

Approved April 2, 1991
Date

MINUTES OF THE Senate COMMITTEE ON Economic Development

The meeting was called to order by Senator Dave Kerr at
Chairperson

8:00 a.m.~~XXX~~ on March 29, 1991 in room 123-S of the Capitol.

All members were present ~~XXXXX~~

Committee staff present:

Lynne Holt, Legislative Research Department
LaVonne Mumert, Committee Secretary

Conferees appearing before the committee:

David King, United Telecommunications, Inc.
Les Meredith, United Telecommunications, Inc.
Mark Burghart, Department of Revenue
Charles Warren, Kansas, Inc.
Representative Diane Gjerstad
Dr. Daniel Phelan, Johnson County Community College

HB 2492 - Corporate income tax, apportionment of telecommunications company
business income

Sub for HB 2536 - Investments in lifelong learning program

Senator Dave Kerr, Chairman, called the meeting to order and introduced
Dave King, Executive Vice President, United Telecommunications, Inc.

David King testified in support of both bills and provided a copy of his
previous testimony before this Committee along with a study by Kansas, Inc.
of the impact of the United Telecommunications project (Attachment 1).

Les Meredith spoke in favor of HB 2492 (Attachment 2). He explained how
HB 2492 would allow a telecommunications company that currently qualifies
for the two factor apportionment method to elect to use a single factor
apportionment method.

Mark Burghart stated that his department is satisfied with the formula
contained in HB 2492. It basically applies to United Telecommunications.
He said other similar entities could not qualify for this methodology
unless their presence in Kansas is substantially increased. Senator
Brady asked about the fiscal impact. Mr. Burghart said it is not possible
to project the company's future earnings but changing from a two factor
formula to a single factor would reduce tax liability by approximately
55-60%. Senator Moran asked if the provisions of HB 2492 would result
in telecommunications companies being treated the same as interstate
motor carriers and railroads. Mr. Burghart agreed that would be true.

Charles Warren presented testimony in support of Sub. for HB 2536 (Attach-
ment 3) and a chart diagramming the bill (Attachment 4). The bill
establishes a training program where businesses which meet the definition
of "Kansas basic enterprise" can apply for training funding. The businesses
must enter into an agreement with an educational institution for the
training project and the program is limited to only new jobs. He noted
that the maximum amount which can be funded is 2.5% of the estimated amount
of gross wages of the new jobs over ten years. The program would be
financed through public purpose bonds issued by the Kansas Development
Finance Authority, and those bonds would be retired through diversion of
withholding taxes. Mr. Warren said that the bill was modeled after
programs in Iowa and Missouri, but in those states the bonds are issued
by community colleges and local banks. He said the Kansas bill has the

CONTINUATION SHEET

MINUTES OF THE Senate COMMITTEE ON Economic Development,
room 123-S, Statehouse, at 8:00 a.m.~~a.m.~~^{XXX} on March 29, 1991

advantage of providing for pooling of several small businesses as well as achieving greater economy of administrative costs by pooling. Senator Moran asked if the bill contains disincentives for small businesses. Mr. Warren answered that the Secretary of Commerce is to encourage the pooling of requests from small firms. Senator Francisco asked if the training could be done in-house and still qualify for the funding provided by the bill. Staff advised that the bill requires there be an agreement with an educational institution. Senator Oleen asked about the makeup of the Governor's Council on Work Force Training. Mr. Warren advised that the Secretaries of SRS, Human Resources, Commerce, the Secretary of Education, the Governor's Chief of Staff and the President of Kansas, Inc. make up the membership. That committee is responsible for the approval of each project to insure that there is no duplication of existing services and that other funds available for training are being used in conjunction with this program. Responding to Senator Brady's question about the maximum amount that could be used, Mr. Warren said, with today's funds, the maximum would be in the neighborhood of \$9 million. Senator Petty asked about potential abuses of the program. Mr. Warren said that careful consideration of potential abuses has been given and the bill has checks and balances built into it to prevent abuses. He emphasized that this is not an entitlement program. Responding to Senator Oleen's question about a requirement for satisfactory completion of training, Mr. Warren said this type of provision would be a part of the agreement with the educational institution.

