

MINUTES OF THE SENATE COMMITTEE ON COMMERCE.

The meeting was called to order by Chairperson Senator Karin Brownlee at 8:30 a.m. on January 31, 2002 in Room 123-S of the Capitol.

All members were present except: Senate Brungardt, Excused
Senator Jordan, Excused

Committee staff present: April Holman, Legislative Research Department
Lea Gerard, Secretary

Conferees appearing before the committee: Robert Marcusse, President/CEO
Kansas City Area Development Council

Others attending: See attached list.

Bob Marcusse, President/CEO for the Kansas City Area Development Council, appeared before the committee to give an overview of regional economic development which serves 16 counties in both Kansas and Missouri that makes up the Kansas City area (Attachment 1). Mr. Marcusse stated their responsibility is to recruit major companies and retain companies of regional significance. He discussed three proposals that would lead to economic growth, job creation and increased national competitiveness for the State of Kansas.

1. First proposal involves growth of research at the University of Kansas Medical Center as well as all three research institutions in Kansas. Mr. Marcusse presented to Committee members an Economic Impact Analysis by Andersen Consulting that details what will happen if KUMC receives a proposed \$10 million annual investment (Attachment 2).
2. Second proposal involves support of the Waddell & Reed bill supported by Senator Adkins' which is a modification of **HB 2061** regarding income taxation of investment funds service companies.
3. Third proposal is to approve legislation that would authorize the sell of earned tax credits by a company.

Senator Steineger moved, seconded by Senator Jenkins to introduce a bill concerning state agency procurement procedures; amending KSA 2001 Supp. 75-3739a and repealing the existing section. The motion carried.

The meeting was adjourned at 9:30 a.m.

The next meeting will be held Friday, February 05, 2002 at 8:00 a.m.

Senate Commerce Committee Testimony

January 31, 2002

from

Robert J, Marcusse, President/CEO
Kansas City Area Development Council

Madame Chairperson and members of the committee,

My name is Bob Marcusse. I am a resident of Lenexa, KS. I am here today in my capacity as president of the Kansas City Area Development Council, a regional economic development organization that serves the 16 counties in both Kansas and Missouri that compose the Kansas City Area. Our core business is recruiting major companies to our market, retaining companies of regional significance, and, in general, growing the regional economy of Greater Kansas City. Thank you for the opportunity to testify today and propose specific ideas that will lead to enhanced economic development for the State of Kansas.

I know that this is a difficult time for the State of Kansas. There are many plans to both cut spending and raise revenue, all with the intent of balancing our state budget. At a time like this, it is often initially difficult to consider plans that will lead to new revenue growth or the retention of major revenue sources if those plans require a small, short-term expenditure.

In spite of these difficulties, in the Kansas City Area, we continue to compete and win in the battle to attract new companies and new jobs. While we market the entire Kansas City area and while both states have experienced success, in Kansas we can be pleased that we have had more than our share of success. In the past year, Grundfos, a Danish company moved their US headquarters to Olathe from Fresno, CA. The NAIA moved to Olathe from Tulsa, Verizon Wireless selected Overland Park as their regional HQ; Intervet closed all operations in Des Moines and moved their animal health company to De Soto. Finally, UPS closed its regional HQ in Omaha and moved to Leawood. These ~~are~~ companies have could have gone anywhere and selected both the Kansas City Area and specifically, the Kansas side of the state line.

They selected Kansas City for basic business reasons; a good tax structure, a skilled workforce, good schools, excellent transportation systems, great housing values.... and, because we have a very, very good, customer focused sales team. We are proud to be

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part of that team along with our communities and the department of commerce and housing.

I should conclude this introduction by pointing out that we MUST continue to market Kansas City as a whole. Initially, a company is interested in the market.... all of it, and our ability to seamlessly present both sides of the state line is critical to success.

Finally, we work together too, as two states that often win or lose together. Just two weeks ago, in the same room at the same time, Congressman Moore and Congresswoman McCarthy, Gov. Graves and Gov. Holden, and all four US senators, were united in an effort to retain and grow in Kansas City a company that has a presence in both states. In this case, we will either win big together or lose big together.

Today, I wish to speak with you about three very specific proposals that will lead to economic growth, job creation, and increased national competitiveness for the State of Kansas.

The first proposal involves support for the growth of research at the University of Kansas Medical Center, specifically, but also, for all three research institutions in Kansas as well. Since I am most familiar with the Kansas University Medical Center proposal, and since it directly affects the growth of Eastern Kansas, I will restrict my remarks to this program.

