

Approved: April 3, 1997
Date

MINUTES OF THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT.

The meeting was called to order by Chairman Bill Mason at 3:30 p.m. on March 19, 1997 in Room 423-S of the Capitol.

All members were present except: Barbara Allen (Excused)

Committee staff present: Lynne Holt, Legislative Research Department
Renae Jefferies, Revisor of Statutes
Beverly Renner, Committee Secretary

Conferees appearing before the committee: Mikel Miller, Policy Analyst, Kansas, Inc.
Larry Knott, Director of Taxation, Raytheon Aircraft Co.
Ashley Sherard, Overland Park Chamber of Commerce

Others attending: See attached list

Chairman Mason opened the hearing on SB 152 - an act concerning the high performance incentive program.

Lynne Holt, Legislative Research Department explained the bill. This bill modifies 1993 legislation to include certain businesses that provide "high wage" employment and proposes other methods of determining wages for businesses that may be the only one of its type in a given county. Ms Holt suggested a technical amendment to clarify that the Department of Commerce and Housing would be responsible for determining the regional aggregation of businesses for wage eligibility comparisons.

Ms. Mikel Miller, Policy Analyst, Kansas, Inc. gave testimony in the absence of Charles Warren, President, Kansas, Inc. (Attachment 1). The purpose of the incentive program is to encourage and reward Kansas firms that pay high wages and invest in the education and training of their workforce. Firms which meet the HPIP criteria and are certified by the Kansas Department of Commerce & Housing are eligible to receive an investment tax credit of 10%, a tax credit on educational and training expenses and are eligible for sales tax exemption under the Kansas Enterprise Zone. Ms. Miller spoke as a proponent for this bill as enabling legislation designed to ease program administration, to make certain definitions more flexible and to ensure fairness in regard to eligibility.

Larry Knott, Director of Taxation, Raytheon Aircraft Co., appeared to cite examples for the need of change in the existing language of the program without easing the training requirements of HPIP (Attachment 2). The change would allow some companies to benefit from the intent to promote job growth and capital expansion programs.

Ashley Sherard, Government Relations Manager, Overland Park Chamber of Commerce, spoke in support of **SB 18**. This bill promotes the training incentives critical to maintaining the competitiveness of Kansas businesses and assists in luring new businesses to our state, as well as helping to retain and strengthen existing companies (Attachment 3).

Chairman Mason closed the hearing on SB 152.

Representative Tomlinson moved that SB 152 with the technical amendment attached be passed out favorably. Representative Benlon seconded the motion and the motion carried.

Chairman Mason submitted a balloon to clarify language in SB 18.

Representative E. Peterson moved for approval of adding the balloon to SB 18. Representative Kuether seconded the motion and the motion carried.

Representative Tomlinson moved to add the provisions of SB 79 to SB 18. Representative Benlon seconded the motion.

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT, Room 423-S
Statehouse, at 3:30 p.m. on March 19, 1997.

After discussion of the importance of studying the bill to be amended, the maker of the motion and second agreed with the committee to adjourn.

Chairman Mason adjourned the meeting at 4:40 p.m.

The next meeting is scheduled for March 24, 1997.

Senate Bill 152

**Amendments to the
High Performance Incentives Program**

Testimony of

**Charles R. Warren, President
Kansas, Inc.**

**House Economic Development Committee
The Kansas Legislature**

March 19, 1997

Mr. Chairman, members of the Committee, thank you for this opportunity to present amendments to the High Performance Incentive Program (HPIP). The changes we are proposing are recommended by Kansas, Inc. and the Kansas Department of Commerce & Housing.

Background

HPIP is an innovative incentive program that was adopted by the Legislature in 1993. It was conceived by Kansas, Inc. and further developed and recommended by House and Senate Committees. The purpose of the incentive program is to encourage and reward Kansas firms that pay high wages and invest in the education and training of their workforce. Firms which meet the HPIP criteria and are certified by the KDOC&H are eligible to receive an investment tax credit of 10%, a tax credit on educational and training expenses, and are eligible for sales tax exemption under the Kansas Enterprise Zone.

To be certified as an HPIP company, firms must pay above average wages and invest at least two percent of their total payroll into employee education and training. Firms paying above average wages may also qualify if they are participating in either the KIT/KIR program or IMPACT.

