

MINUTES OF THE HOUSE NEW ECONOMY COMMITTEE.

The meeting was called to order by Chairperson Bill Mason at 3:45 p.m. on February 26, 2002 in Room 522-S of the Capitol.

All members were present except:
Representative Huebert

Committee staff present:
April Holman, Legislative Research Department
Bob Nugent, Office of Revisor of Statutes
Renaë Jefferies, Office of Revisor of Statutes
Rose Marie Glatt, Committee Secretary

Conferees appearing before the committee:
Christy Caldwell, The Greater Topeka Chamber of Commerce
David Harrison, Director of Real Estate Development, OPUS
Gary Sheerer, Secretary of KDOC&H
Steve Kelly, Director of Business Development, KDOC&H
Steve S. Johnson, Sr. Vice President of Kansas City Area Development
Jim Edwards, KS Economic Development
Kent Heerman, Emporia Regional Development Association of East Central KS
Dennis D'Orvilliers, Goodyear and Rubber Company
Cynthia Smith, JD, Great Plains Energy

Others attending:
See attached list

The Chairman reviewed **HB 2950**, a \$10,000 million dollar project, using ISTEPA funds, which simply states that no funds would be expended until the Legislature gives it approval. He urged the passage of the bill to insure that there would be a fair hearing through the appropriations process before it would go to the House for a vote. Discussion followed regarding how other projects of this type are handled, funding mechanisms, and the current status of the tunnels.

Representative Osborne moved that **HB 2950** be passed out favorably. Representative Compton seconded. The motion failed 5-6.

The Chairman opened for discussion **HB 2962**, a Kansas investment in major projects. Representative Cox moved, seconded by Representative Kuether that **HB 2962** be passed out favorably. The motion carried.

Discussion was opened on **HB 2965**, the issue of affordable housing being manufactured by the Corrections Facilities. Discussion followed regarding how the bill affects private enterprise. Representative Cox moved to table **HB 2965**, seconded by Representative Novascone, non-debatable. The motion carried.

HB 2609, an enabling piece of legislation, would give the State Fair Board authorization to enter into dialogue for a Hotel/Convention center to be built on the Fair grounds. After discussion Representative Osborne moved, seconded by Representative Novascone that **HB 2609** be moved out favorably. The motion carried.

The Chairman opened the hearing on **HB 2978**. Staff explained the bill would create the re-development zones program that would assist in the redevelopment of state surplus real estate. It would allow eligible businesses wanting to purchase land in a redevelopment zone to seek approval for building thus allowing them favorable tax treatment. Specific details were given. The locations of these surplus properties was questioned.

Christy A. Caldwell, Vice President Government Relations for the Greater Topeka Chamber of

CONTINUATION SHEET

Commerce, expressed support for the bill (Attachment 1). **HB 2978** would allow the state to take state surplus property and declare it a "redevelopment zone" for a five year period. In this zone, businesses that are Kansas basic enterprises could locate and receive a 10 year state and local property tax exemption, 10 year state and local sales tax exemption on their purchases they make in building their facility, and a 10 year income tax credit capped at the level of capital investment made by the businesses. Examples of three programs used by other states were included in her testimony.

Discussion followed regarding whether county and city surplus property would be included, possibility of expansion of the time frame and if this program would set up unfair advantage to rural communities.

David M. Harrison, Director, Real Estate Development, OPUS appeared in support of **HB 2978** (Attachment 2). He gave background on The Opus Group, an overview of why companies locate where they do, competition issues and the benefits to the state. Discussion followed regarding the location of the surplus property and examples of companies that might be interested in the old state hospital grounds.

The Chairman closed the hearing on **HB 2978**.

A hearing on **HB 2988** was opened. The Chairman stated that most proponents were interested in **HB 2988, HB 2989 and HB 2990**, so testimony for all three bills would be heard before discussion.

Secretary Sherrer spoke in support of **HB 2988** that allows for the sale or transfer of tax credits. He explained the competitive advantages and the benefits to businesses, that would bear little cost to the State (Attachment 3).

Secretary Sherrer spoke in support of **HB 2989** that changes the definition of "qualified business facility investment" so that the tax credits provided for new investment are netted against the depreciated book value of the old investment (Attachment 4). He explained that this bill is a matter of fairness to Kansas businesses.

Steve Kelly spoke in support of **HB 2990** that provides a fix that rewards companies for the full amount of capital investment and jobs created (Attachment 5). He provided an outline reflecting the impact the bill would have on business projects.

Steven S. Johnson, Executive Vice President, New Economy Council of Greater Kansas City, spoke in support of **HB 2988**. He stated that there is tremendous value in the ability to sell tax credits to many of the technology companies that Kansas City hopes to grow, retain, and recruit. It would help firms take an incremental step in their funding requirements and in so doing, make the State of Kansas that much more competitive (Attachment 6).

Jim Edwards, KCCI, spoke in support of **HB 2988, HB 2989 and HB 2990** (Attachment 7). He stated that the bills would modify the manner in which investment and job creation tax credits are calculated in multi-year projects. Although the bills are not drastic moves they are ones that can help ensure that the incentives Kansas offers are truly incentives. He distributed copies of testimony from Blake Schreck, CED, President, Lenexa Chamber of Commerce written in support of the three bills (Attachment 8).

Kent Heermann, President of the Regional Development Association of East Central Kansas, spoke in support of **HB 2988, HB 2989 and HB 2990** (Attachment 9). He recommended that language be changed to clarify the accepted definition of equipment book value. Bob Nugent stated that he had a technical balloon to address that issue.

Christy Caldwell, Greater Topeka Chamber of Commerce expressed their strong support for **HB 2988, HB 2989 and HB 2990** (Attachment 10). She called attention to **HB 2989**, stating that they believe there needs to be some technical changes to the bill. She explained that HB 2989 attempts to codify what is consistent with what everyone using the HPIP law already is doing. However, the bill only provides that this definition will be used from this time forward. She voiced concern for all the businesses that utilized the HPIP program in the past and stated that they need to make HB 2989 retroactive to the beginning of the HPIP program to be fair to those businesses. Without the retroactive provision, the Department of

CONTINUATION SHEET

Revenue's interpretation will leave those who have already received their HPIP certification exposed in the event of a possible audit. She suggested inserting "retroactive to 1993" and deleting the new language on page 4, lines 10-12 to amend the bill.

Dennis D'Orvilliers, Engineering Technology, Goodyear appeared in support of **HB 2989** (Attachment 11). He stated that Goodyear find themselves at a constant disadvantage when competing against other Goodyear tire facilities for investment dollars due to the current Kansas manufacturing business tax structure. They support the continuation of the HPIP program as it has been recently applied by using the "gross" investment to calculate credits and not the "net" investment amount.

Cynthia Smith, JD, Manager, Governmental Affairs, Kansas appeared in support of **HB 2988**. No written testimony. They believe that this bill will make Kansas more competitive regarding new construction through tax credits.

The Chairman closed the hearings on **HB 2988, HB 2989 and HB 2990**.

Copies of balloons on HB 2988 and HB 2989 were distributed (Attachment 12). Staff explained that on HB 2988, page 2, line 12, the word *this* was stricken and *the job expansion and investment credit act* is inserted. There are two technical amendments on HB 2989; page 1, line 27 a sentence *If a taxpayer has been engaged in commercial operation for less than 5 years, such amount shall exceed the amount invested in all prior years*, be inserted after "facility". On page 4, line 10, the word *used*, would be stricken and the word "existing" would be inserted. After discussion, staff explained that they would provide an "application of act" and a "hold harmless provision" in the bill.

The Chairman opened **HB 2978** for discussion. Representative Aday moved, seconded by Representative Novascone, that an amendment be attached stating "any urban development, under this plan must be matched acre to acre in equal amount, to be used for recreational development in rural areas."

Discussion followed regarding the pros, cons and feasibility of the amendment. The motion to amend to bill failed. Representative Gordon moved, seconded by Representative Kuether, that **HB 2978** be passed out favorably. The motion carried. The vote was 13 to 1 for passage. Representative Aday requested that his NO vote be recorded.

The Chairman opened for discussion **HB 2988**. He reviewed the fiscal note of \$85,000 administrative costs for the Department of Revenue. Representative Cox moved, seconded by Representative Novascone, that the job expansion and investment credit act language be amended to **HB 2988**. The motion carried. Representative Cox moved, seconded by Representative Beggs that **HB 2988**, as amended, be passed out favorably. The motion carried.

The Chairman opened for discussion **HB 2989**. Staff reviewed the amendments stating they will specify that there is NO netting out of the investment. Representative Kuether moved, seconded by Representative Beggs that the amendments be accepted. Representative Osborne moved, seconded by Representative Kuether that **HB 2989**, as amended, be moved out favorably. The motion carried.

The Chairman opened for discussion **HB 2990**. Representative Beggs moved, seconded by Representative Kuether that **HB 2990** be moved out favorably. The motion carried.

Representative Aday stated that he believed the Committee had been very unfair to the rural Kansas and the prison population for not completing a hearing today on **HB 2965**.

The meeting adjourned at 5:30 p.m.

