

Approved

April 26, 1991  
Date

MINUTES OF THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT

The meeting was called to order by Representative Diane Gjerstad at  
Chairperson

3:35 ~~xxx~~ p.m. on Monday, March 4, 1991 in room 423-S of the Capitol.

All members were present except:

Representatives Bishop, Dean and Wisdom. Excused.

Committee staff present:

Lynee Holt, Research  
Jim Wilson, Revisor  
Betty Manning, Secretary

Conferees appearing before the committee:

Laura Nicholl, Secretary, Department of Commerce  
Dave King, Executive Vice-President, United Telecom  
Les Meredith, Director, State & Local Taxes, U.T.I.  
Charles Warren, Kansas, Inc.  
Mark Burghart, General Counsel, Department of Revenue

The meeting was called to order at 3:35 p.m.

Chairperson Gjerstad opened hearings on H.B. 2492, a bill relating to corporate income tax concerning the apportionment of business income by a telecommunications company.

The Chair recognized Laura Nicholl, Secretary, Department of Commerce, who gave an overview of four case studies in four different states and what can be learned from their experiences. She supported the bill for United Telecom and other similar ventures for other companies. Attachment 1.

Dave King, Executive Vice President, United Telecom stressed the need for an income tax based on a single apportionment factor similar to the method used in Missouri for telecommunication companies and the need for the state to provide training dollars for new jobs in Kansas. Attachment 2.

The next conferee, Les Meredith urged consideration be given this legislative session to allow telecommunication companies to elect a single factor apportionment method similar to one presently used in Missouri. This proposed legislation would provide Kansas with economic opportunities well into the 21st century. Attachment 3.

Charles Warren, President, Kansas, Inc., presented a comparison study of taxes for Kansas and Missouri. Attachment 4. Mr. Warren also outlined the Impact Study associated with United Telecommunications, Inc.'s proposed project. Attachment 5.

Final conferee was Mark Burghart, general counsel for department of revenue, who explained the bill's special one factor apportionment method for telecommunication companies for corporate income tax purposes. Attachment 6.

The conferees responded to questions from the committee members.

The Chair announced the subcommittee on groundwater contamination would meet at 12:00 noon, March 5 in Room 522-S

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT,  
room 423-S, Statehouse, at 3:35 ~~x.x.m.~~/p.m. on Monday, March 4, 1991

and the subcommittee on EDIF would meet at 4:30 p.m. in the House Minority Leader's conference room on March 5.

The meeting was adjourned at 4:40 p.m.

: March 4, 1991

GUEST REGISTRE

HOUSE

Committee on Economic Development

NAME

ORGANIZATION

ADDRESS

Charles Hanna	Kansas Inc.	Topeka
Steve Stoff	Revenue	Topeka
MARK A. BURGHART	REVENUE	TOPEKA
MARK Beshears	DOR	Topeka
Les Meredith	UTI	Overland Park, KS.
DAVE KING	UNITED TEL	Westwood KS
FRANK MARRIS	KANU	Lawrence, KS.
Deep Overland	KDCC	Topeka
Steve Richard	Yellow Freight Sys.	Overland Park.
BOB GRANT	KCC	TOPEKA
MARY E TURINGTON	Ks. Motor Carriers Assn	Topeka
Jamie Schwartz	United Telecom	"
Mary Birch	Overland Park Chambers.	O.P.
TERRY FREDERICK	UTI	WESTWOOD
Bill Roche	United Telephone	Overland Park, KS
JEFF RUSSELL	UNITED TELE.	TOPEKA
JOHN PARKS	KDOR	TOPEKA



**TESTIMONY**  
**TO**  
**THE HOUSE ECONOMIC DEVELOPMENT COMMITTEE**  
**ON**  
**THE UNITED TELECOMMUNICATIONS PROJECT**

**BY**  
**Secretary Laura Nicholl**  
**Kansas Department of Commerce**

**March 4, 1991**

**Kansas Department of Commerce  
Testimony of Secretary Laura E. Nicholl  
-- HB 2492 and HB 2536 --  
House Economic Development Committee  
March 4, 1991**

**Introduction**

Good morning Madam Chairperson and committee members. Former President Theodore Roosevelt once said that "nine-tenths of wisdom is being wise in time." Roosevelt's proverb explicitly describes the urgency of the matter which lay before you today. An endorsement by both legislative chambers of HB 2492 and HB 2536 will indeed be a wise investment in the present and future well-being of our State. Conversely, my testimony will reveal that failure to approve these proposals will be detrimental to our long and short term economic development objectives.

Specifically, the purpose of my testimony is to demonstrate the necessity for, and by logical extension, the merit of the proposed legislation. In fact, the collective wisdom drawn from the forthcoming case studies will reveal that the continued success of our business recruitment and development efforts depends in part upon favorable action. At the same time, the committee will be pleased to note that the proposed legislation adheres to the principle of responsible stewardship, especially when compared to precedents set by other states.

**Arguments in Support of HB 2492 and HB 2536**

When the arguments for HB 2492 and HB 2536 are considered, perhaps the most persuasive of all is the premise that the State of Kansas Investment in Lifelong

Learning program (SKILL) will substantially enhance Kansas' competitive position. To illustrate this point, it is helpful to review four case studies. Each case study details actual state incentive packages offered by Kansas and other states to attract industry. First, we will look at the State of Pennsylvania's 1975 bid for a Volkswagen plant, followed by Kentucky and Kansas' offer to Toyota. Next, the Arkansas/Nucor-Yamato steel plant project will be reviewed; and finally, the Florida and Kansas attempt to entice the Time, Inc. Subscription Fulfillment Center will be considered.

### **Pennsylvania and Volkswagen**

Figure 1 shows the incentive package assembled by Pennsylvania officials for Volkswagen. Two striking observations are readily apparent. First, the offer is enormous. One must remember that these incentives were offered in 1975 and were predominately state funded. When the \$76.5 million figure is adjusted for inflation, the present value of the package is \$147 million.

Next, it is sobering to note that the VW initiative never reached its promised potential. As figure 1 reveals, VW officials were only able to generate 50 percent of the actual number of jobs promised. Tragically, the plant eventually closed its doors and even the 2,500 jobs created were lost. Critics often cite the VW case as an example of an irresponsible give-away. Some experts expressed the opinion that even if the plant had survived, it is doubtful that the benefits of new construction, jobs, tax revenue and ancillary growth would have covered the incurred costs.

**FIGURE 1**

**PENNSYLVANIA / VOLKSWAGEN  
STATE INCENTIVE PACKAGE**

***COSTS . . .***

<b>FACILITY PURCHASE/RENOVATION</b>	<b>\$ 46 M</b>
<b>INFRASTRUCTURE IMPROVEMENT</b>	<b>\$ 18 M</b>
<b>RAILROAD SPUR IMPROVEMENTS</b>	<b>\$ 8.7 M</b>
<b>EMPLOYEE TRAINING</b>	<b>\$ 3.8 M</b>
	<b>=====</b>
	<b>\$ 76.5 M</b>

***BENEFITS . . .***

<b>TOTAL NUMBER OF JOBS PROMISED</b>	<b>5,000</b>
<b>TOTAL NUMBER OF JOBS DELIVERED</b>	<b>2,500</b>
<b>AVERAGE WAGE</b>	<b>\$ 25,000</b>

**PROJECT DATE: 1975**

**SOURCE: PENNSYLVANIA DEPARTMENT OF COMMERCE**



## **Kentucky, Kansas and Toyota**

Our second case study involves another foreign automobile manufacturing interest. Figure 2 reveals that the Toyota project occurred approximately ten years after the VW venture, and Kansas was one of the competitors for the new plant. Both the Kansas' and the eventual winner -Kentucky- incentive packages are comparatively illustrated.