Program Results

HPIP has become a very successful program that is producing very significant results in terms of job creation and retention and investment in Kansas. Attached to this testimony are some charts that illustrate the results under HPIP to date. Since its inception in 1993, 61 firms have been certified as HPIP firms. Seventy-three percent of those firms were in metropolitan counties of the state. The program has led to significant job creation and retention with 1,239 jobs being created and 310 jobs being retained by HPIP companies. These jobs were in connection with \$558.1 million dollars in expected investment.

Program Issues

While the concept of providing incentives for high wage firms that invest in their workforce was straightforward, the program design is fairly complicated. We wanted to ensure that only a select number of highly qualified firms would be eligible and to ensure that the fiscal impact of the program was acceptable.

The administration of this incentive program has been complicated. The definition of "high wage" has been arbitrary and the problems of obtaining data on wages throughout the state has been difficult. Because of the definition of "above average wages," certain firms have been excluded from eligibility, despite the fact that they clearly provide what is commonly accepted as "high wage" employment. The wage data that is required for program administration is provided by the Kansas Department of Human Resources and is subject to confidentiality provisions. This problem of disclosure has further complicated the implementation of the program.

Currently, firms wishing to qualify for HPIP benefits must show they pay above average wages for firms of like size and 2 digit SIC Code within the county they are located. The firm may also qualify if they are the only firm in the county with their 2 digit SIC Code.

The use of county level data has resulted in large volumes of printouts being produced for KDOC&H annually (1,300 pages) by KDHR, and has caused disclosure problems. There are many instances where non-disclosure agreements in place between KDHR and the federal Bureau of Labor Statistics do not allow for the release of wage data. These agreements are in place to ensure the confidentiality of firms and require that if there are 3 or fewer firms in an aggregate population, no information about that population can be released. Consequently, determining whether firms in less industrialized counties qualify is sometimes impossible.

Under current law, a firm may pay wages that are significantly above the market but still may not qualify for the program if another firm in the county and in the same industry pays a much higher wage. For example, an aviation company in Wichita that pays annual wages above \$40,000 does not meet the current average wage test because a larger firm in the same county and industry pays an annual average wage of \$45,000 and thus raises the county-wide average above that of the smaller firm. A firm paying an average wage of \$40,000 is clearly worthy of HPIP benefits. Similar situations have arisen in Johnson and Shawnee counties.

Amendments

SB 152 would make amendments to the program's enabling legislation that are designed to ease program administration, to make certain definitions more flexible, and to ensure fairness in regard to eligibility. SB 152 would also modify the requirement for evaluation of the program by Kansas, Inc. by delaying the due date one year and by expanding the scope of the analysis.

The language proposed in SB 152 will allow the use of aggregate data from a larger number of companies which operate in a similar wage/cost environment. It will also maintain the confidentiality of individual firms by greatly reducing the disclosure problems. If these statutory changes are made, average wage will no longer be based on county averages, but will be developed based on regions of the state and aggregated similar to the following:

For a business located in the Metropolitan counties of Johnson, Douglas, Leavenworth, Sedgwick, Shawnee, or Wyandotte

A business in one of these counties would be compared only to other businesses within that same county.

For business located in any other county:

A business located outside one of the six metropolitan counties above would be compared to businesses within an aggregation of counties representing its region of the state, excluding metropolitan counties from that region.

This change should allow all firms to be compared with comparable firms in their industry that are located in similar communities.

The second amendment begins on line 29 of page 2 and provides an alternative to the geographic based method of determining whether a firm is paying above average wages. The new proposed standard would allow firms paying an *annual average wage 1.5 times the aggregate average wage for all Kansas industries covered by the employment security law based on data maintained by the secretary of human resources*. This "all industries" average wage for FY 1994 was \$22,907. Therefore, firms which paid annual wages that equal or exceed \$34,360 would qualify for HPIP. Use of this measure would allow the average wage to be adjusted upward each year as wage rates change.

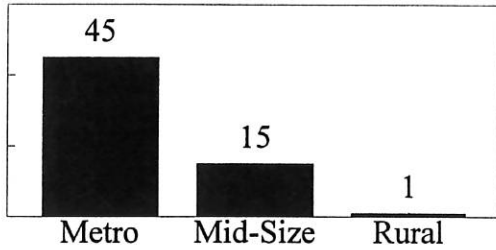
A diagram is attached that will help explain the proposed changes for HPIP certification.

