

MINUTES OF THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT.

The meeting was called to order by Chairman Kenny Wilk at 3:00 p.m. on April 29, 2003, in Room 231-N of the Capitol.

All members were present except: Representative Brunk, Excused
Representative O'Malley, Excused
Representative Boyer, Excused
Representative Hill, Excused
Representative Krehbiel, Excused
Representative Novascone, Excused

Committee staff present: April Holman, Legislative Research
Debra Hollon, Legislative Research
Rena Jefferies, Revisor of Statutes
Fulva Seufert, Secretary

Conferees appearing before the committee: Bill Jarrell, Regional Director, Government Relations, The Boeing Company
Bernie Koch, Wichita Area Chamber of Commerce
Janet Harrah, Wichita State University Center for Economic Development and Business Research
Secretary Wagnon, Department of Revenue
Steve Weatherford, K DFA

Others attending: No list provided

Chairman Wilk opened the meeting by saying today's meeting did not constitute a regular hearing, but rather an informational hearing on: **SB 281 - An Act enacting the economic revitalization and reinvestment act.**

The Chairman also stated that a public hearing will be posted after the Senate has their hearing tomorrow, which will probably be Thursday afternoon.

The Chair asked April Holman, Research Department, to explain the bill. Ms. Holman explained the following terms and their definitions:

Base eligibility period, Eligible business, Eligible project, Gross compensation, and Secretary

She also clarified (f) on page 2 and (g) and (h) on page 3. Section 2 states that it shall be the duty of Kansas, Inc. to prepare an annual report evaluating the cost effectiveness of the various income tax credits and sales tax exemptions.... She pointed out Section 4 which says this act shall take effect and be in force from and after its publication in the Kansas register.

Chairman Wilk recognized Mr. William E. Jarrell, Regional Director, Government Relations, The Boeing Company, who read from his testimony presenting an overview with background information as to why **SB 281** was written. (Attachment 1)

The Chairman next recognized Mr. Bernie Koch, Wichita Area Chamber of Commerce, who presented testimony in support of **SB 281**. He focused on the Wichita unemployment rate and how **SB 281** would help shore up Wichita's present employment situation as well as in the future. (Attachment 2)

Chairman Wilk welcomed Ms. Janet Harrah, Director, Center for Economic Development and Business Research, Wichita State University, who spoke in support of **SB 281**. Her testimony included statistics concerning the economic impact analyses on Boeing Wichita and the aircraft industry since 1991. (Attachment 3)

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT at 3:00 p.m. on April 29, 2003, in Room 231-N of the Capitol.

The Chairman called the committee's attention to the written testimony of Rebecca Floyd, KDFB General Counsel, which presented an analysis of **SB 281**. (Attachment 4)

Secretary Wagnon, Department of Revenue, and Mr. Steve Weatherford, KDFB, answered questions concerning the Fiscal Note for **SB 281** by Senate Committee on Ways and Means.

The Chairman asked Mr. Steve Weatherford to walk through the type of transactions that would be involved in a private corporation borrowing Industrial Revenue Bonds. He explained that the responsibility for repayment lies strictly with Boeing. The actual bonds would be issued by KDFB in behalf of Boeing, but Boeing would be responsible for the principal and interest.

Committee members asked several questions, and the meeting adjourned at 4:30 p.m. The Chair announced that there would probably be a public hearing scheduled for sometime on Thursday, May 1, 2003.

Legislative Testimony (SB 281)
House Economic Development Committee
April 29, 2003

William E. Jarrell
Regional Director, Government Relations
The Boeing Company

Chairman Wilk and committee members, thank you for the opportunity to speak as a proponent of SB 281. My name is Bill Jarrell. I am the Director of State Government Relations for The Boeing Company's Central Region.

Boeing Wichita is a primary engineering, fabrication, assembly, and modification center for The Boeing Company. Our Kansas operations encompass both commercial and military work. We build the complete fuselage of the 737 and 757 airplanes in our Wichita factory. Within the 13,000,000 square feet we occupy on our 1,200-acre site in Wichita, we employ over 12,000 Kansas workers and have a payroll of nearly \$1 billion.

For almost 75 years, Boeing Wichita and the state of Kansas have exemplified Boeing's motto of "working together." Our continued success can be attributed in large measure to the willingness of our communities, our Kansas suppliers, and our state and local governments to stay the course with us through both good times and times of difficulty and challenge. We are proud of our corporate citizenship role in Kansas and proud to account for almost five percent of the total state economy.

You are well aware of the struggles of our commercial airline customers in recent years and the serious impact on Boeing's production rates and employment. Boeing watched its delivery rates plunge from 527 airplanes in 2001 to 381 airplanes in 2002. Estimated deliveries for 2003 are approximately 280 airplanes. Hopefully we are close to a turnaround in our industry, when worldwide air traffic will resume its forecasted growth. We are looking to the future and so are our airline customers.

