

Approved: 3/31/00  
Date

MINUTES OF THE HOUSE TAXATION COMMITTEE.

The meeting was called to order by Chairperson Wagle at 9:00 a.m. on March 22, 2000, in Room 519-S of the Capitol.

All members were present except: Representative Edmonds - excused  
Representative Johnston - excused  
Representative Kirk - excused

Committee staff present: Chris Courtwright, Legislative Research Department  
April Holman, Legislative research Department  
Don Hayward, Revisor of Statutes  
Shirley Sicilian, Department of Revenue  
Ann Deitcher, Committee Secretary  
Edith Beaty, Taxation Secretary

Conferees appearing before the committee: John Federico  
George Turner of General Motors  
Whitney Damron  
Richard Rodewahl  
Bernie Koch, Wichita Area C of C  
Marlee Bertholf of the Kansas C of C

**HB 2972 - Enacting the harnessing opportunity, performance and excellence act.**

The Chair recognized Bob Nugent of the Revisor's Office who spoke to the Committee in explanation of a balloon amendment for **HB 2972**. (Attachment 1).

It was moved by Representative Wilk and seconded by Representative Aurand to adopt HB 2972. The motion to adopt passed by a voice vote.

It was moved by Representative Gregory and seconded by Representative Palmer to change the word "require" to "allow" on line 4 of page 8. The motion to amend passed on a voice vote.

Representative Sharp made the motion to pass HB 2972 favorably out of Committee. Representative Vickrey seconded the motion that was passed on a voice vote.

**HB 3041 - Relating to income taxation; concerning the credit for research and development activities.**

Marlee Bertholf, Director of Taxation and Small Business of the Kansas Chamber of Commerce and Industry, spoke as a proponent for **HB 3041**. (Attachment 2).

Speaking next in support of **HB 3041** was Bernie Koch, Vice President of Government Relations with the Wichita Area Chamber of Commerce. (Attachment 3).

Shirley Sicilian, asked what the fiscal note was on **HB 3041** said that for 2001 the amount was \$.5 million; 2002 would be \$1.2 million with that being the amount thereafter.

The hearing on **HB 3041** was concluded.

**SB 624 - Property tax exemption for motor vehicle manufacturing tools and dies.**

George Turner of General Motors appeared as a proponent of **SB 624**. (Attachments 4 and 5).

CONTINUATION SHEET

Unless specifically noted, the individual remarks recorded herein have not been transcribed verbatim. Individual remarks as reported herein have not been submitted to the individuals appearing before the committee for editing or corrections.

Page 2

John Federico spoke to the Committee in support of **SB 624**. (Attachment 6).

Richard Rodewald, a former General Motors employee, spoke in favor of **SB 624**. (No written testimony was provided.)

Whitney Damron appeared as a proponent of **SB 624**. (No written testimony was provided.)

The hearing on **SB 624** was concluded.

**HB 2680 - Kansas-Missouri metropolitan cultural district compact amendment.**

**SB 116 - Sales tax exemption for Kansas Academy of Science purchases.**

It was moved by Chairperson Wagle and seconded by Representative Tomlinson to amend **HB 2680** into **SB 116**. The motion was seconded by a voice vote.

It was moved by Representative Minor and seconded by Representative Gilbert to pass the adoption of the balloon amendment to **HB 2680**.

A substitute motion was made by Representative Tomlinson to pass out **HB 2680** without the amendment. It was seconded by Representative Wilk and failed on a voice vote.

The motion to amend **HB 2680** passed on a voice vote.

Representative Minor moved and Representative Flora seconded the motion to pass **SB 116**, as amended favorably, out of Committee. The motion carried on a voice vote.

The meeting was adjourned at 10:20 a.m. The next meeting is on the call of the Chair.

## HOUSE BILL No. 2972

By Representatives Phill Kline, Gilbert, Haley, Henderson, Landwehr,  
Powell, Rehorn, Spangler and Wagle

2-9

10 AN ACT enacting the harnessing opportunity, performance and excel-  
11 lence act; amending K.S.A. 1999 Supp. 40-2803, 40-2804, 74-5093, 74-  
12 5097, 74-5098 and 79-32,117 and repealing the existing sections; also  
13 repealing K.S.A. 1999 Supp. 74-50,100 and 74-50,101.  
14

15 *Be it enacted by the Legislature of the State of Kansas:*

16 New Section 1. The purpose of this act is to promote and encourage  
17 the improvement of the quality of life in challenged neighborhoods by  
18 allowing local resources to be invested in implementing a locally devel-  
19 oped and supported neighborhood revitalization plan. This legislation,  
20 allowing pilot programs, is intended to focus on neighborhoods, not com-  
21 mercial or industrial development. It is vitally important that communities  
22 are empowered to apply local solutions to local problems and that state  
23 government exercise greater faith in its citizenry by allowing citizens in  
24 these communities to apply their talents, energy and creativity to building  
25 a better future for their families and neighbors. For this reason, this leg-  
26 islation allows what otherwise would be state resources, to be applied  
27 locally for plans developed by the citizens who will be directly affected  
28 by the use of these funds.

29 New Sec. 2. (a) Any business firm as defined by K.S.A. 74-5093 and  
30 amendments thereto which contributes to a neighborhood revitalization  
31 organization, shall be allowed a credit, as provided in subsection (b),  
32 against the tax imposed by the Kansas income tax act, the tax on net  
33 income of national banking associations, state banks, trust companies or  
34 savings and loan associations imposed under article 11 of chapter 79 of  
35 the Kansas Statutes Annotated, or the premium tax on insurance com-  
36 panies imposed under article 28 of chapter 40 of the Kansas Statutes  
37 Annotated, if the board has been approved to receive a grant pursuant to  
38 K.S.A. 74-5097 and amendments thereto.

