

MINUTES OF THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT.

The meeting was called to order by Chairman Kenny Wilk at 9:00 a.m. on May 2, 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 Rebecca Floyd, Chief Counsel, KDFA
Rae Anne Davis, Commerce and Housing:
Steve Weatherford, KDFA

Others attending: See attached list

Chairman Wilk redirected the committee's attention back to **SB 281 - An Act enacting the economic revitalization and reinvestment act.**

Chairman Wilk asked Ms. Rebecca Floyd, Chief Counsel, KDFA, to walk the committee through the amendments proposed. On page 2, line 26, to read "that the Kansas development finance authority issue bonds pursuant to the Kansas Development Finance Authority Act, K.S.A. 74-8901, et seq." In line 31, insert after the word "during" the following: the period from the issuance of such bonds through. In line 36, strike "pursuant to law" and insert "created in subsection (g)." In lines 40 and 43, strike "obligations" and substitute "bonds." On page 3, line 14, strike "obligations" and substitute "bonds." In line 17, strike "application" and substitute "eligible." In (g), line 23, add "of taxation" after the word "director." After "created" in line 25, add "in the custody of the state treasurer, but not a part of the state general fund. Distributions from the special revitalization fund shall be used to pay interest on the bonds as authorized pursuant to this act and not to be subject to appropriation. In lines 30, 35, and 43, strike "obligations" and substitute "bonds."

Representative O'Malley made a motion to approve the balloon amendment. Representative Carlin seconded. Motion passed.

Representative Kuether made a motion to change "director of taxation" on page 3, line 24, to "secretary." Representative Hill seconded. Motion passed.

The Chair asked Ms. Rae Anne Davis, Commerce and Housing, to explain the handout on the tax credits and benefits listed in **SB 281** that Representative Kuether requested. (Attachment 1)

Representative Novascone made a motion to strike (h) in Section 1 and add new (h) to read as follows:
The eligible business shall not be allowed to participate in the IMPACT act or program pursuant to K.S.A. 74-50,102 et. seq. and amendments thereto with respect to the eligible project. The secretary may include provisions in the agreement described in subsection (e) to limit or reduce the amount of eligible credits, including but not limited to those allowed pursuant to K.S.A. 79-32, 160a, 79-32,182b, or 79-32,206, on the investment of the proceeds of the obligations issued under this act. Nothing in this subsection (h) shall be construed to prohibit the eligible business from receiving credits allowed by law for any investment not related to obligations issued pursuant to this section.

Representative Kuether seconded. Motion passed.

Representative Novascone made a motion to change the two places in Section 1, (h) where the word "obligations" was used and to substitute the word "bonds" to be consistent. Representative Kuether seconded. Motion passed.

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT at 9:00 a.m. on May 2, 2003 in Room 522-S of the Capitol.

Chairman Wilk handed out another balloon which would true-up the withholding.

Representative Loganbill made a motion to insert on page 3, line 11, the following: Income tax refunds and balances due resulting from withholding upon Kansas wages paid by the eligible business pursuant to K.S.A. 79-3294 et.seq. and amendments thereto, with respect to the eligible project, shall be reconciled on at least an annual basis by a method defined in the agreement described in subsection (e). Representative Gordon seconded. Motion passed.

The Chair asked Mr. Steve Weatherford, KDFA, to explain the income tax proposal put on by the Senate which in effect penalizes Kansas investors.

Representative Burroughs made a motion to strike the Kansas income tax that the Senate amended on page 3, lines 18-20. This will make bonds tax exempt in Kansas. Representative Kuether seconded. Motion passed.

Representative Burroughs made a motion to add the following language:

Bonds issued under this section shall not be used to provide for or to increase compensation packages, rewards, bonuses, pensions, enhanced retirement, stock options, buyouts, or substantial severance pay or other financial benefits to an executive employee.

Representative Loganbill seconded. Motion failed.

Representative Krehbiel made a motion to require Kansas, Inc. questionnaires to be sent only to taxpayers utilizing tax credits and exemptions. Representative Brunk seconded. Motion passed.

Representative Brunk made a motion to clarify that interest stays in the economic revitalization fund and not go into the general fund. Representative Gordon seconded. Motion passed.

Representative Burroughs made a motion to impose a 2 year sunset on new eligible projects. Representative Kuether seconded. Motion passed.

Representative Kuether moved to pass out SB 281 favorably as amended. Representative Boyer seconded. Motion passed.

Chairman Wilk recognized Mr. Bill Jarrell, Boeing Wichita, who thanked the committee members for working this legislation on such short notice.

Chairman Wilk thanked all the committee members and staff for a productive session and for all their hard work. The meeting adjourned at 10:15 a.m.



KANSAS

DEPARTMENT OF COMMERCE & HOUSING
JOHN MOORE, LT. GOVERNOR/SECRETARY

KATHLEEN SEBELIUS, GOVERNOR

Tax Credits and Benefits Listed in SB 281

74-50,133 – High performance Incentive matching grants. No funding has been appropriated for several years for these grants and the program is obsolete. The purpose was to provide matching funds for business assistance and consulting services for qualifying firms.