Representative Diane Gjerstad testified in support of Sub. for HB 2536. She said that one of the most important elements of site selection for businesses is the availability of a trained work force. She noted that 70% of the jobs in the year 2,000 will not require a traditional four-year college degree. Representative Gjerstad stated that this program is demand driven and will facilitate a relationship between the educational community and the business community. She said the bill includes elements of third wave, such as clustering. She noted that while the bill contains many safeguards to insure quality training, it also provides a great deal of flexibility. She mentioned that the House committee purposely kept the focus on the training by educational institutions because of the belief it is appropriate to keep public dollars in public vocational programs. Representative Gjerstad stressed that the program is focused on producing skilled workers.

Dr. Daniel Phelan testified in support of the bill (Attachment 5). He pointed out the provisions beginning on line 22 which provide for a lien upon a business' property in case of nonpayment by a business participating in the program.

Written testimony from Anthony Redwood and Charles Krider was also distributed (Attachment 6).

Senator Moran moved that the minutes of the March 27 and 28, 1991 meetings be approved. Senator McClure seconded the motion, and the motion carried.

Chairman Kerr announced that the hearing on Sub. for HB 2536 would continue at the next Committee meeting on Tuesday, April 2, 1991. The meeting adjourned at 9:00.

HEARING
BEFORE THE
SENATE ECONOMIC DEVELOPMENT COMMITTEE
FRIDAY, MARCH 29, 1991
8:00 A.M.
ON
HB 2492
AND
SUBSTITUTE HB 2536

Attachment 1
3/29/91
Sen. Eco. Devel.

Good morning Mr. Chairman and Members of the Committee. I am David D. King, Executive Vice President with United Telecommunications, Inc.

Since I last appeared before you in an overview hearing on February 28th, the two desired pieces of legislation I discussed that day have become a reality. I am very pleased to advise that the House of Representatives overwhelmingly passed HB 2492 and Substitute HB 2536 this week.

During this period, we have had the privilege of working with the Departments of Commerce and Revenue, Kansas, Inc., and many legislators. Their active support and input has been invaluable.

This morning, I will briefly address HB 2492 and Substitute HB 2536. Others appearing before you today will provide more of the details associated with these two bills. In its present form, HB 2492 places telecommunications companies with a substantial presence in Kansas on a more comparable level with Missouri telecommunications companies for corporate state income tax purposes. Similarly, Substitute HB 2536 increases available training funding in Kansas for new jobs brought to or created in Kansas by any company or organization. This bill also places the State of Kansas on a comparable footing with Missouri. The bills before you today provide the comparability to other states that would allow Sprint/United to proceed with its plans to construct a campus facility in Kansas. I would ask that you act favorably upon these bills.

3/29/91
1-2

March 29, 1991
Page 2

In my earlier appearance before you, I provided a detailed overview of Sprint/United and the campus project. A copy of that testimony is attached. I have also attached a recently released study prepared by Kansas, Inc., which summarizes the impacts associated with the campus.

Thank you again for the opportunity to appear before you today and I greatly appreciate the prompt scheduling of these hearings.

I would be pleased to answer any questions you or the Committee may have.

3/29/91
1-3

HEARING
BEFORE THE
SENATE ECONOMIC DEVELOPMENT COMMITTEE

THURSDAY, FEBRUARY 28, 1991

8:00 A.M.

ON
UNITED TELECOMMUNICATIONS, INC. CAMPUS PROJECT

3/22/91
1-4

Good morning Mr. Chairman 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 morning 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

3/29/91
1-5

February 28, 1991
Page 2

Contel 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+

3/29/91
1-6

February 28, 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

3/29/91
1-7

February 28, 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 is designed to put Kansas on a more comparable level with Missouri for corporate state income tax purposes. This income tax legislation would