39 (b) The amount of credit allowed pursuant to this section shall not  
40 exceed 50% of the total amount contributed during the taxable year by  
41 the business firm to a board which has been approved to receive a grant  
42 pursuant to K.S.A. 74-5097 and amendments thereto. Any tax credit not  
43 used for the taxable year the contribution was made may be carried over

1 for two succeeding taxable years or until the total amount of credit is  
 2 used. Any portion of the credit remaining unclaimed after two years shall  
 3 be refunded to the taxpayer. In no event shall the total amount of credits  
 4 allowed under this section exceed \$5,000,000 for any one fiscal year.

5 (c) The provisions of this section shall be applicable to all taxable  
 6 years beginning after December 31, 2001.

7 New Sec. 3. On and after July 1, 2000, there is hereby created, in  
 8 the state treasury, the urban revitalization fund. All moneys in the urban  
 9 revitalization plan fund shall be expended in accordance with appropri-  
 10 ations acts for the payment of grant money awarded pursuant to K.S.A.  
 11 74-5097 and amendments thereto. Such moneys shall be used only for  
 12 the implementation of the revitalization plan.

13 New Sec. 4. (a) Subject to subsection (b), in each fiscal year, the  
 14 director of accounts and reports shall transfer moneys, other than moneys  
 15 specifically dedicated to another source, derived from the following  
 16 sources which are attributable to the [blighted areas] subject to a revitali-  
 17 zation plan approved pursuant to K.S.A. 74-5097 and amendments  
 18 thereto:

19 (1) State sales tax under K.S.A. 79-3601 *et seq.*, and amendments  
 20 thereto;

21 (2) state income tax under K.S.A. 79-3201 *et seq.*, and amendments  
 22 thereto; and

23 (3) state property taxes under K.S.A. 72-6431, 76-6601 *et seq.*, 79-  
 24 2917 and 79-2918, and amendments thereto.

25 Such money shall be transferred from the state general fund and cred-  
 26 ited to the urban revitalization fund created pursuant to section 2 and  
 27 amendments thereto. All transfers under this section shall be considered  
 28 to be demand transfers from the state general fund.

29 (b) Subject to the provisions of subsection (d) on January 1, 2001,  
 30 and each year thereafter, the secretary of revenue shall certify to the  
 31 director of accounts and reports the amount of revenue attributable to  
 32 the blighted areas from the sources listed in subsection (a).

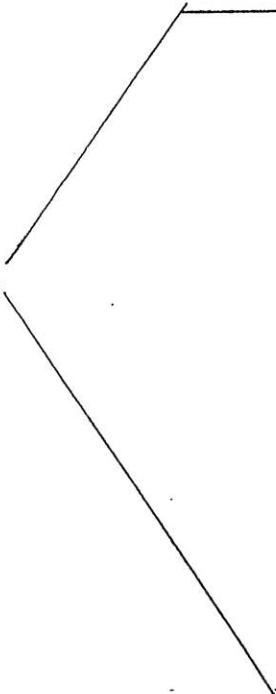
33 (c) On January 1, 2001, and each year thereafter, an amount equal to  
 34 the moneys transferred pursuant to subsection (a) shall be transferred  
 35 from the state economic initiatives development fund and credited to the  
 36 state general fund.

37 (d) The amount of money transferred pursuant to subsection (a) shall  
 38 not exceed \$2,000,000 from the revenue sources listed in subsection (a)  
 39 which are generated from a blighted area

40 (e) The provisions of this section shall expire June 30, 2005.

41 Sec. 5. K.S.A. 1999 Supp. 40-2803 is hereby amended to read as  
 42 follows: 40-2803. For the purpose of computing the tax imposed upon  
 43 life insurance companies under the provisions of this act the term "net

challenged neighborhood



)  
18

)

)

1 income" shall mean the net taxable income for the preceding calendar  
2 year of such company as determined under the provisions of section 802  
3 of the *federal* internal revenue code of 1954, as heretofore or hereafter  
4 amended. The term "net income" shall not include dividends received  
5 from stock issued by Kansas Venture Capital, Inc. to the extent such  
6 dividends are included in the Kansas taxable income of a corporation,  
7 interest income on obligations of this state or a political subdivision  
8 thereof which is specifically exempt from income tax under the laws of  
9 this state authorizing the issuance of such obligations. The term "net  
10 income" shall include the amount of any charitable contribution made to  
11 the extent the same is claimed as the basis for the credit allowed pursuant  
12 to K.S.A. 79-32,196 *and amendments thereto. The term "net income" shall*  
13 *include the amount of any charitable contribution made to the extent the*  
14 *same is claimed as the basis for the credit allowed pursuant to section*  
15 *and amendments thereto.* In case the entire business of such company is  
16 not transacted within this state, the net income for the purposes of this  
17 act shall be determined by multiplying such net income by a fraction, the  
18 numerator of which shall be the premiums received from business trans-  
19 acted within this state and the denominator of which is the amount of  
20 premiums received by such company from all its business. Insurance com-  
21 panies connected through stock ownership, which operate under common  
22 control and management are hereby authorized to make a consolidated  
23 return for the purpose of determining "net income" under the provisions  
24 of this section and intercompany transactions shall not be considered or  
25 included for the purpose of such determination.