ECONOMIC DEVELOPMENT
COMMITTEE GUEST LIST

DATE: 2-26, 2002

NAME	REPRESENTING
STEVE JOHNSON	-NEW ECONOMY COUNCIL OF GREATER K -KANSAS CITY AREA DEVELOPMENT COUNCIL
Bobby Finney	City of Joplin
Kent Heermann	Reg. Dev. Assoc. of Central KS. - Emporia
Dail Bybee	KDOCH
DAVID HARRISON	OPUS
Christy Caldwell	Joplin Chamber of Commerce
Andy Shaw	Goodyear Tire & Rubber
Dennis D'Amico	Goodyear Tire & Rubber Co.
Larry Stout	USWA Local 307
Brenda Harrington	GPP
Cyrus Smith	Great Plains Power
Fred Schwan	KDOC & H
Mark Stock	Dot A / DFM
Van Etzel	Dot A / DFM
Archie Conner	KS, Inc.
RaeAnn Davis	KDOCH



120 SE 6th Avenue, Suite 110 • Topeka, Kansas 66603-3515
(785) 234-2644 • FAX (785) 234-8656
www.topekachamber.org
email: topekainfo@topekachamber.org



Testimony before the House New Economy Committee
February 26, 2002
HB 2978
Christy A. Caldwell, Vice President Government Relations
Greater Topeka Chamber of Commerce

The Greater Topeka Chamber of Commerce would like to express our support for HB 2978 which creates redevelopment zones on surplus state property.

This new concept began as we looked at how we could best redevelop the old state hospital grounds, here in Topeka. We are aware of redevelopment zone programs other states are using to stimulate economic growth within those states. I have three examples.

In Michigan they have created "Renaissance Zones" which grants virtually tax-free status to any business or resident who is within a zone or moves into a zone. They have 22 zones in communities throughout their state. I have attached copies of web-site material about two of their zones. They use their tax free zones (both state and local taxes) to spur new jobs and investment.

New York State calls their zones Empire Zones and they have 56 of them. They offer tax-free incentives to locate in the zones on vacant land or in existing industrial and commercial buildings. Qualified businesses who locate there are eligible for sales tax exemptions, real property and business tax credits for up to 10 year.

Pennsylvania has created KOZ (Keystone Opportunity Zones) in which there are over 37,000 acres of developable land, which is virtually free of state and local taxes. Since the beginning in 1999, over 10,000 new jobs have been created. Their zones are for both commercial and residential development. They are designated by local communities and approved by the state. They are a partnership between the communities, the state and local taxing authorities, the school districts, the economic development agencies and community organizations. Pennsylvania has attracted development where little or no activity existed beforehand. There are numerous success stories included in the attached material. Governor Schweiker, of Pennsylvania says, "In less than three years, Keystone Opportunity Zones have forever changed Pennsylvania's job-creation landscape. Their tax-free powers have acted like powerful magnets for job-creation across the state. And Philadelphia stands as a shining example of their magnetic properties."

The bill you have before you today is an attempt to borrow this successful economic development concept for selected properties throughout the state that are currently off the tax rolls and may have particular challenges to making them viable tax-producing areas of our communities. HB 2978 will allow the state to take state surplus property and declare it a "redevelopment zone" for a five year period. In this redevelopment zone, businesses that are Kansas basic enterprises could locate and receive a 10 year state and local property tax exemption, 10 year state and local sales tax exemption on their purchases they make in building their facility, and a 10 year income tax credit capped at the level of capital investment made by the businesses. The 10-year exemptions and credits would begin once the business is put in service.

We believe this package of incentives would help the state and the community breathe new life into state surplus property that is off the tax-rolls and in some cases may be costing the state. The former Topeka State Hospital is currently costing the state \$1.5 million per year in maintenance and insurance while much of it is vacant. This type of incentive plan would help us attract new business investment and jobs to this site; it would help any community who currently has state surplus property sitting vacant or is facing the prospect of closure of a state prison, hospital or any other facility.

We urge your strong consideration of this bill. We think it is a novel idea that other expand business and create jobs. We ask that you look favorable on HB 2978.

NEW ECONOMY
2-26-02
ATTACHMENT 1

Michigan
Great Lakes. Great Location.

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[Renaissance Zones Home](#)

[Urban Renaissance Zones](#)

[Rural Renaissance Zones](#)

[Former Military Renaissance Zones](#)

[Renaissance Zone Contacts](#)

[All Renaissance Zones](#)

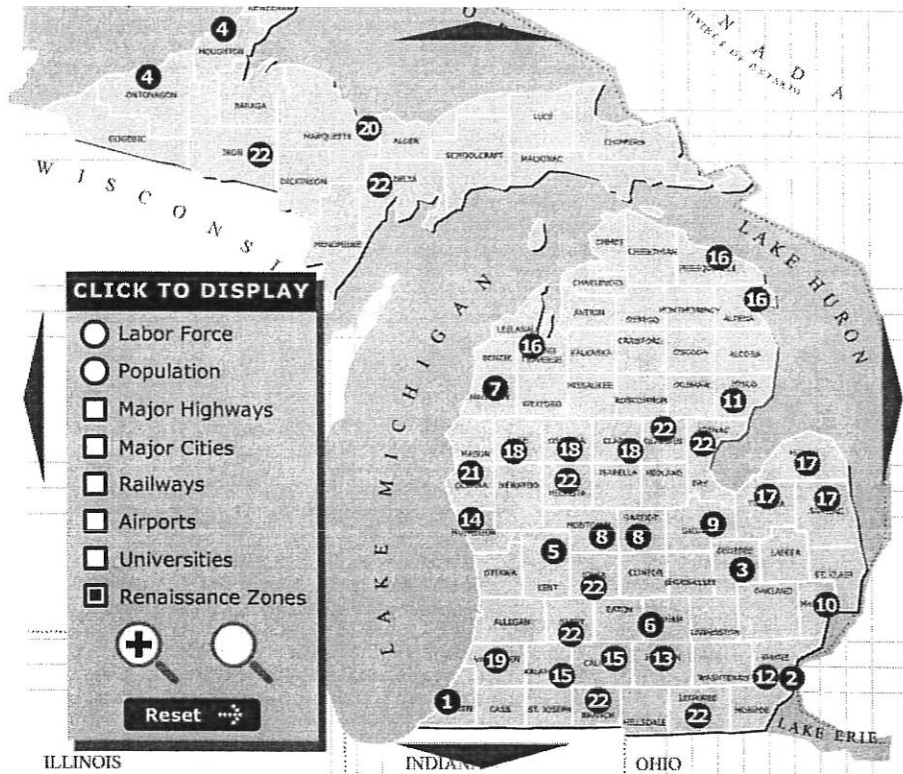
[Tax Calculator](#)

Renaissance Zones

Renaissance zones work by granting virtually tax-free status to any business or resident presently in a zone or moving into a zone.

The zones are designed to provide selected communities with the most powerful market-based incentive, virtually no state or local taxes, to spur new jobs and investment.

To begin exploring Michigan's Renaissance Zones, select a link on the left, or use the map below.



LEGENDS	
<input type="checkbox"/>	Labor Force
<input type="checkbox"/>	Population
<input type="checkbox"/>	Major Highways
<input type="checkbox"/>	Railways
<input type="checkbox"/>	Airports
<input type="checkbox"/>	Universities
<input checked="" type="checkbox"/>	Renaissance Zones

1	Benton Harbor /St. Joseph /Benton Twp.
2	Detroit
3	Flint
4	Gogebic /Ontonagon / Houghton Counties
5	Grand Rapids
6	Lansing
7	Manistee County
8	Montcalm/Gratiot Counties
9	Saginaw
10	Warren Tank Arsenal (former)
11	Wurtsmith Air Force Base (former)
12	Wayne County
13	City of Jackson and Jackson County
14	City of Muskegon and City of Muskegon Heights
15	Kalamazoo County, the City of Kalamazoo

	and the City of Battle Creek
16	Alpena County, the City of Alpena, Grand Traverse County and Presque Isle County
17	Huron, Sanilac and Tuscola Counties
18	Lake, Osceola and Clare Counties
19	Van Buren County
20	K.I. Sawyer Air Force Base
21	Agricultural Processing
22	Border to Border

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[CITIES OF BENTON HARBOR AND ST. JOSEPH AND BERRIEN COUNTY](#)

[CITY OF SAGINAW RENAISSANCE ZONE](#)

[DETROIT RENAISSANCE ZONE](#)

[FLINT RENAISSANCE ZONE](#)

[GRAND RAPIDS RENAISSANCE ZONE](#)

[JACKSON RENAISSANCE ZONE](#)

[KALAMAZOO/ BATTLE CREEK RENAISSANCE ZONE](#)

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[WAYNE COUNTY RENAISSANCE ZONE](#)

CITY OF SAGINAW RENAISSANCE ZONE

Add to →
MiGuide →

City of Saginaw Manufacturing city in the crook of Michigan's thumb... medical center for 16 counties

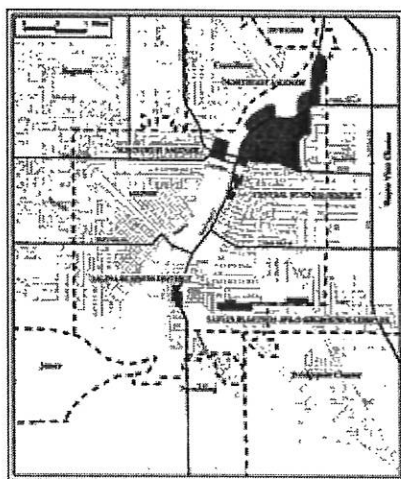
Zone Features:

- Comprehensive zone with commercial, industrial and residential potential
- Located in Michigan's fifth largest Metropolitan Statistical Area
- On I-75 one day's drive from all major Northeastern U.S. cities and Canada
- Abundant educational resources
- Technical Trade Academy for Manufacturing, Engineering, Construction and Automotive

Zone Characteristics:

- 858.51 acres
- 8 subzones
- Individual subzones
 - Northeast Saginaw; 591 acres until 2014
 - Central Business District; 86.02 acres until 2014
 - Salina Business Area; 24 acres until 2014
 - Lufkin Rule/Hess Ave./Fairgrounds; 65 acres until 2014
 - Northwest Saginaw; 50 acres until 2014
 - Covenant Health Care; 39 acres until 2015
 - Old Saginaw City Business District; .62 acres until 2016
 - Davenport Inn; 2.87 acres until 2016

- **Zone Contacts:**
 - JoAnn Crary (517) 754-8222



[Saginaw County Profile](#)

1-4

Attachments:

-  Maps (PDF) Desc
-  Maps (EPS) Desc

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[MUSKEGON/MUSKEGON HEIGHTS RENAISSANCE ZONE](#)

[WAYNE COUNTY RENAISSANCE ZONE](#)

GRAND RAPIDS RENAISSANCE ZONE

Add to →
MiGuide →

City of Grand Rapids U.S. office furniture capital... highly skilled workforce... fastest growing area

Zone Features:

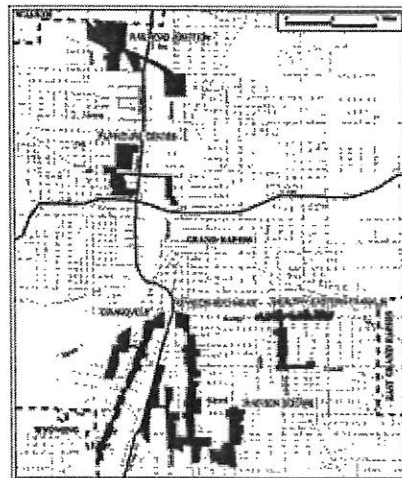
- Opportunity to locate in Michigan's fastest growing area
- Twice named by Fortune as one of the best cities for business in America
- Robust local economy, with 29% of the area's jobs in manufacturing
- Excellent transportation links, Kent County
- International Airport

Zone Characteristics:

599.59 acres
Phase out in 2011
6 subzones
Individual Subzones:

- Railroad Junction - 138.16 acres
- Furniture Center - 76.23 acres
- Grandville - 120.99 acres
- Division and Buchanan - 168.92 acres
- Madison Square - 46.66 acres
- Wealthy-Eastern-Franklin - 48.63 acres

Zone Contact: Susan Shannon (616) 456-3196



[Kent County Profile](#)

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New Fe

Attachments:

-  Maps (PDF) Desc
-  Maps (EPS) Desc

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RENAISSANCE ZONE](#)

KALAMAZOO/ BATTLE CREEK RENAISSANCE ZONE

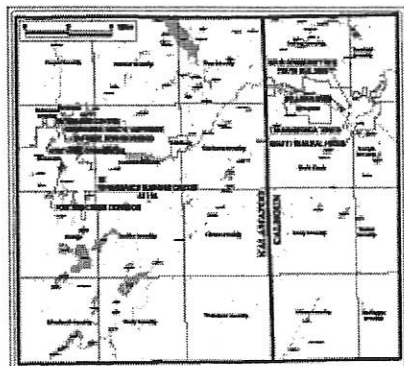
Add to →
MiGuide →

Kalamazoo/Battle Creek/Comstock Township Zone Features:

- Central location to Midwest and Canadian Markets, Midway point between Chicago and Detroit
- Excellent quality of life with regional center for arts, recreation and higher education
- Industrial, commercial and residential development opportunities

Zone Characteristics:

- 254.4 acres
- Tax free status begins January 1, 2001
- Phases out in 2015
- 10 subzones
- Individual subzones in Kalamazoo:
 - Northside Commercial, 4.17 acres
 - Former Consumers North/Amperssee 8.03 acres
 - Portage Creek Corridor, 56.26 acres
 - Eastside Neighborhood, 14.16 acres
 - Enterprise Center, 5.3 acres
- Individual subzones in Battle Creek:
 - Sullivan Barn/Equipment Center/Hart Hotel, 17.2 acres
 - Former BCHS Community Site/Youth Bldg., 12.4 acres
 - Transamerica Tower, .05 acres
 - Kraft/General Foods, 28.4 acres
- Individual subzone in Comstock Township
 - Former GM Site, 108 acres
- **Zone Contacts:**
 - Jill Bland, Southwest Michigan First (616) 553-9588
 - Martha Aills, Kalamazoo (616) 337-8044
 - Wayne Wiley, Battle Creek (616) 966-3378



[Calhoun County Profile](#)
[Kalamazoo County Profile](#)

Attachments:

-  Maps (PDF) Desc
-  Maps (EPS) Desc

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Do Business in New York State Tax-free?

It's possible – with New York's Empire Zones ...

Your business could qualify to become tax-free if it expands in or relocates to one of New York State's 56 Empire Zones (formerly Economic Development Zones).

New York State's Empire Zones (EZs) are designated areas throughout the State that offer special incentives to encourage economic development, business investment and job creation. Certified businesses located within a designated zone are eligible to receive significant tax credits and benefits. EZs are comprised of abundant vacant land, existing prime industrial and commercial buildings, skilled workers and ample power and water resources.

If your business is located in an EZ, or is interested in locating in an EZ please contact your local **Zone Coordinator** or contact Empire State Development's Empire Zones Program at 1(800) STATE-NY or 1(800) 782-8369.

LET'S GET DOWN TO BUSINESS

- [Zone Incentives](#)
- [Additional Benefits](#)
- [Zone Coordinators](#)
- [Zone Map](#)
- [Zone Calculator](#)
- [Q&A](#)

Zone Incentives

Qualified Empire Zone Enterprises (QEZE)s are eligible for sales tax exemption, real property and business tax credits for businesses locating and expanding in such zones. *The purpose of the Empire Zones Program is to give companies increasing their employment the opportunity to operate on an almost "tax-free" basis for up to 10 years in designated areas of the State, with additional savings available on a declining basis in years 11 through 15.*

- **QEZE Sales Tax Exemptions.** Qualified Empire Zone Enterprises (QEZE)s are granted a 10-year exemption from State sales tax on purchases of goods and services (including utility services and owned vehicles) used predominantly in such zone (effective March 1, 2001).
- **QEZE Credit for Real Property Taxes.** Qualified Empire Zone Enterprises are allowed a refundable credit against their business tax equal to a percentage of real property taxes paid based upon increased employment in the zone (effective for taxable years beginning on or after January 1, 2001)
- **QEZE Tax Reduction Credit.** Qualified Empire Zone Enterprises are allowed a credit against their tax equal to a percentage of taxes attributable to the zone enterprise (effective taxable years beginning on or after January 1, 2001).

Link to the [NYS Tax Department](#) for more information on Empire Zone tax incentives.

Additional Benefits

- **Wage Tax Credit (WTC).** This credit is available for up to five consecutive years for companies hiring full-time employees in newly created jobs. For employees in special targeted groups, this credit equals \$3,000 per year, with a credit of \$1,500 per year effective 1/1/2001, for all other new hires.
- **EZ Investment Tax and Employment Incentives Credit (ITC-EIC).** Businesses that create new jobs and make new investments in production, property and equipment may qualify for tax credits of up to 19% of the company's eligible investment.
- **New Business Refund.** Businesses new to New York State are entitled to a 50% cash refund of unused EZ-WTC and ITC amounts. Other businesses may carry forward unused credits indefinitely.

- **Utility Rate Savings.** Special reduced electric and gas rates may be available through investor-owned utilities in New York State. Businesses that locate or expand their operations in an EZ may receive significantly reduced rates.
- **Zone Capital Credit.** A 25% tax credit against personal or corporate income taxes is available for contributing or purchasing shares in a zone capital corporation; or for a direct equity investment in a certified zone business; or for contributions to approved community development projects within an EZ.
- **Technical Assistance.** Each local zone office is staffed with professionals qualified to assist businesses locating or expanding in an EZ.

Zone Coordinator - To identify the 56 Zone designated areas or to determine if your business is currently located in an Empire Zone, please contact your local Zone Coordinator. A Zone Coordinator is the central point of contact for each zone. Coordinators provide business development and technical assistance to businesses located within a zone as well as information for businesses that are looking to locate in a Zone.

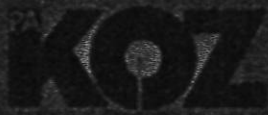
Download the Empire Zones [Coordinators list](#)*. *This publication is in PDF format and requires the Adobe Acrobat Reader. [Get Acrobat Reader here](#)

Zone Map – View a map depicting the general locations of New York State’s 56 Empire Zones. *This publication is in PDF format and requires the Adobe Acrobat Reader.