3/29/91
1-8

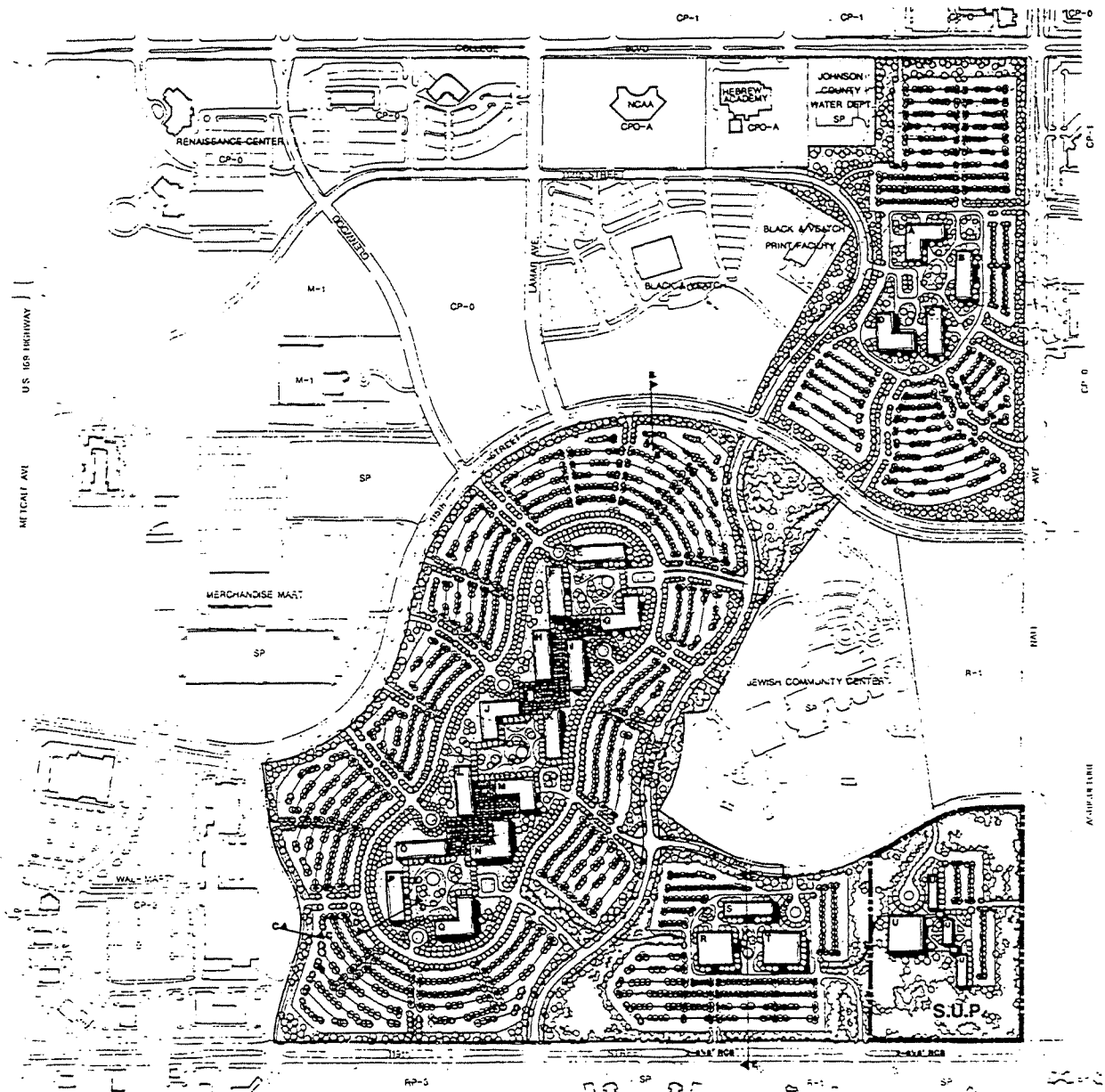
February 28, 1991
Page 5

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 legislation 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.

3/29/91
1-9



CAMPUS PLAN

PLANNING DATA

LAND USE	Corporate Office
ZONING	CP-0
GROSS FLOOR AREA	General Office 3,050,000 G.S.F. Special Use Permit 250,000 G.S.F. Total 3,300,000 G.S.F.
PARKING	General Office (@ 3.8): Special Use Permit 200 spaces Total 11,790 spaces
GROSS LAND AREA	264 Ac.
FLOOR AREA RATIO	.29
LAND USE INTENSITY	5.6 (0.3 bonus requested)
OPEN SPACE	19% required 27% provided
LANDSCAPED PARKING	8% required 18% provided

BUILDING DATA

Building	No. Floors	Gross S.F.
A	4	86,408
B	8	132,808
C	8	178,812
D	12	266,218
E	12	266,218
F	8	132,808
G	8	178,812
H	5	110,507
I	5	110,507
J	12	266,218
K	8	132,808
L	8	132,808
M	4	86,408
N	8	178,812
O	8	178,812
P	5	110,507
Q	5	110,507
R	4	132,809
S	6	132,808
T	4	132,809
U	3.8.4	750,000
TOTAL		3,300,000

3/29/91
1-10

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, 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 tax revenues are the result of 9,000 new and retained jobs in Kansas. The net present value for the 20-year time period totals \$140,644,453.

