

Approved: 3-9-00
Date

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE.

The meeting was called to order by Chairperson Senator Audrey Langworthy at 11:10 a.m. on March 1, 2000, in Room 519-S of the Capitol.

All members were present except: Senator Praeger – Excused

Committee staff present: Chris Courtwright, Legislative Research Department
April Holman, Legislative Research Department
Don Hayward, Revisor of Statutes Office
Shirley Higgins, Committee Secretary

Conferees appearing before the committee: George Turner, General Motors
John Federico, Federico Consulting
Dan Fairbanks, Kansas United Auto Workers

Others attending: See attached list.

The minutes of February 25, 2000, were approved.

SB 624—Property taxation; exempting certain personal property used for manufacturing of motor vehicles

George Turner, General Motors Fairfax Assembly Plant, testified in support of **SB 624**. He noted that the Fairfax plant employs over 3,000 people and paid over \$244 million in wages, taxes, and utilities in 1999. On July 1, 1999, the plant was selected as the first 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. The overall investment to bring the Epsilon project to the Fairfax plant is conservatively estimated at \$500 million.

Mr. Turner explained that **SB 624** was designed to exempt special tools and dies located in Kansas from ad valorem taxes. He explained further that special tools and dies suffer from rapid obsolescence due to the rate of change taking place in the automotive industry. He noted that last year General Motors had a property tax bill of \$1.3 million in Kansas on special tools and dies. **SB 624** would make Kansas comparable with states such as Michigan and Ohio, which have many major automotive stamping and assembly plants and which exempt special tools and dies from ad valorem taxes. The proposed legislation would apply to special tools and dies acquired after December 31, 2000.

Mr. Turner informed the Committee that the Grand Prix represented 64 percent of the plant's 1999 production volume. He emphasized that the Epsilon project represents the future for the Fairfax plant as the current generation Pontiac Grand Prix will cease production in the third quarter of 2002, and the next generation Grand Prix will not be built in Kansas City. If Fairfax can successfully bid for the Epsilon project, the plant will begin a pilot build of the new car line during the last half of 2002. A three-shift operation is planned to allow the plant to maintain employment and payroll levels comparable to present operations.

(Attachment 1)

Committee discussion followed regarding the possibility of the General Motors plant requesting local property tax abatements to exempt special tools and dies rather than requesting the passage of **SB 624**. Mr. Turner responded that the Fairfax plant is trying to level the playing field of the cost of assembling a car in Kansas with other states which have granted the tax exemption for auto manufacturers. He confirmed that the future fiscal note on the bill could not be determined at this time because it is not yet known what special tools and dies would be located in Kansas if General Motors decides to grant the Fairfax plant the Epsilon project. It was noted that the fiscal note could be higher than the \$1.3 million currently collected for property taxes on the special tools and dies at Fairfax. It was also confirmed that the bill would provide a permanent property tax abatement, the burden of which would be spread to the other property taxpayers in the county.

CONTINUATION SHEET

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE Room 519-S, Statehouse, at 11:10 a.m. on March 1, 2000.

John Federico, representing General Motors, testified in support of **SB 624**. He reiterated Mr. Turner's statement that the General Motors Fairfax assembly plant has been presented with a wonderful opportunity to win the right to be the sole North American producer of the Epsilon Architecture Vehicle. He emphasized that **SB 624** is one of many critical components of the business case that the Fairfax plant wants to submit in an effort to win approval of the project. He noted that the bill is in response to a unique economic opportunity for a specific manufacturing facility within the state. He urged the Committee to support the bill as it will help win approval of a project that will result in an investment of over \$500 million in new machinery and equipment in the state. (Attachment 2)

In response to committee questions, Mr. Turner clarified that passage of **SB 624** does not solely determine whether the Epsilon project moves forward. He noted that Fairfax also has an interest in the integrated plant bill. Even if all legislation in which the plant has an interest is passed, there is no guarantee that the business case will be accepted and approved by General Motors. He assumes that, if General Motors chooses not to accept the Fairfax business case, it has the choice to go to another facility in another state and ask that it present a business case.