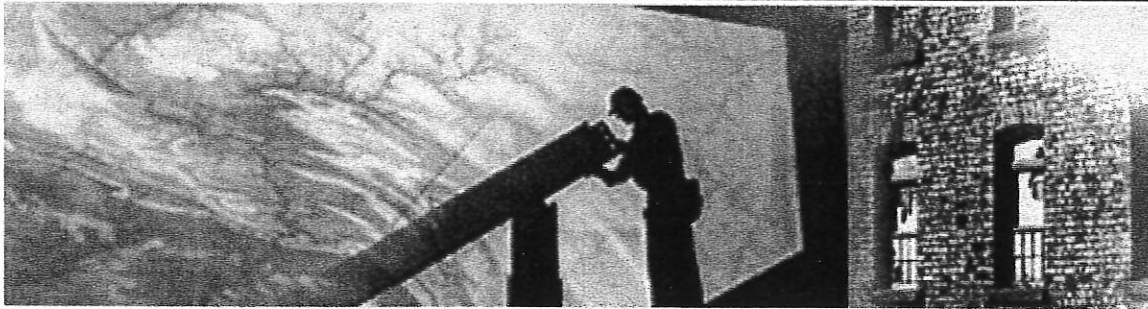
Zone Calculator – To determine eligibility for zone credit benefits and to calculate **APPROXIMATE** zone benefits that your QEZE business can expect to receive. *This publication is in Excel format and requires Microsoft Excel or the Microsoft Internet Explorer Excel browser plug-in.

Q&A - Frequently asked questions and more detailed information regarding Empire Zones.

For more information on New York State's Economic Development Zones/Empire Zones (EZ) program, contact Empire State Development at 1(800)STATE-NY or 1(800)782-8369.



PENNSYLVANIA | come invent the future



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- [Find a KOZ](#)
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Over 37,000 acres of developable land — virtually free of state and local taxes? It's here, in Pennsylvania, where the Keystone Opportunity Zone (KOZ) program is providing a once-in-a-lifetime opportunity to develop land with greatly reduced or completely eliminated state and local taxes.

Since its inception in 1999, over 10,000 new jobs have been created as a direct result of Keystone Opportunity Zones, with many more on the way. Because of the tremendous success of the KOZ initiative, additional zones were added in 2001. By eliminating state and local taxes within specific underdeveloped and underutilized areas, communities within Pennsylvania are experiencing economic growth and investment.

Pennsylvania is committed to developing and using advanced technology to strengthen the business climate within the state. This Keystone Opportunity Zone web site is an example of that commitment. On the following pages, you can [learn more](#) about the specifics of the program, [find a KOZ](#) that meets your needs, or learn more about the [Success Stories](#) that have developed out of this unique program.



[Schweiker Adm
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Reading's Key
Zone](#)

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1,100 Jobs for](#)

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Keystone Opportunity Zones are defined-parcel- specific areas with greatly reduced or no tax burden for property owners, residents and businesses. KOZ have been designated by local communities and approved by the state - they are, in fact, a partnership between each community and region among state and local taxing bodies, school districts, economic development agencies and community-based organizations.

Over 10,000 new jobs have been created since the initial KOZ program began in 1999, and the number is growing rapidly. We invite you to read some of the individual [Success Stories](#) that have resulted from the program.

Recognizing the success of the KOZ program, Pennsylvania provides communities one more opportunity to take advantage of what *Business Facilities* magazine calls the Number 1 [Economic Development Strategy](#) in the nation, by creating additional Keystone Opportunity Zones.

Following are some of the specifics behind the Keystone Opportunity Zones:

Selection Criteria (application deadline for these sites was December 31, 1998 for KOZ's and February 28, 2001 for additional KOZ's)

To be considered as a Keystone Opportunity Zone, a site must have:

- Displayed through a vision/strategy statement how this property through targeted growth could impact the aforementioned positively;
- Displayed evidence of adverse economic and socioeconomic conditions within the proposed zone such as high poverty rates, high unemployment rates, percentage of abandoned or underutilized property, and/or population loss;
- Passed binding resolutions or ordinances forgoing certain taxes; this included school districts, county and municipal governments.
- Public and private commitment of resources;
- Linkages to regional community and economic development activities including Team Pennsylvania and initiatives under the DCED's Center for Community Building;
- A written plan discussing the implementation of quality school improvements and local crime reduction measures
- And a demonstrated cooperation from surrounding municipalities.

Zone Acreage

- Ranging from as little as 362 acres to the largest at 6,196

acres.

- Each Zone is comprised of parcel-specific sub-zones in various sizes.

Tax Liability

Binding ordinances and resolutions were passed granting the waiver abatement or exemption of certain state and local taxes. Depending on the situation, the tax burden may be reduced to zero through exemptions, deductions, abatements, and credits for the following:

- **State Taxes:** Corporate Net Income Taxes, Capital Stock & Foreign Franchise Tax, Personal Income Tax, Sales & Use Tax Bank Shares and Trust Company Shares Tax, Alternative Bank and Trust Company Shares Tax, Mutual Thrift Institutions Tax Insurance Premiums Tax
- **Local Taxes:** Earned Income/Net Profits Tax, Business Gross Receipts, Business Occupancy, Business Privilege & Mercantile Taxes, Local Real Property Tax, Sales & Use Tax

Length of Tax Relief

KOZ status for most sub-zones is retained until December 31, 2011. However, current KOZ sub-zones had until June 30, 2001 to opt for an additional three years in the program ending on December 31, 2013.

Afterwards, the KOZ preferential tax treatment will expire. Please check with the specific Zone Coordinator for each property deadline.

Number of Zones

There are 12 regional Keystone Opportunity Zones. Each KOZ is administered through the same local community or economic development agency. Sub-zones range in a variety of sizes.

Impact

- Properties selected as KOZs have generated minimal state and local taxable revenue. The KOZ designation is expected to attract development where little or no activity existed beforehand. This development may produce spin-off taxable activity outside the designated zone.
- KOZ properties along with any development will become fully taxable after commencing the day after the designation expires (January 1, 2011 or January 1, 2014).

Size Requirements/KOZ

Each KOZ has up to twenty subzones. KOZs are no larger than 6.5 acres. Subzones must be at least 10 acres in rural areas, or 20 acres in urban areas.

Administration

The Department of Community and Economic Development will provide the organizational framework including the certification and operations of KOZ. The local jurisdictions will designate a single point of contact for zone facilitation.

Priority considerations:

Projects in Keystone Opportunity Zones shall receive priority consideration for State assistance under State community and economic development programs as well as community building initiatives. Projects in designated KOZ's that are approved for Pennsylvania Industrial Development Authority (PIDA), or Small Business Financing shall receive the lowest interest rate extended to borrowers.

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 Office of the Governor
 Commonwealth News Bureau
 Room 308, Main Capitol
 Harrisburg, PA 17120

CONTACT: Kevin Shivers
 Deputy Press Secretary
 (voice) 717-783-1116

Mary Marshall, DCED
 (717) 783-1132

**GOV. SCHWEIKER: MORE THAN 10,000 NEW JOBS CREATE
 STATEWIDE IN TAX-FREE KEYSTONE OPPORTUNITY ZONE**

*PA's KOZ program rated No. 1 economic-development program in
 nation*

PHILADELPHIA (Oct. 11, 2001) -- Proclaiming the success of Pennsylvania's award-winning Keystone Opportunity Zone (KOZ) program, Gov. Mark Schweiker today announced that more than 10,000 new jobs have been created in KOZs statewide where local governments, school districts and the state eliminate taxes to stimulate job creation and renewal in some of the Commonwealth's most challenged communities.

Gov. Schweiker made the milestone announcement at Custom Co-Pak, a tea-packaging company located in the heart of Philadelphia's Keystone Opportunity Zone.

"There's some great news brewing on Pennsylvania's job front -- with the opening of Custom Co-Pak, the total number of jobs created in Pennsylvania's Keystone Opportunity Zones now has surpassed the 10,000 mark!" Gov. Schweiker said.

"In less than three years, Keystone Opportunity Zones have forever changed Pennsylvania's job-creation landscape. Their tax-free powers have acted like powerful magnets for job-creation across the state. And Philadelphia stands as a shining example of their magnetic properties."

Custom Co-Pak LLC is a packer of quality black and green teas, herbals and coffee. The tea products are packed for a variety of customers ranging from dollar stores to supermarkets and gift shops. The business is currently expanding to include the food-service and health-food markets.

"I want to thank Gov. Schweiker and his Administration for their

efforts to help companies grow and thrive in Pennsylvania," Custo Co-Pak President Leonard Szyper said. "We're a medium-sized, family-owned company. Over the years, we've learned that to be successful in business, you need to weigh all your options. Philadelphia's KOZ helped make our decision to stay and expand in Pennsylvania an easy one."

The company opened for business in 1996 with three employees at its first factory on Penn Street. Steady growth through 2000 enabled the company to expand to 14 employees. They plan to expand to 40 employees over the next three years.

In 2001, driven by accelerated growth and the need for more manufacturing capacity, the company began looking for a new facility. The company strongly considered sites in New Jersey and Suburban Philadelphia, until they found a suitable site in Philadelphia's KOZ. The company purchased the property in June 2001, and began renovation work. In just six weeks the building was transformed from a community eyesore with broken windows, graffiti and litter to a clean, functional facility.

The Ridge-Schweiker Administration designated the original 12 KOZs -- which cover more than 26,000 acres -- on Feb. 25, 1999. To date more than 10,000 new jobs have been created, more than 4,500 jobs have been retained and over \$200 million in public/private funds have been invested since its inception.

On Dec. 20, 2000, Gov. Ridge signed House Bill 2498 which created 12 new zones, where tax relief began Jan. 1, 2001, and ends on Dec. 31, 2010, or 2013 (an option for each subzone). The legislation also allows for an additional three-year tax-relief extension for each existing KOZ subzone, until Dec. 31, 2013.