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, however, 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 \$23,521 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>Sprint/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
<u>TOTAL:</u>			
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

SINGLE-FACTOR APPORTIONMENT OPTIONS

Competition is normally very intense for an environmentally clean facility that creates 9,000 jobs paying above average wages and salaries. However, Sprint/United has opted to maintain its presence in Kansas without creating a bidding war. The corporation is asking for legislation that provides an alternative method for calculating Sprint/United's Kansas corporate income tax.

For companies which operate in more than one state, it is necessary to apportion their income among the states in which they operate in order to determine their tax liability in a single state. For tax purposes, income attributable to most multi-state firms operating in Kansas is based on a three-factor apportionment formula using a property, payroll, and sales factor.

Three-factor example:

	Ks. Payroll	divided by	Total Corporation Payroll
+	Ks. Property	divided by	Total Corporation Property
+	Ks. Sales	divided by	Total Corporation Sales
<hr/>			
	Sum divided by 3		

The resulting percentage is multiplied by a firm's taxable income to determine the Kansas income tax liability.

Companies with a substantial presence in Kansas have the option of using a two-factor apportionment (property and sales). Additionally, the State has already permitted the use of a single-factor apportionment based on mileage in Kansas for railroads and motor carriers. The proposed legislation would provide another single-factor option, miles of wire (i.e. information carrying capacity), for use by a "qualifying telecommunications company". The language requires that the payroll factor be 200% of the combined sales and property factors to qualify. It is doubtful a company would qualify that does not have a sizeable corporate headquarters presence in Kansas (Spring/United does).

BENEFITS TO SPRINT/UNITED

Sprint/United currently qualifies to use the two-factor apportionment method. This analysis presents an estimate of potential fiscal impact on Kansas of Sprint/United shifting from a two-factor apportionment to the proposed single-factor method. Employment, sales, and salary factors (data supplied by Sprint/United and Department of Revenue) were estimated to develop a two-factor apportionment percentage of 6.7 percent. To derive the corporation's taxes, total taxable income is multiplied by 6.7 percent.

A one-factor percentage was computed dividing Kansas wire-mileage by Sprint/United's system-wide miles of wire and fiber optic cable (provided by Sprint/United). The single-factor "miles of wire" apportionment percentage is 2.7 percent. To derive the corporation's taxes, total taxable income is multiplied by 2.7 percent.

If the tax liability to Kansas, given the two-factor formula, was \$1 million and Sprint/United opted to use the one-factor method, their tax liability would be reduced by almost \$600,000. But, Kansas would still receive over \$400,000 in income tax revenue. This is a hypothetical estimate, the committee is not sure how realistic a \$1 million tax liability for Sprint/United is. At a corporate tax rate of about 6.7 percent, a \$1 million tax liability equates to around \$14.8 million in Kansas taxable income. Less than 0.8% percent of Kansas taxpayers have taxable income above \$1 million.

HEARING

BEFORE THE SENATE

COMMITTEE ON ECONOMIC DEVELOPMENT

FRIDAY, MARCH 29, 1991

8:00 A.M.

on

HB 2492

Attachment 2
3/29/91
Sen. Eco. Devel.

Good morning. 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.

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. House Bill No. 2492 is an essential piece in securing our commitment to the development of the campus at the Overland Park site.

3/29/91
2-2

House Bill No. 2492 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 that of wire.

