

MINUTES OF THE HOUSE NEW ECONOMY COMMITTEE.

The meeting was called to order by Chairman Mason at 3:37 p.m. on March 12, 2002 in Room 522-S of the Capitol.

All members were present except:

Representative Kuether - E
Representative Findley - E
Representative Winn - E

Committee staff present:

April Holman, Legislative Research Department
Bob Nugent, Office of Revisor of Statutes
Rena Jefferies, Office of Revisor of Statutes
Rose Marie Glatt, Committee Secretary

Conferees appearing before the committee:

David Moore, IMPACT Program Manager, KDOC&H
Christy Caldwell - Greater Topeka Chamber of Commerce
Dennis D'Orvilliers - Goodyear Tire and Rubber Co.
Terry Leatherman - Kansas Chamber of Commerce and Industry

Others attending:

See attached list

Representative Cox moved, seconded by Representative Compton that the February 19 and March 7 minutes be approved. The motion carried.

The Chairman opened the hearing on **SB 565**. Staff explained the bill (similar to HB 2962), changes the language in the IMPACT act by reducing thresholds and increasing the percent from 1% to 2% of withholding to pay off the bonds issued for the program. The fiscal note was explained as well as the differences between **SB 565** and the bills previously passed by the Committee. The Department of Revenue is currently in the process of creating a new fiscal note and the Chairman stated they would not work the bill until they have a full understanding of its impact.

David Moore, KDOC&H appeared in support of **SB 565** (Attachment 1). His testimony included his talking points, IMPACT Retraining statutory language and two testimonial letters from companies that have benefitted from the IMPACT Program. A Program summary of the performance of the program since its inception in 1992 was given. He provided historical information, assumptions and suggested two additional points for the Committee's consideration. The rationale behind the IMPACT Retraining Statutory Language is to provide an retraining incentive program, in order to become competitive and retain business in Kansas.

He spoke of the fiscal note language regarding reduction of general funds and explained why they believe the figures are inaccurate. In conclusion, he stated that their primary objective, with this enhanced capacity request, is to allow KDOC&H to continue to be as aggressive as they have been as a state and a department in creating new jobs in Kansas.

Discussion followed regarding the current bond issuances. The Chairman stated that before further action would be taken, a fiscal note that is consistent between KDOC&H and Revenue must be brought to the Committee. Mr. Moore acknowledged that he would pursue that objective.

Christy Caldwell, Greater Topeka Chamber of Commerce expressed their support of **SB 565** (Attachment 2). She spoke of the importance of the passage of this bill or HB 2962 to Goodyear's continued success in Topeka. The current status of HB 2962 was discussed.

Dennis D'Orvilliers, Goodyear introduced Will Leiker, Pres. of Local 307. He spoke in support of the bill and described the impact it would have at Goodyear, by providing incentives for modernization that would allow the Topeka plant to remain competitive with sister plants located in other states (Attachment 3).

CONTINUATION SHEET

Terry Leatherman, Kansas Chamber of Commerce & Industry appeared in support of SB 565, stating the IMPACT program has been the state's primary tool to encourage business operations with potential to bring a large number of high paying jobs to locate or expand in Kansas (Attachment 4).

Discussion followed regarding the frustration of the lack of consistency in fiscal notes presented to the Committee. Several Representatives stated that fiscal notes should also reflect probable revenue income as well as revenue drain. The definition of the maximum capacity was explained and in response to questions Mr. Moore stated that the Goodyear program would be taken care of with existing bonds. The issue was what would happen to the existing obligations if new bonds were not issued somewhere down the line. KDOC&H's ability to bargain in good faith with companies considering moving to Kansas would be decreased significantly. Discussion followed regarding the pros and cons of a phase in program after 2003. The cost and length of time of an average project was described. The urgency of the immediate passage of the bill verses the long-term effect of the program was discussed.

The Chairman closed the hearing of **SB 565**.

The Chairman asked Steve Kelly to explained the fiscal notes attached to **HB 2988, HB 2989** and **HB 2990**. Mr. Kelly stated that through no fault of the Committee, the way they came out of the Committee, expanded the bills far beyond what was originally anticipated and increased the fiscal notes significantly. Currently there is a task force working on modifications that would reduce that liability. The Chairman requested that new information for Thursday's meeting and Mr. Kelly stated that they would try to meet that deadline.

The next meeting will be on Thursday, March 14, 2002.

The meeting adjourned at 4:25 p.m.