Last year, Boeing was studying concepts for both the Sonic Cruiser and a new super-efficient jetliner. Responding to the overwhelming preference of airlines around the world, we have now focused our product development efforts on the new jetliner. This will allow us to apply a suite of advanced technologies that will bring dramatic improvements in air travel for airlines and passengers in 2008. We will continue to study and develop faster airplanes like the Sonic Cruiser for later market applications.

Very soon, Boeing will announce an international team of suppliers (both internal and external to the company) to help design and build the 7E7. Boeing Wichita is well positioned to participate as a result of solid business decisions and our exemplary technical competence, but we are outmatched financially by others vying for the work. Our modern facilities, our trained and capable workforce, and our reputation to deliver superior products give us an important edge. However, without the capability to secure financial assistance, we cannot effectively compete with other global manufacturers. The Economic Reinvestment and Revitalization Act (SB 281) helps demonstrate that Kansas can be as competitive as anyone in the world.

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Testimony by Bill Jarrell (SB 281) - continued

Clearly, it is important for Kansas that Boeing Wichita be selected to the 7E7 team. Before the downturn in commercial airplane orders, and the resulting reduction in employment, our economic impact on the state approached nearly \$3 billion annually. Now, for the first time in recent history, that number may begin to decline. Continued investment in our facility, made possible by your strong support over the years, has helped Boeing Wichita be repeatedly assigned major responsibilities on new airplane programs, most recently the 737 Next Generation and the 777. Nearly eighty percent of the work performed in our Wichita factory today did not exist ten years ago. What Kansas workers will be doing at Boeing Wichita ten or twenty years from now will depend in large part on our role in the 7E7 program.

This legislation provides a fair partnership between the state and an eligible business. While the state is responsible to issue obligations, it is the eligible business that must commit to repay both principal and interest. SB 281 calls for interest on the obligations to be paid by crediting the revenue realized by the Kansas withholding taxes from jobs related to the application project. For Boeing Wichita, that application project would be the 7E7, and the jobs would be those related to the 7E7 program. If revenue were insufficient for debt service payments, Boeing would be obligated to make up the difference. The repayment of the principal would likely be tied to 7E7 airplane production, with specific terms and conditions set forth in an agreement with the Secretary of Commerce. This is fair for Boeing and fair for Kansas. However, unless Boeing Wichita can secure a major role on the 7E7 program, the related direct and indirect jobs (and tax revenue) will go elsewhere.

In summary, this legislation is about jobs for Kansas workers and a much-needed boost to the Kansas economy. It's about the continuation of a strong partnership between the state and a long-standing corporate citizen. At peak production, the 7E7 program could provide as many as 4,000 jobs at Boeing Wichita, generating an annual payroll of nearly \$250M. Up to 10,000 ancillary jobs would be sustained in the Wichita area by the new work, generating over \$300M in additional earnings and multiplying tax revenues to the state. This legislation provides a win for Kansas, a win for Boeing and a win for our workers and communities.

Thank you for your attention to this significant opportunity so late in the session. I will be pleased to respond to your questions.



the Chamber
Wichita Area Chamber of Commerce

House Economic Development Committee

April 29, 2003

Comments of Bernie Koch
Wichita Area Chamber of Commerce

Mr. Chairman, members of the committee. Thank you for the opportunity to appear here today.

I'm Bernie Koch, Vice-President for Communications & Government Relations with the Wichita Area Chamber of Commerce. We have approximately 1900 members ranging from the largest employers in the Wichita Area to the smallest. We are often perceived as being a chamber of big businesses, but 80 percent of our members have 50 or fewer employees. About 25 percent of our members have five or fewer employees.

We have had a lot of disappointing economic news in the Wichita Area over the past year and a half. More is probably on the way.

Our unemployment rate in February was 5.9 percent. 17,389 people were out of work out of a civilian labor force of 295-thousand. About one out of every four or five aircraft workers is laid off.

Cessna has furloughed 6,000 employees from June 2 through July 18th. Cessna also laid off 1,200 workers in late March. The March layoffs are not yet part of that 5.9 percent. When they are added in the unemployment rate will probably go to at least 6.3 percent.

The 6-thousand furloughed Cessna workers will be added to the unemployment figures for June and July. In addition, new high school and college graduates entering the labor force traditionally show up in the unemployment statistics. All of this could combine for a record or near-record unemployment rate this summer.

We are hoping for a softening effect from construction jobs. The Comprehensive Transportation Program and a Wichita school bond issue are expected to help.