Once again, the data clearly illustrates that the competition for industrial clients is stiff. Many states are willing to employ unusual methods and commit substantial resources to entice the targeted business. The \$7 million dollar allocation for the Saturday schooling of Japanese dependents and the total dollar value of Kentucky's proposal lend credibility to this assertion (see figure 2).

Obviously, in this instance, the Kansas proposal was not in serious contention. Several states, in addition to ours, simply cannot or will not finance such a large scale risk. Unlike Pennsylvania, however, this time the gamble resulted in a substantial dividend for Kentucky. Toyota has already exceeded its original job and capital investment projections, apparently with much more to come.

## **Arkansas and Nucor-Yamato**

The Nucor-Yamato project is a joint venture steel mill between an American and a Japanese firm. A quick review of the figure 3 reveals a notable difference between the Arkansas initiative and the previously highlighted case studies. Unlike

FIGURE 2

KANSAS - KENTUCKY / TOYOTA  
STATE INCENTIVE PACKAGE

*COSTS . . .*

	KANSAS	KENTUCKY
FACILITY RENOVATION/LAND ACQUISITION	\$ 14 M	\$ 35 M
INFRASTRUCTURE IMPROVEMENT	\$ 4 M	\$ 47 M
EMPLOYEE TRAINING	\$ 2.5 M	\$ 33 M
TOYOTA CENTER OF EXCELLENCE (TRAINING/R & D)	\$ 10 M	\$ 10 M
SATURDAY SCHOOLING FOR JAPANESE DEPENDENTS	---	\$ 7 M
TAX REFUNDS AND CREDITS (ENTERPRISE ZONE CREDITS & SALES TAX EXEMPTIONS)	\$ 35 M (EST.)	---
SPECIAL ALLOCATION (REIMBURSE JTPA)	---	\$ 15 M
	=====	=====
	\$ 65.5 M	\$ 150 M

*BENEFITS . . .*

TOTAL NUMBER OF JOBS PROMISED	3,000	3,000
TOTAL NUMBER OF JOBS DELIVERED	---	3,500
ADDITIONAL EXPANSION JOBS	---	1,500
AVERAGE WAGE	\$ 21,500 - \$ 28,000	\$ 21,500 - \$ 28,000

*NOTE: 500 ADDITIONAL JOBS HAVE BEEN CREATED WITH 1,500 MORE EXPECTED WITHOUT ADDITIONAL INCENTIVES.*

TOTAL CAPITAL INVESTMENT (ORIGINAL)	---	\$ 400 M
TOTAL CAPITAL INVESTMENT (EXPANSION)	---	\$ 1.1 B

PROJECT DATE: 1985

SOURCE: KANSAS DEPARTMENT OF COMMERCE  
KENTUCKY CABINET FOR ECONOMIC DEVELOPMENT

### FIGURE 3

#### ARKANSAS / NUCOR-YAMATO STATE INCENTIVE PACKAGE

##### *COSTS . . .*

###### ENDORSEMENT OF THE FOLLOWING LEGISLATIVE PROVISIONS:

- ELIMINATION OF SALES AND USE TAX ON GAS AND ELECTRICITY
- EXTENSION OF ENTERPRISE ZONE CORPORATE INCOME TAX CREDITS
- EXTENSION OF STATE INCOME TAX OPERATING LOSS CARRY FORWARD FROM 3 YEARS TO 10 YEARS (STEEL MILLS ONLY)
- PROVISION OF \$700,000 FOR EMPLOYEE TRAINING

##### *BENEFITS . . .*

- TOTAL NUMBER OF JOBS PROMISED: 600
- TOTAL NUMBER OF JOBS DELIVERED: 600
- AVERAGE WAGE: \$32,000
- TOTAL CAPITAL INVESTMENT: \$175 M

PROJECT DATE: 1986

SOURCE: UNIVERSITY OF OKLAHOMA, ECONOMIC DEVELOPMENT INSTITUTE  
STUDENT THESIS

Pennsylvania and Kentucky, Arkansas officials did not extend a large bankroll of dollar incentives to their prospect. Actual up-front costs only amounted to \$700,000 in employee training funds. Instead, their efforts focused almost exclusively upon the elimination of perceived barriers to the successful operation of a steel mill in Arkansas. Similar to the current United Telecom proposal, the state of Arkansas was simply asked to remove these barriers through the enactment of appropriate legislation.

#### Florida, Kansas and Time, Inc.

Our final case study is perhaps the most valuable because the prospect, Time, Inc., hired a consultant to assist them with the site selection process. Moran, Stahyl, & Boyer (MSB) was asked to identify an optimal location for the company's magazine and book fulfillment operations. The choice was eventually narrowed to two locations: the Kansas City/Manhattan area and Tampa, Florida.

MSB filed a report in support of their site recommendation and through this report, objective insight concerning Kansas' recruitment strategy was obtained. Figure 4 summarizes the key factors that were evaluated by MSB during the decision making process. Kansas outranked Florida in all but three of the eight factors. Tampa was considered to have superior airport accessibility, postal capabilities, and labor supply. According to the report, Kansas was ranked as "virtually even" in "postal capabilities." Since Tampa offered the use of dedicated zip codes and Kansas could not commit to the same, Tampa narrowly won the postal issue.

FIGURE 4

KANSAS - FLORIDA / TIME, INC.  
CASE STUDY

PROJECT DATE: 1986

FINALISTS: KANSAS AND FLORIDA

TOTAL DOLLAR OF INCENTIVES OFFERED:

KANSAS: \$ 1.9 M PLUS \$1 M SUPPLEMENTAL KIT FUNDS, IF APPROVED

FLORIDA: \$ 4 M IN TRAINING FUNDS

*AT STAKE . . .*

- 1,500 JOBS
- AVERAGE WAGE \$ 22,000
- INCREASED TAX REVENUES FOR THE STATE

*KEY FACTORS CONSIDERED . . .*

- |                       |  |
|-----------------------|--|
| ● LABOR SUPPLY        | ● OPERATING ENVIRONMENT (SUPPLIERS)          |
| ● LABOR COSTS         | ● QUALITY OF LIFE (HOUSING, EDUCATION, COLA) |
| ● POSTAL CAPABILITIES | ● ACCESSIBILITY (AIRPORT)                    |
| ● INCENTIVES          | ● START-UP COSTS                             |

*LOCATION DECISION RATIONALE FOR TAMPA, FLORIDA . . .*

- AIRPORT ACCESSIBILITY
- AVAILABILITY OF DEDICATED ZIPCODES
- PERCEIVED QUALITY OF TRAINING PROGRAMS
- AVAILABILITY OF TRAINING FUNDS

SOURCE: MS&B CONSULTANTS  
MANHATTAN CHAMBER OF COMMERCE

Factored in as part of the "labor supply" category was the quality and capacity of the state training programs. In the final analysis, the training issue may have cost Kansas the Time, Inc. bid. MSB considered the quality of the Tampa program to be "a major asset for that locality" and recommended that the program be "weighted heavily in consideration of incentive programs." In contrast, the consultant described the Kansas Industrial Training (KIT) program as trailing "in terms of quality and certainty of funding." MSB went on to express its reluctance to risk the additional \$1 million in needed supplemental training funds. They were simply not convinced that the legislature would approve the funds.

