

Approved: February 5, 1997  
date

MINUTES OF THE SENATE COMMITTEE ON COMMERCE.

The meeting was called to order by Chairperson Alicia Salisbury at 8:00 a.m. on February 4, 1997 in Room 123-S of the Capitol.

Members present: Senators Salisbury, Barone, Brownlee, Feleciano, Gooch, Harris, Jordan, Ranson, Steffes, Steineger and Umbarger.

Committee staff present: Lynne Holt, Legislative Research Department  
Jerry Donaldson, Legislative Research Department  
Bob Nugent, Revisor of Statutes  
Betty Bomar, Committee Secretary

Conferees appearing before the committee:  
Charles R. Warren, Ph.D., President, Kansas Inc.  
Larry Knott, Director of Tax Affairs, Raytheon Aircraft Company,  
Wichita  
Ashley Sherard, Government Relations Manager, Overland Park Chamber of  
Commerce  
Curt Starnes, General Counsel, Universal Underwriters Group, Overland Park

Others attending: See attached list

**SB 152 - Modification of the high performance incentive program**

Charles R. Warren, President, Kansas Inc., testified in support of **SB 152**. Dr. Warren stated the High Performance Incentive Program (HPIP) is an innovative incentive program adopted in 1993 by the Legislature. The purpose of the Program is to encourage and reward Kansas firms that pay high wages and invest in the education and training of their workforce. Firms meeting the HPIP criteria are certified by the Department of Commerce and Housing and are eligible to receive an investment tax credit of 10 percent, a tax credit on education and training expenses, and are eligible for sales tax exemptions under the Kansas Enterprise Zone. Certification to be a HPIP company is based on the firm paying above average wages and investing at least two percent of total payroll in employee education and training. Attachment 1

Dr. Warren testified the program has become a successful program and is producing significant results in terms of job creation and retention and investment in Kansas. The administration of the incentive program has been complicated particularly in the definition of "high wage" and "above average wages". The definitions are arbitrary and obtaining data on wages throughout the state has been difficult.

Dr. Warren stated **SB 152** contains two amendments: Section 1, Page 1, Lines 35, 36, 40, 41, and page 2, lines 2-14, the word "county" is deleted and new language is added that refers to areas with similar population densities. The proposed language allows the use of aggregate data from a larger number of companies which operate in a similar wage/cost environment and therefore, provide better wage standards while protecting the identities of individual companies and reducing the problem of confidentiality. These amendments anticipate that wage standards will be based on groups of counties, as follows: a) large urban counties (metropolitan areas), b) smaller urban counties, c) combination of rural and urban counties, and d) rural counties (those with under 10,000 population).

The second amendment is on page 2, lines 15-17, inserts new language providing additional criteria to determine whether a firm is paying above average wages. Dr. Warren stated the language refers to wages "paid by all for-profit businesses in the state", and requested a change in the bill as drafted to substitute: *wages paid all industries covered by the employment security law as maintained by the Kansas Department of Human Resources.*

Dr. Warren stated a final amendment is on Page 3, lines 8-15. These changes ease the administration of the program, allow for greater flexibility in the certification of firms, and extend eligibility to more

companies that are worthy of these incentives.

The Committee, questioned the clarity of defining: "similar population densities" as worded in subsection (d)(7) on Page 2, line 43.

Larry Knott, Director of Tax Affairs, Raytheon Aircraft Company, testified in favor of **SB 152**. Mr. Knott stated the average salary for the aircraft industry in Sedgwick County is skewed due to Boeing's large employment and payment of slightly higher wages than Raytheon. Unless the definition of average salary is modified, Raytheon will not qualify for HPIP. Mr. Knott stated Raytheon is fulfilling the intended results of HPIP - - creating high-paying technology jobs through capital expansion - - but are not receiving the intended benefits. Attachment 2

Ashley Sherard, Government Relations Manager, Overland Park Chamber of Commerce, testified in support of **SB 152**. Ms. Sherard stated **SB 152** provides a greater number of Kansas companies with the opportunity and incentive to invest in expanded job training for their employees. Ms. Sherard stated **SB 152** assists in economic development as it expands job training credits, benefits employees, businesses and the state. Ms. Sherard referred to Curt Starnes, General Counsel, Universal Underwriters, whose company plans an expansion which will double the size of its workforce over the next ten years. Due to there being three other companies in Johnson County with Universal Underwriters's 2-digit SIC code and the present average salary determination three of these four companies could not qualify for high performance job training credit. **SB 152** would resolve this issue. Attachment 3

The hearing was concluded.