The final amendment deals with the Kansas, Inc. evaluation. We are asking that the evaluation be conducted during Fiscal Year 1998 instead of 1997. This will allow more experience to be generated under the program. While the program was adopted in 1993, several months elapsed during the rules and regulation development phase and most firms were not certified until 1995. We are just now beginning to see claims for HPIP tax credits being made. There is an inevitable time lag between the certification of a firm and the actual investment and job creation or retention by the firm. Another time lag occurs between the implementation by the firm and its claiming of tax credits.

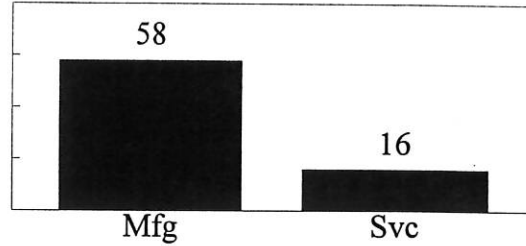
The original statute called for an evaluation only of job training and retraining effects of the program. We feel that the scope of the analysis should include all program impacts and, in particular, those listed on page 3 of the bill, lines 27-32.

The changes we have proposed will ease the administration of the program, allow for greater flexibility in the certification of firms, and extend its eligibility to more companies that are clearly worthy of these incentives. I urge your support of Senate Bill 152. I, or representatives from the Department of Commerce and Housing would, be pleased to answer questions or provide you with additional information. Thank you.

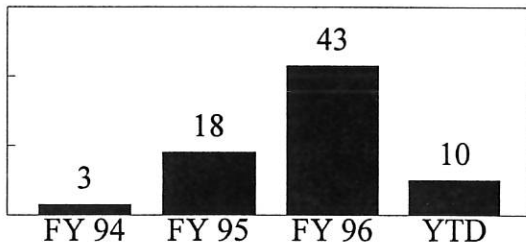
**Firms Certified by County Size
1993 to Present**



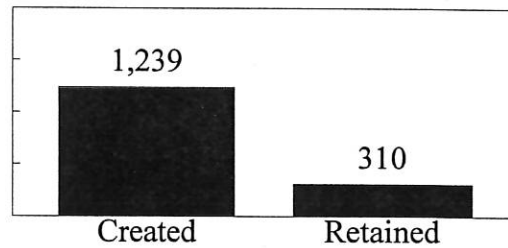
**HPIP Firms by Industry
(Includes Re-Certified Firms)**



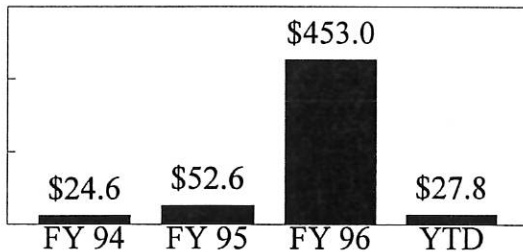
**HPIP Firms Certified
(Includes Re-Certified Firms)**



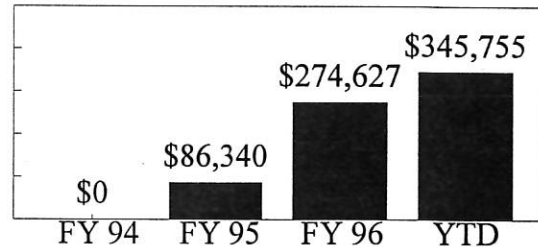
**Jobs Created or Retained
1993 to Present**



**Expected Investment
(Millions)**



**Income Tax Credits Claimed
(7 Corps., 8+ Individuals)**



Based on job creation and business type, Kansas, Inc. has determined that only 4 HPIP firms would not have already been eligible for sales tax exemption under the E-Zone laws of Kansas. These 4 firms received sales tax exemption strictly as a result of the HPIP program. See adjacent table.