ECONOMIC DEVELOPMENT
COMMITTEE GUEST LIST

DATE: March 12, 2002

NAME	REPRESENTING
Christy Caldwell	Toreke Channing Amman
Wil Leibe	USWA Local 307
Dennis D'williers	Goodyear
Mr. J. F. Whit	Hearney Law/Goodyear
Kathleen Davis	KDOCH
Dawn Moore	"
Terry Leatherman	KCCI
John Frederick	Boeing
Stephanie Buchanan	DOB
Steve Kelly	KDOCH

Kansas Department of Commerce & Housing
House Committee on New Economy Tuesday March, 12 2002
SB 565, IMPACT Program

Investments in Major Projects And Comprehensive Training (IMPACT) Program

IMPACT provides employers that relocate to or expand their business operations within the state of Kansas financial assistance to train employees hired to fill the new jobs created by the relocation or the expansion. Also, beginning in 1999, legislation was passed that allows companies to qualify for IMPACT funds to retrain existing workers if the company was making a minimum capital investment of \$250 million and retaining a minimum of 1,000 jobs. IMPACT is financed through public purpose, tax-exempt bonds issued by the Kansas Development Finance Authority. The bonds are indirectly retired through the revenue received from the Kansas withholding taxes paid by the jobs created or retained in the projects. Bonds are issued as needed to finance the program.

The Department estimates that the statutory cap on the percentage of withholding used to pay debt service on the bonds will be reached in about five years based on obligations to fund existing projects and on the rate that new projects will be created. Therefore, KDOC&H requested SB 565 which would increase the statutory cap on the debt service and direct funding rate of the program from 1% to 2% of the annual Kansas individual withholding tax revenues. Additionally, SB 565 was amended by the Senate Commerce Committee to reduce the thresholds on capital investment from \$250 million to \$50 million and the number of jobs retained from 1000 to 250 in order to qualify for retraining under the program--the same thresholds as those recommended by HB 2962.

Program summary (all information is current as of 2/19/02)

• Projects created since 1992:	61
• Total jobs created:	35,542
• Average wage of all jobs:	\$33,280/\$16 hr.
• Total program investment:	\$96,401,346
• Total funds disbursed:	\$56,715,503
• Remaining obligations:	\$35,951,141
• Withholding taxes collected:	\$82,351,791*
• Remaining withholding to be collected on all active projects:	\$44,370,905

*The State does not continue to require companies to report withholding tax information once a project has repaid the state's investment (determined to be the gross funded cost of the project). Thus, the "withholding taxes collected" figure is significantly understated. To date, 30 of 61 projects have returned the state's investment.

Fiscal Impact

SB 565 could potentially increase the program's debt service, and thus, the withholding tax revenues of the state available for other uses in a given year. However by providing the state additional capacity to fund new business expansions, relocations and retraining of existing Kansas jobs, these revenues would be returned to the state through the additional Kansas withholding taxes paid by the new jobs created or retained under the program.

IMPACT

Revenue history, projections and implications

The following calculations of the future revenue available to the IMPACT Program are based on certain assumptions and on the historical performance of the program.

Historical information:

- The last two issuances (FY1999) and (FY2002) have provided capacity of \$30M with *each* issuance.
- These bonds have provided project funding/payment capacity of approximately 24-26 months for each issuance.
- *Each* of these two last issuances has increased debt service \$3.75-\$4M.
- Current maximum program capacity is \$14.7M (1% of the State's total withholding of \$1.47 billion in FY2001).

Assumptions:

- Debt service is estimated by KDFA as follows on all current/active bond issuances:

2002	\$10.04M
2003	\$10.19M
2004	\$10.84M
2005	\$10.84M (The Department anticipates needing a new issuance in early FY 2005, based on history).
- A new issuance in FY2005, of similar capacity to the 1999 and 2002 issuances, would add approximately \$3.75-\$4M of additional debt service to the existing \$10.84M.
- Assuming static State withholding revenues of \$1.47 billion, the IMPACT program debt service **would be very close to, or at, the statutory 1% cap** beginning in FY2005 and would remain there for four years, based on the current rate of debt service repayment.
- The ability of the State to issue a new bond after 2005 and before 2009 with any significant capacity is, therefore, unlikely without changes in statute relative to the 1% program cap.