### **SB 135 - Electronic filing of tax records**

Charles R. Warren, President, Kansas Inc., testified in support of **SB 135**. Dr. Warren stated Chapter 79 was inadvertently omitted when legislation concerning electronic filing of business records was originally passed. **SB 135** allows the secretary of revenue to adopt rules and regulations for the purpose of authorizing electronic filing of reports, certificates or other documents.

Senator Ranson moved, seconded by Senator Steineger, that **SB 135** be passed favorably and placed on the consent calendar. The recorded vote was in favor of the motion.

The meeting adjourned at 9:00 a.m.



**Senate Bill 152  
Amendments to the  
High Performance Incentive Program**

**Testimony of**

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

**Senate Commerce Committee  
The Kansas Legislature**

**February 4, 1997**

*Senate Commerce Committee  
February 4, 1997*

*Attachment 1-1 thru 1-5*

Madame Chair, 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 and Housing. Present today are: Steve Kelly, Director, Division of Business Development, and David Bybee, program administrator. Also present is Bill Layes, Director of Labor Management Information Services of the Kansas Department of Human Resources. These individuals are available to answer any questions the Committee may have.

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 this Committee. The purpose of this 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 percent, a tax credit on educational and training expenses, and are eligible for sales tax exemptions 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 may also qualify if they are participants in a state training program, such as KIT/KIR or SKILL.

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

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 my testimony are some tables and charts that illustrate the results under HPIP to date.

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.

We are proposing two amendments to the enabling legislation that are designed to ease program administration, to make certain definitions more flexible, and to increase program eligibility. A third amendment would modify the evaluation of the program by Kansas, Inc. by delaying the due date one year and by expanding the scope of the analysis.

Determination of whether a firm meets the test of paying above average wages depends on the size of firm, the Industry it operates within (two digit SIC code), and the county in which the firm is located. The first amendment changes the geographic basis used to calculate average

wages. In Section 1, page 1, lines 35, 36, 40, 41, and page 2, lines 2-14, the word "county" is deleted and new language is added that refers to areas with similar population densities.

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 in which KDHR feels that the non-disclosure policy agreements it has in place with the federal Bureau of Labor Standards do not allow the release of average wage standards. These standards are needed to determine if a company has satisfied the HPIP wage requirement. To alleviate most of the disclosure problems and to reduce the volume of computer print-outs, the replacement language was chosen.

The language proposed in the amendments will allow the use of aggregate data from a larger number of companies which operate in a similar wage/cost environment and thus provide better wage standards. It will also protect the identities of individual companies and greatly reduce the disclosure problem. If these statutory changes are made, wage standards will no longer be based on county averages, but will be developed based on groups of counties, aggregated as follows:

- a) Large urban counties (metropolitan areas),
- b) Smaller urban counties,
- c) Combination of rural and urban counties, and
- d) rural counties (those with under 10,000 population).

This change should enable all firms to be compared with comparable firms in their industry that are located in similar communities. Currently, a firm can qualify by default when there are no other firms in their industry located in their county.

The second amendment is on lines 15-17 on page 2. This change provides an additional criteria to determine whether a firm is paying above average wages. Under current statute, a firm which pays wages that are significantly above the market can be disqualified from the program, if another firm in the county and in the same industry pays even higher wages. For example, an aviation company in Wichita that pays annual wages above \$40,000 does not currently meet the standards, because another aviation company has average wages above \$45,000. Similar situations have arisen because of single firms in Johnson and Shawnee County. The new standard that is proposed is that *the annual average wage must equal 1.5 times the aggregate average wage*. As drafted the bill refers to *wages paid by all for-profit businesses in the state*. We would like to change this phrase to read: *wages paid all industries covered by the employment security law as maintained by the Kansas Department of Human Resources*. This "all industries" average wage for FY 1994 is \$22,907. Therefore, firms which pay 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.

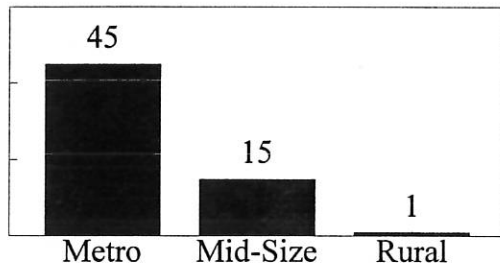
The final amendment deals with the Kansas, Inc. evaluation. We are asking that the evaluation be conducted during Fiscal Year 1998 instead of 1997. This will allow more experience to be generated under the program. While the program was adopted in 1993, several months elapsed during the rule and regulation phase and most firms were not certified until 1995. We are just

now beginning to see the claims for tax credits under HPIP be made. There is an inevitable time lag between the certification of a firm and the actual investments and job creation or retention by the firm. Another time lag occurs between the implementation by the firm and its claiming of tax credits.

