
- (2) Other existing companies may be currently non-basic but propose to add a basic component with a KTEC project;
- (3) In addition, many of KTEC's involvements are with start up companies which have no sales history.

*House Eco Devo  
Attachment 5  
3/22/88*

These scenarios are covered in the bill, since research and product development, the thrust of our programs, fit within the definition of basic industry (Sec.1(b)(8)).

The key remaining concern KTEC has with the bill involves the process of determination of whether or not a particular existing or emerging company may qualify as a basic industry. KTEC's Board of Directors, staff and ex-officio committee members must maintain the authority to fund projects for the betterment of economic development in Kansas using good faith and sound judgment. If outside organizations have any control over KTEC's decisions in this area, it is much less likely that the best decisions will be made.

Assuming KTEC will be able to maintain control over its grants and investments, I offer support to the bill as it pertains to our corporation.

#### Other Recommended Changes to Statute

In addition to the basic industry definitions which would be incorporated into KTEC's authorizing statute, four items have been recommended to the Ways and Means and Appropriations Subcommittees dealing with our budget:

- (1) Research Matching Grants -- It is recommended that for firms with fewer than fifty employees, KTEC be allowed to fund up to 50% of a project (as opposed to the current guideline of 40%). Small firms tend to be the most innovative, yet have a difficult time raising the capital to fund 60% of a project.
- (2) University Centers -- It is recommended that the matching requirement for Centers be eliminated for "core" funding. Releasing this requirement will allow the Centers to develop research relationships with a larger number of firms by eliminating the perception that one or a few companies dictate the basic operation of the Centers.
- (3) Minimum Threshold Funding -- KTEC requests that this requirement be deleted from its enabling legislation.
- (4) Special Projects Funds -- KTEC requests reappropriation of any unexpended FY88 funds to FY89 for its Special Projects Account due to the fact that several such projects are just getting underway (funded by EDIF funds).

Testimony on Senate Bill 470

by

Dr. Anthony L. Redwood

to the

House Committee on Economic Development - March 22, 1988

S.B. 470 provides a means of identifying those enterprises in Kansas that are to be classified as "basic industry". This proposal from the Joint Committee stems from a realization that current Kansas economic development legislation describes Kansas' businesses to be included in a variety of ways which are often inconsistent and unclear. Clearer, more consistent guidelines are needed for determining which types of enterprises are to be included or excluded under these statutes. A clear, consistent and flexible definition of "basic industry" will allow economic development funds to be targeted to those industries that will give Kansas the greatest economic return on its investments. We see this mainly as a clarifying exercise, indeed a technical exercise, whose purpose is to insure that limited resources are placed where we want them to be. There is no intent here to change the purpose or focus of any of the legislature that is affected. Rather the intent is to ensure that our resources are directed to basic sector industries where they will have the greatest impact for the state.

In order to understand the importance of providing our limited resources to "basic industry" enterprises, it is helpful to examine economic theory. "Economic base" theory divides

*House Eco Dev  
Attachment 6  
3/22/88*

economic activity into two sectors: basic and non-basic.

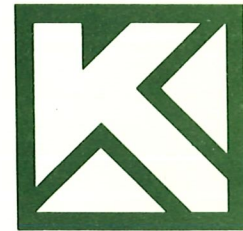
Briefly, the basic sector includes those enterprises which produce goods and services locally but sell them outside the local or state area, or which produce goods and services which substitute for imports into the state. The basic sector is independent of the amount of wealth in the local community but imports wealth from other states, the nation, and other countries which are importers of the goods and services produced in Kansas. In contrast, the non-basic sector produces goods and services for local consumption and hence derives its income from transactions within the existing local community. It does not import additional wealth but merely recirculates the wealth already in the state or community. Thus, by definition, wealth is increased by income obtained when state or local producers sell goods and services outside the state or community. Producers which provide goods or services which would otherwise be imported into the state are also a part of the basic sector because they prevent the export of wealth from the state.

Basic sector industries are considered to be the foundation of the local and state economy and the basic source of growth. This is because only basic sector industries have the potential to expand employment and output and thereby expand the non-basic industries which are dependent on them. This is the so-called multiplier effect. Since the total state economy will expand due only to an expansion in its basic sector industries, it is vital to concentrate economic development efforts on this important sector.

