

MINUTES OF THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT.

The meeting was called to order by Chairman Kenny Wilk at 1:30 p.m. on May 1, 2003, in Room 522-S of the Capitol.

All members were present except:

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

Conferees appearing before the committee: Secretary Wagon, Secretary of Revenue
April Holman, Department of Research
Bill Jarrell, Boeing Wichita
Steve Weatherford, KDFa
Rebecca Floyd, Chief Counsel, KDFa
Lt. Gov. John Moore

Others attending: See attached list

Chairman Wilk opened the public hearing on **SB 281 - An Act enacting the economic revitalization and reinvestment act.**

The Chair welcomed Secretary Wagon who presented a revised fiscal note. (Attachment 1)

Chairman Wilk asked Ms. April Holman, Research Department, to explain the Senate amendments. Ms. Holman called the committee's attention to lines 40 and 41 where aircraft manufacturing was stricken so that it now reads manufacturing, and not specifically aircraft manufacturing. On page 2, line 6, it now reads invest not less than \$500,000,000.

The Chair recognized Mr. Bill Jarrell, Boeing Wichita, who spoke as a proponent for **SB 281**. Mr. Jarrell commented on the fiscal note and stated he did not know the work package Boeing could be awarded. He stressed that he believed **SB 281** did not have a real fiscal impact because if there were no jobs, there would be no payroll or withholding. He felt the spin-off jobs were not recognized, and stressed that this program provides a positive impact on the state of Kansas. He mentioned that in Section (h) on page 3 that Boeing's understanding of what double dipping meant was getting the same tax credit twice. He believes this puts a penalty on the company and suggested that paragraph (h) be stricken. He said their legal department was preparing some language for an amendment. He said that the reason this legislation was introduced was to give Kansas an opportunity to be a partner with Boeing Wichita.

The Chair asked if there was anyone else who wished to speak as a proponent or an opponent. There being none, he announced that the public hearing for **SB 281** was closed.

Chairman Wilk asked Mr. Steve Weatherford, KDFa, to walk the committee through the handout which was requested giving a scenario of total issue sources and uses. (Attachment 2)

The Chair asked Rebecca E. Floyd, Chief Counsel, KDFa., to explain the balloons added to **SB 281**. (Attachment 3)

The Chair asked Lt. Governor John Moore to assist in answering some of the committee's questions before he directed the Committee's attention back to the bill for consideration.

Due to time constraints, the meeting was adjourned at 2:45 p.m. with the idea of reconvening after the House either recessed or adjourned.

MEMORANDUM

To: Mr. Duane Goossen, Director
Division of Budget

From: Kansas Department of Revenue

Date: 05/01/2003

Subject: Senate Bill 281
Amended by Senate Committee

Brief of Bill

Senate Bill 281, as amended by Senate Committee of the Whole, creates the economic revitalization and reinvestment act.

Section 1 defines an eligible business as a person, corporation, partnership, or other entity doing business in Kansas that *satisfies conditions imposed by the secretary, which may include, among other conditions, that the person, corporation, partnership or other entity:*

- (1) Paid at least \$600 million in Kansas wages over the past three years;
- (2) Paid at least an average Kansas wage of \$50,000 over the past three years.
- (3) Has invested at least \$1 billion in Kansas property over the last three years; and
- (4) Has a NAICS code *as being a manufacturer.*

An eligible project means the research, development, engineering or manufacturing project relating to the development of a new or improved business component or product. The business must propose to *invest not less than \$500 million in Kansas* in direct connection with the eligible project of not less than \$500 million, and *employ up to 4,000 full-time employees in Kansas.*

The Secretary of Commerce and Housing may enter into an agreement with the eligible business whereby the Kansas development finance authority issues obligations not to exceed \$500 million. The eligible business must pay back the principal and interest of the bonds, except that revenue realized from withholding paid by the eligible business on Kansas wages from employees hired for the eligible project *in the amount necessary to pay the interest on such obligation* shall be credited to the special economic revitalization fund. *The maturity of the obligations are not to exceed 20 years.*

In the event the business cancels or reduces the project, the agreement shall provide *with respect to debt service, the eligible business shall remain responsible for the payment of the entire outstanding principal as well as any interest still outstanding, and no moneys remaining in the special economic revitalization fund shall be made available for the purpose of paying the remaining interest portion of the eligible business' debt service obligation.*

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Attachment 1

Interest paid on bonds issued under this act shall be subject to Kansas income tax.