#### **Lessons Learned From Other States' and Kansas' Experiences**

What can we learn from our past experience and the combined experiences of others? Plenty. First, the Pennsylvania/Volkswagen experience demonstrates that a blank check policy can backfire (See figure 5). Moreover, massive give-aways represent poor judgement in the very least, and at most, a violation of the public trust. Arkansas, on the other hand, demonstrates the inverse principle. Flexibility, responsiveness, and partnership with business is preferred over out-right capitulation.

At the same time, however, the Kentucky/Toyota case study reveals that other states can and will out-spend Kansas. Often, political realities outweigh prudent behavior. Chances are that we will always compete with the big spenders, so we must discover creative ways to increase the likelihood of success.

## FIGURE 5

### LESSONS FROM OTHER STATES

#### *PENNSYLVANIA . . .*

- FULL SCALE GIVE-AWAYS CAN BACKFIRE AND REPRESENT POOR STEWARDSHIP OF THE PUBLIC TRUST.

#### *KENTUCKY . . .*

- MANY OTHER STATES ARE ABLE AND WILLING TO OFFER MORE DOLLAR INCENTIVES THAN KANSAS. WE MUST REPLACE \$ WITH INGENUITY AND CREATIVITY.

#### *ARKANSAS . . .*

- AS ARKANSAS ILLUSTRATES, FLEXIBILITY AND RESPONSIVENESS ARE KEY COMPONENTS OF A SUCCESSFUL MARKETING STRATEGY.

#### *FLORIDA . . .*

- OUR CURRENT TRAINING PROGRAMS' CAPACITY CONSTRAINTS MAY HAVE COST KANSAS THE TIME, INC. BID.

If the Pennsylvania incentive package is a good example of a "give-away", then the Time, Inc. study provides an excellent example of a "take-away." Kansas' experience with this prospect confirms that capacity and political constraints can be costly. KIT's limited resource base combined with the uncertainties of the political decision making process, are viewed as liabilities by the private sector. Clearly, private enterprise will, where possible, avoid any linkage of their future success to political outcomes.

Your endorsement of HB 2492 and HB 2536 will not solve all of Kansas' long term competitive problems; but it will help to improve our position by "leveling the playing field." Passage of this legislation will help Kansas compete more effectively with the big spenders. More important, however, the new job training program in particular will help resolve our current training system capacity limits. Since the new program is completely independent of the budget appropriation process, potential prospects will not be inclined to disqualify Kansas as a place of business because of funding uncertainties.

There are a number of reasons, in addition to the long term benefits, which should also be considered. More specifically, the project's long and short term costs are slight, compared to the benefits. Enactment of the proposed legislation will bring 6,000 new, high-quality jobs to Kansas as well as retain 3,000 current jobs (see figure 6). In addition, United Telecom's proposed University of Excellence and new Technology Center will leverage additional programs and encourage innovative



## FIGURE 6

### UNITED TELECOM PROJECT

#### *REQUESTS . . .*

- ENTERPRISE ZONE STATUS
- COMPLETION OF THE NALL INTERCHANGE ON I-435
- IMPLEMENTATION OF A ONE-FACTOR TAX APPORTIONMENT
- ESTABLISHMENT OF A LARGE CAPACITY TRAINING PROGRAM SIMILAR TO THE IOWA AND MISSOURI INITIATIVES

#### *SELECTED BENEFITS (DIRECT) . . .*

- CREATION OF 6,000 NEW JOBS
- RETENTION OF 3,000 CURRENT JOBS
- AVERAGE WAGE: \$25,000 TO \$30,000
- NEW TRAINING PROGRAM WILL BENEFIT ALL EMPLOYERS, BOTH EXISTING AND POTENTIAL
- UNITED TELECOM'S PROPOSED *UNIVERSITY OF EXCELLENCE* AND *TECHNOLOGY CENTER* WILL LEVERAGE ADDITIONAL PROGRAMS AND ENCOURAGE QUALITY BUSINESS/EDUCATION PARTNERSHIPS

business and education partnerships. Next, the legislation, particularly the new job training program, is in step with the Joint Committee on Economic Development's desire to encourage efficient use of resources.

In return, United Telecom has asked the State to complete I-435 Nall Interchange, guarantee enterprise zone tax credits at existing levels, and pass into law the two bills currently before you. You will probably agree that these requests are quite reasonable and responsible, especially when compared to the wild give-aways described earlier.

### **Conclusion**

In summary, using selected case studies, I have attempted to demonstrate that the proposed legislation is critically linked to our future success. Kansas' continued ability to compete in the global marketplace is contingent upon our finding creative and responsible ways to balance the odds, or if you will, "level the playing field." We can do little to stop the give-aways, yet we must do more to ensure that other opportunities do not slip away from our grasp. The legislation before you will help us achieve this first objective.

Equally important however, is the immediate impact of the legislation. Six thousand quality jobs and countless other spin-off benefits, at comparatively low cost, are too lucrative and too costly to overlook. It is too costly because if this legislation is defeated, we will lose 3,000 United Telecom jobs already in Kansas. So I urge you then to consider President Roosevelt's advice: Be wise now, and act in support of this legislation. Thank you.

HEARING  
BEFORE THE  
HOUSE ECONOMIC DEVELOPMENT COMMITTEE

MONDAY, MARCH 4, 1991

3:30 P.M.

ON

HB2492 AND

HB2536

*Eco-Devo  
Attachment #2  
03-04-91*

Good afternoon Madam Chairwoman and members of the committee. My name is David D. King. I am an Executive Vice President with United Telecommunications, Inc., located in Westwood, Kansas (2330 Shawnee Mission Parkway, [913]676-8426). I am primarily responsible for strategic and technical planning and human resources.

The purpose of my testimony this afternoon is threefold. I will discuss the evolution of United Telecommunications, Inc.; the development of a 247-acre tract of land by United Telecommunications, Inc. in Kansas; and the need for certain legislation in this session that will make the Kansas business environment somewhat comparable with that enjoyed in neighboring states.

#### Overview of United Telecommunications

Today, United Telecommunications, Inc. is the largest publicly-held Kansas corporation headquartered in Kansas. Founded in 1898 in Abilene, Kansas, United has grown into a major communications provider of local service, long distance services provided by our U S Sprint organization, directory services, supply services, and other related telecommunications endeavors. With over 43,000 employees, an asset base in excess of \$10 billion and revenues in excess of \$8 billion, combined with our commitment to excellence and the provision of quality services, as evidenced by the all fiber optic U S Sprint long distance network, Sprint/United stands as an international telecommunications leader.