On January 17, over 100 members of the legislature traveled to Manhattan in order to hear presentations about growing the research base of our Kansas Universities through support of a bond program that would cost \$10M per year for 5 years. Specifically, the University of Kansas Medical Center is requesting support of \$5M per year for 5 years of this program. This support would leverage a recent gift from the Hall Family Foundation of \$27M and allow for the construction of the 200,000 sq. ft. Biomedical Research Center.

You may be wondering why someone in economic development is here today advocating an expenditure in support of biomedical research. The answer is simple: in Kansas today, biomedical research IS economic development. Here are the benefits:

- Construction of a \$65M biomedical research building
- Leverage of private sector gifts and National Institutes of Health (NIH) grants
- Stimulate adjacent private sector research space development
- Stimulate adjacent private sector commercial development
- Continue the rise of KU to national prominence in research (1993- \$103M, 2001- \$224 M)
- Retain and attract the best scientists
- Serve as a magnet to other biotech firms looking for a US location
- Will assist in causing the second Stowers Institute of Medical Research campus to be built in the area.

In conclusion, the 21st century is the biotech century. We can be key players or we can watch the world pass us by. This investment in Kansas will be rewarded many times over and will make the difference in our ability to win in a competitive world.

The second specific proposal I'd like to discuss involves support of Sen. Adkins' bill, which I understand is a modification of last years HB 2061.

As you may know, the financial services company Waddell and Reed is currently based in Kansas. The firm employs over 600 persons in Kansas with a payroll in excess of \$67M. It pays property and corporate income tax in Kansas and its employees pay property and personal income tax here too. It is estimated that the company and employees generate over \$5M of taxes for Kansas. Waddell and Reed visitors generate over 6000 hotel room nights and spend liberally in area restaurants. The company spends tens of millions of dollars in the local economy for goods and services.

Last year Waddell and Reed asked the legislature to pass legislation that would allow it to be taxed on Kansas source revenue rather than nationwide. This change would mean that the business climate in Kansas for this type of company would be the same as in Missouri, along with numerous other states....and would eliminate the locational tax disadvantage currently confronting the company in Kansas.

When the legislation did not pass, Waddell and Reed began to look at Missouri and Texas as alternative sites for their headquarters and operations. For the Kansas City area, a move to Missouri would be neutral. However, it is increasingly likely that the company will move to Texas, land of no corporate income tax. Such a move would erase over 600 high paying jobs in Kansas; remove from Kansas the headquarters and operations of a clean, growing, financial services company, and all for what purpose? Some will say that this proposed change will cost the state some previously available revenue. That is correct, between \$2M and \$3M. However, failure to make the change will cost the state ALL previously available revenue AND will send the message that at the same time we talk about stimulating our Kansas economy, we are willing to lose what will be a huge win for Dallas.... the kind of win that makes national headlines.

Conversely, if the change is made, Kansas immediately becomes nationally competitive for this type of financial services firm. Today, in the Kansas City area, only the Missouri side is competitive. Please, support the changes that Senator Adkins proposes.

Finally, a word about our economic development incentive programs. We have very competitive programs, great people in our department of Commerce and Housing, and a competitive, get-the-job-done attitude. Among our effective programs are those that award credits against state income taxes for hiring people, building facilities, buying new equipment, research and development, and for other reasons. That is all great IF the company doing these things has taxable Kansas income. The problem is that today many companies don't have Kansas taxable income, perhaps because they are young technology or biotech firms that are not yet profitable, perhaps because they are a not-for profit company, like the NAIA or the NCAA, or a medical research organization like the Menninger Foundation or the Stowers Institute.

I ask that you approve legislation that would authorize a company to sell its earned tax credits. It's as simple as that; no new credits, just allow a company to monetize what the legislature has already authorized but certain companies can't use. I assure you, it will have a very big impact on our ability to recruit business to Kansas.

Ladies and Gentlemen, thank you for your interest. I would be happy to answer and questions.

Memo



ANDERSEN

To Bob Marcusse, Kansas City Area Development Council
From Jon DeVries, Reed Singer, and Karen Gross
Date January 30, 2002
Subject Economic Impact Analysis for Kansas University Medical Center
(KUMC) Biomedical Research Program

KUMC Biomedical Research Program With \$10 Million Annual Funding

We are pleased to present the results of our 10-year economic impact analysis for the KUMC Biomedical Research Development Plan. This analysis includes the anticipated development and operational costs of capital improvement projects needed to accommodate future growth if KUMC receives the proposed \$10 million annual investment in life sciences research. We have not included in our analysis the capital improvement projects which are currently under construction or the currently funded planned projects.