**Estimated
Sales Tax
Exemption**

Johnson Co. Manufacturer	\$588
Wyandotte Co. Manufacturer	\$1,116,251
Johnson Co. Manufacturer	\$35,133
Cowley Co. Manufacturer	\$9,800
Total	\$1,161,772

To be certified for the
Kansas High Performance Firms Incentives Program (HPIP)

a firm must be within one of the 3 following categories

Transportation/Communication/Utilities (SIC 40-49) — or — Manufacturing (SIC 20-39) — or — Headquarters or Back Office Operations of a national or multi-national corporation (Any SIC Code)
Finance/Real Estate (SIC 60-67)
Services (SIC 70-89) meeting certain tests

and either

Spend at least 2% of total payroll on worker training

or

Participate in KIT/KIR or IMPACT Programs

and either

Pay above average wages for firms of like size and 2 digit SIC Code in same county

or

be the sole firm in that 2 digit SIC in county

NEW SECTION

and either

For firms in Metropolitan Counties:

Pay above average wages for firms of like size and 2 digit SIC Code in metropolitan counties (or be the sole firm in that 2 digit SIC Code)

or

Pay an annual average wage 1.5 times the aggregate average wage paid by all Kansas industries covered by the Employment Security Law

For firms in Non-metropolitan Counties:

Pay above average wages for firms of like size and 2 digit SIC Code in non-metropolitan counties in the firm's area of the state (or be the sole firm in that 2 digit SIC Code)

STANDARD INDUSTRIAL CLASSIFICATION CODES (SIC)

SIC Code Major Group

01-09: Agricultural Services, Forestry, and Fishing

- 01** **Agricultural products producers** such as diaries, greenhouses, nurseries, orchards, hatcheries.
- 02** **Animal product producers** such as feedlots, fur farms, pet breeder, egg and poultry producers, etc..
- 07** **Agricultural services** such as veterinary services, livestock services, custom slaughtering for individuals, boarding facilities; and soil preparations services, crop services, lawn and garden services, tree trimming, landscaping or horticultural services operated on a contract or for fee basis.
- 08** **Forestry** associated such as timber tracts, tree farms, forest nurseries, reforestation services and gathering for forest products.
- 09** **Fishing** associated such as fish hatcheries, fish and game preserves commercial hunting and trapping

10-14: Mining

- 10** **Mining**, developing mines, or exploring metallic minerals (ore) and services involved therein such as cleaning and grinding.
- 12** **Mining operations and preparation plants** involved in the production of coal. (the production of charcoal briquettes and other package fuels is classified in the manufacturing sector)
- 13** **Oil and gas extraction and the production process involved.**
- 14** **Quarrying of rock and the preparation processes involved.**

15-17: Construction

- 15** **General contractors and builders** primarily engaged in the construction or renovation of residential, farm, industrial, commercial or other buildings.
- 16** **Heavy construction other than building** such as highways and streets, bridges, sewers, railroads, irrigation projects, flood control projects and marine construction.
- 17** **Special trade contractors** such as electricians, plumbers, painters, masons, heating and air conditioning, roofing and siding, sheet metal work.

20-39: Manufacturing

- 20** **Food and kindred products** such as establishments manufacturing or processing foods and beverages for consumption as nourishment. Meat packers, slaughtering houses are within this sector.
- 21** **Tobacco products**
- 22** **Textile mill products**
- 23** **Apparel and other finished products made from fabrics and similar products.**

- 24 **Lumber and wood products except furniture**
- 25 **Furniture and fixtures**
- 26 **Paper and allied products**
- 27 **Printing, publishing and allied products.** Newspapers ar in this sector
- 28 **Chemicals and allied products**
- 29 **Petroleum refining and related industries**
- 30 **Rubber and miscellaneous plastics products**
- 31 **Leather and leather products**
- 32 **Stone, clay, glass, and concrete products**
- 33 **Primary metal industries**
- 34 **Fabricated metal products and machine shops**
- 35 **Industrial and commercial machinery**
- 36 **Electronic and electrical equipment**
- 38 **Measuring, analyzing, and controlling instruments** such as cameras, medical and optical goods, watches and clocks
- 39 **Miscellaneous manufacturing**

40-49: Transportation, Communications, and Utilities

- 40 **Railroad transportation**
- 41 **Passenger transportation** such as taxi cabs, bus chartering services, school bus contractors, rental car agencies, etc.
- 42 **Motor freight transportation and warehousing.** Courier services are also included in this sector.
- 43 **Unites State Postal Service**
- 44 **Water transportation**
- 45 **Transportation by air**
- 46 **Pipeline transportation,** except natural gas
- 47 **Transportation services** such as travel agencies, tour operators, arrangers of transport, etc.
- 48 **Communications** such as telephone communications, telegraph and other message communications, radio and television stations, and cable and other pay television services.
- 49 **Utilities** such as electric, gas distribution, water supply, sanitary services, and irrigation water supply systems.