As United has grown and evolved, it has maintained its commitment and presence in Kansas. One of its subsidiaries is the United Telephone Co. of Kansas. Headquartered in Junction City, United Telephone provides local telephone service to over 125,000 customers in 63 counties and 209 communities throughout the state. This presence was increased during 1989 from 69,000 customers to 125,000 customers pursuant to an agreement with Contel

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which resulted in United trading properties in Arkansas and Iowa for Contel's Kansas properties. This particular act was but one of many over the years which evidences our continuing commitment to and desire to do business in the state of Kansas.

Given our historic ties to the state, given the fact that it has been a very good home for the corporation, given it's excellent geographic location for a company involved in an international business, given the quality of its schools and infrastructure and commitment to good government, given the values of its work force and our employees' positive attitude towards the location, we elected to purchase a 247-acre tract in Overland Park for future business development in Kansas. It is our belief that this development will lead to a win-win-win opportunity for the state of Kansas, for the city of Overland Park, and for Sprint/United.

#### Overview of Sprint/United Campus Project

We purchased 247 acres of undeveloped land in Overland Park for the purpose of developing a training center for our University of Excellence, a technology planning facility, and general office space. Build-out for this site will take 10-12 years and will include over 3,300,000 square feet of office space. The cost of this project is estimated at \$500 million. We estimate that this will result in an additional 6,000 jobs with Sprint/United in Kansas; in the retention of over 3,000 jobs which currently support U S Sprint's long distance division; and in the retention of the international headquarters of Sprint/United. The Johnson County Economic Research Institute estimates that the impact during construction of the campus will generate over 5,000+ construction jobs and induce the creation of an additional 6,000+

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service/support jobs. These jobs are expected to increase annual household earnings by more than \$230 million. When completed, the Johnson County Economic Research Institute predicts that the operating impact of the campus will generate over 9,000 Sprint/United jobs and induce the creation of an additional 11,000+ service/support jobs. It is estimated that these jobs will yield an annual increase in household earnings of \$495 million.

Phase I of the campus project includes approximately 600,000 square feet for the establishment of the University of Excellence and the technology center. This educational/technical center will provide numerous potential joint educational efforts between Sprint/United and the state's universities, community colleges, and even secondary schools. We believe that this potentially unique benefit will garner particular recognition for the state and secondarily for the corporation as we work in unison.

During the past nine months, we have worked in a spirit of cooperation with the city of Overland Park to reach an agreement which would be mutually beneficial to the city, its citizens, and the company. Following the purchase of the 247 acres and during our discussions with Overland Park, we were approached on numerous occasions by other non-Kansas governmental entities seeking the location of this major business project within their particular states. Given our desire to consolidate and not relocate and thus stay in the state of Kansas, we have in all instances graciously but firmly explained our desires. It was not during these past many months or is it now our intention to turn the location and development of the campus site into a bidding contest. At the same time, I, on behalf of the entire United executive officer team, have a fiduciary responsibility to United's board of

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directors and to its thousands of shareholders to ensure that the company receives economic development incentives for this major project which would be comparable with those offered by other states. Recognizing the significant impact that this project would have on its city and the state of Kansas, Overland Park, after extensive negotiations with the company, provided United with certain qualified property tax abatements and agreed to use reasonable efforts to have the proposed campus site designated as an enterprise zone. In January, 1991, the state of Kansas declared the campus site an enterprise zone - an important piece of the overall economic incentive package associated with the campus.

The inducement agreement between the city of Overland Park and United clearly recognizes that while the company intends to construct its campus on the proposed site, that any such construction would be conditioned upon many factors including the general condition of the economy, industry trends, and economic factors. That agreement also specifically recognizes that construction is conditioned upon the state of Kansas providing certain economic development incentives.

#### Legislative Issues

Until a mutually beneficial agreement was reached with the city of Overland Park, it would have been premature for us to discuss any legislative action. Given the first step in this process is completed, I am here today to request your support for a program which will benefit Kansas, its communities, and Sprint/United. I would ask your support for two pieces of legislation. The first, HB2492, is designed to put Kansas on a more comparable level with Missouri for corporate state income tax purposes. This income tax

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legislation would change the existing apportionment factor for telecommunications companies to a single factor apportionment method similar to the method currently available to telecommunications companies in Missouri. This legislation would be available only to telecommunications companies with a substantial presence in the state. It is our belief that the addition of 6,000 new professional staff and executive management positions on the campus plus the tangential job growth and related household earnings increases estimated by the Johnson County Economic Research Institute will yield personal income taxes, sales taxes, real estate taxes, and other revenues which will more than offset any potential long-term reduction in corporate tax liability. Second, we are supporting HB2536 which is designed to increase the funding for training available in Kansas for new jobs which are brought to or created in Kansas by any company or organization. This particular piece of legislation like the former piece is intended to place Kansas on a comparable footing with Missouri.

In discharging the corporation's fiduciary responsibility to its board and its stockholders, we have worked diligently to develop a plan which yields comparability to other states while preserving our long-term commitment to and involvement with the state of Kansas. I would ask that you look favorably upon our request so that we can fully develop a campus in Kansas which will be a hallmark within our state and of significant long-term benefit to all its citizens.

Thank you for the courtesy and attentiveness you have shown me this afternoon.



HEARING

BEFORE THE HOUSE

ECONOMIC DEVELOPMENT COMMITTEE

MONDAY, MARCH 4, 1991

3:30 P.M.

on

HB 2492

*Eco-Devo  
Attachment #3  
03-04-91*

Good afternoon. My name is Les Meredith. I am the Director of State and Local Taxes for United Telecommunications, Inc. headquartered in Westwood, Kansas (2330 Shawnee Mission Parkway, Westwood, KS 66205, 913-676-8354). I am responsible for the state and local tax functions of United Telecommunications and its operating subsidiaries throughout the United States. My responsibilities also include working closely with both the State and local communities in the realization of economic development opportunities.

I come before this committee today knowing that we are involved in one of the largest development projects currently in the United States. For many of us here today this project will be a once in a lifetime opportunity. For United Telecom and the State of Kansas these are truly exciting times.

Our company, through US Sprint, operates in an extremely competitive long distance environment. This requires us to work smarter and harder than our competition. The State of Kansas is also in a similar position when competing for jobs for the State. The proposed legislation would provide the state, its citizens and UTI with economic opportunities that should benefit all parties well into the 21st century.

We have been working closely with both the Departments of Commerce and Revenue in an effort to secure economic benefits for our Campus which are comparable to those available in neighboring states. We have approached this process diligently and responsibly. The legislative proposal before you today is an essential piece in securing our commitment to the development of the campus at the Overland Park site.

As previously stated by Mr. Dave King we are here today to review House Bill No. 2492 which addresses the modification of the state's apportionment factor used in determining Kansas taxable income.