We join with Kansas Inc. and the Department of Commerce in endorsing the Joint Committee recommendations concerning the legislative approach to be taken and the specifics of the recommendations made in S.B. 470. The bill includes both a listing of particular industries that intrinsically meet the definition of basic industry as well as broad criteria which allow firms in any industry to demonstrate that they should be considered part of Kansas' "basic industry". By providing a specific listing of Kansas' basic industries, we give a clearer indication than presently exists to the private sector as to whether or not firms are likely to be eligible for economic development funds. But even if an industry is not listed, a firm can still apply for assistance if it feels it meets the stated criteria. The onus is on the firm to establish that it meets the criteria for inclusion into a program. We acknowledge that the delineation for inclusion is not clear cut because it is impossible to categorically state that one particular industry is "in" and another is "out". Therefore it is desirable to have a definition that is flexible in order to provide an opportunity for a firm to seek inclusion in a particular situation.

Based on the realization that Kansas has limited resources to allocate to areas of economic development, we simply must make our dollars available to those areas which are geared towards strengthening the economic base of our state. We should invest state resources in those enterprises which will give the greatest return to the state.

# LEGISLATIVE TESTIMONY



## Kansas Chamber of Commerce and Industry

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

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

SB 470

March 22, 1988

KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony Before the

House Committee on Economic Development

by

Bud Grant  
Vice President

Mr. chairman and members of the committee. My name is Bud Grant and I am here on behalf of the Kansas Chamber of Commerce and Industry. I appreciate the opportunity to appear before you on SB 470.

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

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

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

During the years 1974, 1975, and 1976, I had the opportunity to work very closely with the Kansas Legislature in the development and final passage of the Job Expansion

*House Eco Dev  
Attachment 7  
3/22/88*

and Investment Credit Act. The Kansas economy was badly in need of stimulation. The unemployment rate was four-and-one-half percent, we were out-migrating our graduating college students at a significant rate, and the Kansas population was growing older. The legislature developed and passed this innovative piece of incentive legislation in 1976...something that no other state in the nation at the time had. The concept was simple enough. If a business, virtually any business, was willing to invest the money and create new jobs, jobs that didn't previously exist, then the state was willing to encourage that development by providing tax credits against that organization's Kansas income tax. Again, the bottom line was the creation of new jobs for the citizens of Kansas.

Later legislatures found the provisions of this act so attractive, that it took its various benefits and coupled them into the enterprise zone act. They increased the amount of credits which could be earned in order to make the incentives even more attractive and create even more jobs. At the time, there were virtually no distinction as to what was considered a good job for the citizens of Kansas. A revenue producing enterprise, which is one that would qualify for the credits available, included: virtually any type of manufacturing; storage warehouse and distribution and sale of any products of agriculture, mining, or manufacturing; operations of a feed-lot; laboratories; forms of services of any type; the management of any of these activities, or any combination of these activities. The one sector of the economy which was not included in the qualifying list was the sector represented by financial institutions and insurance companies. However, this committee, through its favorable recommendation of HB 3070, has recommended to the full House that the Job Expansion and Investment Credit Act be amended by adding the following list of revenue producing enterprises, "including but not limited to the sale and servicing of insurance contracts and the provision of services by banks or savings and loans associations." I think a good amendment and one that which is long overdue. A new job created by an

insurance company or by a financial institution is no less important to the citizens of this state nor to the economy of this state than is one created by the Boeing Company or by Goodyear.

Now to SB 470, and why we have some concern about what it is attempting to accomplish. First, SB 470 would reverse for the first time, the job creation philosophy contained in the passage of the Job Expansion and Investment Credit Act in 1976. For the first time, a bill would reduce those types of organizations which would qualify under the provisions of the Job Expansion and Investment Credit Act. On page 51 of the bill, beginning on line 54, you can see the language dealing with the performance of services. Note the language following the comma; "except those services associated with the sale of products at retail and those services provided by attorneys, architects, engineers, accountants, insurance agents, dentists, real estate brokers or agents, investment brokers or individuals licensed by the Board of Healing Arts." Keep in mind that HB 3070 provides for "servicing of insurance contracts," and SB 470, says insurance agents cannot qualify.