KDOT projects \$83.5 million in Sedgwick County road work in FY 2003. \$37.9 million for Kellogg (US 54). For FY 2004, the figure is \$56.9 million. \$32.4 million is for Kellogg.

The Wichita School District construction spending from the bond issue is estimated to be \$113 million in calendar year 2003, almost as much as state road projects.

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We are ready for some good news. The proposed legislation is good news because it provides hope. The manufacturing jobs associated with Boeing 7E7 work would help shore up our employment situation for not just the near future, but for several years to come; not just for Boeing, but for those jobs that are part of the multiplier effect for manufacturing.

The measure also sends a strong signal to the rest of the country and the rest of the world that Kansas is a strong economic development competitor. It's a powerful positive message that Kansas is open for business.

Thank you for the opportunity to appear today.

**Briefing to House Economic Development Committee
Economic Impact of Aircraft Manufacturing**

Janet Harrah
Director Center for Economic Development and Business Research
Wichita State University

April 29, 2003

Good afternoon my name is Janet Harrah. I am the director of the Center for Economic Development and Business Research housed at Wichita State University. I have been asked to speak to you this afternoon about the importance of the aircraft manufacturing industry to the Wichita and Kansas economies. CEDBR has been conducting regular economic impact analyses on Boeing Wichita and the aircraft industry since 1991.

In 2002 the aircraft-manufacturing sector employed 38,800 Wichitans and 50,900 Kansans. These are among the highest paying jobs in Kansas. The average job in Kansas pays \$30,000. The average aircraft job pays more than \$50,000. Even with the downturn in the aviation industry, in 2001, aircraft manufacturing accounted for 7.2 percent of the state's payroll.

Wichita's manufacturing sector is an economic success story. Nationally, manufacturing employment has been declining for a quarter century. In 1982, there were 18.8 million manufacturing jobs accounting for 21 percent of the nation's jobs. Since that time the United States has lost 2.1 million manufacturing jobs a decline of 11 percent. Today fewer than 13 percent of Americans work in the manufacturing sector. The story for Wichita is quite different.

In 1982, 56 thousand Wichitans or 27.5 percent of the workforce had jobs in manufacturing. During the next 20 years while the nation lost manufacturing jobs, Wichita added nearly 11,000 manufacturing jobs, an increase of more than 19 percent. This success is due to the presence of our four aircraft plants.

However, these numbers tell only part of the story. The aircraft industry supports numerous jobs outside of the plants as well. Every job in an aircraft plant supports 2 additional jobs in the rest of the economy. Every dollar of aircraft industry payroll generates an additional dollar of payroll in the rest of the economy. These multiplier impacts are due, in part, to the purchase of goods and services by the aircraft plants. In 2002, the four aircraft plants in Wichita purchased supplies totaling \$692.1 million from other Kansas companies.

However, Kansas cannot take these jobs for granted. Nearly 80 percent of the work performed at the Boeing Wichita plant today did not exist 10 years ago. It is likely that 80 percent of the work performed at the Boeing Wichita plant today will not exist 10 years from now.

With continued globalization and ever changing production processes, manufacturing is undergoing constant modernization. However, this modernization process comes with a price tag. It takes a significant investment in engineering, design, employee training, facility upgrades and new equipment. For many U.S. manufacturers this modernization is only made possible through partnerships with their communities.

It is a harsh economic reality that to attract and retain large manufacturing facilities a state must compete for these highly paid jobs. Only those communities that are willing to compete for these high wage jobs by entering into mutually beneficial partnerships will continue to reap the rewards.

Additionally, past experience has shown that those states and communities with the fastest economic growth invest during economic downturns so that they are ready to take advantage of the inevitable upturn. Manufacturing has always been a cyclical business and will likely remain so in the future. Aircraft workers know this, and typically the majority waits out a downturn in the aircraft manufacturing cycle.

However, if a significant number of jobs requiring the skills of workers now in Kansas should be located in another community, laid off workers will leave the state and be unavailable when the aircraft industry picks up. A loss of several thousand skilled workers to another state would effectively permanently shrink the skilled labor pool that now attracts and retains jobs in Kansas.

The question we must answer as a state is do we want to continue to have large manufacturing facilities in Kansas? This is a policy question that can only be answered by our elected officials. If your answer is yes, then you must be willing to support the industry during the downturns as well as reap the rewards during the upturns.

Thank you for your invitation to address this committee. I will be pleased to answer your questions.

MEMORANDUM

TO: LT. GOVERNOR JOHN MOORE, KDFA PRESIDENT STEVE WEATHERFORD
FROM: REBECCA FLOYD, KDFA GENERAL COUNSEL
SUBJECT: ANALYSIS OF SENATE BILL 281/ "BOEING BONDS"
DATE: 4/29/2003
CC:

This memorandum is intended to provide some analysis and context for Senate Bill 281, which if enacted would authorize the Secretary of Commerce (the "Secretary") and Kansas Development Finance Authority ("KDFA") to enter into agreements with an "Eligible business" (the "Business") to provide certain incentives to the Business, in order to induce the Business to invest and develop in certain projects (the "Project") within the State of Kansas.

