

MINUTES OF THE SENATE COMMERCE COMMITTEE.

The meeting was called to order by Chairperson Karin Brownlee at 12:00 p.m. on April 3, 2003 in Room 231-N of the Capitol.

All members were present except:

Committee staff present: April Holman, Legislative Research  
Deb Hollon, Legislative Research  
Norman Furse, Revisor of Statutes  
Mitch Rice, Revisor of Statutes  
Jodie Anspaugh, Secretary

Conferees appearing before the committee: Bernie Koch, Wichita Chamber of Commerce  
Bill Jarrell, The Boeing Company  
Wayne Maichel, AFL-CIO

Others attending: See attached list.

Chairperson Brownlee opened the hearing on SB 281. April Holman from Legislative Research briefed the committee on the bill. Ms. Holman stated that if this bill is passed, KDFA would issue \$500 million in bonds for aircraft manufacturing. To be eligible for these bonds, a business must hire a minimum of 4,000 new employees for the project. The maximum maturity of the bonds is 20 years. Senator Emler had a question about the bill on page 2, line 34, "all or a portion of." Bill Jarrell clarified that it is the responsibility of Boeing to pay the remaining portion of the interest.

Bernie Koch, Wichita Chamber of Commerce, testified as a proponent to the bill. (Attachment 1) In January, the city of Wichita had a 7.5% unemployment rate. He expects that this rate will only get worse, with Wichita potentially experiencing near-record unemployment this June or July. This legislation is very good news for workers in Wichita. This bill also sends a strong signal that Kansas is a strong economic competitor.

Bill Jarrell, Regional Director of Government Relations for The Boeing Company, testified as a proponent to the bill. (Attachment 2) Mr. Jarrell briefed the committee on current operations at Boeing Wichita, including building the complete fuselages for the 737 and the 757. They have a 1,200 acre site employing 12,000 Kansas workers. September 11, 2001 had a large effect on Boeing Wichita. The plant produced 527 airplanes in 2001, 381 in 2002, and expects to produce only 280 airplanes in 2003. This year, Boeing will announce an international team of suppliers to design and build the 7E7. Boeing Wichita is fully capable to participate in this project, but needs financial assistance in order to be chosen. SB 281 demonstrates that Kansas is a competitor. This legislation provides a fair partnership between the state and an eligible business. It is about the continuation of a strong partnership between the state and a long-standing corporate citizen. At peak production, the 7E7 program is expected to provide approximately 4,000 jobs at Boeing Wichita, generating an annual payroll of nearly \$250 million. Up to 10,000 ancillary jobs would be sustained in the Wichita area by the new work. Mr. Jarrell answered a number of questions from committee members regarding other countries competing for this project, the expected life of the project, tax withholdings, and repayment of the bonds.

Wayne Maichel, Kansas AFL-CIO, testified briefly as a proponent to the bill. He said he has thousands of trained and skilled workers who are ready to go back to work.

The committee discussed how important it is for them to see the fiscal note of the bill. Senator Kerr explained that the theoretical fiscal note is zero.

Janet Harrah, Center for Economic Development and Business Research, submitted written testimony in

CONTINUATION SHEET

MINUTES OF THE SENATE COMMERCE COMMITTEE at 12:00 p.m. on April 3, 2003 in Room 231-N of the Capitol.

support of the bill. (Attachment 3)

Chairperson Brownlee closed the hearing on SB 281. Rebecca Floyd from KDFA explained how the bonds would work. They will be taxable bonds. Without this bill, KDFA would probably not venture into issuing this type of bond.

Senator Kerr offered a balloon attachment with technical amendments. (Attachment 4) Senator Brownlee announced that, due to time constraints, the committee will need to meet tomorrow to consider these amendments and to work this bill.

The meeting was adjourned at 1:00 p.m.