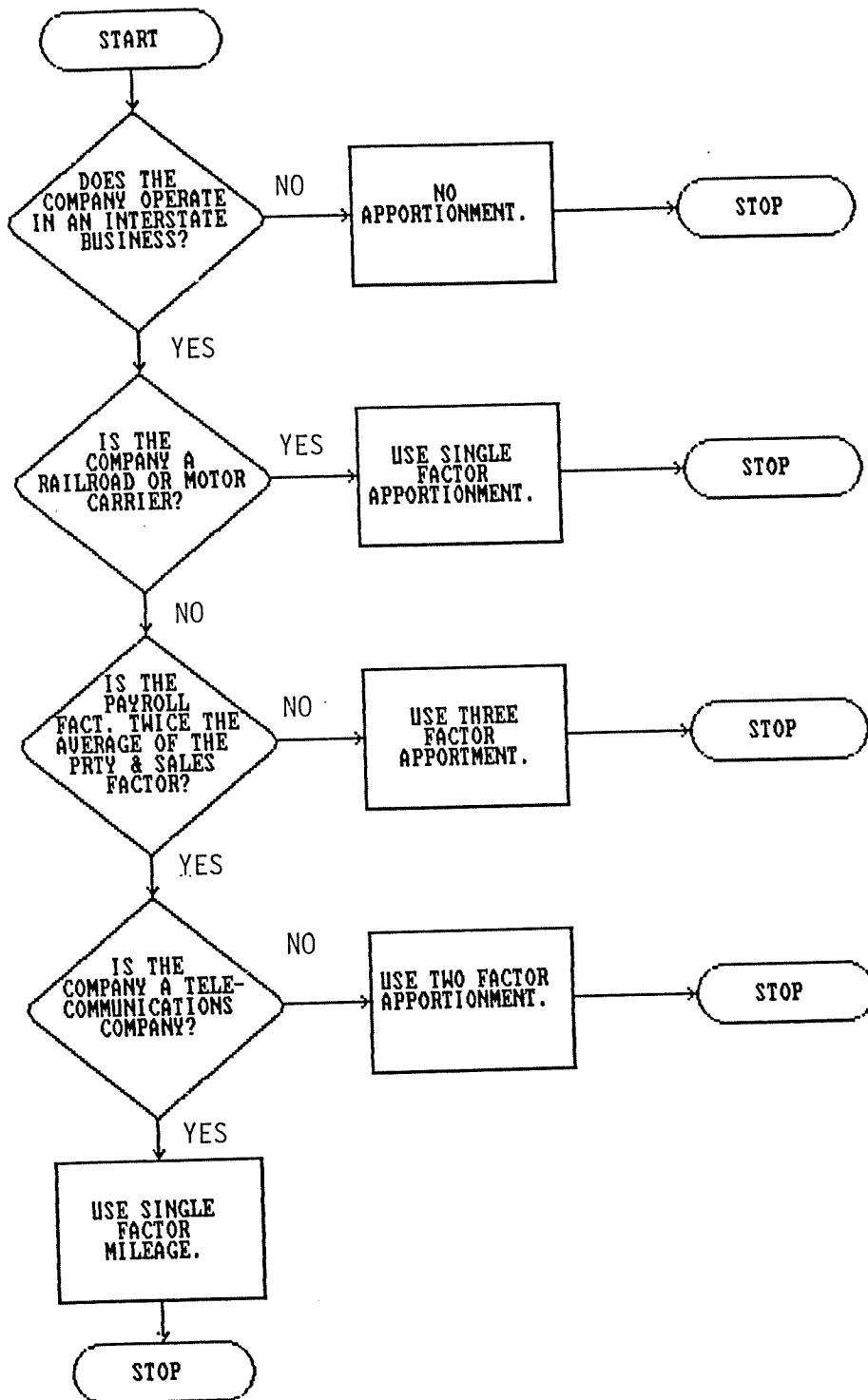
This legislation would allow a telecommunications company currently qualifying for the Kansas two factor apportionment method to elect a single factor apportionment method. Qualifying for the two factor method requires a substantial presence in Kansas. As shown in Exhibit I this two factor test would have to be met before the single factor could be elected.

I appreciate the time and courtesy extended by this Committee and look forward to a long and continuing relationship with the State of Kansas.

I will be happy to try to answer any questions the Committee may have.

Thank you.

HOUSE BILL 2492  
EXHIBIT I  
APPORTIONMENT FACTOR FLOWCHART



COMPARISON OF RATES AMONG MAJOR TAX SOURCES  
KANSAS AND MISSOURI, SUMMER 1990.

	KANSAS	MISSOURI
-----		
Property Tax:		
Average Mill Rate	111.41	47.4
Assesment Ratio	0.3	0.32
Effective Tax Rate*	3.34%	1.80%
Sales Tax:		
State Tax	4.25%	4.13%
Local Tax	May be levied at 0.5% or 1% by both counties and cities	May be levied, not to exceed 3%
Corporate Income Tax:		
Tax	4.25% - First \$25,000 6.75% - Over \$25,000	5% - Flat Rate**
Fed. Tax Deductibility	No	Yes
Adjusted Rate (to account for Federal Tax Deductibility)	4.25% 6.75%	3.30%

\* Missouri effective tax rate based on 1988 mill levy. Missouri currently has a 10.2 percent surcharge on business real estate.

\*\* Through December of 1991, Missouri has a temporarily bracketed corporate income tax these rates are 5% for income less than \$100,000, 6% for income between \$100,000 and \$350,000, and 6.5% for income greater than \$350,000.

SOURCE: Institute for Public Policy and Business Research, "Costs and Taxes for Selected Kansas Industries, Volume One: Overview of State and Local Taxation in the Region" (1990).

**Tax Liability Rank For Individual Urban Areas**  
*Taxes Based on Fifteen Selected Industries*  
*(1 = Lowest Tax Liability)*

**New Firms**

Kansas City, Missouri	1
Tulsa, Oklahoma	2
Oklahoma City, Oklahoma	3
Johnson County, Kansas	4
Sedgwick County, Kansas	5
St. Louis, Missouri	6
Des Moines, Iowa	7
Wyandotte County, Kansas	8
Davenport, Iowa	9
Omaha, Nebraska	10
Denver, Colorado	11

**Existing Firms**

Tulsa, Oklahoma	1
Oklahoma City, Oklahoma	2
Des Moines, Iowa	3
Kansas City, Missouri	4
Davenport, Iowa	5
St. Louis, Missouri	6
Omaha, Nebraska	7
Denver, Colorado	8
Johnson County, Kansas	9
Sedgwick County, Kansas	10
Wyandotte County, Kansas	11

RANKING 11 URBAN COUNTIES FOR JACKSON AND JOHNSON COUNTIES  
 NEW FIRMS IN 15 SELECTED INDUSTRIES

(1 = LOWEST TAXING URBAN COUNTY)

	JACKSON CO. MISSOURI	JOHNSON CO. KANSAS
201 Meat Products	2	8
204 Grain Mill	1	5
267 Converted Paper Products	1	3
275 Commercial Printing	8	3
283 Pharmaceuticals	8	3
307 Misc Plastic Products	1	4
344 Fab Structural Metal	8	3
353 Construction Machinery	4	1
367 Electrical Components	8	3
371 Motor Vehicles	8	3
481 TELEPHONE COMMUNICATION	4	8
508 Wholesale Machinery	1	3
737 Comp/Data Procces. Services	1	9
873 Res./Development/Arch./Mgmt.	9	2
CORPORATE HEADQUARTERS	1	9
Average	4.3	4.5

SOURCE: Data files, Institute for Public Policy and Business Research, Fall 1990.