Additional considerations:

- With the statutory change in 1999 allowing retraining under IMPACT, the anticipated 2 year "shelf life" of the 2002 bond could be less, thus requiring issuance of a new bond before 2005 and, hence, accelerating the move towards the 1% cap. HB 2962, introduced in the current session, would reduce the thresholds to a \$50M capital investment and a minimum of 250 jobs to be retained, thus providing more Kansas companies access to IMPACT funds for retraining.
- Obligations on existing projects total \$35.5M over the next five years. This will reduce capacity to fund new projects from the 2002 issuance and, to a lesser degree, from the issuance of a new bond in early FY2005.

**IMPACT Retraining
Statutory Language**

(e) An employer not creating new jobs shall not be eligible for participation in an IMPACT program unless the employer meets the following criteria: (1) Maintains a minimum 1,000 (250) retained jobs; (2) makes a capital investment of at least \$250,000,000 (\$50,000,000); **and (3) the secretary of commerce and housing finds that the program or project will be a major factor in the Kansas basic enterprise remaining in Kansas.** (bolding added)
2001 Supp. K.S.A.74-50, 106



February 18, 2002

The Honorable Karin Brownlee
Chairperson, Senate Commerce Committee
Room 123 South
Capitol Building
Topeka, Kansas

Dear Senator Brownlee:

On behalf of Cessna Aircraft, I am pleased to support the Department of Commerce & Housing's proposed enhancement of the Investments in Major Projects and Comprehensive Training (IMPACT) Program introduced in this legislative session. It is my understanding that the Department has requested an increase in the IMPACT funding capacity to ensure continued support for new companies locating to the State and to support expansions of existing businesses in Kansas.

As one company that has substantially added to its workforce in Kansas, Cessna has benefited from this important workforce training program. During two large expansions in Wichita, IMPACT funds were awarded to Cessna to encourage these expansions and were critical to providing training for the company's highly skilled jobs. We found the program highly beneficial to our company in training nearly 6,000 new employees in these two expansions. The program allowed Cessna the necessary flexibility to meet the industry-specific training needs of our company and helped ensure that the company continues to remain competitive in our industry with a highly trained workforce.

I feel that it is very important that the State, in partnership with business and industry, continue to invest in workforce development to ensure Kansas's economic viability into the future. The IMPACT Program is critical to ensuring that Kansas has the capability to meaningfully assist companies in developing and maintaining high quality workforces. I support the proposed legislation that will ensure that this program continues into the future.

Sincerely,

A handwritten signature in black ink that reads 'John E. Moore'.

John E. Moore
Executive Vice President
Cessna Aircraft Company



February 18, 2002

Fairfax Assembly

Mr. Steve Kelly, Director
Business Development Division
Kansas Department of Commerce & Housing
700 S.W. Harrison Street, Suite 1300
Topeka, Kansas 66603-3712

Dear Mr. Kelly:

I would like to take a moment and thank you and the State of Kansas for programs like IMPACT. As we both know, the requirement to retrain today's workforce to be able to successfully compete in the world economy is critical to any company's long term future and is a part of a company's decision process for reinvestment in a facility. This is particularly true in the capital intensive automotive industry which has world-wide competitive pressure.

The availability of a program like IMPACT in the State of Kansas was a part of the decision process when General Motors decided to put its first U.S. Epsilon assembly capability at the Fairfax Plant in Kansas City, Kansas. It not only allows the Fairfax Plant to compete against other GM plants, but also puts the State of Kansas in a competitive position with incentives that other states are offering to retain current jobs. For example, General Motors currently has over \$75 million in incentive offers from the State of Michigan and Orion Township if GM will make new investment in its Orion Assembly Plant.

It should be noted that business is not the only beneficiary of these funds. The inherent benefit to the employees not only directly effects their abilities in the workplace, but also positively impacts community organizations in which they participate. In addition, our local partnership in developing and executing the training programs benefits the local community college and further enhances the relationship between business and education.

Again, I want to thank you for your past support and would encourage you to ensure that Kansas is able to compete with other states in the area of employee training.

A handwritten signature in black ink that reads "George E. Turner".

George E. Turner
Plant Controller



8345 Lenexa Drive, Suite 300
Lenexa, Kansas 66214
913.904.0500
913.904.0505 fax

February 18, 2002

David Moore, Manager
Business Finance and Workforce Development
Kansas Department of Commerce & Housing
1000 S.W. Jackson Street, Suite 100
Topeka, KS 66612-1354

Dear David,

I am aware that you will be speaking to a legislative committee tomorrow about the value of the IMPACT program. I wanted to be sure that GeoAccess effectively communicates the positive effect that the program had on both our decision to keep our corporate headquarters in Kansas as well and to relocate a subsidiary from Texas to Kansas. Funds from the IMPACT program have proved invaluable in helping us to attract and effectively train employees in the competitive technology sector. Additionally, the IMPACT program aided us in our attempts to retrain a Texas workforce to use new technology that was not available to them in Texas. Without access to the IMPACT program, it is unlikely that we would have concluded that Kansas was the best solution for either decision. I am certain that many others share our view.