The provisions of any agreement under this act shall be approved by the state finance counsel.

The legislative post audit division shall be allowed to audit the eligible project to determine if the eligible business is meeting its obligations under the act and the agreement.

The provisions of this bill will expire when the bonds are paid back. The eligible business can't claim credits allowed under K.S.A. 79-32,160a, K.S.A. 79-32,182b, K.S.A. 79-32,206, or K.S.A. 74-50,133 for any amount of investment, *employment or training* related to or computed on the basis of any investment of the proceeds of the obligations issued by this act. *Nothing in this subsection (h) shall be construed to prohibit the eligible business from receiving tax credits allowed by law for any investment not related to obligations issued pursuant to this section.*

Section 2 amends K.S.A. 74-8017 to include obligation bonds issued under the provisions of the economic revitalization reinvestment act.

The effective date of this bill is on publication in the Kansas register.

Fiscal Impact

Passage of this bill will reduce fiscal year 2004 state general fund revenues by \$10.0 million. This impact assumes the project is fully phased in during fiscal year 2004. If only 1,000 employees are brought into the project in fiscal year 2004, the fiscal impact would be about \$2.5 million.

Assuming the eligible project will employ 4,000 employees for which withholding is currently being paid to the state general fund, the impact of this bill on state general fund revenues would be \$10.0 million in fiscal year 2004. This impact estimate assumes the \$500 million in bonds will be made available immediately and not phased in over a period of time and that the employees will be eligible immediately.

Below is a chart which shows the estimated withholding that would be generated by an eligible project with total employees between 500 and 4,000.

<u>New Employees</u>		<u>Annual Wages</u>		<u>Annual Estimated Withholding</u>
4,000	\$	200,000,000	\$	10,000,000
3,500	\$	175,000,000	\$	8,750,000
3,000	\$	150,000,000	\$	7,500,000
2,500	\$	125,000,000	\$	6,250,000
2,000	\$	100,000,000	\$	5,000,000
1,500	\$	75,000,000	\$	3,750,000
1,000	\$	50,000,000	\$	2,500,000
500	\$	25,000,000	\$	1,250,000
-	\$	-	\$	-

The chart below shows the amount of withholding by fiscal year if employees for the eligible project are phased-in at 1,000 employees per fiscal year for 4 years. Wages are assumed to increase at 3% a year beginning in fiscal year 2005.

Estimated Phase-in of Project Employees

<u>Fiscal Year</u>	<u>Project Employees</u>	<u>Wages</u>	<u>Withholding</u>	<u>Bond Interest</u>
2004	1,000	\$ 50,000,000	\$ 2,500,000	
2005	2,000	\$ 103,000,000	\$ 5,150,000	
2006	3,000	\$ 159,135,000	\$ 7,956,750	
2007	4,000	\$ 218,544,000	\$ 10,927,200	
2008	4,000	\$ 225,100,000	\$ 11,255,000	
2009	4,000	\$ 231,852,000	\$ 11,592,600	
2010	4,000	\$ 238,808,000	\$ 11,940,400	

Average Wage is \$50,000

Average Withholding rate is 5.0%

Average Wage Increase of 3% each year beginning in FY 2005

Below is a table which shows the annual principal and interest payments on \$504.0 million in bonds paid over a 20 year period at an interest rate of about 6.7%.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2004 \$	15,170,000 \$	29,521,782
2005 \$	15,650,000 \$	29,042,410
2006 \$	16,200,000 \$	28,494,660
2007 \$	16,835,000 \$	27,859,620
2008 \$	17,565,000 \$	27,127,298
2009 \$	18,405,000 \$	26,287,691
2010 \$	19,340,000 \$	25,354,557
2011 \$	20,375,000 \$	24,319,867
2012 \$	21,495,000 \$	23,197,205
2013 \$	22,720,000 \$	21,976,289
2014 \$	24,045,000 \$	20,649,441
2015 \$	25,470,000 \$	19,221,168
2016 \$	27,010,000 \$	17,682,780
2017 \$	28,670,000 \$	16,024,366
2018 \$	30,460,000 \$	14,235,358
2019 \$	32,390,000 \$	12,301,148
2020 \$	34,480,000 \$	10,211,993
2021 \$	36,740,000 \$	7,953,553
2022 \$	39,185,000 \$	5,510,343
2023 \$	41,830,000 \$	2,865,355
Total	\$ 504,035,000	\$ 389,836,878

The bill as amended makes the interest on these obligations subject to Kansas income tax. The impact would be positive but the amount will depend on who purchases the bonds. Kansas income tax will be collected if the bonds are purchased by an individual who is a Kansas resident or if purchased by a business and the business is located in Kansas or has apportionable income to Kansas. If all these bonds are purchased by Kansas resident taxpayers, individual or business, assuming all \$500 million of bonds are sold immediately and not phased-in over several years, and also assuming an average rate of 5%, Kansas income tax revenues would increase about \$1.5 million.