ESTIMATED TAXES PAID BY INDIVIDUAL TAX FOR NEW FIRM  
 JOHNSON CO. (KS) AND JACKSON CO. (MO)  
 TELECOMMUNICATION FIRM AND CORPORATE HEADQUARTERS

	JOHNSON COUNTY KANSAS	JACKSON COUNTY MISSOURI	DIFFERENCE
-----			
ANNUALIZED TAXES:			
NEW TELECOMMUNICATIONS FIRM			
Federal Taxable Income	\$29,571,907	\$29,600,118	(\$28,211)
Federal Income Tax	\$10,054,448	\$10,064,040	(\$9,592)
State Income Tax	\$39,293	\$0	\$39,293
Unemploy/Workers' Comp.	\$44,890	\$60,845	(\$15,955)
Property	\$105,533	\$60,719	\$44,814
Franchise	\$1,830	\$915	\$915
Sales	\$36,907	\$38,531	(\$1,624)
TOTAL	\$10,282,901	\$10,225,050	\$57,851
STATE TOTAL	\$228,453	\$161,010	\$67,443
NEW CORPORATE HEADQUARTERS			
Federal Taxable Income	\$5,689,708	\$5,706,091	(\$16,383)
Federal Income Tax	\$1,934,501	\$1,940,071	(\$5,570)
State Income Tax	\$8,554	(\$6,476)	\$15,030
Unemploy/Workers' Comp.	\$22,239	\$16,909	\$5,330
Property	\$55,668	\$31,590	\$24,078
Franchise	\$1,187	\$622	\$565
Sales	\$8,877	\$23,121	(\$14,244)
TOTAL	\$2,031,026	\$2,005,837	\$25,189
STATE TOTAL	\$96,525	\$65,766	\$30,759

ASSUMPTIONS:

Firms are taking advantage of all incentives/abatelements and are in enterprise zones.

Firms are part of a larger company.

Federal taxes are based on entire income including out-of-state operations.

State income estimate uses the allocation formulas specific to each state. Missouri has allocation option of sales only.

The Telecommunication firm is assumed to be a public utility and ineligible for enterprise zone credits in Kansas.

SOURCE: Ms. Pat Oslund and various data files, Institute for Public Policy and Business Research, Fall 1990.



ESTIMATED TAXES FOR NEW FIRM  
JOHNSON CO. (KS) AND JACKSON CO. (MO)  
TELECOMMUNICATION FIRM AND CORPORATE HEADQUARTERS

ASSUMING A TOTAL WORK FORCE OF 3,000

	Telecommunication	Corporate Headquarters
-----		
Johnson Co., Kansas:		
Taxes	\$616,974,159	\$121,851,532
Jackson Co., Missouri:		
Taxes	\$613,503,016	\$120,350,233
Difference (positive number = Johnson County higher):		
Taxes	\$3,471,143	\$1,511,300

SOURCE: Data files, Institute for Public Policy and Business  
Research, Fall 1990.

ESTIMATED TAX AND NON-TAX COSTS FOR NEW FIRM  
JOHNSON CO. (KS) AND JACKSON CO. (MO)  
TELECOMMUNICATION FIRM AND CORPORATE HEADQUARTERS

ASSUMING A TOTAL WORK FORCE OF 9,000

	Telecommunication	Corporate Headquarters
-----		
Johnson Co., Kansas:		
Taxes	\$1,850,922,477	\$365,584,597
Jackson Co., Missouri:		
Taxes	\$1,840,509,048	\$361,050,698
Difference (positive number = Johnson County higher):		
Taxes	\$10,413,429	\$4,533,899

SOURCE: Data files, Institute for Public Policy and Business  
Research, Fall 1990.

**IMPACTS ASSOCIATED WITH UNITED TELECOMMUNICATIONS, INC.  
PROPOSED PROJECT**

A working committee comprised of representatives from Kansas Inc., the Department of Revenue, Department of Commerce, and the Governor's Legislative Liaison Office has developed estimates of impacts on State revenues of a Corporate Headquarters/Training Complex proposed by United Telecommunications, Inc. (Sprint/United).

Impacts that have been estimated are income tax and sales tax revenues generated to the State as a result of the project being located in Johnson County. While the project is located in Johnson County, the benefits estimated in this analysis will be shared throughout Kansas. This report is not an in-put/out-put analysis, its purpose is to derive an estimate of tax revenue benefits to Kansas as a result of the project. As a State fiscal impact report, the estimates do not quantify city/county tax revenues, corporate income tax increases from profits generated through sub-contract or spin-off business to firms servicing Sprint/United, and individual tax increases from employees of new or expanded service firms.

The committee would like to acknowledge its appreciation for the suggestions and recommendations provided by economist David Burress with the Institute for Public Policy and Business Research at the University of Kansas. Additionally, the committee would like to express thanks to representatives of Sprint/United for their cooperation and responsiveness to information requests.

**BENEFITS TO KANSAS:**

The benefits in this section are designed to provide a conservative estimate of the impacts associated with the Sprint/United complex. These numbers represent the minimum gain to Kansas and it is possible that significant additional benefits will flow to the State.

Sprint/United Office Complex: The direct benefit of the Sprint/United facility through increased Kansas tax revenues averages \$11,451,236 annually through the year 2012 (Table 1). The net present value for the 20-year time period totals \$140,644,453.

*Eco-Devo  
Attachment #5  
03-04-91*

As a result of a Sprint/United decision to locate in Johnson County, the state receives almost \$11.5 million dollars in new/retained income and sales tax revenues. When indirect benefits are calculated, the total impact is just under \$13.0 million per year. The total net present value for the project is \$161,608,225. These benefits are calculated over a 20-year period, the Sprint/United project represents a long-term investment in Kansas and it is expected benefits will accumulate over a much longer period.

Construction Project: Additionally, during the construction phase of the project (1993 to 2001) Kansas would receive estimated direct benefits of \$278,243 annually. The direct net present value for the construction of the complex is \$3,478,030. These benefits are primarily due to income taxes paid by the estimated 5,158 construction jobs generated by the project. Indirect benefits attributable to the project average \$23,512 per year. The total tax benefit to Kansas during the construction phase is estimated at \$3,772,044.

TABLE 1  
ANNUAL AND NET PRESENT VALUE OF KANSAS TAX REVENUE GAINS  
UNITED TELECOMMUNICATIONS, INC. PROJECT

	<u>Spring/United Complex</u>	<u>Construction</u>	<u>Total</u>
Direct			
Annualized	\$11,451,236	\$278,243	\$11,729,478
Net Present Value	\$140,644,453	\$3,478,030	\$144,122,483
Indirect			
Annualized	\$1,477,422	\$23,521	\$1,500,943
Net Present Value	\$20,963,772	\$294,014	\$21,257,786
TOTAL			
Annualized	\$12,928,658	\$301,764	\$13,230,422
Net Present Value	\$161,608,225	\$3,772,044	\$165,380,269

Net present value: For Sprint/United is a 20 year period  
For Construction the period is from 1993-2001

The committee's goal has been to present a conservative estimate that will be useful to decision makers in assessing the benefits and costs of the Sprint/United project. Several benefits were not quantified including:

1. Jobs in SIC 48 (telecommunications) are some of the highest paying in Kansas. According to the Kansas Department of Human Resources the average wage/salary in Kansas in 1989 was \$19,468, in SIC 48 the average is \$31,291 (one of the eight highest paying industries in the State). In Johnson County, the average wage/salary in SIC 48 was \$35,526 in 1989.