Further alleviating the tax burden for job-creating businesses, the legislation contained additional tax incentives for banks, insurance companies and utilities. It also provides for a job-creation tax credit for certain utility companies that otherwise did not receive full KOZ tax relief.

When Business Facilities magazine -- a national publication of choice for business executives seeking site locations -- announced its 2001 Economic Development Achievement Awards, Pennsylvania's KOZ program took the Gold Level/1st Place Award in the Statewide Economic Development Strategy category.

There are 12 regional KOZs encompassing more than 37,000 acres of developable land where little or no activity existed beforehand. Each KOZ properties have up to 20 subzones, with restrictions on the size of the subzones. Designed to revive economically distressed urban and rural communities, total taxes are reduced to almost zero through credits, waivers and comprehensive deductions, with the tax abatements remaining in effect through 2010 with possible three-year extensions.

For more information about KOZs, visit the Department of Community and Economic Development through the PA PowerPort www.state.pa.us or directly at www.inventpa.com.

Under the Ridge-Schweiker Administration, Pennsylvania families and employers have saved nearly \$17 billion through tax cuts, workers' compensation reform, reduced red tape and the nation's 1 electric-deregulation program. These savings have helped to create nearly 500,000 new jobs.

###

2001

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11/11/2001 11:00 AM



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In its short life span, the Keystone Opportunity Zones have proven to be incredibly successful programs. Over 10,000 new jobs have been created and thousands of acres of under-performing property have become productive as a direct result of these programs.

Tax-free Keystone Opportunity Zones exist throughout the Commonwealth. The types of successful businesses who have taken opportunity of the unique tax advantages offered by KOZ vary widely - from manufacturing and transportation centers, to high tech industries and even a private airport!

We invite you to learn more about some of the unique Success Stories which have sprung from Keystone Opportunity Zones - or, find out how YOUR business can join them!

Lezzer Truss Company

Approximately 40 new jobs are expected to be created as a result of the Lezzer Truss KOZ project. This project marks a \$1.8 million investment in the Curwensville Industrial Park in Clearfield County, and is the second KOZ project in the region.

Lezzer Truss Systems is a division of Lezzer Lumber of Curwensville. The new business venture will manufacture lumber trusses for the construction industry. The North Central PA Regional Planning and Development Commission is coordinating a customized job training package for Lezzer's new employees.

Smith Transport, Inc.

Smith Transport has constructed a 250,000 square foot facility in the Southern Alleghenies region, creating 133 new jobs in Keystone Opportunity Zone.

Smith Transport is a service-oriented corporation providing a variety of logistic service offerings to a defined niche market. These service offerings include traditional truckload movements throughout the continental United States; dedicated truckload services to customer-deferred points; consolidation of customized LTL movements; short and long-term storage; real-time inventory control; and other specifically tailored services to meet unique customer requirements.

The Roaring Spring transportation facility, located near Altoona, is the largest in Smith Transport's system.

Brentwood Industries

The fall 2000 groundbreaking for the 200,000 square foot Brentwood Industries manufacturing facility represents a major breakthrough for Keystone Opportunity Zones. This great example of successful urban redevelopment was spurred primarily by the KOZ benefits that Brentwood will reap over the next 10 years.

Brentwood Industries had been looking beyond its hometown of Reading as well as out-of-state for a location for its new facility. As a result of KOZ, 135 jobs remained in Reading — and 35 new jobs were immediately created, with the promise of much more to come within the next decade.

The retention of Brentwood Industries is a double win for Reading — the KOZ chosen by Brentwood is located on land which had been considered difficult to develop — however, when combined with the KOZ benefits, Brentwood Industries considered this site to be ideal for this major development.

Rock Airport

This private airport in suburban Pittsburgh has received rave reviews as well as proving to be a successful business. Rock Airport provides quick, reliable aviation service to a wide array of business and private aviators in the Pittsburgh region.

Now that Rock Airport/Rockpointe Airpark has received designation as a Keystone Opportunity Zone, the operators look forward to the resulting expansion of the airport and inflow of businesses to the airpark, which will create many jobs. The airpark will have the ability to serve both small and large corporations that relocate into it. A conservative estimation of 4,000 jobs will be the minimum goal for employment from the incoming businesses at the airpark.

Northeast Pharmacy Services

An industrial "shell" building, located in a Keystone Opportunity Zone in Nesquehoning, Carbon County, has landed its first tenant — a pharmaceutical business which will occupy one-fourth of the 40,000 square foot building.

Northeast Pharmacy initially created 10 jobs in the KOZ, and the company may eventually employ as many as 50.

Keystone Regional Industrial Park

The Keystone Regional Industrial Park is a fine example of public and private partnerships joining together. The park received \$3.5 million in state funding, as well as the tax-free benefits of locating within a Keystone Opportunity Zone.

In total, the Keystone Regional Industrial Park covers 1,800 acres — making it the largest KOZ in the Commonwealth. Together, the KOZ designation and state funding are expected to transform this abandoned brownfield into an economically

vital part of the Meadville area community.

Haworth

The world's second-largest office furniture company has set shop in Schuylkill County, Pennsylvania — bringing up to 20 jobs. Haworth, the world's only truly global maker of office furniture, is developing a 300,000-square-foot distribution center on 26 acres in East Union Township.

In addition to the tax benefits of locating within a Keystone Opportunity Zone, Haworth also cited the benefits of a well-trained and eager work force in the region. Also, by locating within Pennsylvania, Haworth has easy access to a significant portion of its market, as New York, Philadelphia, Boston, Chicago and more are all within an easy day's drive. The Haworth center is part of a significant number of developments at Humboldt Industrial Park in Schuylkill Coun

Keystone Friction Hinge Company

Keystone Friction Hinge is developing a 55,000 square foot manufacturing complex in South Williamsport — the second Keystone facility in Lycoming County.

The Keystone Opportunity Zone designation and additional loans will help fund Keystone Friction Hinge's expansion and support the company job retention efforts here in Lycoming County. The new facility is being designed to be expandable 200,000 square feet, which would require a significant number of new employees.

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David M. Harrison
Director, Real Estate Development

OPUS FACTS

Annual Revenues

- 2001 revenue – approximately \$1.2 billion
- 2001 construction volume – \$880 million

Development Expertise

- Development projects totaling more than 197 million square feet since 1953
- More than 49 years' experience
- Over 2,000 projects completed
- More than 26 million square feet of space planned or under development for 2002

National/Regional Resources

Opus East, L.L.C.
Washington, D.C. *
Philadelphia, PA
Allentown, PA

Opus North Corporation
Chicago, IL *
Columbus, OH
Detroit, MI
Indianapolis, IN
Milwaukee, WI

Opus Northwest, L.L.C.
Minneapolis, MN *
Denver, CO
Overland Park, KS
Portland, OR
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St. Louis, MO

Opus West Corporation
Phoenix, AZ *
Austin, TX
Dallas, TX
Houston, TX
Los Angeles, CA
Orange County, CA
Sacramento, CA
San Francisco, CA
San Jose, CA

Opus South Corporation
Tampa, FL *
Atlanta, GA
Fort Lauderdale, FL
Orlando, FL
Pensacola, FL

* Headquarters

- 28 offices nationwide
- 1,390 employees nationwide
- 125 architectural and engineering professionals

National Rankings

- #3 among Top 20 Office Developers by *National Real Estate Investor* (2000)
- #4 among Top 20 Industrial Developers by *National Real Estate Investor* (2000)
- #6 among Top 150 Master Builders by *Design Build Magazine* (2000)
- #7 among Leading Developers in Real Estate by *Commercial Property News* (2000)
- #15 among Top 100 Design-Build Firms by *Engineering News Record* (2000)

Closely Held

Product Type

- Suburban and CBD office
- Industrial
- Institutional
- Retail

Third Party Construction Services
Build to Suit Development
Speculative Development

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OPUS IN KANSAS

Since 1994

- Built more than 800,000 square feet
Primarily suburban office
- Affiliated entities own buildings with value in excess of \$60 million dollars

Since January 2000

- Overland Park office has identified, controlled, engineered and currently marketing over 750 acres in 3 projects

Corporate Ridge Office Park	-	Olathe, KS
Kanza Business and Technology Park	-	Topeka, KS
Menninger Park	-	Topeka, KS

WHY COMPANIES LOCATE WHERE THEY DO*

- Logistics
- Labor force
- Available land for construction/available existing properties
- Economics
 - incentives
 - lease/purchase costs
- Quality of life

***Ranking vary with the economy**

COMPETITION

- The need to compete with other sites/states
- To put Kansas on the short list with site consultants/corporate real estate professionals/brokerage communities
- Establish the “War Chest” needed to incentivize those employers with jobs to locate or remain in Kansas
- Current programs
 - Tax abatement (real & personal property)
 - Enterprise zone/job benefits
 - Sales tax exemption
 - Municipal incentives

ENHANCEMENT OF WAR CHEST

- Current budgetary constraints and economic downturn
- Attract and retain business and jobs
- Utilize existing surplus State property

BENEFITS

- Place property on tax roll – (initially with abatement)
- Raise cash from sales
- Reduce ongoing operating costs and maintenance costs
- Attract/retain viable business and jobs
- Spur ancillary economic growth
 - Construction labor and materials
 - Engineers/architects
 - Furniture, fixtures and equipment
 - Telecommunications
 - Financial/Brokerage

SUMMATION

- The State will benefit
- The Kansas citizens employed will benefit
- The employer making a capital investment by locating in Kansas will benefit
- Opus and other real estate/construction providers will benefit