The bill does not allow the eligible business to claim credits under K.S.A. 79-32,160a, K.S.A. 79-32,182b, K.S.A. 79-32,206, or K.S.A. 74-50,133 for any amount of investment, *employment or training* related to or computed on the basis of any investment of the proceeds of obligations issued under this act.

The eligible business would also be eligible for the IMPACT program which provides training for the eligible business for up to 90% of the withholding generated by the qualified employees. In this case the eligible business could qualify for up to \$9.0 million in IMPACT funding.

Administrative Impact

None.

Administrative Problems and Comments

The legislature should also determine whether the eligible business should participate in the IMPACT program.

The bill, as amended, makes the "eligible business" criteria discretionary with the secretary of commerce and housing and broadens the NAICS category of eligible businesses beyond aircraft manufacturing to include the entire manufacturing sector. The above fiscal impact estimate is based on the assumption that only one "eligible business" would be a participant in the economic revitalization and reinvestment act, and only one "eligible project" would be involved. The legislature should consider whether a limitation should be imposed on the number of participating "eligible businesses," "eligible projects," or total amount of withholding taxes earmarked for payment obligations contemplated under this legislation.

Taxpayer/Customer Impact

Legal Impact

None.

Approved By:

A handwritten signature in black ink that reads "Joan Wagnon". The signature is written in a cursive style with a large, looping initial "J".

Joan Wagnon
Secretary of Revenue

**\$506,340,000 Kansas Development Finance Authority
Taxable Revenue Bonds, Series to be designated
(Boeing - Aircraft Manufacturing Project)
A1 Taxable Fixed Rate - 04.30.2003
TOTAL ISSUE SOURCES AND USES**

House Economic Development
5-1-03
Attachment 2

Dated 09/01/2003

Delivered 09/01/2003

	2003 Issue	2004 Issue	2005 Issue	2006 Issue	Issue Summary
SOURCES OF FUNDS					
Par Amount of Bonds.....	\$30,380,000.00	\$162,030,000.00	\$273,420,000.00	\$40,510,000.00	\$506,340,000.00
TOTAL SOURCES.....	\$30,380,000.00	\$162,030,000.00	\$273,420,000.00	\$40,510,000.00	\$506,340,000.00
USES OF FUNDS					
Deposit to Project Construction Fund.....	30,000,000.00	160,000,000.00	270,000,000.00	40,000,000.00	500,000,000.00
Costs of Issuance.....	258,230.00	1,377,255.00	2,324,070.00	344,335.00	4,303,890.00
Total Underwriter's Discount (0.400%).....	121,520.00	648,120.00	1,093,680.00	162,040.00	2,025,360.00
Rounding Amount.....	250.00	4,625.00	2,250.00	3,625.00	10,750.00
TOTAL USES.....	\$30,380,000.00	\$162,030,000.00	\$273,420,000.00	\$40,510,000.00	\$506,340,000.00

These projections should be used for estimation purposes only. Assumptions made for these projections are based on the best available information at the time. No representation is made that these assumptions will prevail for the proposed transaction. Changes to these assumptions may have a material impact on the proposed transaction.

File = BOEING.SF-A1 Taxable Fixed Rate - 04.30.2003-Issue Summary

Kansas Development Finance Authority (MTF)

4/30/2003 12:08 PM

House Economic Development
5-1-03
Attachment 2

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**\$506,340,000 Kansas Development Finance Authority
Taxable Revenue Bonds, Series to be designated
(Boeing - Aircraft Manufacturing Project)
A1 Taxable Fixed Rate - 04.30.2003**