A total of 9,000 jobs will eventually be located at the facility. Sprint/United anticipates creating 3,000 new jobs, retaining 3,000 jobs in Kansas, and relocating 3,000 jobs to Kansas from Missouri. Future employees already located in the Kansas City Metropolitan Area will experience increases in their salaries that will have a ripple effect throughout the KC economy as people stair-step into higher paying jobs.

2. The analysis was not able to account for additional sales tax revenues generated as an estimated 3,000 Sprint/United employees that live in Missouri make new purchases on the Kansas side (e.g., lunches, gasoline, household needs).
3. Regarding current Sprint/United employees that reside in Missouri, there is no estimate of the number that may select to move to Kansas to be closer to the Sprint/United campus. Relocating in Kansas would impact sales tax receipts.
4. Because of a lack of available data, the estimate does not include estimates of the utility use tax that would be paid by the corporation. Given an expected size of 3.3 million square feet and a presence of data processing and computer equipment, payment of this tax will provide significant revenues.

While these, and other impacts, have not been accounted for in the analysis, the model does probably estimate those impacts that generate the largest dollar return to Kansas.

## SINGLE FACTOR APPORTIONMENT OPTIONS:

As part of the objective of remaining competitive with other states in offering economic development incentives to prospective companies, it is proposed that Kansas enact new legislation offering a new option to Sprint/United to calculate their Corporate income taxes.

For companies which operate in a multistate environment, it is necessary to apportion their income between states in which they operate. There are numerous methods used by states in apportioning a company's income to their state. Some of these methods used currently by states include: 1) three-factor apportionment using a property, payroll and sales factor; 2) single factor apportionment using sales; 3) single factor apportionment using specific industry apportionment (i.e., Missouri allows telecommunications companies to use a single factor apportionment based on mileage in the state); 4) Some states weigh the components of the apportionment factor differently.

Kansas, for example, allows companies with a substantial presence in Kansas to use a two factor apportionment using property and sales. Kansas also allows the use of a single factor apportionment based on mileage in the state for railroads and motor carriers.

The purpose of the proposed legislation would be to offer another one factor option--that of miles of wire (i.e. information carrying capacity), for use by a "qualifying telecommunications company". The language requires that payroll has to be 200% of the combined sales and property factors to qualify and it is doubtful that any other company would qualify without a sizeable corporate headquarters presence in Kansas such as Sprint/United is proposing.

Seven years of United Telecommunications, Inc.'s income tax returns were reviewed to evaluate and analyze the impact of this legislation. Because of their acquisition of U.S. Sprint, the sale of one of their companies and the construction of a fiber optic network in recent years, it was decided that only the last two years would be representative. Sprint United currently qualifies to use the two factor apportionment method. This analysis calculates the fiscal impact that would be created in going from the two factor apportionment to the single factor telecommunication apportionment method.

Upon project completion, the two factor apportionment percentage was estimated from project financial data provided by Sprint/United relating to labor, materials, machinery and

equipment and other costs of construction of the project, as well as new employees, their salaries and other financial data with a timetable showing the completion schedule for each phase of the project. This information was used to derive a two factor apportionment percentage of 6.7% upon completion of the project.

The one factor wire percentage was computed by Sprint/United using Sprint/United's system-wide miles of wire and fiber optic cable in each of their states, including Kansas. The Kansas total was then divided by the system total to obtain the one factor miles of wire percentage of 2.7%.

In computing the fiscal impact to Kansas of going from a two factor to a one factor option, the following example can be used. In the example given, if the taxable income and the resulting TAX LIABILITY to Kansas from the "project completion" two factor option was \$1,000,000, and the taxpayer went to the new one factor option, their tax liability would be reduced by \$600,000. The reader can assume any multiple of \$1,000,000 tax liability to compute the impact to the state as we are unable to determine future taxable income of Sprint/United. The reader is reminded that at a corporate tax rate of about 6.75%, the \$1,000,000 tax liability equates to about \$14.8 million in Kansas taxable income and less than eight tenths of one percent (0.8%) of Kansas

**ATTACHMENT A**

1. Estimates of Benefits to Kansas
2. Major Assumptions of the Model
3. Derivations of Income and Sales Tax Effective Tax Rates.



UNITED TELECOMMUNICATIONS, INC.  
 ESTIMATED DIRECT/INDIRECT IMPACT ON KANSAS TAX REVENUES  
 PERIOD FROM 1993 - 2013

INCOME TAX IMPACT:  
 Direct

-----  
 \$121,619,381  
 \$9,729,551

Net Present Value  
 Annualized

SALES TAX IMPACT:  
 Direct

-----  
 \$19,025,072  
 \$1,522,006

Indirect

-----  
 \$11,451,236  
 \$916,099

Net Present Value  
 Annualized

Indirect

-----  
 \$9,512,536  
 \$761,003

TOTAL ANNUAL TAX REVENUE GAIN FROM  
 INCREASED/RETAINED EMPLOYMENT:

\$11,451,236  
 \$12,928,658  
 =====

Direct  
 Direct and Indirect

MODEL ASSUMPTIONS:

Kansas 1989 average wage/salary (SIC 48).....	\$35,526
Estimated discount rate.....	8.0%
Est. annual gain in Salary/Wages: SIC 48.....	4.5%
Est. Ks 1993 avg. Wage/Salary: SIC 48.....	\$42,365
Individual Income Tax Paid on Est. Wage/Salary.....	2.45%
Sales Tax Estimate.....	2.04%
Multiplier * .....	1.5

\* Multiplier for estimating indirect income and sales tax revenues applies only to United Tel hires recruited to the KC Metro area (estimate of approximately 60% of the 3,000 new jobs)

UNITED TELECOMMUNICATIONS, INC. - CONSTRUCTION PROJECT  
 ESTIMATED DIRECT/INDIRECT IMPACT ON KANSAS TAX REVENUES  
 PERIOD FROM 1993 - 2001

INCOME TAX IMPACT:		SALES TAX IMPACT:
Direct		Direct
-----		-----
\$3,211,113	Net Present Value	\$266,917
\$256,889	Annualized	\$21,353
Indirect		Indirect
-----		-----
\$160,556	Net Present Value	\$133,458
\$12,844	Annualized	\$10,677

TOTAL ANNUAL TAX REVENUE GAIN FROM  
 INCREASED/RETAINED EMPLOYMENT:

\$278,242	Direct
\$301,764	Direct and Indirect
=====	

MODEL ASSUMPTIONS:

Construction jobs generated **..	5,158
Johnson County 1989 average wage/salary (SIC 48).....	\$26,960
Estimated discount rate.....	8.0%
Est. annual gain in Salary/Wages: SIC 48.....	4.8%
Est. Ks 1993 avg. Wage/Salary: SIC 48.....	\$32,521
Effective Individual Income Tax on Est. Wage/Salary.....	2.45%
Effective Sales Tax Estimate....	2.04%
Multiplier * .....	1.5

\* Multiplier for estimating indirect income and sales tax revenues applies only to Construction workers that move into KC Metro area as a result of the construction project (approximately 10% of the 5,158 jobs).