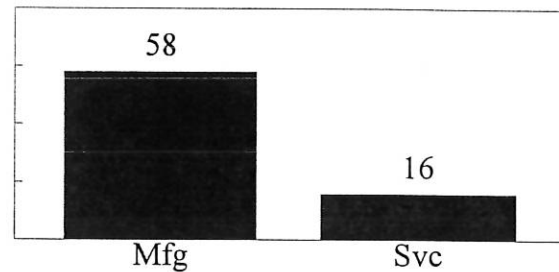
The original statute called for an evaluation only of the job training and retraining effects of the program. We feel that the scope of the analysis should include all program impacts and, in particular, those listed on page 3 of the bill, lines 8-15.

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 any questions or provide you with additional information. Thank you.

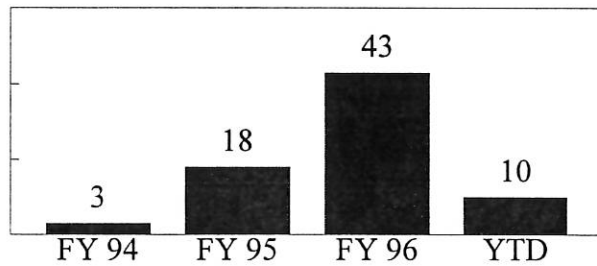
Firms Certified by County Size  
1993 to Present



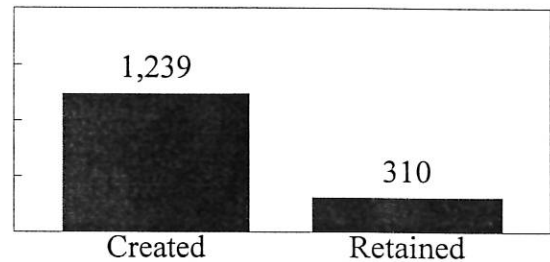
HPIP Firms by Industry  
1993 to Present



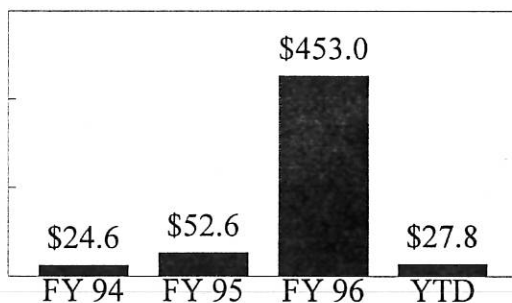
HPIP Firms Certified  
(Includes Re-Certified Firms)



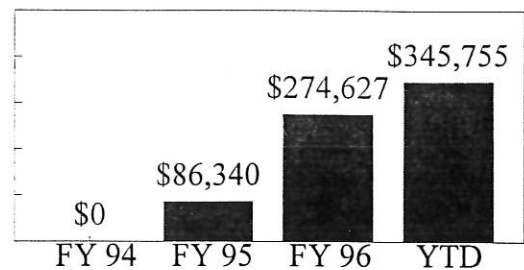
Jobs Created or Retained  
1993 to Present



Expected Investment  
(Millions)



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





Good morning. 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 morning 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. In 1995 we paid our employees an average salary of \$43,112. However, in order to qualify for HPIP benefits in Sedgwick County during 1995, we would have had to pay an average salary of \$43,850 under current HPIP guidelines.

We presume that 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 industry in Sedgwick County, and Boeing pays, on average, higher wages than other aircraft manufacturers. 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. Unless the definition of average salary is modified, we will not qualify.

Raytheon Aircraft Company is in the midst of long-term aggressive capital expansion plans. We would appreciate your consideration of modifying language to the existing statutes to 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 this opportunity to inform you of what we believe to be an unintentional flaw in the current HPIP statutes.

*Senate Commerce Committee  
February 4, 1997*

*Attachment 2*



**OVERLAND PARK**  
CHAMBER OF COMMERCE

**SB 152**  
**HPIP Amendments**

**February 4, 1997**

**Testimony Before the**  
**Senate Committee on Commerce**

**by**

**Ashley Sherard**  
**Government Relations Manager**  
**Overland Park Chamber of Commerce**

Good morning Madam 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.

*Senate Commerce Committee*  
*February 4, 1997*

10975 BENSON ■ SUITE 350 ■ OVERLAND PARK, KANSAS 66210 ■ P.O. BOX 12125 ■ OVERLAND PARK, KANSAS 66202-2125  
913.491.3600 ■ FAX 913.491.0393 ■ INTERNET: <http://www.opchs.org/>



*Attachment 3-1 thru 3-3*

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. Curt Starnes, General Counsel, and Mary Ann Heckman, Asst. General Counsel, for Universal Underwriters are here today and are 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.

**February 4, 1997**

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.