

Approved March 19, 1991
Date

MINUTES OF THE HOUSE COMMITTEE ON TAXATION

The meeting was called to order by Joan Wagnon at
Chairperson

9:10 a.m. on Thursday, March 7, 1991, 19 in room 519-S of the Capitol.

All members were present except:

Committee staff present:

Tom Severn & Chris Courtwright, Legislative Research,
Don Hayward & Bill Edds, Revisors,
Linda Frey, Committee Secretary

Conferees appearing before the committee:

Chairman Wagnon called the committee to order at 9:10 a.m. for a briefing on HB 2492.

Although the bill is not assigned to the House Taxation Committee, the Chair thought it would be of interest to committee members. House Bill 2492 permits the use of a one-factor apportionment formula by a telecommunications company. In order to qualify for the provisions of the new one-factor formula companies would have to meet the new definition and a two-factor test on payroll and sales.

David D. King, Executive Vice President of United Telecommunications, Inc., discussed plans for development in Kansas by United Telecommunications, Inc. and the need for HB 2492 (attachment 1).

King stated that the development he discussed would begin construction in approximately one year, but that proceeding with the project might be contingent on final action on HB 2492. In reply to questions, King discussed the development of U.S. Sprint/United Telecommunications, Inc. He said the company began with 10 employees 10 years ago and achieved 20 to 30% growth levels. He said U.S. Sprint had not paid any corporate income taxes to Kansas because it had not earned sufficient profits. He said the tax abatements received from Overland Park were 50% of valuation for the complete 10 years as allowed by state law.

Les Meredith, Director of State and Local Taxes for United Telecommunications, Inc., discussed the need for passage of HB 2492 and its technical implications (attachment 2).

The meeting adjourned at 10:14 a.m.

GUEST LIST

COMMITTEE: Historic

DATE: 3/7/91

NAME (PLEASE PRINT)	ADDRESS	COMPANY/ORGANIZATION
Jim McBride	Topeka	obscure
Roger D Kirkwood	Topeka	AARP-CITE
DAN STEVENS	TULSA OK	TEXACO
R ANDERSON	OTTAWA	KND CONT OF G
L Meredith	O.P. Ks.	United Telecom
Bill Roche	Overland Park	United Telephone
Jeff Russell	TOPEKA	UNITED Telephone
Jamie Schwartz	Topeka	United Telecom
J Bowser	Junction City	United Tel.
Tom Cannon	K.C.	K.C. STAR
Dan Haas	Overland Park	KCPH
Jim Shelley	Topeka	SWBT
DENNY KOCH	"	"
Jack Conrad	LAWRENCE	KG & E
Bob [unclear]	Heslet	Pop Gene [unclear]
Mike Rees	Topeka	AT&T
Christopher Heslet	MARION	Marion High School
Ida Keith	Marion	Marion High School
Sina Hardey	Marion	Marion High School
Pat Higgins	Topeka	Gov. Office - Leg. Affairs
JANET STUBBS	Topeka	HBAK
DON SEIFERT	OLATHE	CITY OF OLATHE
JOHN C. BOTTENBERG	TOPEKA	KS RAILROAD ASSOC
Julie Hill	Topeka	Hill & Ebert

HEARING
BEFORE THE
HOUSE TAXATION COMMITTEE

THURSDAY, MARCH 7, 1991

9:00 A.M.

ON

HB2492

HOUSE TAXATION
Attachment #1
03/07/91

Good morning 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

March 7, 1991
Page 2

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+

March 7, 1991

Page 3

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

March 7, 1991

Page 4

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

March 7, 1991
Page 5

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 morning.

Attachment 1-6

HEARING

BEFORE THE HOUSE

TAXATION COMMITTEE

THURSDAY, MARCH 7, 1991

9:00 A.M.

on

HB 2492

HOUSE TAXATION
Attachment #2
03/07/91

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.

Specifically, the apportionment factor is based on the information carrying capacity of wire and fiber optic cable. When both wire miles and fiber miles are combined in an apportionment factor it is necessary to convert the fiber miles to equivalent wire miles. This fiber conversion is necessary because of the higher capacity capabilities of fiber over wire.

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