\*\* 5,158 total construction jobs based on estimate developed by the Johnson County Economic Research Institute (CERI).

## MODEL'S ASSUMPTIONS

Job Projections: Without the project, Kansas will lose the approximately 3,000 Sprint/United jobs currently located in the State. For this reason, the model assumes an increase/retention of income tax revenue from 9,000 jobs. Proprietary information provided by Sprint/United allowed the model to account for annual job increases at the rate anticipated by Sprint/United.

Of the 3,000 jobs that are new to the corporation, 60 percent were assumed to be filled by households moving into the Kansas City area and locating in Johnson County. Interviews with personnel professionals confirmed this was a reasonable estimate for higher paying professional jobs in the Kansas City Metropolitan Area.

Construction jobs during the life of the building project are estimated at 5,158. The jobs are staggered in as the project progresses based on total construction costs. It is assumed that 10 percent of these jobs will be filled by workers moving into the Kansas City area and locating on the Kansas side.

Average Wage/Salary for Telecommunications Jobs: Data from the Department of Human Resources (KDHR) reveals that in 1989 the average wage/salary for people employed in Johnson County in SIC 48 (telecommunications) was \$35,526. Assuming a 4.5 percent annual gain in wage/salary in this industry, the 1993 salary is projected to be \$42,365. The annual 4.5 percent gain in salary is based on the average annual increase in wage/salary within that sector in Johnson County from 1986 through 1989

The wages/salary associated with the construction jobs is estimated using KDHR data. Average wages in the construction industry for jobs located in Johnson County were \$26,960 in 1989. The annual 4.8 percent gain in salary is based on the average annual increase in wage/salary within that sector from 1986 through 1989.

Estimates of Average Income Tax and Sales Taxes Paid by Telecommunications Workers: The percent of wage/salary that is paid in individual income taxes is 2.45 percent. The estimate of sales tax paid annually is 2.04 percent of total income. The methodology is presented below.

Indirect Impacts: In deriving indirect impacts, only households new to the Kansas City Metropolitan area were responsible for indirect impacts. While 9,000 jobs were retained or created in Johnson County, all but an estimated 1,800 were filled by residents of the metropolitan area. This model assumes

that the 7,200 would maintain existing patterns of expenditures and continue to live in the same area (no estimate was made of the number of Missouri residents that may chose to move to Kansas).

This is another reason why the model is characterized as presenting a minimum impact on the State as a result of the project's location in Johnson County. Again, the attempt has been only to estimate the increases in individual sales and income tax revenue to Kansas over the course of the project.

Discount Rate: The purpose of converting the estimate of dollar impacts to a net present value, given an annual estimate for 20-years, is to permit a comparison of the benefits to Kansas over time. In evaluating the impacts associated with the project, it would useless to project dollars into the future and not attempt to measure what those dollars are worth today. To make this conversion to current dollars, a discount rate of 8 percent has been used. There is no standard rule for selecting the discount rate. This report used 8 percent after reviewing bond buyer's indexes and discussions with staff at the Kansas Development Finance Authority. Eight percent is higher than the current 25 year revenue bond index (7.23 percent), however the bond rate has ranged as high as 14.32 percent (1982) and no lower than 6.92 percent (1987).

## DERIVATION OF INCOME AND SALES TAX ESTIMATES

### Income Tax estimate:

1. dividing - total adjusted gross income for tax return filers in the \$30-35,000 range by total number of returns = an average income level per return;
2. dividing - total tax receipts from returns filed in the \$30-35,000 category by the total number of returns in that same income range = average tax liability per return in the \$30-35,000 salary range
3. dividing - the average tax liability per return by the average adjusted gross income per return = an estimate of the effective tax rate per return in that income category (2.45 percent).

### Sales Tax estimate:

1. dividing - the total number of returns with adjusted gross incomes of \$30-35,000 by the total number of tax returns filed = percent share of tax filling households in that income range  
  
(this percent was assumed to be representative of the share of sales taxes paid by families with incomes in that range);
2. multiply - percent derived in #1 X total sales tax revenues = an estimate of sales tax attributable to households in the \$30-35,000;
3. divide - sales taxes attributable to households in the \$30-35,000 range by the average income per return (#1 in income tax estimate) = estimate of effective sales tax rate per household in that income category.



## KANSAS DEPARTMENT OF REVENUE

*Office of the Secretary*  
Robert B Docking State Office Building  
915 SW Harrison St  
Topeka Kansas 66612-1588

### MEMORANDUM

To: The Honorable Diane Gjerstad, Chairperson  
House Committee on Economic Development

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

Date: March 4, 1991

Subject: H.B. 2492

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Thank you for the opportunity to appear and comment on H.B. 2492. The bill provides for a special one factor apportionment method for telecommunications companies for Kansas corporate income tax purposes. Generally, a multistate corporation must apportion or divide its taxable income among the states in which it conducts business so that each state taxes only its share of the income. Kansas utilizes the three-factor (property, payroll and sales) apportionment method to apportion such income. This methodology is designed to accurately reflect the business activity of the taxpayer occurring in the state. It has been adopted in Kansas and 36 other states, principally under the Uniform Division of Income for Tax Purposes Act (UDITPA). This is the apportionment methodology used by the vast majority of multistate corporations which have nexus in Kansas.

In 1988, the Legislature created a special 2-factor apportionment formula to attract corporate headquarters to the state of Kansas. That provision allowed a corporate taxpayer to use a 2-factor formula based on property and sales if the payroll factor was 200% the average of the other two factors. The election is irrevocable for a period of 10 years unless the Secretary allows the taxpayer to terminate the election.

H.B. 2492 provides that a qualifying telecommunication company may use a single factor apportionment formula if the same criteria for the 2 factor option are satisfied. Telecommunications company includes any company or unitary group of companies whose primary business activity is the transmission of communications by wire or fiber optic cable. The one factor would be based upon the message carrying capacity of wire and fibre optic cable in Kansas over such carrying capacity everywhere. The effect of the proposal is to reduce the amount of income apportioned to Kansas. The Department believes the bill is sufficiently narrowed to apply to very few taxpayers i.e., only those telecommunication companies actually headquartered in Kansas.

I would be happy to respond to any questions you may have.

*General Information (913) 296-3909*

*Office of the Secretary (913) 296-3041 • Legal Services Bureau (913) 296-2381*

*Audit Services Bureau (913) 296-7719 • Planning & Research Services Bureau (913) 296-3081*

*Administrative Services Bureau (913) 296-2331 • Personnel Services Bureau (913) 296-3077*

*Eco-Devo  
Attachment #6  
03-04-91*