Findings and Assumptions

These impacts were generated using a proprietary economic impact model developed specifically for new business creation and/or relocation. The assumptions listed below were developed using information provided to us from KUMC regarding its existing biomedical research program and future development plans, where available, and using conservative industry benchmarks where data regarding KUMC specifically was not available.

We have been reasonable in all our assumptions. In many cases, it is possible that KUMC future development will exceed these projections. All assumptions and forecasted benefits are in 2002 dollars.

We have used published Department of Commerce multipliers to generate indirect impacts. These multipliers are specific to the Kansas City MSA, for both the testing and research labs sector and the construction sector.

All assumptions and forecasted benefits are in 2002 dollars and are presented below.

FINDINGS

Revenue

- Total Economic Benefits to Kansas City MSA (direct and indirect): \$195 million over 10 years (NPV - \$131 million at 6%; \$135 million at 8%)
- Kansas City MSA - Public Revenue (direct and indirect): \$5.2 million over 10 years (NPV - \$3.4 million at 6%, \$3.5 million at 8%)
- State of Kansas - Public Revenue (direct and indirect): \$3.4 million over 10 years (NPV - \$2.2 million at 6%, \$2.3 million at 8%)

Employment

- Direct Employment: 137 employees

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- Total direct employment earnings at stabilization: \$8.8 million per year
- Indirect Employment: 114 employees
- Total indirect employment earnings at stabilization: \$2.7 million per year
- Direct MSA Construction Employment in person years: 468 over construction period (Jan. 2004-Dec. 2006)
- Total MSA construction employment earnings: \$18.6 million over construction period
- Indirect MSA Construction Employment in person years: 663 over construction period (Jan. 2004-Dec. 2009)
- Total MSA indirect construction employment earnings: \$23.9 million over construction period

Construction Impact

- Estimated total spent in MSA on construction materials, soft costs, and furniture, fixtures and equipment over the construction period: \$27.4 million
- Estimated State income tax revenue generated by direct construction employees: \$438,000
- There is no state/local sales tax revenue generated from the purchase of construction materials since the University is a non-profit organization with tax exempt status.

Operation Impact

- Estimated materials and services purchased in the MSA for operations: \$3.1 million in Year 4; \$3.8 million in Year 7; \$4 million in Year 10; \$25.7 million over 10 years
- There is no state/local sales tax revenue generated from the purchase of materials/services for operations since the University is a non-profit organization with tax-exempt status.

Retail Sales

- Net MSA retail sales generated by new resident direct employees: \$576,000 in Year 4; \$1.7 million in Year 7; \$1.7 million in Year 10; \$10.4 million over 10 years
- Estimated Kansas City MSA sales tax revenue generated by direct employee retail sales: \$12,000 in Year 4; \$35,000 in Year 7; \$35,000 in Year 10; \$210,000 over 10 years
- Estimated State of Kansas sales tax revenue generated by direct employee retail sales: \$21,000 in Year 4; \$64,000 in Year 7; \$64,000 in Year 10; \$383,000 over 10 years

Kansas State Income Tax

- Estimated State income tax revenue generated by direct employees: \$70,000 in Year 4; \$210,000 in Year 7; \$210,000 in Year 10; \$1.3 million over 10 years

Local Property Tax Revenue

- Estimated Kansas City MSA property tax revenue generated by new resident MSA employees (direct): \$64,000 in Year 4; \$192,000 in Year 7; \$192,000 in Year 10; \$1.2 million over 10 years

Visitor Impacts

- Total visitor expenditures: \$41,000 in Year 4; \$123,000 in Year 7; \$123,000 in Year 10; \$739,000 over 10 years

ASSUMPTIONS

The scope of the Economic Impact Analysis included the Kansas City MSA, which include the counties of Buchanan, Cass, Clay, Clinton, Jackson, Lafayette, Platte and Ray in Missouri, and Atchison, Douglas, Johnson, Leavenworth, Miami and Wyandotte counties in Kansas.