2

26 Sec. 6. K.S.A. 1999 Supp. 40-2804 is hereby amended to read as  
27 follows: 40-2804. For the purpose of computing the tax imposed under  
28 the provisions of this act the term "net income" as applied to a domestic  
29 fire and casualty insurance company shall mean the amount required to  
30 be reported as "net income" in the annual statement form required to be  
31 filed by such company with the Kansas commissioner of insurance under  
32 the provisions of K.S.A. 40-225, and amendments thereto; as applied to  
33 a domestic mutual hail insurance company the term "net income" shall  
34 mean the amount required to be reported as "net income," annual in-  
35 crease in reserve fund in section VII of the annual statement form re-  
36 quired to be filed by such company with the Kansas commissioner of  
37 insurance under the provisions of K.S.A. 40-225, and amendments  
38 thereto; and as applied to a domestic county mutual fire insurance com-  
39 pany the term "net income" shall mean the amount required to be re-  
40 ported as "net income," annual net gain in its combined reserve and  
41 general funds in section VII of the annual statement form required to be  
42 filed by such company with the Kansas commissioner of insurance under  
43 the provisions of K.S.A. 40-225, and amendments thereto. If any such

41

42

1 domestic fire and casualty insurance company, domestic mutual hail in-  
 2 surance company, or domestic county mutual fire insurance company  
 3 does business in states other than Kansas its "net income" shall be de-  
 4 termined by the proportion of net premiums (gross premiums less can-  
 5 cellations) received from business written in Kansas compared to total  
 6 net premiums received from all its business. Insurance companies con-  
 7 nected through stock ownership with a common parent corporation,  
 8 which operate under common control and management are hereby au-  
 9 thorized to make a consolidated return for the purpose of determining  
 10 "net income" under the provisions of this section and intercompany trans-  
 11 actions shall not be considered or included for the purpose of such de-  
 12 termination. If a domestic insurance company is exempt for any reason  
 13 from filing an annual statement with the Kansas insurance department,  
 14 its net income shall be determined in the same manner as herein pro-  
 15 vided. For the purposes of this section, the term "net income" shall not  
 16 include dividends received from stock issued by Kansas Venture Capital,  
 17 Inc. to the extent such dividends are included in the Kansas taxable in-  
 18 come of a corporation, interest income on obligations of this state or a  
 19 political subdivision thereof which is specifically exempt from income tax  
 20 under the laws of this state authorizing the issuance of such obligations.  
 21 For the purposes of this section, the term "net income" shall include the  
 22 amount of any charitable contribution made to the extent the same is  
 23 claimed as the basis for the credit allowed pursuant to K.S.A. 79-32,196  
 24 and amendments thereto. *The term "net income" shall include the amount*  
 25 *of any charitable contribution made to the extent the same is claimed as*  
 26 *the basis for the credit allowed pursuant to section ~~7~~ and amendments*  
 27 *thereto.*

28 Sec. 7. K.S.A. 1999 Supp. 74-5093 is hereby amended to read as  
 29 follows: 74-5093. As used in this act:

30 (a) ~~"Blighted area" has the meaning ascribed to it in K.S.A. 12-1771~~  
 31 ~~and amendments thereto;~~

32 (a) "Business firm" means any business entity authorized to do busi-  
 33 ness in the state of Kansas which is subject to the state income tax imposed  
 34 by the provisions of the Kansas income tax act, any national banking  
 35 association, state bank, trust company or savings and loan association  
 36 paying an annual tax on its net income pursuant to article 11 of chapter  
 37 79 of the Kansas Statutes Annotated, or any insurance company paying  
 38 an annual tax on its net income pursuant to article 28 of chapter 40 of  
 39 the Kansas Statutes Annotated;

40 (b) "challenged neighborhood" means:

41 (1) An area in which there is a predominance of buildings or im-  
 42 provements which by reason of dilapidation, deterioration, obsolescence,  
 43 inadequate provision for ventilation, light, air, sanitation, or open spaces,

shall

revitalization

1 follows: 74-5097. (a) Subject to the provisions of appropriations acts and  
 2 in accordance with the provisions of this act, the department of commerce  
 3 and housing ~~may~~ provide planning grants and action grants to city-county  
 4 economic development organizations located in nonmetropolitan count-  
 5 ties, for the development and implementation of countywide economic  
 6 development strategy plans or to neighborhood revitalization organiza-  
 7 tions, in metropolitan counties, for the planning and implementation of  
 8 urban economic development plans.

9 (b) The committee shall establish grant eligibility criteria for appli-  
 10 cants in both metropolitan and nonmetropolitan counties, and shall ad-  
 11 minister the competitive selection process for the awarding of planning  
 12 grants and action grants. The committee shall submit its recommenda-  
 13 tions for grant awards to the secretary of commerce and housing for final  
 14 determination and award.

15 (1) ~~Grant applicants from nonmetropolitan counties shall be subject~~  
 16 ~~to the following conditions. Planning grants shall be for the development~~  
 17 ~~of countywide economic development strategy plans. No planning grant~~  
 18 ~~shall exceed \$15,000 for any single county economic development plan.~~  
 19 ~~An additional award for an amount not to exceed \$5,000 may be granted~~  
 20 ~~for each additional county participating in the development of a joint~~  
 21 ~~multi-county strategic economic development plan, except that under no~~  
 22 ~~circumstances shall the total planning grant exceed \$35,000. Any city-~~  
 23 ~~county economic development organization receiving a planning grant~~  
 24 ~~shall be required to provide additional funds equaling 25% of the amount~~  
 25 ~~of the planning grant. Action grants shall be for the implementation of~~  
 26 ~~countywide economic development strategy plans. Total action grants~~  
 27 ~~shall not exceed \$25,000 for any single county action grant application.~~  
 28 ~~An additional award for an amount not to exceed \$10,000 may be granted~~  
 29 ~~for each additional county participating in a joint multi-county action~~  
 30 ~~grant implementation effort, except that under no circumstances shall the~~  
 31 ~~action grant totals exceed \$65,000. Any city-county economic develop-~~  
 32 ~~ment organization receiving a grant shall be required to provide additional~~  
 33 ~~funds equaling 100% of the amount of the action grant. Not more than~~  
 34 ~~one planning grant may be awarded to any one county or combination of~~  
 35 ~~counties.~~