50-51: Wholesale

- 50 **Wholesale trade-durable goods.** Farm implement dealers are in this sector.
- 51 **Wholesale trade-non durable goods.** Grain elevators and farmer's cooperatives, livestock auction markets, salvage yards fall into this sector

52-59: Retail trade

- 52 **Building materials, hardware, garden supply and mobile home dealers**
- 53 **General merchandise stores**

- 54 Food stores
- 55 Automotive dealers (new and used) and gasoline service stations
- 56 Apparel and accessory stores
- 57 Home furniture, furnishings, and equipment stores
- 58 Eating and drinking places
- 59 Miscellaneous retail

60-67: Finance, Insurance, and Real Estate

- 60 Depository institutions
- 61 Non-depository credit institutions
- 62 Security and commodity brokers, dealers, exchanges, and services
- 63 Insurance carriers
- 64 Insurance agents, brokers, and service
- 65 Real estate agents and auctioneers
- 67 Holding and other investment offices

70-89: Services

- 70 Hotels, rooming houses, and other lodging places
- 72 Personal services such as beauty parlors, dry cleaning
- 73 Business services
- 75 Automotive repair, services, and parking
- 76 Miscellaneous repair services
- 78 Motion pictures
- 79 Amusement and recreation services
- 80 Health services
- 81 Legal services
- 82 Educational services
- 83 Social services
- 84 Museums, at galleries, and botanical and zoological gardens
- 86 Membership organizations
- 87 Engineering, accounting, research, management, and related services
- 88 Private households employing maids, babysitters, etc.
- 89 Miscellaneous services

House Committee on Economic Development
Testimony of Larry Knott
March 19, 1997
SB 152

Beech
Hawker

Mr. Chairman, Members of the Committee:

My name is Larry Knott and I'm the Director of Tax Affairs for Raytheon Aircraft Company in Wichita. It is my pleasure to be here this afternoon to inform you of an anomaly in the current statutes governing the High Performance Incentive Program (HPIP).

As you are probably aware, HPIP provides incentives to those companies paying above-average wages in their respective counties. The incentives are presumably to entice new companies to locate in Kansas as well as to retain existing companies. These companies are obviously ones that are desirous for the Kansas economy as they provide high-paying jobs and are considered high-technology enterprises.

In 1995, Raytheon Aircraft Company paid our employees an average salary of \$43,112. However, that is not an "above-average" wage under current HPIP guidelines. The average salary for our industry in Sedgwick County is skewed to the high side primarily as a result of Boeing's influence. Boeing employs a significant percentage of the employees in our SIC code in Sedgwick County, and Boeing pays, on average, higher wages than other aircraft manufacturers in the county. We all draw from the same available work force pool, but because of Boeing's size, they frequently are able to offer higher wages. As a result of this, it is virtually impossible for us to ever achieve an above-average salary under HPIP guidelines. Additionally, we presume that Boeing is the only aircraft manufacturer in Sedgwick County that is able to qualify for HPIP benefits.

Raytheon Aircraft Company is in the midst of long-term aggressive capital expansion plans. We would appreciate your favorable consideration of Senate Bill No. 152 which modifies existing language without easing the training requirements of HPIP. This change would allow companies such as ours to benefit from the intent of HPIP--to promote job growth and capital expansion programs. We believe that we are fulfilling the intended results of HPIP--creating high-paying technology jobs through capital expansion--without receiving the intended benefits from the HPIP program.

Thank you for your consideration in correcting what we believe to be an unintentional flaw in the current HPIP statutes.



OVERLAND PARK
CHAMBER OF COMMERCE

SB 152
HPIP Amendments

March 19, 1997

Testimony Before the
House Committee on Economic Development

by

Ashley Sherard
Government Relations Manager
Overland Park Chamber of Commerce

Good afternoon Mr. Chair and members of the Committee. My name is Ashley Sherard and I am the Government Relations Manager for the Overland Park Chamber of Commerce. Thank you for allowing me to appear before you today.