SENATE COMMERCE COMMITTEE

GUEST LIST

DATE: Thursday, April 3, 2003

NAME	REPRESENTING
Bill Jancee	BOEING
John Fubrich	Boeing
Eric Forts	WSCO
Bernie Koch	Wichita Area Chamber
Ngatete Bufit	WIBA / REAP
REBECCA FLOYD	KDFA
Mark Herr	KDFA
Ann Dukes	DOB
Stephanie Buchanan	DOB
Kelly Tunford	Dept of Commerce & Hosp.
J. D. Connor	Secy KDHR
RaeAnne Davis	KDOCAH
Wayn Maecher	ZS AFL-CIO
Terry Leatherman	KCCI
John Robinson	H. Governor's Ofc.
Clay Moore	Lt Gov.
Bud Peterson	Teacher
John Peterson	H's Governmental Consult'g
Andy Shaw	Shaw's Fire & Rubber Co.
Charles Konson	Konson, Inc.
Mark & Bahl	Senate
Sue Kische	Senate



**Senate Commerce Committee  
April 3, 2003**

**Testimony of Bernie Koch  
Wichita Area Chamber of Commerce  
Senate Bill 281**

Senator Brownlee and members of the committee, I'm Bernie Koch with the Wichita Area Chamber of Commerce appearing with brief remarks in support of Senate Bill 281.

We have had a lot of bad economic news in the Wichita area over the past year and a half. More is probably on the way. The 6,000 Cessna employees furloughed from June 2 through July 18 will become part of the unemployment statistics for June and July. Add to that the 1,200 Cessna layoffs that took effect last week. 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 ready for some good news and this legislation is good news in that 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.

This 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. That message has already been received in the State of Washington and other places in the short time since this matter came up last week. This is a powerful message about our state.

We urge your favorable consideration of this bill. Thank you for the opportunity to appear.

Senate Commerce Committee  
4-3-03  
Attachment 1

**Legislative Testimony (SB 281)  
Senate Commerce Committee  
April 3, 2003**

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

Senator Brownlee 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.

In 2003, Boeing will announce an international team of suppliers (both internal and external to the company) to 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.

Senate Commerce Committee

4-3-03

Attachment 2-1

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 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 is expected to provide approximately 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. This legislation provides a win for the state, a win for Boeing and a win for our workers and communities.

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

**Briefing to the Kansas Legislature  
Economic Impact of Aircraft Manufacturing**

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

April 2, 2003

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 morning about the importance of the aircraft manufacturing industry to the Wichita and Kansas economies.

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.

Senate Commerce Committee  
4-3-03  
Attachment 3-1

Testimony by Janet Harrah (Aircraft Manufacturing) - continued

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.



**SENATE BILL No. 281**

By Committee on Ways and Means

4-2

AN ACT enacting the economic revitalization and reinvestment act; relating to the secretary of commerce and Kansas development finance authority; authorizing the issuance of bonds for certain economic development purposes.

*Be it enacted by the Legislature of the State of Kansas:*

Section 1. (a) The provisions of this section shall be known and may be cited as the "economic revitalization and reinvestment act."

(b) The purpose of the economic revitalization and reinvestment act is to foster Kansas employment by encouraging product development and engineering leading to new manufactured products in Kansas.

(c) As used in this act:

(1) "Base eligibility period" means the three taxable years immediately preceding the date of application for benefits under this act.

(2) "Eligible business" means a person, corporation, partnership or other entity doing business in Kansas that:

(A) Paid at least \$600,000,000 in average annual gross Kansas compensation, according to reports filed with the secretary of human resources, during the base eligibility period; and

(B) paid at least \$50,000 of average annual gross compensation per Kansas employee during the base eligibility period; and

(C) has invested at least \$1,000,000,000 in real and tangible personal property located within and currently used in the operation of a business in Kansas; and

(D) is described by north American industrial classification system subsector 336411, aircraft manufacturing.

(3) "Eligible project" means 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

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1 eligible business proposes to hire not less than 4,000 full-time employees  
2 in Kansas, as defined in K.S.A. 74-50,114 and amendments thereto.