- 36 (1) *An application shall include:*
- 37 (A) *The name and address of the organization;*
- 38 (B) *the name and address of each member of the organization;*
- 39 (C) *the names of the officers of the organization;*
- 40 (D) *a copy of the organization's by-laws;*
- 41 (E) *a copy of the organization's strategic plan for revitalization;*
- 42 (F) *the resolution of approval required by paragraph (4);*
- 43 (G) *the identification of any private involvement in the implementa-*

- 1 tion of the plan, including, but not limited to, monetary or in-kind
- 2 donations;
- 3 (H) a description of the challenged neighborhood to be revitalized
- 4 including maps, drawings and photographs;
- 5 (I) the demographics of the challenged neighborhood to be revitalized;
- 6 (J) a list of the names and addresses of the people who were involved
- 7 in preparation of the revitalization plan;
- 8 (K) the method to be used to revise the economic development plan,
- 9 if necessary;

revitalization

- 10 (L) the method or criteria to be used to measure the success of the
- 11 economic development plan;
- 12 (M) the identification of other governmental resources available to or
- 13 which will be used by the organization;
- 14 (N) the method of continued community input in the revitalization of
- 15 the challenged neighborhood;
- 16 (O) a copy of the annual budget of the organization;
- 17 (P) a procedure for an annual financial review or audit of the activi-
- 18 ties of the board in relation to the challenged neighborhood; and
- 19 (Q) any other information deemed necessary by the committee.

20 (2) When selecting an application for approval the committee's con-

21 sideration shall include, but not be limited to:

22 (A) The amount of local investment in the revitalization plan, both

23 private and public;

24 (B) the amount of local community involvement, financially and

25 otherwise;

26 (C) whether there is a commitment to the continuance of existing

27 programs in the blighted area under the revitalization plan;

28 (D) whether there is an enhancement of existing programs in the

29 blighted area under the revitalization plan;

30 (E) the percentage of the organization's budget for salary and admin-

31 istration; and

32 (F) the extent to which the plan will improve the quality of life of the

33 residents of the challenged neighborhood.

34 (3) The secretary shall approve three applications from those rec-

35 ommendations made by the committee.

36 ~~(2)~~ (4) Neighborhood revitalization organizations from metropolitan

37 counties shall be subject to the following conditions: Prior to applying to

38 the committee, the neighborhood revitalization organization must submit

39 its application to a local economic development organization designated

40 by the county commission of the county the governing body of the city

41 in which the organization challenged neighborhood is located. The local

42 economic development organization No plan shall require the condem-

43 nation-of-existing-residential-property The governing body shall review

challenged neighborhood

(A) The officers of the revitalization organization shall be elected annually commencing after the organization's first year of operation. The officers shall be elected by a vote of electors residing the challenged neighborhood as identified in the revitalization plan.

(B)

strike



*Gregory*

occupied

challenged neighborhood

1 the application to ensure that the plan is consistent with the city's strategic  
 2 plan. If the city has not adopted a strategic plan, the governing body shall  
 3 review the application and determine whether the application should be  
 4 funded on the basis of local needs and priorities. No plan shall require  
 5 the condemnation of existing residential property. The governing body  
 6 shall signify its approval of an application by passage of a resolution. If  
 7 the application is approved by the local economic development organi-  
 8 zation and endorsed by resolution by the county commission and the  
 9 governing body of the city in which the blighted area is located, the ap-  
 10 plication shall be forwarded to the committee for further consideration.  
 11 Planning grants shall be for the development of urban economic devel-  
 12 opment strategy plans. No planning grant shall exceed \$15,000 for any  
 13 single urban economic development plan. Any neighborhood revitaliza-  
 14 tion organization receiving a planning grant shall be required to provide  
 15 additional funds equaling 25% of the amount of the planning grant. Action  
 16 grants shall be for the implementation of urban economic development  
 17 strategy plans. Total action grants shall not exceed \$25,000 for any single  
 18 urban action grant application. Any neighborhood revitalization organi-  
 19 zation receiving a grant shall be required to provide additional funds  
 20 equaling 100% of the amount of the action grant. Not more than one  
 21 planning grant may be awarded to any one neighborhood revitalization  
 22 organization.  
 23 —(3)— No funds shall be granted under this act to applicants from met-  
 24 ropolitan counties unless such funds are specifically appropriated for that  
 25 purpose.  
 26 —(4)— The secretary of commerce and housing may authorize a recipient  
 27 of a planning grant, who has unexpended funds from such planning grant,  
 28 to apply such funds to the implementation of the recipient's approved  
 29 strategic economic development plan. Any unexpended planning grant  
 30 funds applied to the implementation of such strategic economic devel-  
 31 opment plan shall require the appropriate 100% match. Application of  
 32 the unexpended planning grant funds to the implementation of the strate-  
 33 gic economic development plan may result in the reduction of any sub-  
 34 sequent action grant awarded to the recipient.  
 35 —(c)— The secretary of commerce and housing may enter into an agree-  
 36 ment with economic development service providers to provide reim-  
 37 bursement to such providers for expenses incurred in strategic planning  
 38 activities which do not relate to the facilitation of a specific strategic plan.  
 39 Such activities may include, but are not limited to, preapplication con-  
 40 sulting and maintenance of economic development data bases. Such ex-  
 41 penses shall be paid on a per project basis and must be preapproved by  
 42 the secretary.  
 43 —(d)— Each city county economic development organization or neigh-