David, clearly the IMPACT program is an integral part of both Kansas' ability to compete for new business opportunities as well as the state's efforts to retain progressive corporate citizens. Please feel free to convey our thoughts to the committee.

Respectfully,

A handwritten signature in black ink, appearing to read "Greg Addison".

Greg Addison
Vice President, Human Resources
GeoAccess, Inc.



February 18, 2002

Bibb and Associates, Inc.
8455 Lenoxa Drive
Lenoxa, Kansas 66214
Telephone: 613 928 7000
Facsimile: 613 928 7500
<http://www.bibb.com>

David Moore, Manager
Business Finance and Workforce Development
Kansas Department of Commerce & Housing
1000 S.W. Jackson Street, Suite 100
Topeka, KS 66612-1354

Re: State of Kansas IMPACT SKILL Training Program

Dear David,

Bibb and Associates, Inc., has utilized the IMPACT SKILL Grant training program since November 1999. Without this grant we may not have been able to provide high-level quality training to our employees.

Also, in our ongoing effort to recruit top quality candidates, the ability to offer high-level training has often resulted in bringing the best of the best to Bibb and Associates, Inc.

Sincerely,
Bibb and Associates, Inc.

A handwritten signature in black ink, appearing to read "G. Rodney Estes". The signature is written in a cursive, flowing style.

G. Rodney Estes
Vice President Administration



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
March 12, 2002
SB 565

By Christy Caldwell, Vice President Government Relations
Greater Topeka Chamber of Commerce

Chairman Mason and members of the committee, thank you for the opportunity to address you today.

The Greater Topeka Chamber of Commerce would like to express our support for SB 565 which changes the language in the IMPACT act reducing the thresholds to allow more Kansas companies to utilize this program. Additionally, this bill increases the percent of withholding to pay off the bonds issued for the program, from 1% to 2%.

IMPACT (Investment in Major Projects and Comprehensive Training) has two major components. The State of Kansas Investment in Lifelong Learning (SKILL) which funds workforce training programs and the Major Project Investment Fund (MPI) which covers other expenses associated with business expansions. The IMPACT program is funded through a diversion of a portion of the withholding taxes of new or existing jobs. Public purpose bonds are issued as needed by the Kansas Development Finance Authority and those bonds are paid off with those diverted withholdings.

Two years ago the IMPACT act was amended to allow for retraining of existing jobs. Thresholds were created to access the program: the training must be for 1000 employees and there must be more than \$250 million in capital investment. These thresholds make it difficult for many companies to qualify. SB 565 drops the thresholds to 250 employees and \$50 million in investment.

Our state is now in a recession and communities across the state are trying to hold on as businesses are laying off employees. Certainly this is our experience here in Topeka. We are trying to do everything we can to maintain the jobs we have and certainly grow jobs wherever possible. We are currently working with Goodyear, our largest manufacturer, to attract new investment to the Topeka plant. This investment would insure that existing jobs are not lost. Topeka Goodyear is competing with other Goodyear plants for this investment. We want to provide the best possible incentive package in order to attract this investment. Reducing the thresholds in the IMPACT act will allow us to utilize this program to train their existing employees for this new product line. We do believe keeping Goodyear a viable manufacturing company in Topeka is not only good for Topeka, it is good for the state.

The Department of Commerce and Housing's request to increase the percentage of withholding is a sound one. In order for the IMPACT program to work there must be sufficient resources to pay off the bonds. Their request, however, does not anticipate the need for additional bonds until 2005 so the impact on the current budget is not an issue. Although the Department of Revenue's projection shows a fiscal increase, this is made on an improbable scenario of utilizing all the available bonds in 2003. We urge you to be realistic in looking toward the future utilization of this program and the positive side of creating new jobs, increasing business investment and retaining jobs that might otherwise be lost. Each of these outcomes has a positive fiscal impact on the state.

Mr. Chairman and members of the committee, we ask that you approve SB 565 and continue to help crease business growth and job retention. Thank you.