Dan Fairbanks, President of the Kansas United Auto Workers (UAW), testified in support of **SB 624**. He explained that he represents almost 3,500 members of the UAW local at the Fairfax plant and emphasized that the Fairfax UAW has a great working relationship with General Motors. He noted that the bill directly affects their jobs, but UAW members have not yet been informed of the bill due to the fact that all the information needed was not yet available to him. Mr. Fairbanks assumes that once the information on the bill reaches the Fairfax UAW members, many of them will contact legislators to express their support.

Mr. Fairbanks noted that, when the production of the Grand Prix ceases at the Fairfax plant, the plant will not be able to survive unless a new product comes into production there. He commented that General Motors does not make threats. The plan to discontinue the production of the Grand Prix at Fairfax simply is a reality of life. If the plant subsequently closes, the employees will be forced to seek employment in other states. He explained that he grew up in Wyandotte County and has worked at the Fairfax plant for 27 years. During those years, \$500 million has been contributed by the plant to the United Way in Wyandotte County. He pointed out that the loss of the United Way contributions by Fairfax employees will significantly affect the amount of money received by local non-profit groups, and the loss of jobs will directly affect the commerce in the Kansas City area. In closing, Mr. Fairbanks emphasized that Fairfax employees care about Wyandotte County and what happens to the plant and that the bill will help make their jobs secure.

Senator Langworthy called attention to written testimony submitted by Wayne Maichel, Kansas AFL-CIO, in support of **SB 624**. Mr. Maichel notes that this is the first request for a tax reduction which has with it a guaranteed return as the 3,000 jobs at the Fairfax plant are some of the best paying jobs in the state with good health care and pensions. (Attachment 3)

The hearing on **SB 624** was closed, and the meeting was adjourned at 12:00 p.m.

The next meeting is scheduled for March 2, 2000.

SENATE ASSESSMENT AND TAXATION COMMITTEE
GUEST LIST

DATE: March 1, 2000

NAME	REPRESENTING
GEORGE TURNER	GENERAL MOTORS
Jennifer Aint	Federico Consulting
Don Fairbanks	UAW Local 31
Wayne Mauch	W. AFL-CIO
Kelby HARR	WALTON CONSTRUCTION
DAVE MELZER	MERITEX, INC
Tammy Canida	UMB Bank - Lenexa Chamber
John Federico	GM
Kathy Dameron	Kansas City, KS Chamber
DAW SCHENKEL	KCKS. Chamber of Commerce
CHRIS CARRON	KCK CHAMBER OF COMMERCE
BRUCE LOWDEMOY	LENEXA Chamber of Commerce
Don Sefer	City of Olathe
Todd Byrfield	Leadership Overland Park
DERRON D. GUNDERMAN	WALLACE, SAUNDERS, AUSTIN, BRIDGMAN & ENOCHS
MIKE NOVOSEL	Lenexa Leadership
John Mender	Unified Gov. Wyco. ch / KCK
Billy Kuitala	City of Overland Park
Chuck Henry	Unified Government of WYCO/KCK

SENATE ASSESSMENT AND TAXATION COMMITTEE GUEST LIST

DATE: 3-1-00

NAME	REPRESENTING
Cindy Haines	Leadership Olathe
Kathi Tully	Leadership Olathe
Kory Norris	" "
Tricia Johnson	Leadership Lenexa
PAH Kuerbaet	Leadership Lenexa
Tim Marshall	Leadership Lenexa
Kim Wheeler	Lenexa Chamber of Commerce
Marcie Ellen	Sedgewick County
Mailee Betholf	KCCT
Bernie Koch	Wichita Area Chamber
Tom Gashed	Alliance of Automobile Manufacturers
Anne Spiess	Peterson Public Affairs Group
Whitney Damron	KC, KS/WYCO
Don McNEEL	KANSAS AUTOMOBILE DEALERS ASSN
MARK BECK	KDOR
Ann Dunke	DOB
Don Moler	LKM
Don Penney	Unified Govt. WyCo/KCC