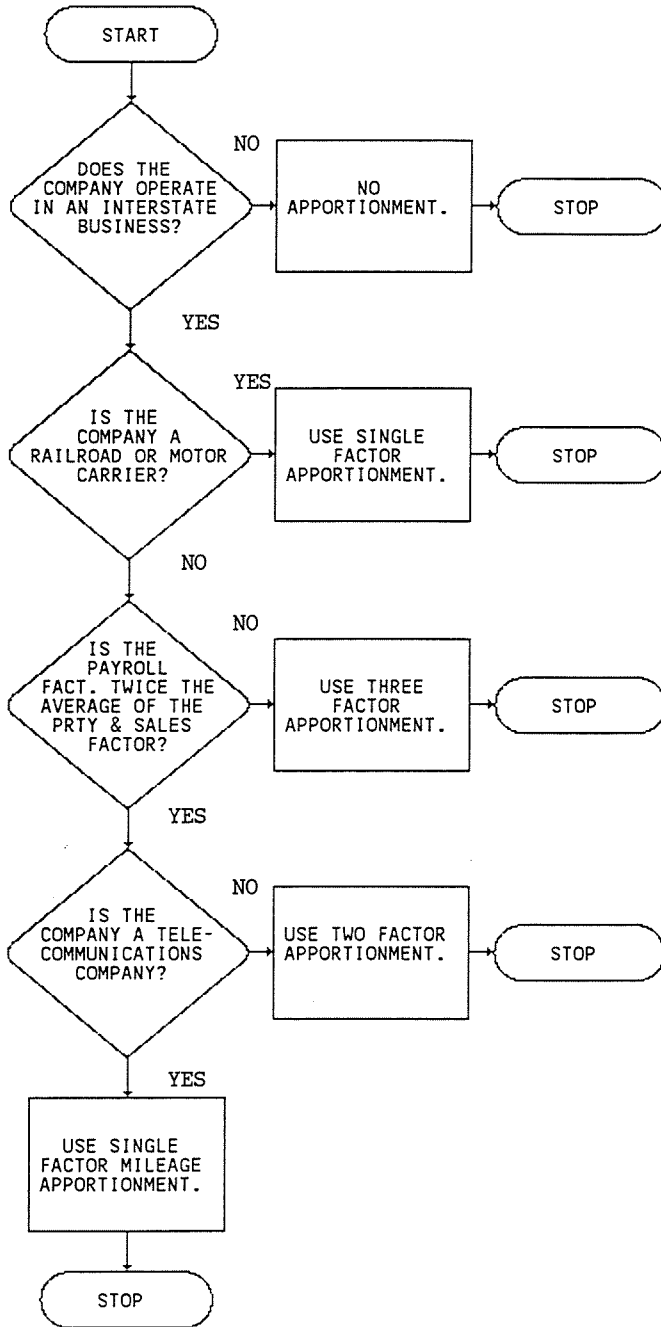
I appreciate the time and courtesy extended by this Committee and look forward to a long and continuing relationship with the State of Kansas.

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

Thank you.

3/29/91
2-3

HOUSE BILL 2492
EXHIBIT I
APPORTIONMENT FACTOR FLOWCHART



3/29/91
2-4

**Testimony on
Substitute for House Bill 2536
SKILL Program**

**Presented to:
Senate Committee on Economic Development
March 29, 1991**

Charles R. Warren, President, Kansas Inc.

Mr. Chairman, I appreciate this opportunity to testify in support of Substitute for House Bill 2536 that would establish the Kansas SKILL program. Work force training is the highest priority in our economic development strategy. This new program will provide the State and its basic industries the opportunity to ensure that its new workers receive well-designed and coordinated training opportunities as they enter into new careers and employment. Through this legislation, the State will enter into an partnership of investment in human capital that will help ensure the long-term viability of both expanding companies and new firms. More important, these investments will help ensure that new job creation is sustained over the longer term.

As you know, this bill was prompted by the United Telecom/Sprint decision to locate in Overland Park. It is based on precedent legislation in Iowa and Missouri. The Kansas program has been designed to ensure three important features: 1) its application will be statewide and small, medium-sized and large firms will be eligible for its benefits; and 2) the concept has been adapted to the specific needs of Kansas and is suitable to our existing system of work force training and our educational institutions throughout the state. A third important feature is that it is designed to secure significant efficiencies in its management and economies of scale in the centralized pooling of training projects and subsequent issuance of bond financing.

The management and administrative process for this program has been the subject of considerable work and discussion. We have incorporated a number of checks and balances to ensure that:

- 1) Program duplication is avoided;
- 2) Available funds from related programs are leveraged to the maximum extent;
- 3) Public educational institutions are emphasized and relied upon for program delivery;
- 4) Project review and approval, as well as coordination, takes place at the highest level of state government through the Governor's Council on Work Force Training. That council includes cabinet secretaries from Commerce, SRS, Department of Human Resources; the Secretary of Education, and the Governor's Chief of Staff.