Summary Provisions of SB 281 a/k/a the economic revitalization and investment act (the "Act"):

- Defines "Eligible business" to mean a person, corporation, partnership or other entity doing business in Kansas that:
 - Paid at least \$600,000,000 in average annual gross Kansas compensation
 - paid at least \$50,000 average annual gross compensation per Kansas employee during a base eligibility period; and
 - has invested at least \$1,000,000,000 in real and tangible person property located within and currently used in the operation of a business in Kansas; and
 - is described by north American industrial classification system subsector 336411, aircraft manufacturing.
- Defines "Eligible Project" to mean a research, development, engineering or manufacturing project (A) undertaken by an eligible business relating to the development of a new or improved business component or product and may include but not be limited to product development and design, applied research, manufacturing, improvement, replacement or acquisition of real or personal property and modernization and retooling of existing property in Kansas, (B) for which the eligible business proposes to incur capital or other expenditures in direct connection with the eligible project of not less than \$500,000,000 in Kansas and (C) for which the eligible business **proposes to hire not less than 4,000 full-time employees in Kansas...**
- Authorizes the Secretary to enter into an agreement (the "Agreement") with the Business for benefits authorized by the Act.

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- The Agreement shall commit the Secretary to request KDFA to issue obligations (the "Bonds") to finance the Project for the benefit of the Business in an amount not to exceed \$500,000,000, plus costs of issuance, any costs of credit enhancement, reserve funds, and capitalized interest on the bonds.
- The Agreement shall commit the Business to pay the principal of and interest on the Bonds.

Analysis: The Bonds will be issued as taxable private activity bonds. The bond proceeds will benefit the Business, a private borrower. **Debt service on the Bonds will be entirely the responsibility and liability of the Business.** KDFA will serve as a conduit issuer, issuing the bonds on behalf of the Business who is the true borrower. **The Bonds will in no way be a debt or obligation of the State of Kansas, nor will they be payable from any general fund appropriation by the legislature. The Bonds will not be structured or marketed as State of Kansas obligations.**

- The Agreement will provide that the Business for a period of not to exceed 20 years may recapture revenue realized from withholding upon Kansas wages paid by the eligible business, to pay interest debt service on the Bonds. The withholding revenue will be credited to the special economic revitalization fund (the "Fund") and shall be transferred by the state treasurer to pay interest on the Bonds as provided by law.
- In the event that the withholding upon the Business' Kansas wages is insufficient to pay interest debt service on the Bonds, the Business is nevertheless obligated to continue to make **all** debt service payments.
- All finance terms shall be set forth in the Agreement or in the financing documents, and in the event the Business terminates, cancels or reduces the scope of the Project, the Agreement shall provide that the Business shall repay all or a portion of the withholding amounts transferred from the Fund.

Analysis: the Act appears to contemplate the circumstance that, e.g. in year 10 or 15, the Business may terminate or reduce the Project scope. The Act is written in such a way that the Agreement could provide that the Business would not have to repay the revenue it has already used from the special economic revitalization fund to pay the interest component of debt service, but the Agreement could conceivably be written to require the Business to repay any amounts captured by the Business, but not already applied to debt service, and could further prevent the Business from drawing on any additional revenues from the Fund. Conversely, if the Business were to seek Bond financing pursuant to the terms of the Agreement and initiate the Project, then decide to cancel, reduce or terminate within a few years of Project inception, the Agreement could also direct that the Business be required to return all captured revenues from the Fund regardless of whether the monies had already been applied to interest debt service on the Bonds.

- KDFA is authorized to issue Bonds for the purpose of financing the Project in a principal amount not to exceed \$500,000,000 (+ costs as specified), and the maximum maturity on the Bonds shall not exceed 20 years, unless the Secretary shall find and determine that a maturity greater than 20 years, but not to exceed 30 years is necessary for the economic feasibility of the Project.

- The State Treasurer is directed to credit all revenue collected or received from withholding upon Kansas wages from the Business to the Fund, which is created by the Act. The provisions relating to the Fund expire when all the interest debt service on the Bonds has been paid.
- The Act provides that Kansas Inc. shall prepare an annual report evaluating the cost effectiveness of various tax incentives provided to encourage economic development within the State, and the Secretary of Revenue is directed to develop a questionnaire regarding the utilization of certain tax incentives to be completed by all corporate taxpayers subject to state income tax which shall be submitted concurrently with the filing of the an annual corporate income tax return.