*allow*



1 ~~neighborhood revitalization organization which has received a planning grant~~  
 2 ~~beginning on and after July 1, 1990, shall assess the effectiveness of the~~  
 3 ~~strategic planning process under this program and the local preparedness~~  
 4 ~~in engaging in such process. Such assessment shall be submitted to the~~  
 5 ~~Kansas department of commerce and housing within three months after~~  
 6 ~~completion of a strategic plan. The status report developed pursuant to~~  
 7 ~~subsection (f) shall include a summary of all strategic plan assessments~~  
 8 ~~received for a twelve-month period prior to the submittal of the report~~  
 9 ~~to the joint committee on economic development. However, the summary~~  
 10 ~~may not include assessments submitted within 30 days of the submittal~~  
 11 ~~of the department's report. Any such assessments shall be included in a~~  
 12 ~~subsequent annual report.~~

13 (c) *Beginning in fiscal year 2001 and each year thereafter, each of the*  
 14 *three boards whose applications have been selected for approval by the*  
 15 *secretary shall receive a grant not to exceed \$2,000,000. Such money shall*  
 16 *be used for the purposes specified in the board's plan.*

17 (d) *The secretary shall adopt any rules and regulations necessary to*  
 18 *implement the provisions of this section.*

19 (e) ~~Each city-county economic development organization or neigh-~~  
 20 ~~borhood revitalization organization which has received an action a grant~~  
 21 ~~beginning on and after July 1, 1990 2001, shall assess the extent to which~~  
 22 ~~goals identified in its action [economic development] plan application have~~  
 23 ~~been met. Such assessment shall rely on quantifiable criteria to the~~  
 24 ~~greatest possible degree. Such assessment shall be submitted to the Kan-~~  
 25 ~~sas department of commerce and housing within three months after in-~~  
 26 ~~tended actions identified for implementation in the action grant appli-~~  
 27 ~~cation plan have been undertaken. The status report developed pursuant~~  
 28 ~~to subsection (f) shall include a summary of all action plan assessments~~  
 29 ~~received for a twelve-month period prior to the submittal of the report~~  
 30 ~~to the joint committee on economic development. However, the summary~~  
 31 ~~may not include assessments submitted within 30 days of the submittal~~  
 32 ~~of the department's report. Any such assessments shall be included in a~~  
 33 ~~subsequent annual report.~~

revitalization

34 (f) *As a part of the annual report required pursuant to K.S.A. 1999*  
 35 *Supp. 74-5049, and amendments thereto, the Kansas department of com-*  
 36 *merce and housing shall present a status report of activities including,*  
 37 *but not limited to, specifics of community strengths and weaknesses and*  
 38 *planning issues and strategies undertaken under the provisions of this act*  
 39 *to the joint committee on economic development.*

40 Sec. 9. K.S.A. 1999 Supp. 74-5098 is hereby amended to read as  
 41 follows: 74-5098. ~~City-county economic development organizations or~~  
 42 ~~neighborhood [Neighborhood] revitalization organizations may use plan-~~

City-county economic development organizations  
 or neighborhood

1 egy development activities; identification of specific projects, and other  
 2 related services from educational institutions or other economic devel-  
 3 opment service providers. ~~City county economic development organiza-~~  
 4 ~~tions or neighborhood economic development organizations can use ac-~~  
 5 ~~tion grants for~~, hiring of technical assistance, implementation, evaluation  
 6 and reassessment of strategies, purchasing of equipment and other serv-  
 7 ices, ~~and economic development activities undertaken by public private~~  
 8 ~~partnerships as authorized for cities and for counties pursuant to law.~~  
 9 Action grants shall not be used for the purchase or lease of land or the  
 10 purchase, lease or construction of buildings or payment of salaries and  
 11 benefits for permanent employees of any public or quasi-public agency  
 12 and such other services, real or personal property as may be prescribed  
 13 in the economic development plan.

revitalization

14 Sec. 10. K.S.A. 1999 Supp. 79-32,117 is hereby amended to read as  
 15 follows: 79-32,117. (a) The Kansas adjusted gross income of an individual  
 16 means such individual's federal adjusted gross income for the taxable year,  
 17 with the modifications specified in this section.

18 (b) There shall be added to federal adjusted gross income:

19 (i) Interest income less any related expenses directly incurred in the  
 20 purchase of state or political subdivision obligations, to the extent that  
 21 the same is not included in federal adjusted gross income, on obligations  
 22 of any state or political subdivision thereof, but to the extent that interest  
 23 income on obligations of this state or a political subdivision thereof issued  
 24 prior to January 1, 1988, is specifically exempt from income tax under the  
 25 laws of this state authorizing the issuance of such obligations, it shall be  
 26 excluded from computation of Kansas adjusted gross income whether or  
 27 not included in federal adjusted gross income. Interest income on obli-  
 28 gations of this state or a political subdivision thereof issued after Decem-  
 29 ber 31, 1987, shall be excluded from computation of Kansas adjusted  
 30 gross income whether or not included in federal adjusted gross income.

31 (ii) Taxes on or measured by income or fees or payments in lieu of  
 32 income taxes imposed by this state or any other taxing jurisdiction to the  
 33 extent deductible in determining federal adjusted gross income and not  
 34 credited against federal income tax. This paragraph shall not apply to taxes  
 35 imposed under the provisions of K.S.A. 79-1107 or 79-1108, and amend-  
 36 ments thereto, for privilege tax year 1995, and all such years thereafter.