KCCI also has great concern with the elimination of any type of retail operation from the provisions of the Job Expansion and Investment Credit Act. You will all recall that in the amendment to the constitution which was approved by the electorate last November, language was included which allows cities and counties to offer a 10-year property tax exemption to warehouses dealing in interstate commerce. This obviously includes the Penney's Co. warehouse in Johnson County, the K-Mart warehouse in Lawrence, and the Woolco warehouse in Junction City, as well as dozens of others scattered around the state of Kansas. These are operations owned and run by retailers. They provide literally hundreds of good, clean jobs for Kansas citizens. Why are they less important than any other job. Last year, the legislature and then the citizens of Kansas said those jobs were not less important when they approved the constitutional amendment. As I read SB 470, however, it would eliminate such an operation from the provisions of the Job Expansion and Investment Credit Act. It



should be noted, that one of the first companies to utilize the Job Expansion and Investment Credit Act in 1976 was the Penney Co. in conjunction with the establishment and operation of the Penney's Distribution Center in Lenexa. Through the years that facility provided hundred of jobs and the company has paid Kansas millions of dollars in taxes. Without the Job Expansion and Investment Credit Act, and as one who was very involved at the time, believe me the warehouse could just have easily been somewhere else in the midwest.

I do have a few specific questions about the language of SB 470, questions which can very likely be answered by the staff. On line 36, page 1, Kansas Basic Enterprise is, "an enterprise which is or proposes to be located or principally based in Kansas." My question relating to this language, is an enterprise such as the Goodyear facility in Topeka or Boeing Co. in Wichita considered an enterprise in and of itself or is the enterprise the entire organization. If it is, then neither Goodyear or Boeing are principally based in Kansas. The same type of question relates to the language on line 75, page 2 when it talks about the term "primarily engaged means engagement in an activity by an enterprise to the extent that not less than 51% of the gross income of the enterprise is derived from such an engagement." Again, the question relates to the definition of enterprise because, if the total company is the enterprise then you certainly threaten the test of 51% being derived from the engagement of that enterprise in Kansas. Goodyear, could very well own other types of businesses within the overall organization which provide more than half of the income of the Goodyear Tire and Rubber Company. If this bill is to be approved by this committee, I hope that these questions are answered.

There is great emphasis in SB 470 on qualifying those types of firms which export their goods and services out of the state of Kansas. I would like to quote to you from a report made by Mr. Brad Parrott, who has been on loan to the Kansas Department of Commerce from Southwestern Bell Telephone Co. Mr. Parrott has been conducting a survey of businesses in the state's non-metropolitan communities and to determine how

Kansas can better retain businesses and help existing businesses to expand in the state. In response to the question, what did your survey find, Mr. Parrott responded and I quote "I think that the most important was that a high percentage of goods and services produced by the economic base of these mid-sized communities was being consumed by a regional marketplace. I believe the figure was only one percent of the goods and services were being exported-reaching the international marketplace. And only 17% were going to an interstate marketplace. When you couple that with the fact that economic growth and population growth is below the national average, you find that these businesses are serving a stunted market. Unless they increase their marketing horizontally, their hopes for an improved economy are dim. Second, we found that there is very little awareness of the state and federal programs that have been established to assist economic development."

Mr. Chairman and members of the committee, our concern is that the passage of SB 470 eliminates the availability to many Kansas businesses, those programs which are vitally needed to deal with the stunted market to which Mr. Parrott eludes. Keep in mind that when the legislature felt that the passage of Job Expansion and Investment Credit Act was vitally important to the Kansas economy, the unemployment rate among Kansas citizens was four-and-one-half percent. They, when SB 470 would severely restrict the availability of those same incentives, the unemployment rate in Kansas stands at 6.3 percent. It hardly seems to be the proper time in this state's history to be discouraging any Kansas business from creating jobs. When Kansas reaches the point that companies are waiting at the borders to get in; when we reach the point that there are more jobs than people available; when we reach the point that so many companies are using the Job Expansion and Investment Credit Act that we no longer need an incentive to create jobs; then it may be time for SB 470. Now, I fear its ahead of its time.

Thank you Mr. Chairman. I'd be pleased to attempt to answer any questions.



The following position was adopted by the Kansas Industrial Developers Board of Directors at their February meeting.

Kansas is in the midst of some very tough economic times. Times when there are not only fewer businesses looking to relocate but times when there are more agencies competing for the same firms.

The Kansas Legislature and the voters of Kansas took some very bold and progressive steps several years ago to help enhance economic development efforts within Kansas. We got a good start at addressing our competitiveness in the field of economic recruiting and the last thing we need now is to curb those efforts or place limitations on our efforts.

SB 470 is a good example of what we don't need. The restrictions that it places on the efforts of those involved in creating new jobs is not what is needed at this point in time. When Kansas is locating 4 or 5 new industries a month the reasoning behind this issue might be acceptable. For now, Kansas needs jobs.