**Testimony of Lt. Governor/Secretary Gary Sherrer
Kansas Department of Commerce and Housing**

**House Committee on New Economy
Tuesday, February 26, 2002
HB 2988 – Sale of Tax Credits**

- HB 2988 allows for the sale or transfer of tax credits
 - Transferred credits can be claimed for up to 50% of the original value
- Original owner of credit forfeits remainder of the credit
- States we are competing with for new business location and expansion of existing businesses often use the sale of tax credits as an economic development tool
 - Missouri, Nebraska and Colorado all allow the sale of tax credits to some degree
- This measure will benefit businesses that are unable to rapidly use incentives earned
 - Allows tax credits to be a greater incentive
 - Provides businesses with a choice between cash value up-front or taking the credits over a period of years
- KDOCH does not believe that this will result in a great cost to the State
 - Because only 50% of the value may be transferred, or
 - Business would continue to operate as they do currently

**Testimony of Lt. Governor/Secretary Gary Sherrer
Kansas Department of Commerce and Housing**

**House Committee on New Economy
Tuesday, February 26, 2002
HB 2989**

- HB 2989 changes the definition of “qualified business facility investment” so that the tax credits provided for new investment are netted against the depreciated book value of the old investment.
 - Currently, the original purchase price of the equipment is used
 - This works as a disincentive for new capital investment
 - Places existing companies in an unequal position compared to new companies
- HB 2989 also changes the amount of tax credit available for investments by requiring investment greater than the historical or five year average investment for that company.

Kansas Department of Commerce and Housing
House Committee on New Economy
Tuesday, February 26, 2002
HB 2989

Definition of “qualified business facility investment”

KSA 79-32,154(e)

HB 2989 changes the definition of “qualified business facility investment” so that the tax credits provided for new investment are netted against the depreciated book value of the old investment.

Kansas Enterprise Zone Act

Allows credit for “qualified business facility investment”

KSA 78-32,160a(d)

Kansas High Performance Incentive Program

Allows credit for “qualified business facility investment”

KSA 78-32,160a(e)

**Testimony of Steve Kelly
Director of Business Development
Kansas Department of Commerce & Housing**

**House-New Economy Committee
Tuesday, February 26, 2002
HB 2990**

- Current statutory guidance to the calculation of tax credits penalizes projects that have multi-year construction/development requirements
- HB 2990 as suggested would in our view provide a fix that would reward companies for the full amount of capital investment and jobs created.
- HB 2990 allows for the capture of full tax credits on projects that are multi-year in nature
- Current statute allows both job creation and investment tax credits to be claimed in the year a capital investment is placed in service using the pre-project status as the base measurement.
- If construction/development phase of the project being placed into service exceeds a 1 year period, a portion of the investment made in the earlier tax year(s) may be lost for tax credit purposes, depending upon the calendar date when it is placed in service.
- The tax credits for job creation can be impacted in the same manner.
- The bill as submitted would allow a request to be presented to the Secretary of Commerce & Housing wherein evidence of a planned multi-year project would be reviewed and a finding rendered by the Secretary. This finding would then be provided to the taxpayer and forwarded to the Kansas Department of Revenue for their files and for future reference when handling claims by the taxpayer.

Qualified Business Facility Investment Under Existing Statute

Assumptions:

*Two year construction project placed in service October of 2nd Year

***\$10 million total new capital investment** over 2 year period

* Value of pre-project asset at constant value, no retirements of assets

2002-Pre-Project Base Valuation \$10 million

2003-1st Year Investment \$ 5 million

2004-2nd Year Investment \$ 5 million

2004-Post Project Valuation \$20 million

Capital Investment Calculation:

Average Valuation of project for year placed in service (2004) =

$10M + 10M + 10M + 10M + 10M + 10M + 10M + 10M + 10M + 20M + 20M + 20M = \$150M$

$\$150M / 12 = \$12.5M$

$\$12.5M - \$10M =$ **\$2.5M Business Facility Investment**

House New Economy Committee Testimony

February 26, 2002

By

**Steven S. Johnson, Executive Vice President
New Economy Council of Greater Kansas City**

Mr. Chairman and members of the committee,

My name is Steve Johnson and I am here today in my capacity as executive vice president of the New Economy Council of Greater Kansas City. The New Economy Council is a technology-related affiliate of the Kansas City Area Development Council, a regional economic development organization that serves the 16 counties in both Kansas and Missouri that make up Greater Kansas City.

The core business of the Kansas City Area Development Council is recruiting companies to our market, retaining companies of regional significance, and, in general, growing the regional economy of Greater Kansas City. The New Economy Council has an identical mission to KCADC, but is exclusively focused on fast-growing, technology-driven businesses. Thank you for the opportunity to testify today about House Bill 2988 and, specifically, the provision to allow the sale or transfer of earned tax credits.

You are probably aware that Greater Kansas City is already a leading technology center in the central U.S. The Milken Institute ranks our metro extremely high in the concentration and growth of what's defined as high-tech services. Of the five industry groups that make up this technology cluster, three are the very embodiment of Kansas City's critical mass in technology: telecommunications services, architectural and engineering services, and computer and data processing services.

Large technology companies such as Sprint and Black & Veatch, along with a host of smaller firms, have created tremendous employment opportunities and wealth for Kansas and the Kansas City metro. Data shows that such firms have created not only more jobs over the past several years, but higher paying jobs as well. This is not a trend that will go away any time soon.

Despite what many describe as the high-tech meltdown, the adoption of technology and acceptance of the changes that come with it continues to accelerate. Consider the amount of time it took the Internet to reach a quarter of the U.S. population – seven years. This compares with the 46 years it took for electricity to reach the 25% mark; 35 years for telephones to be in one-quarter of our homes; and 26 years for television to reach this threshold.¹ In other words, it's not our imagination ... the pace of change really is speeding up, and this technology revolution is only just b

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Many have questioned the existence of a New Economy, and to the extent that this implies the renouncing of sound business plans, and the foregoing of profits, they are right. But that's not the New Economy. The New Economy is all about the fundamental, technology-enabled changes in the way we all live and work. More specifically, it's about revolutionary increases in productivity that, once again, are technology-enabled. Just a few weeks ago, the Council of Economic Advisors cited productivity data that they submitted as evidence showing "the new economy remains alive and well."²

My purpose in these brief comments about the state of technology overall and the state of technology in the Kansas City area is to reinforce the absolute necessity of growing our technology community in Kansas and the Kansas City metro. It is certainly the future, though one could argue that it is also our present.

The changes you are considering through House Bill 2988, the ability to sell tax credits, will be of tremendous value to many of the dynamic technology companies we hope to grow, retain, and recruit. Such companies are built on talent and capital—little else. Anything that helps these companies access capital serves to reduce the amount that must be secured from more expensive venture and equity markets.

This evening I will be with the CEO of a very young, very small company that provides vector technology and gene replication services for biotech companies and research institutions worldwide. Last week, we hosted the president of a company that has built a tool-set to monitor a company's website infrastructure in order to identify and remedy bottlenecks and other occurrences that lessen a site's performance.

Both companies are from another midwestern state, and both are considering relocation to the Kansas City area ... or Austin, or Denver, or Minneapolis. Both need additional funding and neither yet has any income tax liability against which to claim credits for job creation or capital investment. Today, such tax credits are meaningless to them. You can change that with the provision this committee is considering and, in cases like these, help such firms take an incremental step in their funding requirements. And in so doing, you will have made the State of Kansas that much more competitive.

Ladies and gentlemen, thank you for this opportunity and your interest. I would be pleased to answer any questions.

¹ Federal Reserve Bank of Dallas

² *US CEA Cites Evidence As Proof New Economy Live and Well*, Wall Street Journal, February 5, 2002

LEGISLATIVE TESTIMONY



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HB 2988, 2989, 2990

February 26, 2002

KANSAS CHAMBER OF COMMERCE AND INDUSTRY KANSAS ECONOMIC DEVELOPMENT ALLIANCE

Testimony Before the
House New Economy Committee

by
Jim Edwards
Senior Vice President – KCCI
Secretary Treasurer - KEDA

Chairman Mason and members of the Committee:

I thank you for the opportunity to appear before you today to express KCCI's and KEDA's support for HB's 2988, 2989 and 2990. I am grouping my testimony on these three bills due to the fact that we view them as a package that together, would enhance job creation in Kansas through a restructuring of the use and administering of current investment tax credit laws.

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.

Simply put, if Kansas believes that tax credits are a useful business capital investment and job creation tool, then the Legislature should always keep a keen eye out

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ineffective. Having incentives that are not viewed as being advantageous to the end user could be the equivalent of giving a carpenter a toolbox with a saw that can't cut the new composite materials. We can say he has a saw but it doesn't get used much.

HB 2988 allows any company earning Kansas Income Tax credits to sell up to 50% of their earned credits. If the company opts to sell 50% of their credits they would forfeit the remainder of the credits. HB 2989 changes the methods used to calculate investment tax credits earned for capital investment. At this time, new investment is netted against replaced assets valued at original purchase price, not depreciated value. This bill would change the basis to depreciated value. HB 2990 would modify the manner in which investment and job creation tax credits are calculated in multi-year projects. This change would insure that a company making an eligible multi-year investment would receive full credit for their investment.

These are not drastic moves but are ones that can help ensure that the incentives Kansas tells business about are truly looked at as incentives by those businesses.