37 (iii) The federal net operating loss deduction.

38 (iv) Federal income tax refunds received by the taxpayer if the de-  
 39 duction of the taxes being refunded resulted in a tax benefit for Kansas  
 40 income tax purposes during a prior taxable year. Such refunds shall be  
 41 included in income in the year actually received regardless of the method  
 42 of accounting used by the taxpayer. For purposes hereof, a tax benefit  
 43 shall be deemed to have resulted if the amount of the tax had been de-

**79-1109. "Net income" defined; deductions.** As used in this act "net income" shall mean the Kansas taxable income of corporations as defined in K.S.A. 79-32,138, and amendments thereto, determined without regard to the provisions of K.S.A. 79-32,139, and amendments thereto, and the provisions of paragraph (xiv) of subsection (c) of K.S.A. 79-32,117, and amendments thereto, plus income received from obligations or securities of the United States or any authority, commission or instrumentality of the United States and its possessions to the extent not included in Kansas taxable income of a corporation and income received from obligations of this

state or a political subdivision thereof which is exempt from income tax under the laws of this state; less dividends received from stock issued by Kansas Venture Capital, Inc. to the extent such dividends are included in the Kansas taxable income of a corporation, interest paid on time deposits or borrowed money and dividends paid on withdrawable shares of savings and loan associations to the extent not deducted in arriving at Kansas taxable income of a corporation.

Savings and loan associations shall be allowed as a deduction from net income, as hereinbefore defined, a reserve established for the sole purpose of meeting or absorbing losses, in the amount of 5% of such net income determined without benefit of such deduction, but no further deduction shall be allowed for losses when actually sustained and charged against such reserve, unless such reserve shall have been fully absorbed thereby; or, in the alternative, a reasonable addition to a reserve for losses based on past experience, under such rules and regulations as the secretary of revenue may prescribe.

*The term "net income" shall include the amount of any charitable contribution made to the extent the same is claimed as the basis for the credit allowed pursuant to section 2.*

# LEGISLATIVE TESTIMONY



*The Unified Voice of Business*

835 SW Topeka Blvd. • Topeka, KS 66612-1671 • 785-357-6321 • Fax: 785-357-4732 • E-mail: [kcci@kansaschamber.org](mailto:kcci@kansaschamber.org) • [www.kansaschamber.org](http://www.kansaschamber.org)

HB 3041

March 22, 2000

## KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony Before the  
House Taxation Committee

by

Marlee Bertholf  
Director of Taxation & Small Business

Madam Chair and members of the Committee:

My name is Marlee Bertholf and I am the Director of Taxation and Small Business for the Kansas Chamber of Commerce and Industry (KCCI). Thank you for the opportunity to express our members' support for HB 3041.

The research and development tax credit was created in 1986 and included a sunset provision. Since that time, Kansas businesses have requested that the sunset date be extended several times. This tax credit will sunset on January 1, 2001 if it is not extended. HB 3041 will eliminate the sunset date and make research and development a permanent tax credit for Kansas business.

The Kansas Chamber of Commerce and Industry (KCCI) is a statewide organization dedicated to the promotion of economic growth and job creation within Kansas, and to the protection and support of the private competitive enterprise system.

KCCI is comprised of more than 2,000 businesses which includes 200 local and regional chambers of commerce and trade organizations which represent over 161,000 business men and women. The organization represents both large and small employers in Kansas, with 48% of KCCI's members having less than 25 employees, and 78% having less than 100 employees. KCCI receives no government funding.

The KCCI Board of Directors establishes policies through the work of hundreds of the organization's members who make up its various committees. These policies are the guiding principles of the organization and translate into views such as those expressed here.

Attachment # 2-1

Date: 3/22/00

House Taxation

The research and development tax credit is designed to increase research and development activity within the State of Kansas. Currently, 42 states have some type of research and development tax incentive. The Kansas income tax credit is equal to 6.5% of a company's investment in research and development above the average expenditure of the previous three-year period. Only 25% of the allowable annual credit may be claimed in any one-year. Any remaining credit may be carried forward in 25% increments until exhausted. Attached to my testimony is a chart that reflects the amount of tax credits claimed from 1988 to September 1999. The amount claimed in the 11-year period totals \$12.3 million.

This is not a new tax credit. The research and development tax credit has been used by Kansas businesses in various ways over the years. In the telecommunications field, this tax credit has been applied to software development, technology testing, and the development of new and better ways to use telecommunications networks. In the manufacturing field, this tax credit has been used to develop new products or derivatives of new products (major changes in products), the development of new and better ways to build the product on the manufacturing floor, and in the development of new software. This tax credit is important to many Kansas businesses and its use has led to the development of cutting edge technology in many areas.

Again, on behalf of the members of KCCI, I would like to thank you for the opportunity to appear before you today. This is an important tax credit to some of Kansas' largest businesses as well as some of its smallest. I would again like to emphasize that this is not a new tax credit, but one that has been in existence for 14 years. We urge you to support HB 3041. I will be happy to answer any questions.

**Research and Development Tax Credit - K.S.A. 79-32,182 et seq.** Created in 1986, this tax credit is designed to increase research and development activity by Kansas businesses. The income tax credit is equal to 6.5% of a company's investment in research and development above the average expenditure of the previous three-year period. Only 25% of the allowable annual credit may be claimed in any one year. Any remaining credit may be carried forward in 25% increments until exhausted. Table 11 reports Research and Development Tax Credits awarded since the programs inception and 9/30/99.