DEBT SERVICE SCHEDULE

Date	Principal	Coupon	Interest	Total P+I
9/01/2003	-	-	-	-
9/01/2004	-	-	1,688,302.50	1,688,302.50
9/01/2005	-	-	10,692,665.00	10,692,665.00
9/01/2006	-	-	25,887,176.50	25,887,176.50
9/01/2007	-	-	28,138,336.50	28,138,336.50
9/01/2008	23,440,000.00	3.860%	28,138,336.50	51,578,336.50
9/01/2009	24,345,000.00	4.230%	27,233,552.50	51,578,552.50
9/01/2010	25,380,000.00	4.590%	26,203,759.00	51,583,759.00
9/01/2011	26,540,000.00	4.820%	25,038,817.00	51,578,817.00
9/01/2012	27,825,000.00	5.040%	23,759,589.00	51,584,589.00
9/01/2013	29,225,000.00	5.270%	22,357,209.00	51,582,209.00
9/01/2014	30,760,000.00	5.410%	20,817,051.50	51,577,051.50
9/01/2015	32,425,000.00	5.550%	19,152,935.50	51,577,935.50
9/01/2016	34,225,000.00	5.680%	17,353,348.00	51,578,348.00
9/01/2017	36,170,000.00	5.820%	15,409,368.00	51,579,368.00
9/01/2018	38,275,000.00	5.960%	13,304,274.00	51,579,274.00
9/01/2019	40,560,000.00	6.050%	11,023,084.00	51,583,084.00
9/01/2020	43,010,000.00	6.150%	8,569,204.00	51,579,204.00
9/01/2021	45,655,000.00	6.240%	5,924,089.00	51,579,089.00
9/01/2022	48,505,000.00	6.340%	3,075,217.00	51,580,217.00
Total	506,340,000.00	-	333,766,314.50	840,106,314.50

YIELD STATISTICS

Bond Year Dollars.....	\$6,572,330.00
Average Life.....	12.980 Years
Average Coupon.....	5.0783560%
Net Interest Cost (NIC).....	5.1091725%
True Interest Cost (TIC).....	5.8099407%
Bond Yield for Arbitrage Purposes.....	5.7600491%
All Inclusive Cost (AIC).....	5.9168902%

IRS FORM 8038

Net Interest Cost.....	5.0783560%
Weighted Average Maturity.....	12.980 Years

These projections should be used for estimation purposes only. Assumptions made for these projections are based on the best available information at the time. No representation is made that these assumptions will prevail for the proposed transaction. Changes to these assumptions may have a material impact on the proposed transaction.

File = BOEING.SF-A1 Taxable Fixed Rate - 04.30.2003-Issue Summary

Kansas Development Finance Authority (MTF)

4/30/2003 12:08 PM

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May 1, 2003

VIA E-MAIL

Mr. Steve Weatherford
President
Kansas Development Finance Authority
555 South Kansas Avenue
Suite 202
Topeka, KS 66603

RE: Kansas Development Finance Authority—Bonds Authorized Under SB 281

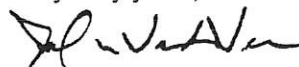
Dear Steve:

We have reviewed the provisions of Senate Bill 281 by Committee on Ways and Means, as amended by Senate Committee ("SB 281"), as of April 28, 2003. We have also suggested an amendment to SB 281, clarifying that bonds authorized thereunder are to be issued by the Kansas Development Finance Authority pursuant to the Kansas Development Finance Authority Act, K.S.A. 74-8901 et seq. (the "K DFA Act"). This letter contemplates that such amendment will be approved. We have not seen amendments to SB 281 which we understand were approved by the Senate on April 30, 2003 and this letter does not take into account those amendments.

The K DFA Act provides that it shall be plainly stated on the face of each bond that the bond has been issued under the K DFA Act, that the bonds shall be obligations only of the K DFA, and that, in no event shall the bonds constitute an indebtedness of the State of Kansas or an indebtedness for which the faith and credit or taxing powers of the State of Kansas are pledged. See K.S.A. 74-8907(c). SB 281 contemplates that the payment of principal and interest on the bonds will be made from payments by the eligible business (as defined in SB 281). In addition, payment of interest on the bonds is authorized to be made from moneys which are on deposit in the special economic revitalization fund (established in SB 281) and are transferred by the state treasurer for the payment of interest on the bonds. SB 281 does not authorize K DFA or the State to issue bonds which would be a general obligation of the State or an obligation of any State assets other than amounts available in the special economic revitalization fund, which amounts are to be derived pursuant to SB 281 from withholding on certain Kansas wages of the eligible business.

Please let us know if you have questions regarding the provisions cited in this letter.

Very truly yours,



Joel W. VanderVeen

skr
cc: Rebecca E. Floyd, Esq.
01-482835.01

House Economic Development
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Attachment 3