The Overland Park Chamber of Commerce would like to express its support for SB 152. The Chamber assisted in the design and passage of High Performance Incentive Program (HPIP) legislation several years ago, believing that job training tax credits would be a top incentive for employers in the future. The bill before you would amend HPIP to include an additional formula option for identifying companies with high performance jobs. As a result of this new option, a greater number of deserving Kansas companies would have the opportunity and incentive to invest in expanded job training for their employees.

Job training incentives are among the most important tools a state can use to foster economic development. As evidenced by the recent comprehensive visioning process conducted by Kansas, Inc., and the on-going feedback the Chamber receives from employers, training incentives are critical to maintaining the competitiveness of Kansas businesses in an ever-expanding marketplace. In addition, the HPIP program not only assists in luring new businesses to our state, but also helps Kansas retain and strengthen its existing companies. HPIP has been an important initiative for Kansas, benefiting both employees and businesses. Incorporating the additional formula option suggested by SB 152 would make the HPIP eligibility process more equitable and further enhance this valuable tool.

HOUSE ECONOMIC DEVELOPMENT
March 19, 1997
Attachment 3

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For example, Universal Underwriters Group, a financial services company headquartered in Overland Park, is planning a phased expansion of its facilities and workforce. When Universal Underwriters moved to Kansas several years ago, it was praised by our City Council for its progressive employee practices, including staggered work hours, investment in modern technology, and on-site cafeteria and banking services. Since 1990, the company has added 456 export office jobs to the Kansas economy. Mary Ann Heckman, Asst. General Counsel for Universal Underwriters, is here today and is available to answer questions about the company. (For additional information on Universal Underwriters Group, please refer to Attachment A.)

The planned expansion of Universal Underwriters will double the size of its workforce over the next ten years. The company is an excellent corporate citizen and would like to expand in Kansas. There are, however, three other companies in Johnson County with Universal Underwriters's 2-digit SIC code. Under the averaging formula currently used in determining HPIP eligibility, it is possible that three of these four companies would not qualify for high performance job training credits, even if all pay wages well above the statewide average. Unfortunately, this problem is not unique to Johnson County firms. The amendments proposed in SB 152 would be very useful in resolving this issue on behalf of businesses throughout the state.

The Chamber asks for your support of SB 152. From an economic development perspective, expanding the availability of job training credits will offer the state a number of benefits:

1. Kansas companies will have a vital opportunity to maintain their global competitiveness.
2. The credits provide Kansas a tool to retain and strengthen its existing companies.
3. Additional job training increases the quality of our workforce and adds value to jobs.
4. Availability of training credits and a more highly skilled workforce are incentives in bringing new companies to Kansas.

In short, expanded job training credits would benefit employees, businesses, and ultimately, the State of Kansas.

Thank you again for your consideration of SB 152.

Universal Underwriters Group consists of seven financial services corporations engaged variously in the business of commercial and personal property and casualty insurance, life insurance, reinsurance, vehicle service contracts and sub-prime financing. The insurance company operations (Universal Underwriters Insurance Company, Universal Underwriters Life Insurance Company and Universal Underwriters of Texas) are assigned an AM Best rating of A+ Superior.

The history of the company dates back to 1922 when an organization was formed to provide insurance protection for automobile dealerships. In order to more completely fulfill the needs of its auto dealership market, a stock insurance company, Universal Underwriters Insurance Company, was formed under the laws of Missouri on October 31, 1949, and began business ten days later. On January 25, 1982, Zurich Insurance Company of Missouri was incorporated to act as the vehicle for the acquisition of the insurance operations by Zurich Insurance Group-United States. Currently and historically, the insurance company operations have enjoyed a near 30% nationwide share of the franchise auto dealer property and casualty insurance market.

Vital Information:

Consolidated Assets:	\$1,537,000,000.00
Home Office Employees (Current):	769 employees
Home Office Employees - Phase I (1999)	909 employees
Home Office Employees - Phase II (2007)	1,460 employees
Home Office Employee Salaries:	\$34,620,740.20 (1996 projected)
Home Office Job Creation Since 1990:	456 jobs
Facility Proposed - Phase I:	230,000 gross sq. ft.
Facility Proposed - Phase II:	60,000 gross sq. ft.