- I. Facility Assumptions – Phase II
 - A. Planned Research Building
 - 205,000 gsf
 - Construction Period 3 years (January 2004 – Dec. 2006)
 - Exempt from property tax since the University is a non-profit institution
 - B. Planned Energy Plant
 - New Research Building #2
 - Total Construction Cost: \$9.6 million
 - Construction Period 3 years (January 2004 – Dec. 2006)
 - Exempt from property tax since the University is a non-profit institution
- II. Construction Assumptions
 - A. Construction Costs - \$258 psf
 - B. Land, construction materials, softs costs, and labor
 - Percent spent on materials: 50%
 - 60% of materials purchased in Kansas City MSA
 - 100% of materials are tax exempt
 - Percent spent on soft costs: 15%
 - 85% of soft cost services purchased in Kansas City MSA
 - Percent spent on labor: 35%
 - 85% of construction workers reside in Kansas City MSA
 - 42% of MSA resident workers reside in Kansas
 - 58% of MSA resident workers reside in Missouri
 - Above percentage break-outs based on Year 2000 population distribution of Kansas City Metro Area by State
 - Construction Employment: Average Annual Construction wage: \$47,000
 - Employment Multiplier: 2.6616
 - Earnings Multiplier: 2.2657
 - Average annual indirect construction wage: \$36,000
 - C. Furniture, Fixtures, and Equipment (FF&E) for Research Building
 - Furniture and Fixtures: \$1,000,000 start-up cost; \$10,000 annually
 - 60% purchased in Kansas City MSA
 - 100% tax exempt
 - Equipment: \$13,000,000 start-up cost; \$3,000,000 annually

- 100% purchased outside of Kansas City MSA
- 100% tax-exempt

III. Employment Assumptions

A. Direct Employment

- 1,500 gsf per employee
 - 4,000 gsf per faculty
- Residence of new employees: 75% Kansas and 25% Missouri
 - Above percentage break-outs based on current employment distribution of KUMC
- 100% of employees live in Kansas City MSA
- Average annual wage: \$64,000
- Employment Multiplier: 1.8285
- Average salary of indirect employee: \$24,000
 - Residence of indirect employees: 42% Kansas and 58% Missouri
 - Above percentage break-outs based on Year 2000 population distribution of Kansas City Metro Area by State

IV. Extramural Grant Funding

A. Annual Grant Funding per full-time faculty: \$250,000

- 20% received in 1st year of employment
- 45% received in 2nd year of employment
- 70% received in 3rd year of employment
- 100% received in 4th+ year of employment

B. 50% spent on personnel

C. 50% spent on operations

V. Materials/Services Purchased for Operations

A. Total materials/services purchased for lab operation: 50% of annual grant funding received

- 15% purchased within Kansas City MSA
- 100% tax exempt

B. Utilities/Maintenance/Admin/Grounds: \$15 per gsf

- 100% purchased within Kansas City MSA
- 100% tax exempt

VI. Household Assumptions

A. Retail Spending

- Percent of household income spent on taxable retail goods and services: 40%
- Percent of retail purchases are food purchases: 25%
- Percent of retail purchases spent within Kansas City MSA: 90%
 - Percent of retail purchases in Kansas for direct employees: 75%
 - Percent of retail purchases in Missouri for direct employees: 25%
 - Percent of retail purchases in Kansas for indirect employees: 42%
 - Percent of retail purchases in Missouri for indirect employees: 58%

B. Housing Information

- Sales Price of single family residence in Missouri: \$188,000
- 2000 residential assessment rate in Missouri: 19%
- Property tax rate, Missouri: 6.812%
- Sales Price of single family residence in Kansas: \$198,000
- 2000 residential assessment rate in Kansas: 11.5%
- Property tax rate, Kansas: 11.25%

VII. Tax Rate Assumptions

A. Income Tax Rates

- State of Kansas personal income tax rate: \$1,538 plus 6.45% of income in excess over \$30,000
- State of Missouri: 6%
- City Earnings Tax, Kansas City, MO: 1% (applies to persons living or working in Kansas City, Missouri)

B. Sales Tax Rates - Kansas

- Average Local and County sales tax rate in Metro Area: 1.6625%
- State sales tax rate: 4.9%

C. Sales Tax Rates - Missouri

- Average Local and County sales tax rate in Metro Area: 3%
- State sales tax rate (non-food purchases): 4.2250%
- State sales tax rate (food purchases): 1.2250%

D. Transient (Hotel) Local Sales Tax Rate: 6.25%

VIII. Visitor Assumptions

A. 12 annual visitors per full-time faculty member

- Average length of stay (nights): 1
- Average length of stay (day): 1

B. Estimated non-lodging daily expenditures: \$102

C. Average visitor room rate: \$100