Thank you once again for the opportunity to present this testimony. I would be pleased to answer questions you might have.



The Historic Lackman-Thompson Estate

11180 Lackman Road
Lenexa, KS 66219-1236
913.888.1414
Fax 913.888.3770

February 26, 2002

Chairman Mason and Members of the Committee:

Thank you for your consideration of House Bills 2988, 2989, and 2990. These bills would greatly increase our ability to compete nationally in attracting quality growth and investment to Kansas.

The ability to sell earned tax credits would give the State the opportunity to increase the value of our current incentive packages. Many companies, especially high tech firms, qualify for more credits than they can use. The ability to sell them gives the companies the opportunity to create cash flow when they need it, which is valuable during expansion or relocation. This would also allow for the companies that might purchase the credits to better structure their financial position and operate more efficiently. The net would be the same to the State.

House Bill 2989 would also help add more real value to packages by increasing the net value of the incentive, while also creating a base investment level to qualify. House Bill 2990 would allow companies to take full advantage of the package that is offered. Again, companies often qualify for more credits than they can use, even over several years. This change in calculation would give them the ability to use the full incentive over the life of the package.

Competition for new jobs and capital investment between states is tougher than ever. Oklahoma recently offered a prospect we have been working with 12 million dollars in cash to locate there. Sunbelt states are even more aggressive. These bills, combined with the elements included in the economic stimulus package as proposed by Governor Graves, would dramatically enhance our state's ability to compete both regionally and nationally, increasing new investment and growing new revenues for Kansas.

Thank you again for your consideration of these proposals.

Sincerely,

A handwritten signature in black ink, appearing to read "B. Schreck", is written over a horizontal line.

Blake Schreck, CED
President
Lenexa Chamber of Commerce

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Regional of East Central Kansas Development Association

719 Commercial
P.O. Box
Emporia, Kansas 66801

620-342-1600
FAX 620-342-3223

Comments in support of HB 2988, HB 2989 and HB 2990

Good afternoon, Chairman Mason and members of the New Economy Committee. Thank you for allowing me to speak earlier on the agenda.

My name is Kent Heermann, President of the Regional Development Association of East Central Kansas (RDA), which is located in Emporia, Kansas. The RDA is the lead economic development organization for Emporia and Lyon County, Kansas, which according to the 2000 Census is the 15th largest city (26,760) and the 15th largest county (35,935) in Kansas.

Today, I come to you to speak in support of three economic stimulus measures, HB 2988, HB 2989, and HB 2990.

As you all are keenly aware, the US and Kansas's economy for the past year or so has been in recession with some industry sectors in a depression. All the experts agreed that our economy is in this dire state and some time in the future the economy will recover. We would all like the economy to pick up sooner than later. These proposed bills will help stimulate the Kansas economy. So it may be sooner.

On October 26, 2001 the Secretary of Commerce and Housing invited a group of Chamber of Commerce, state and local Economic Development and local tourism professionals to a meeting in Topeka to discuss an economic development stimulus proposals. Representatives from Wichita, Hutchinson, Hays, Doniphan County, Overland Park, Lenexa, Lawrence, and Emporia were present. Additional representatives from the Kansas Chamber of Commerce and Industry, Kansas Technology Enterprise Corporation and Kansas Department of Commerce and Housing participated in the meeting.

The meeting results were the development of ten recommendations for an economic development stimulus package to Governor Graves. These recommendations were then researched by the KDOC&H staff, which was then emailed back to the committee members for review and comment. We had the opportunity to forward our comments back to KDOC&H, who then presented these recommendations to Governor Graves.

The Governor incorporated some of those economic stimulus proposals into his proposed budget and in proposed legislation. Three of those bills are HB 2988, HB 2989, and HB 2990.

HB 2988 as I understand the proposed law is that a qualified business would have the option of selling up to 50% of the tax credits by forfeiting the other 50% of the tax credits. I have worked with manufacturers, who are growing at 15 to 20% a year and are capital intensive. It may take \$20 to 25 million to add that next manufacturing plant. The more upfront assistance a business receives for a project the sooner the business becomes profitable and stable in the community.

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These proposed legislation would make a Kansas community more competitive than any of our out of state competitors and 50% of the earned tax credit is eliminated. So it's a "win win" situation for the state and an expanding business.

The HB 2989 proposal, as I understand it, is to clarify the definition of "invest" or "investment". On page 1, lines 27 through 29, it clearly defines it as "*For purposes of determining the value of such credit, 'invest' or 'investment' shall mean the full amount invested pursuant to this act.*" A clear simply concise definition.

Then on page 4, lines 10 through 12, reads as follows, "*The value of the investment in used equipment shall be the book value of such equipment and shall not be deemed to effect the net value of the equipment.*" The generally accepted definition of equipment book value is actual purchase price less depreciation equals the net value of equipment. That sentence contradicts itself. So I would urge the striking of that sentence.

When a company invests in equipment or a building expansion a value can be established quite easily with an invoice or our documentation. The first definition abides by the principal of **KEEP IT SIMPLE!**

House Bill No. 2990 gives the business the ability to document to the Kansas Department of Commerce and Housing (KDOC & H), which is generally the state agency aware of the proposed amount of capital investment and job creation. The KDOC & H has the ability to audit the achievement of these amounts over a multiple year time period. Expanding business generally will contact the KDOC & H or the local economic development corporation for performance-based incentives. To be eligible for these incentives, the business must state upfront the scope of the expansion in terms of the job creation and investment. So after the project has occurred, the business will document the actual job creation and investment to KDOC & H in order to receive the earned incentive. It's common for these expansions to occur over multiple years. The business and KDOC & H agreed to the scope of the project in the beginning. It should be up to both parties to verify that the scope of the project was met.

Thank you for the opportunity to speak to you today. I am open for questions.



120 SE 6th Avenue, Suite 110 • Topeka, Kansas 66603-3515
(785) 234-2644 • FAX (785) 234-8656
www.topekachamber.org
email: topekainfo@topekachamber.org



Testimony before the House New Economy Committee
February 26, 2002
HB 2988, HB 2989, HB 2990
By Christy A. Caldwell, Vice President Government Relations
Greater Topeka Chamber of Commerce

The Greater Topeka Chamber of Commerce would like to express its strong support for HB 2988, concerning the transfer and selling of tax credits; HB 2989 which codifies (with some additional language changes) the methodology to calculate investment tax credits earned for capital investment; and, HB 2990 which provides a manner in which investment and job creation tax credits are calculated in multi-year projects. All three bills are important in making the state's incentive package work to the maximum.

I would like to focus on HB 2989 concerning the calculations of investment tax credits in the HPIP (High Performance Incentive Program). HPIP was created in 1993. It is an incentive for manufacturers, certain business service firms, corporate headquarters and back-office operations of national or multi-national corporations. To qualify these firms must pay above average wages and invest 2% of their payroll in training.

Since this program's inception everyone has understood the method to calculate the 10% investment tax credit to be 10% of the gross investment made by the company. That was the understanding of the KDOCH, of the state's economic development professionals, of the businesses utilizing this incentive, and, I believe, of the legislature when the bill was originally passed. Today, however, the Department of Revenue has determined the method to calculate the tax credit should net out the original cost of the equipment that is being taken out of service by a company's new investment. In other words, if ABC Company is going to buy new equipment to update their operations, and that new equipment costs \$5 million dollars, according to the Dept. of Revenue they are to subtract the "original costs" of the old equipment that they bought 20 years ago for \$2 million dollars, that today is not worth anything except for maybe scrap metal. So the tax credit is figured on \$3 million instead of the real \$5 million investment. Today you have legislation, HB 2989 which is attempting to codify what is consistent with what everyone using the HPIP law already is doing. However, the bill only provides that this definition will be used from this time forward. Mr. Chairman, what happens to all the businesses that utilized the HPIP program in the past, using the definition everyone understood and was told, and they took the 10% tax credit on their gross investment? Will the Department of Revenue go back and audit all those companies and determine that they did not figure the tax credit correctly and force those companies to pay back some of that incentive? Is that really what we want to do? From the beginning everyone understood how to calculate this tax credit. Don't we need to do the right thing and make HB 2989 retroactive to the beginning of the HPIP program. Don't we want the message to go back to companies across our state, and those looking at our state, that Kansas stands behind what taxpayers are consistently told?

Mr. Chairman and committee, this bill needs to be approved soon but it also needs to be amended and made retroactive. Without the retroactive provisions, the Department of Revenue's interpretation will leave those who have already received their HPIP certification exposed in the event of a possible audit and would most likely lead to years of litigation. We don't believe this is the economic development message that should be sent. We ask that you do the right thing and be consistent with what has been happening since 1993.

We suggest the language on page 1, lines 24-29 be approved with the addition of these words on line 29; "retroactive to 1993." (Or something to that effect). And delete the new language on page 4, lines 10-12.

We ask that you approve HB 2988, HB 2990, and HB 2989 with our recommended changes.

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P.O. Box 1069
Topeka, Kansas 66601

Phone (785) 295-7111
Fax (785) 295-7347

House Committee on New Economy Testimony
By Dennis D'Orvilliers, Engineering Technology Leader

February 26, 2002

Mr. Chairman and Members of the Committee:

Thank you for the opportunity to speak today about HB 2989. Goodyear – Topeka has been manufacturing tires and tire products since 1945. Our current product line includes medium radial truck tires, radial and bias earthmover tires, and military tires. Our facility covers 69 acres and has 3 million square feet under roof. This makes the Goodyear – Topeka Plant the largest Goodyear manufacturing and distribution facility in North America.