3 (4) "Gross compensation" means gross wages and benefits paid to or  
4 on behalf of employees receiving wages.

5 (5) "Secretary" means the secretary of commerce and housing.

6 (d) A person, corporation, partnership or other entity proposing to  
7 undertake an eligible project may apply to the secretary to enter into an  
8 agreement for benefits under this act. The application shall include (1)  
9 evidence that the applicant is an "eligible business" as defined in subsec-  
10 tion (c)(2) and a detailed description of the eligible project.

(2)

11 (e) Upon receipt of an application described in subsection (d), if the  
12 secretary finds that the application is from an eligible business and that  
13 the project constitutes an eligible project, the secretary may enter into  
14 an agreement with the eligible business for benefits under this act. The  
15 agreement shall commit the secretary to request that the Kansas devel-  
16 opment finance authority issue obligations to finance the eligible project  
17 for the benefit of the eligible business in an aggregate principal amount  
18 not to exceed \$500,000,000, plus costs of issuance, costs of credit en-  
19 hancement, reserve funds and capitalized interest, and shall commit the  
20 eligible business to pay the principal of and interest on such obligations,  
21 except that revenue realized from withholding upon Kansas wages paid  
22 by the eligible business pursuant to K.S.A. 79-3924 *et seq.* and amend-  
23 ments thereto, with respect to the eligible project shall be credited to the  
24 special economic revitalization fund pursuant to law, and shall be trans-  
25 ferred by the state treasurer to pay interest on such obligations as pro-  
26 vided by law. The agreement shall further specifically provide that if the  
27 revenue from the withholding upon Kansas wages is insufficient to pay  
28 interest on the obligations, the eligible business shall remain obligated to  
29 make such payments. The terms and conditions with respect to the ob-  
30 ligations shall be set forth in the agreement or in the financing documents  
31 relating to the issuance of the obligations. In the event the eligible busi-  
32 ness terminates, cancels or reduces the scope of the eligible project ap-  
33 proved by the secretary, the agreement shall provide that the eligible  
34 business shall repay all or a portion of amounts transferred from the  
35 special economic revitalization fund.

36 (f) The Kansas development finance authority is hereby authorized  
37 to issue obligations, for the purpose of financing the eligible project pro-  
38 vided in subsection (e), in a principal amount not to exceed the amount  
39 specified in subsection (e). The maximum maturity of obligations issued  
40 pursuant to this act shall be 20 years, unless the secretary shall find and  
41 determine that a maturity greater than 20 years, but in no event greater  
42 than 30 years, is necessary for economic feasibility of the application pro-  
43 ject of the eligible business.

4-3

1 (g) The state treasurer shall credit all revenue collected or received  
 2 from withholding upon Kansas wages paid by a taxpayer which is an eli-  
 3 gible business with respect to an eligible project, as certified by the di-  
 4 rector, to the special economic revitalization fund, which fund is hereby  
 5 created. The provisions of this section shall expire when all interest on  
 6 obligations issued for the purpose of financing all or a portion of the costs  
 7 of an eligible project has been paid. Moneys credited to the special ec-  
 8 onomic revitalization fund in accordance with the foregoing provisions [of  
 9 the section] shall be distributed to or on the order of the Kansas devel-  
 10 opment finance authority to pay interest on obligations issued to finance  
 11 an eligible project. The state treasurer shall make such distributions on  
 12 such dates as mutually agreed to by the Kansas development finance  
 13 authority and the state treasurer. The total of all distributions under this  
 14 section shall not exceed an amount determined to be sufficient to pay the  
 15 interest on such obligations.

[ , the paying agent for such obligations

16 (h) The eligible business shall not be allowed credits pursuant to  
 17 K.S.A. 79-32,160a and amendments thereto, for any amount of invest-  
 18 ment related to or computed on the basis of any investment of the pro-  
 19 ceeds of obligations issued pursuant to this act.

20 Sec. 2. This act shall take effect and be in force from and after its  
 21 publication in the Kansas register.

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