The bill requires that rules and regulations be promulgated that will be subject to legislative review under the normal process. I am confident that any concerns or tightening of definitions or provisions can be handled through the forthcoming rules and regulations.

I would like to emphasize that this bill does not create an "entitlement" program. While many companies may be eligible, project approval and fund disbursement will be made only upon application and review. Submitted training projects must be meritorious, well designed, and coordinated with our existing resources.

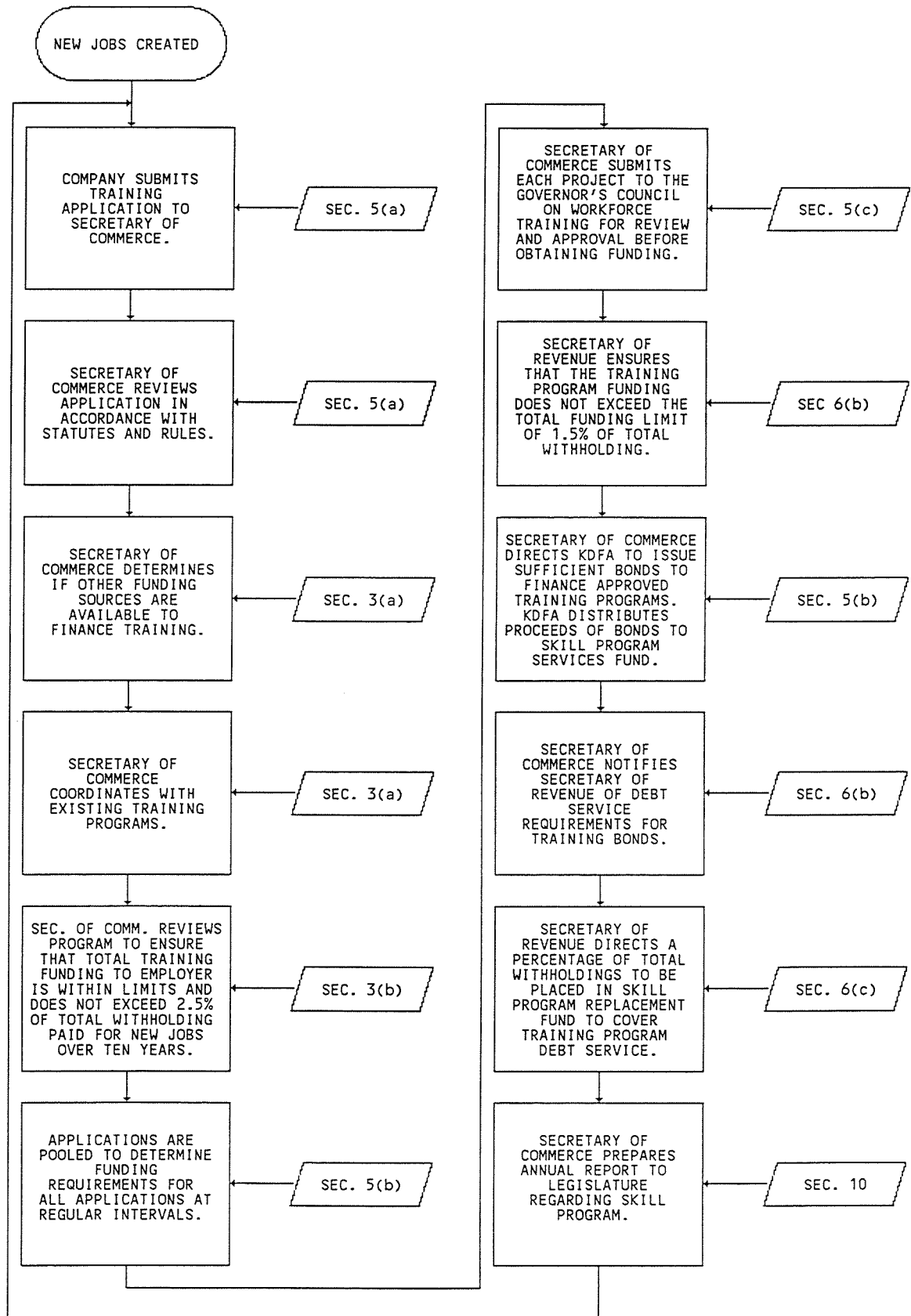
In my opinion, this bill represents one of the most innovative and landmark pieces of economic development legislation for Kansas among all of the programs we have developed. It will provide a significant and invaluable incentive that will greatly increase our capacity to compete for major new employers, while at the same time providing a significant source of funding to our existing, expanding companies already in Kansas. One of the major beneficiaries of this legislation will be our community colleges and area vocational technical institutions. It will provide them the resources to serve business and industry.