**Table 11**  
**Research and Development Tax Credit**  
**Current and Carry-over**

	Total Filers	Total Claimed
1988	12	\$ 133,890
1989	24	407,807
1990	39	249,737
1991	50	449,221
1992	63	764,043
1993	76	1,757,598
1994	85	3,171,884
1995	90	720,139
1996	83	875,454
1997	55*	*1,340,675
1998	57	2,382,291
As of 9/20/99	15	61,539
	<b>649</b>	<b>\$12,314,278</b>

Source: KDOR Credit Summary Report of September 30, 1999  
 \*Individual filers for 1999 were suppressed by KDOR and are not included in this figure or in the total figure.

\*\*These figures are taken from "Sales Tax Exemption and Kansas Economic Development Income Tax Credits," by Kansas, Inc. and presented to the Kansas Legislature in January 1999.

**Testimony to House Committee on Taxation  
House Bill 3041  
March 22, 2000**

Bernie Koch  
VP/Government Relations  
Wichita Area Chamber of Commerce

Chairman Wagle, members of the committee, thank you for the opportunity to appear in support of House Bill 3041. I'm Bernie Koch with the Wichita Area Chamber of Commerce.

Research and development incentives are especially important to my area of the state, where manufacturing is the engine that drives our economy.

The Federal Bureau of Labor Statistics tell us that manufacturing sector employment in Wichita is 25.6 percent of the labor force. That's fifth highest in the United States.

With so many manufacturing jobs in industries that tend to be high technology, it's important that businesses be on the cutting edge of technology. That's why research and development are very important. They are necessary to maintain our competitive edge.

They can also be helpful in attracting new businesses. Over 90 percent of professional site selectors surveyed in 1999 by the publication Area Development said that state and local incentives are either important or very important in their decisions to locate a business in a particular place. Research and development tax credits are something our economic development recruiters can point to when trying to sell prospective companies on Kansas.

This is an important tool that the State of Kansas would do well to maintain. I urge you to support this bill.

Thank you for your consideration.



**Information in support of SB624**  
**Kansas House Assessment and Taxation Committee**

**General:**

Thank you for allowing us the opportunity to speak with you today. I want to take a few minutes and give you an overview of our plant located in Kansas City, Kansas, the Epsilon project - which is the future of our Kansas Facility and SB 624.

The General Motors Fairfax Plant is the sole worldwide source of Pontiac Grand Prix and Oldsmobile Intrigue vehicles. In 1999 more than 272,000 vehicles were produced.

- The plant employs over 3,500 people and, in 1999, paid over \$244 million in wages, taxes and utilities.

In July of 1999, the Fairfax facility was selected as the first U.S. General Motors assembly plant to have the opportunity to present a business case to build Epsilon Architecture Vehicles – a new generation of cars.

The Epsilon Project opportunity is contingent upon:

- A sound business case
- Infrastructure and tax support
- Competitive agreement with our United Auto Worker partners
- Demonstrated cost and quality performance
- Final approval by GM executive leadership and the board of directors

The Epsilon Platform is a Global Architecture for compact and midsize vehicles.

- Architecture is a common/shared body structure design – primarily for underbody and suspension components – the parts of the vehicle that the customer does not see.

Epsilon vehicles will be produced at GM Assembly Plants in numerous countries. Epsilon is a program name; it is not a product name like Grand Prix or Intrigue.

The Epsilon Project represents the future for the Fairfax Assembly Plant.

**The current generation Pontiac Grand Prix will cease production in the third quarter of 2002. The next generation of Grand Prix will not be built in Kansas City. The Grand Prix represents approximately 75% of our current production.**

The Oldsmobile Intrigue will continue to be assembled for an undetermined period of time at Fairfax after the Grand Prix builds out.

Planning volumes for the Epsilon products include round-the-clock, three-shift production at the Fairfax Plant with annual production volumes of over 300,000 vehicles.

It is planned that the three-shift operation will allow us to maintain employment and payroll levels comparable to present operations at the Fairfax Plant.

Based on initial planning, overall investment to bring the Epsilon Project to the Fairfax Plant is more than \$500 million. Two main elements of the project include:

- Fairfax Plant Modification – Operational and Capital Expenditures of \$200 million
- Die Development and Special Tools of \$159 Million – many of the dies and special tools will be located in Kansas

### **Senate Bill 624**

Senate Bill 624 is designed to exempt special tools and dies located in Kansas from ad valorem taxes.

Special tools and dies are defined as manufacturing aids which are attached to or used in conjunction with fixed manufacturing facilities for the purpose

of manufacturing specific products or models. An example would include the mold for a Pontiac Grand Prix fender – which is unique to that vehicle.

The special tools and dies quickly become obsolete due to the rate of change in the automotive industry. Their useful life generally ceases upon discontinuance or modification of such products or models.

This bill would make Kansas comparable with states such as Michigan and Ohio that have many major automotive stamping and assembly plants. Michigan and Ohio exempt special tools and dies from ad valorem taxes. Therefore, this bill would make Kansas automotive stamping and assembly operations cost competitive with other facilities from a property tax standpoint on special tools and dies.

A good number of our competitors' plants, as well as GM plants, are located in Michigan and Ohio where there is no property tax on special tools and dies. This gives those facilities a competitive production cost advantage because of the exemption.

Last year, General Motors had a property tax bill of \$1.3 million in Kansas on special tools and dies.

The proposed legislation would apply to special tools and dies acquired after December 31, 2000. General Motors would continue to pay applicable property taxes on existing special tools and dies located in Kansas.