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ATTACHMENT 2



P.O. Box 1069
Topeka, Kansas 66601

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

Testimony Before the House New Economy Committee
By Dennis D'Orvilliers, Engineering Technology Leader
March 12, 2002

Chairman Mason and members of the committee:

Thank you for the opportunity to speak today in support of SB 565 which changes the language of the Investment in Major Projects and Comprehensive Training (IMPACT) act by reducing the thresholds to allow more Kansas companies to utilize this program. Many manufacturing companies do not generate project investments large enough to qualify for the IMPACT program as it is currently written. By lowering the amount of investment required to \$50 million and the number of workers to be trained to 250, other Kansas manufacturers including Goodyear have a chance to qualify for inclusion into the program. We must also provide enough resources to pay for the increased activity at the new qualification levels. Additionally, this bill would increase the percent of withholding to pay off the bonds issued for the support of the program from 1% to 2%.

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. We are the largest Goodyear manufacturing and distribution facility in North America. We are the largest manufacturer in the area and the 5th largest employer in Topeka. The Topeka plant supports more than 3,000 employees and retirees. The annual payroll of \$100 million dollars generated an average of \$4.2 million dollars in individual state income taxes during the past two years. In 2000, real and personal property taxes for the plant were more than \$1.8 million dollars, with a utility bill in excess of \$11 million dollars. The Topeka plant also supports other Kansas businesses by purchasing goods and services totaling more than \$34 million dollars per year.

This proposed legislation comes up at a time when Goodyear – Topeka is being considered, along with other locations both domestic and foreign, for significant capital investments. The potential investments include machinery and equipment that would provide the newest technology available in radial truck tire and earthmover manufacturing. This new capital investment flow is critical to the future well being of the Topeka Plant. 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 pressures and stiff competition on all fronts. The state of Kansas isn't in the best financial shape at this time, but we have to ask ourselves, "can we really afford not to improve the business climate in a state that already suffers from a non-business-friendly-image?"

Mr. Chairman and members of the committee, we ask that you approve SB 565 and continue to help retain the strong manufacturing companies that already call Kansas their home. These are the kinds of incentives that need to be addressed in order to attract new businesses to the state that will help provide jobs, improve our economy, and bring new revenues into the state's treasury. If the fiscal note of the 1% to 2% increased is too difficult at this time, we could push back the implementation of this part of the bill but go ahead with approving the lower qualification thresholds and implement them upon publication in the Kansas register. HB 2962 has already been passed using these same threshold amounts. Thank you.

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LEGISLATIVE TESTIMONY



The Unified Voice of Business

835 SW Topeka Blvd. • Topeka, KS 66612-1671 • 785-357-6321 • Fax: 785-357-4732 • E-mail: kcci@kansaschamber.org • www.kansaschamber.org

SB 565

March 12, 2002

KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony Before the

House Committee on New Economy

by

Jim Edwards
Senior Vice President
and

Secretary/Treasurer
Kansas Economic Development Alliance

Mr. Chairman and members of the Committee:

My name is Jim Edwards. I am Senior Vice President of the Kansas Chamber of Commerce and Industry. I thank you for the opportunity to express KCCI's support for passage of SB 565.

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.

In 1996, the Legislature renamed the State of Kansas Investments in Lifelong Learning Act (SKILL) as the Kansas Investments in Major Projects and Comprehensive Training (IMPACT) Act. The Legislature also modified the program to allow funds to be expended for "major project invest

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ATTACHMENT 4

but also costs including, but not limited to, relocation expenses, building and equipment purchases, or recruitment, and other expenses. Expenditures for employee education and training-related purposes authorized under the existing SKILL program continued to be authorized under this bill. No more than 10% of the amount equal to the rate of 1% applied to wages withheld in the state could be used for IMPACT purposes in any given fiscal year.

Since then, the IMPACT program in the Kansas Department of Commerce and Housing has been the state's primary tool to encourage business operations with potential to bring a large number of high paying jobs to locate or expand in Kansas. Since the IMPACT program was initiated, 61 projects in the program have led to the creation of more than 33,000 new jobs in Kansas, according to the Kansas Department of Commerce and Housing.

In the competitive economic development climate Kansas finds itself, IMPACT has clearly shown the state's investment has been more than returned in economic expansion and job creation. SB 565 would increase the opportunity for businesses to pursue IMPACT program support, thus expanding this program's successes. As a result, KCCI would urge this Committee's favorable recommendation of SB 565.

Thank you for considering KCCI's position regarding the legislation before you today. I would be happy to answer any questions.