I urge the Committee to favorably recommend Substitute House Bill 2536 for passage by the full Senate. I would be pleased to answer your questions.

3/29/91

3-2

HOUSE BILL NO. 2536
SKILL PROGRAM PROCEDURES



**THE
STATE OF KANSAS INVESTMENT IN
LIFELONG LEARNING (SKILL) PROGRAM:**

A REPORT

A TESTIMONY

PRESENTED TO:

**THE SENATE ECONOMIC DEVELOPMENT COMMITTEE
STATE OF KANSAS**

SESSION OF 1991

ROOM 123-S

Presented by:

Daniel J. Phelan, Ph.D.

**Executive Director, Business and Industry Institute
Johnson County Community College
12345 College at Quivira
Overland Park, Kansas 66210-1299**

Friday, March 29, 1991

Attachment 5
3/29/91
Secn. Eco. Devel.

INTRODUCTION

Good morning, Mr. Chairman, and members of the committee. My name is Dan Phelan. I serve as the Executive Director of the Business and Industry Institute at Johnson County Community College in Overland Park (913-469-3857). The Institute provides consultation, training, retraining, and economic development assistance to the business and industrial segment of the county, as well as providing oversight to one of the State's ten regional Small Business Development Centers.

Prior to my arrival at the community college, I served at North Iowa Area Community College in Mason City, Iowa, as Director of Training and Economic Development. In that capacity, I was privileged to work with the Iowa Industrial New Jobs Training program and the Iowa Small Business New Jobs Training program. These two sister programs were designed to assist the State, the community, the company, and their employees by providing a training fund, developed through bond sales, and retired by a diversion of property and/or withholding taxes. The Iowa Industrial New Jobs Training program has been in place since 1983, and has been extremely successful in terms of assisting the State with industrial recruitment efforts as well as assisting existing businesses with expansion efforts.

You have before you, today, a piece of legislation that will revolutionize the way Kansas does economic development and employee training. It contains the best components of the Iowa model, as well as incorporating significant improvements. Among the most significant attributes of the Kansas SKILL program is that all bond analyses and distribution are handled through the Kansas Financial Development Authority. In addition, numerous training projects can come together to form a multiple

issuance, which offers some economics of scale. A key benefit of the bill is that it requires the integration of community colleges and universities, throughout the State, to be in partnership with the company involved.

Ultimately, I believe that it is in the best interest of Kansas to forge these partnerships between education and industry so that long after the training project funds have been exhausted, long-term relationships can continue. This is significant since the nation has come to realize that, in order to become globally competitive, as well as nationally, competitive, business and education linkages are essential to maintain a trained workforce capable of being retrained and redirected with the changing marketplace.

CURRENT TRAINING PROGRAMS

Kansas is in desperate need of the SKILL program. As a State we are significantly behind other states in terms of job creation and/or job expansion incentives to business and industry. As it stands today, March 29, 1991, Kansas has three employee training programs available, the first of which is the Kansas Industrial Training Program, or KIT. The KIT program receives an annual allocation from the Kansas Department of Commerce in the range of \$2.7 million. This funding requires company financial participation and is limited to training projects involving ten or more new employees.

The second training program currently available is the Kansas Industrial Retraining program, or KIR. Similar to the KIT program, KIR is available to companies needing to train 10 or more employees, and is limited to those companies that are expanding in the State or making significant changes to their manufacturing processes. In addition to the Department of Commerce contributions for the KIT and KIR Programs, the Kansas Department of Education provides, on the order of, \$700,000

annually to add to the KIT and KIR pool. Those Department of Education funds are received from the Federal Carl Perkins legislation.