Testimony In Support Of SB 624
Kansas Senate Assessment and Taxation Committee
Presented By: George E. Turner, Plant Comptroller
General Motors Fairfax Assembly Plant
Kansas City, Kansas 66115
March 1, 2000

Madam Chair and Senators, it is a great pleasure for me to be here today.
Thank you for allowing me this opportunity to testify in support of SB 624.

My name is George Turner and I am the Plant Comptroller at the GM Fairfax Assembly Plant in Kansas City. I have been the Fairfax Comptroller for the past five years.

The Fairfax Plant is the sole worldwide source of Pontiac Grand Prix and Oldsmobile Intrigue vehicles. Last year we assembled over 272,000 of these cars.

The plant employs over 3,000 people and, in 1999, paid over \$244 million in wages, taxes and utilities. The plant complex includes:

- a stamping plant where the majority of the exterior sheet metal for our products is produced and
- a car assembly plant

On July 1 of last year, the Fairfax facility was honored to be 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.

- An 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.

Based on initial planning, overall investment to bring the Epsilon Project to the Fairfax Plant is conservatively estimated at \$500 million:

- Fairfax Plant Modification – Operational and Capital Expenditures of \$300 million
- Die Development and Special Tools of \$200 Million – many of the dies and special tools will be located in Kansas

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

What are Special Tools and Dies? 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. The special tools and dies suffer from rapid obsolescence due to the rate of change taking place in the automotive industry today. Their useful life generally ceases upon discontinuance or modification of such products or models. Examples include the dies used to stamp sheet metal into specific parts like doors, fenders, hoods, and roofs. Special tools include items like fingers and grippers that help to move parts or hold parts in specific positions during the manufacturing process.

– 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. What is this cost advantage? 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.

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 represented 64% of our production volume last year.

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

— If Fairfax can successfully bid for the Epsilon Project, we will begin pilot build of the new car line during the last half of 2002. Epsilon products are slated to begin full production in January 2003. 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.

Thank you for the opportunity to appear before your committee. We urge your support of SB 624. I would be happy to stand for any questions.



Testimony in Support of SB 624

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

**Senate Assessment & Taxation Committee
March 1, 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 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.

Senate Assessment & Taxation

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3-1-00

Attachment 2

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.

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TESTIMONY TO THE SENATE TAXATION COMMITTEE ON SB 624

by **Wayne Maichel**
Kansas AFL-CIO

March 1, 2000

The Kansas AFL-CIO, along with the United Auto Workers #31, supports the enactment of SB 624.

This bill would secure a property tax exemption for special tools and dyes that are used in the process of manufacturing automobiles. Many other states that have automotive manufacturing facilities have enacted the same exemption that is contained in SB 624.

This legislation is needed because GM has announced that after 2002, the Grand Prix will no longer be built at the Kansas City, Kansas, Fairfax Plant. It is essential that the company and the United Auto Workers work together to get a replacement for this product lost. The Fairfax GM Plant was asked to bid on a replacement for the Grand Prix, entitled the Epsilon project. This would be a new product line. If this project was to be placed in Fairfax, the company says it will require a 500 million-dollar investment in new construction, equipment purchases, and retraining of the workforce.

This committee has acted on a lot of tax reduction in the past few years, but I would submit to you, this is the first tax reduction that has with it a guaranteed return. There are approximately 3,000 employees at the GM Fairfax Plant. They are some of the best paying jobs in the State of Kansas, with good health care and pensions. We need to keep these jobs and this company in Kansas

This is economic development at its best, and we encourage you to support SB 624.

Thank you.



*Senate Assessment & Taxation
3-1-00
Attachment 3*