**Reference the attachment.**

# General Motors Fairfax Assembly Plant

## Estimated Tax Projections March 14, 2000

Tax year	Total Property Tax Projection	Taxes if (1) Plant does not get product
2001	9,897,846	10,437,270
2002	9,012,897	9,975,598
2003	8,229,504	9,639,013
2004	7,421,794	8,873,850
2005	7,243,368	3,663,814
2006	7,209,817	?
2007	7,166,292	?
2008	7,188,732	?
2009	7,270,788	?
2010	7,376,361	?
2011	7,481,933	?
2012	7,580,206	?
2013	7,628,578	?
<b>Totals</b>	<b>100,708,116</b>	

(1) Total includes \$3.7 million in real estate tax, tax from existing personal property, and tax from partially abated new Epsilon Machinery and Equipment. (Assumes post-2000) acquired special tools and dies are exempt.)

(2) Assumes all personal property idle in 2004, special tools still taxable and reduction in real estate value.

House Taxation

Date: 3-22-00

Attachment # 5



## Testimony in Support of SB 624

**Presented by John Federico; Federico Consulting  
On Behalf of General Motors**

**House Taxation Committee  
March 22, 2000**

Thank you Madam Chair for allowing me to briefly testify in support of SB 624. You heard testimony from Mr. Turner about the importance of this legislation. I stand before you today to merely re-emphasize what has already been stated, ....that the General Motors Fairfax assembly plant has been presented with a wonderful opportunity. They have been selected to submit a Business Case in an attempt to win the right to be the sole North American producer of the Epsilon Architecture Vehicle!

Landing the Epsilon Project, a project that will lend stability to the facility for the foreseeable future and the 3,300 or so jobs located at the Fairfax plant, hinges on General Motors acceptance of a carefully prepared Business Case. The bill you are considering today is but one of many critical components of the Business Case that the Fairfax plant will be submitting in an effort to win approval of the Project.

We will be the first to admit that the introduction of SB 624, a bill seeking tax relief, is ill-timed given the shortfall in revenues we are experiencing and the difficult "funding" decisions you are currently being forced to make. We are also aware of concerns raised about the "specificity" of the legislation given the fact that the tax relief requested would currently apply only to special tools and dies used in the manufacturing of automobiles. And that many of the people employed at the Fairfax assembly plant live in Missouri. We make no apologies though. We can't. Certain things are out of our control.

This legislation was not introduced on whim as a means to shy away from our responsibilities as a Kansas taxpayer. Rather it is in response to a unique economic opportunity presented to a specific manufacturing facility within the state. We are relying on the good judgment of the Kansas Legislature and asking that you partner with us in an attempt to keep good paying jobs in Kansas, provide stability to a major corporate Kansas taxpayer and help us win approval of a project that will result in an investment of over \$500,000,000 in our state.

It was stated that the Epsilon Project is the future of the Fairfax assembly plant. This is a statement worth repeating, because the only certainty that we have at this very moment is that after 2002, the Grand Prix will no longer be built in the state of Kansas. The impact of losing the production rights to this vehicle to another General Motors assembly plant is unclear, but to lose a vehicle that represented 64% of the total production volume almost certainly will necessitate change.

Changes are imminent at the Fairfax plant. General Motors as a major employer and taxpayer, and you as a legislative body, have a chance to embrace a project that will result in a positive change. Again, on behalf of General Motors we appreciate the difficulty of your decision but ask that you give immediate and favorable consideration of SB 624. Thank you.

Proposed Amendment to HB 2680

On page 7, after line 1, by inserting "On and after the effective date of this act, in the performance of its duties regarding the provision of financing of cultural activities, organizations or facilities in Kansas and Missouri, the commission shall not provide for more than 50% of the revenue produced from sales taxes levied within the metropolitan culture district to activities, organizations or facilities performed or located in either state.";

House Taxation

Date: 3/22/00

Attachment # 7

## SB 116 as Amended by House Tax

### Brief

SB 116, as amended by the House Taxation Committee, would amend the Kansas and Missouri Metropolitan Culture District Compact to redefine cultural activities to include sports which "contribute or enhance the aesthetic, artistic, historical, intellectual or social development or appreciation of members of the general public."

Additional language would be added to the compact, however, which would prohibit revenues from a future sales tax which has been adopted by voters from being used exclusively for sports or sports facilities.

New language further would effectively require that exactly 50 percent of the revenue produced from within the district from a new tax be provided for cultural funding in EACH state. Another section specifies that no election for a new sales tax could be held prior to 2002.

Finally, the composition of the Metropolitan Culture Commission would be changed to add two members of the consolidated Wyandotte County and Kansas City, Kansas governing body, who would be appointed pursuant to a majority vote of such governing body.

### Background

The Metropolitan Culture District Compact authorizes local sales taxes of up to 0.25 percent in Johnson County, Kansas, Jackson County, Missouri and other counties in both states within 60 miles of those two jurisdictions. A tax of 0.125 percent is currently being levied in Johnson County and in three Missouri counties (Jackson, Clay, and Platte). Conferees said that tax is expected to sunset in March of 2002.

The compact is an interstate compact which has been ratified by Congress. Article VIII of the compact provides that amendments to the compact become effective only after identical legislative enactments in both states. Proponents of the bill said that identical language is under consideration by the Missouri Legislature.

The original bill would have provided a sales tax exemption for certain sales by or on behalf of the Kansas Academy of Science. The House Committee struck the original provisions and inserted the substance of HB 2680 relating to the proposed amendments to the bi-state compact. The 50 percent funding requirement, however, was not included in HB 2680 as introduced.