A third and final employee training program available today is the Adult Training and Retraining program. Funded entirely from the Kansas Department of Education, these Carl Perkins funds are designed to provide training assistance to Kansas companies. There is no limitation in number of employees to be trained; however, the project does require "dollar for dollar" match between the Department of Education and the company, and there is a limit to the dollar amount of the grant. At present, the Adult Training and Retraining program (ATR) is funded at about \$500,000 this fiscal year.

Now for the bad news. The KIT and KIR programs as they exist today are at risk in terms of their funding level. Further, the Kansas Department of Education contribution will be discontinued after July 1, 1991, due to changes in the Carl Perkins legislation. Finally, the ATR program will cease to exist after July 1, 1991, again, due to changes in the Carl Perkins legislative revisions.

SUMMARY

As a result, considering KIT, KIR, and ATR programs alone, Kansas has already lost over a million dollars in employee training funds, and potentially could lose more in light of funding allocations for next fiscal year. One can agree that we have taken a step backwards in providing training funds for Kansas companies.

The proposed Kansas SKILL program will take us about one hundred steps forward. The program is a significant tool to assist with industrial recruitment and expansion efforts. While the KIT and KIR programs have been extremely beneficial, they have been limiting in serviceability to large employers of the State. Conceivably, a

large employer could fully encumber the entire sum of the KIT allocations for a number of years, to the ultimate exclusion of other companies that might be new to the State.

The Kansas SKILL program is essential to Kansas if we are to be a viable marketplace for new and expanding companies. This bill represents vision and foresight for the maintenance and enhancement of the Kansas economy. I ask for your support of this legislation.

Thank you for the opportunity to appear before you this morning.

3/29/91
5-5

**THE INSTITUTE FOR PUBLIC POLICY AND BUSINESS RESEARCH
UNIVERSITY OF KANSAS**

HB 2536: SKILL Program

written testimony to

**Committee on Economic Development
The Kansas Senate**

provided by

**Anthony L. Redwood
Professor of Business
Executive Director**

**Charles E. Krider
Professor of Business
Director of Business Research**

March 29, 1991

Attachment 6
3/29/91
Sen. Eco. Devel.

Workforce training is a crucial foundation of the State's economic development strategy. HB 2536 has the merit that it will enhance the State commitment to investment in human capital. We have the following suggestions that we feel will enhance the quality of the proposed program. In particular, points #1 through #4 might appropriately constitute criteria in the approval process to ensure that these state dollars are spent to maximum advantage. Points #5 and #6 are currently addressed in the bill, and we support their inclusion. We would further suggest that the Joint Committee on Economic Development examine the programs of other states, as well as their experiences, in this area during the interim period.

KEY POINTS

1. Company Matching Requirement - Company matching requirement, through funds or in-kind matches, are essential to ensure that companies are truly interested in making an investment in employee skills. Furthermore, companies will be more involved/interested in something they have to dedicate some of their own resources to. Possible in-kind matches could include: equipment, instructors, facilities, or training for faculty of the AVTS or Community College.
2. Threshold Level of Company Training - These state funds should be used to provide and encourage training above that which would normally otherwise occur. The concern is that SKILL Program funds should not be a basis by which training costs normally incurred by the company are transferred to the public purse. Hence, it would be appropriate for applying firms to show that they do undertake some threshold level of training for their new employees and that the SKILL Program funds would merely supplement this.
3. Company Specific Training - State funds should be spent on general training and not

on specific training. Training can be of two forms: (a) general and (b) company-specific. The distinction between the two is based on the notion that general training enhances the employee skills across all employers, while company specific training enhances skills that are not transferable across employers. The simplest example of the latter is "company orientation" or "training to do things the company way". Therefore, only the company receives any economic benefit from specific training. Public monies should be spent only for general training and applying companies would need to certify that the training is in relation to a transferrable skill.

4. Management Training - State funds should not be used to pay for training of executives and managers. Companies are accustomed to paying the full cost of management training, and managers typically have better education backgrounds than non-management employees. If training for executives and managers is deemed appropriate by the Committee, then State assistance in this area might be restricted to small companies, as defined by the SBA - under 500 employees.
5. Funding Limit - There should be a limit, through statutory provisions, which establishes a limit on training funds available to each firm. The limit could be based on the number of jobs created by the firm or gross estimated wages over a period of time.
6. Training Funds Used for Payment of Wages - State funds should not be used to pay for any wages used in on-the-job (OJT) training. Firms should bear the sole responsibility of paying wages in conjunction with employee training.