We are the largest manufacturer in the area, and fifth largest employer overall in Topeka. Hourly wages and benefits average approximately \$40.00 per hour. Our annual payroll pumped \$100MM into the northeast Kansas economy and generated \$2.1MM in individual state income taxes last year. Goodyear's operations purchase additional goods and services that total more than \$34 million annually.

Currently, the Topeka plant is under consideration, along with other locations both domestic and foreign, for a significant amount of capital investment. This investment is critical to the future well being of the Topeka facility. Without modernization, our plant cannot be successful in the highly competitive tire industry. High-cost and non-competitive plants are being eliminated as the tire industry is faced with global manufacturing over-capacity. Without new capital investments, we could be jeopardizing the future of our 1,700 highly compensated jobs.

We find ourselves at a constant disadvantage when competing against other Goodyear tire facilities for investment dollars due to the current Kansas manufacturing business tax structure. I have been the person at Goodyear (along with assistance from David Bybee at KDOCH) who has navigated us through the High Performance Incentive Plan (HPIP). We have qualified capital investments for 1998 (\$11MM), 1999 (\$14MM), and 2000 (\$20MM). Three years of HPIP participation at 10%, returns income tax credits to us of approximately \$4.5 million that we can carry forward for up to 10 years. This has been an excellent program that has provided substantial tax relief to Goodyear – Topeka (approximately \$1.5 million during the past 3 years).

The HPIP has had a positive impact on reducing Goodyear – Topeka's tax burden. But we cannot rest there or make changes that would weaken the effectiveness of the HPIP program. To have a chance of obtaining additional capital expansion projects, we need to show continued improvements in reducing the tax burden that we have been carrying (\$24MM over the last 8 years). **Even with the HPIP credits, we are still the highest taxed facility in Goodyear's North American Tire organization.**

In closing, we want the HPIP program to continue to function as it has been recently applied by using the "gross" investment to calculate credits and not the "net" investment amount. Thank you for your consideration.

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HOUSE BILL No. 2989

By Committee on New Economy

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9 AN ACT concerning the job expansion and investment credit act; and
10 ing K.S.A. 2001 Supp. 79-32,154 and repealing the existing section
11

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

13 Section 1. K.S.A. 2001 Supp. 79-32,154 is hereby amended to read
14 as follows: 79-32,154. As used in this act, the following words and phrases
15 shall have the meanings respectively ascribed to them herein:

16 (a) "Facility" shall mean any factory, mill, plant, refinery, warehouse,
17 feedlot, building or complex of buildings located within the state, includ-
18 ing the land on which such facility is located and all machinery, equipment
19 and other real and tangible personal property located at or within such
20 facility used in connection with the operation of such facility. The word
21 "building" shall include only structures within which individuals are cus-
22 tomarily employed or which are customarily used to house machinery,
23 equipment or other property.

24 (b) "Invest" or "investment", for the purpose of determining the eli-
25 gibility of a taxpayer for the credits created pursuant to this act, means
26 an amount greater than the average amount invested over the five pre-
27 vious years by the taxpayer in a qualified business facility. For purposes
28 of determining the value of such credits, "invest" or "investment" shall
29 mean the full amount invested pursuant to this act.

30 ~~(b)~~(c) "Qualified business facility" shall mean a facility which satisfies
31 the requirements of paragraphs (1) and (2) of this subsection.

32 (1) Such facility is employed by the taxpayer in the operation of a
33 revenue producing enterprise, as defined in subsection ~~(e)~~ (d). Such fa-
34 cility shall not be considered a qualified business facility in the hands of
35 the taxpayer if the taxpayer's only activity with respect to such facility is
36 to lease it to another person or persons. If the taxpayer employs only a
37 portion of such facility in the operation of a revenue producing enterprise,
38 and leases another portion of such facility to another person or persons
39 or does not otherwise use such other portions in the operation of a rev-
40 enue producing enterprise, the portion employed by the taxpayer in the
41 operation of a revenue producing enterprise shall be considered a qual-
42 ified business facility, if the requirements of paragraph (2) of this sub-
43 section are satisfied.

If a taxpayer has been engaged in commercial operation for less than 5 years, such amount shall exceed the amount invested in all prior years.

12-2

1 which such credit is allowed. Such portion shall be an amount equal to
2 the sum of the following:

3 (1) One hundred dollars for each qualified business facility employee
4 determined under K.S.A. 79-32,154, and amendments thereto; plus

5 (2) one hundred dollars for each \$100,000, or major fraction thereof
6 (which shall be deemed to be 51% or more), in qualified business facility
7 investment as determined under K.S.A. 79-32,154, and amendments
8 thereto.

9 (c) No credit shall be allowed under this section for investment in a
10 public utility, as such term is defined in K.S.A. 66-104, and amendments
11 thereto.

12 (d) *All credits earned pursuant to ~~this act~~ shall be deemed vested tax*
13 *credits.*

the job expansion and investment
credit

14 Sec. 2. K.S.A. 2001 Supp. 79-32,154 is hereby amended to read as
15 follows: 79-32,154. As used in this act, the following words and phrases
16 shall have the meanings respectively ascribed to them herein:

17 (a) "Facility" shall mean any factory, mill, plant, refinery, warehouse,
18 feedlot, building or complex of buildings located within the state, includ-
19 ing the land on which such facility is located and all machinery, equipment
20 and other real and tangible personal property located at or within such
21 facility used in connection with the operation of such facility. The word
22 "building" shall include only structures within which individuals are cus-
23 tomarily employed or which are customarily used to house machinery,
24 equipment or other property.

25 (b) "Qualified business facility" shall mean a facility which satisfies
26 the requirements of paragraphs (1) and (2) of this subsection.

27 (1) Such facility is employed by the taxpayer in the operation of a
28 revenue producing enterprise, as defined in subsection (c). Such facility
29 shall not be considered a qualified business facility in the hands of the
30 taxpayer if the taxpayer's only activity with respect to such facility is to
31 lease it to another person or persons. If the taxpayer employs only a
32 portion of such facility in the operation of a revenue producing enterprise,
33 and leases another portion of such facility to another person or persons
34 or does not otherwise use such other portions in the operation of a rev-
35 enue producing enterprise, the portion employed by the taxpayer in the
36 operation of a revenue producing enterprise shall be considered a qual-
37 ified business facility, if the requirements of paragraph (2) of this sub-
38 section are satisfied.

39 (2) If such facility was acquired by the taxpayer from another person
40 or persons, such facility was not employed, immediately prior to the trans-
41 fer of title to such facility to the taxpayer, or to the commencement of
42 the term of the lease of such facility to the taxpayer, by any other person
43 or persons in the operation of a revenue producing enterprise and the

existing

1 period. Notwithstanding the provisions of this subsection, for the purpose
 2 of computing the credit allowed by K.S.A. 79-32,153, and amendments
 3 thereto, in the case of an investment in a qualified business facility, which
 4 facility existed and was operated by the taxpayer or related taxpayer prior
 5 to such investment the amount of the taxpayer's qualified business facility
 6 investment in such facility shall be reduced by the average amount, com-
 7 puted as provided in this subsection, of the investment of the taxpayer or
 8 a related taxpayer in the facility for the taxable year preceding the taxable
 9 year in which the qualified business facility investment was made at the
 10 facility. ~~The value of any investments in used equipment shall be the book~~
 11 ~~value of such equipment [and shall not be deemed to effect the net value~~
 12 ~~of such equipment].~~

13 ~~(f)~~ (g) "Commencement of commercial operations" shall be deemed
 14 to occur during the first taxable year for which the qualified business
 15 facility is first available for use by the taxpayer, or first capable of being
 16 used by the taxpayer, in the revenue producing enterprise in which the
 17 taxpayer intends to use the qualified business facility.

18 ~~(g)~~ (h) "Qualified business facility income" shall mean the Kansas
 19 taxable income derived by the taxpayer from the operation of the qualified
 20 business facility. If a taxpayer has income derived from the operation of
 21 a qualified business facility as well as from other activities conducted
 22 within this state, the Kansas taxable income derived by the taxpayer from
 23 the operation of the qualified business facility shall be determined by
 24 multiplying the taxpayer's Kansas taxable income by a fraction, the nu-
 25 merator of which is the property factor, as defined in paragraph (1), plus
 26 the payroll factor, as defined in paragraph (2), and the denominator of
 27 which is two. In the case of financial institutions, the property and payroll
 28 factors shall be computed utilizing the specific provisions of the appor-
 29 tionment method applicable to financial institutions, if enacted, and the
 30 qualified business facility income shall be based upon net income.

31 (1) The property factor is a fraction, the numerator of which is the
 32 average value of the taxpayer's real and tangible personal property owned
 33 or rented and used in connection with the operation of the qualified
 34 business facility during the tax period, and the denominator of which is
 35 the average value of all the taxpayer's real and tangible personal property
 36 owned or rented and used in this state during the tax period. The average
 37 value of all such property shall be determined as provided in K.S.A. 79-
 38 3281 and 79-3282, and amendments thereto.

39 (2) The payroll factor is a fraction, the numerator of which is the total
 40 amount paid during the tax period by the taxpayer for compensation to
 41 persons qualifying as qualified business facility employees, as determined
 42 under subsection ~~(d)~~ (e), at the qualified business facility, and the denom-
 43 inator of which is the total amount paid in this state during the tax period