79-32,160a – Income tax credit for establishment of qualified business facilities.

- **Business and Job Development Credit** to provide tax incentives throughout the state which encourage businesses to create new jobs through capital investment projects involving the building of new facilities or the expansion or renovation of existing facilities. There are two different acts within the Kansas statutes which provide an income tax credit for those businesses which make an investment and create jobs as a result of that investment.
- The **Enterprise Zone Program** to provide potential Kansas sales tax exemption and Kansas income/privilege tax credits to businesses creating net new jobs in Kansas through major capital investment projects. The EZ program helps businesses recoup, through sales tax exemption and income tax credits, some of the costs incurred by construction, expansion, or renovation of their business facilities.
- The **High Performance Incentive Program (HPIP)** offers 5 potential benefits to Kansas companies:
 - a) a 10% income tax credit for capital investment that exceeds \$50,000 at a company's qualified business facility, with a carry-forward that can be used in any of the next 10 years in which the qualified business facility re-qualifies for HPIP.
 - b) a sales tax exemption to use in conjunction with the company's capital investment at its qualified business facility.
 - c) a training tax credit of up to \$50,000.
 - d) priority consideration for access to other business assistance programs offered through the State.
 - e) grant funding for half of consulting costs, up to \$12,500, to help accelerate the growth of the business (funding for this component must be allocated by the legislature each year - no funding is currently available).

79-32,182b – Income Tax Credit for Research & Development Activity Expenditures. Allows a taxpayer who makes expenditures in research and development activities in Kansas to claim an income tax credit.

78-32,206 – Machinery & Equipment Income & Privilege Tax Credit. Any taxpayer may claim an income or privilege tax credit for personal property tax paid on commercial and industrial machinery and equipment.

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House Economic Development
5-2-03
Attachment 1

Other Department of Commerce Business Development Programs

The **Investments in Major Projects and Comprehensive Training Program (IMPACT)** provides employers seeking to relocate 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. Eligible industries include basic enterprises creating a large number of new jobs and paying higher than average wages. There are two components to the IMPACT Program: the State of Kansas Investments in Lifelong Learning (SKILL) and the Investments in Major Projects (MPI). SKILL provides eligible companies funds to train the new jobs created under the relocation or expansion. Eligible SKILL costs include on-the-job training, classroom training, curriculum development, training related travel, supplies and training equipment. MPI provides assistance to companies to defray costs associated with relocation or expansion. Eligible costs include equipment relocation, building and equipment purchases and labor recruitment. Statutorily, MPI costs are capped at 10% of the program's total funding. Wages of employees who are receiving training are not an allowable cost under IMPACT.

The **Kansas Industrial Retraining (KIR)** program is a job retention tool that assists employees of restructuring industries who are likely to be displaced because of obsolete or inadequate job skills and knowledge. Eligible industries include basic enterprises that are restructuring their operations through incorporation of new technology, diversification of production, or the development and implementation of new production activities. At least one existing employee must be trained to qualify for assistance.

The **Kansas Industrial Training (KIT)** program is a flexible workforce-training program designed to respond to the specific needs of new and expanding companies. Eligible industries include basic enterprises that are creating at least one new job, excluding the jobs of recalled workers, replacement workers, or jobs that formerly existed. The KIT program may be used to assist firms involved in both pre-employment and on-the-job training. Pre-employment training may be used to allow the company and prospective employees an opportunity to evaluate one another before making any employment commitments. Prospective employees are given the knowledge and specific skills necessary for job entry. On-the-job training is conducted after hiring. Trainees may receive instruction on the company's own production equipment on the plant floor or on similar machinery in a classroom setting.

The **Kansas Economic Opportunity Initiatives Fund (KEOIF)** provides loans for projects that create or maintain jobs and invest new capital in the state. KEOIF loans funds directly to businesses, cities, or counties. Application must be made by the supporting city or county on behalf of the business. Eligible projects include those which 1) generate new jobs and capital investment through business recruitment; 2) generate new jobs and capital investment through the major expansion of an existing business; 3) prevent the loss of jobs brought about by potential closure or out-of-state relocation of an existing business; 4) mitigate the effects of the closure of major state or federal facilities; or 5) require matching funds for significant grants. Applications approved by the Secretary are generally awarded performance based, 0% forgivable loans for a 5-year period. Annual reports are required to verify job creation and payroll performance against contractual commitments.

The **Kansas Existing Industries Expansion Program (KEIEP)** provides loans for existing business projects that create or maintain jobs and invest new capital in the state. KEIEP loans funds directly to businesses, cities, or counties. Application must be made by the supporting city or county on behalf of the business. Eligible projects include those which generate new jobs and capital investment through the expansion or renovation of

an existing business or prevent the loss of jobs brought about by potential closure or out-of-state relocation of an existing business. Applications approved by the Secretary are generally awarded performance based, 0% forgivable loans for a 5-year period. Annual reports are required to verify job creation and payroll performance against contractual commitments.