

MINUTES OF THE HOUSE TAXATION COMMITTEE

The meeting was called to order by Vice Chairman David Huff at 9:15 A.M. on February 11, 2005 in Room 519-S of the Capitol.

All members were present except:

Representative Paul Davis- excused
Representative Pat George- excused
Representative Mario Goico- excused
Representative Lana Gordon- excused
Representative Nancy Kirk- excused
Representative Bruce Larkin- excused
Representative Thomas Owens- excused

Committee staff present:

Chris Courtwright, Legislative Research Department
Martha Dorsey, Legislative Research Department
Gordon Self, Revisor of Statutes
Richard Cram, Department of Revenue
Rose Marie Glatt, Committee Secretary

Conferees appearing before the committee:

Senator Pete Brungardt
Jim Gregory, James Gregory Consultancy
Gerald Cook, Salina Area Chamber of Commerce
Tim Rogers, Salina Airport Authority
*Marlee Carpenter, Vice President of Government Affairs, The Kansas Chamber
*written testimony only

Others attending:

See attached list.

The Chairman opened the floor for bill introductions.

Representative Thull introduced a bill regarding the Sedgewick County Law Library. Representative Treaster seconded the motion. The motion carried.

HB 2102 - Sales tax exemption for construction of facility conveyed to business qualifying for sales tax exemptions

Mr. Courtwright stated that the bill would provide for a slight expansion of a sales tax exemption relative to manufacturing businesses that are located within an enterprise zone. Purchases associated with construction, re-construction, remodeling or enlarging facilities for these businesses are already sales tax exempt if they are located within an enterprise zone and if the company is leasing space from an economic development corporation. **HB 2102** relates to a situation in Salina where the company would otherwise qualify for the exemption, however they do not want to enter into a lease arrangement, but own that facility. This would be limited to the Salina project only and on purchases made on/after the effective date of the bill, and would sunset April 1, 2007. The fiscal note is unknown at this time.

The Vice Chairman opened the public hearing on **HB 2102**.

Senator Pete Brungardt, appeared before the Committee, in support on the bill (Attachment 1). It is an attempt to apply the spirit and intent of the current statutes to a slightly altered circumstance. Vortex, a very successful business in Salina, wants to build a bigger new facility in conjunction with the Salina Airport Authority, however instead of leasing they want to own the facility.

Jim Gregory, James Gregory Consultancy, rose in support on **HB 2102** (Attachment 2). He introduced two individuals to speak on behalf of the bill - Gerald Cook, from the business community and Tim Rogers, from the perspective of a government entity. He also called attention to the written testimony of Marlee Carpenter, from The Kansas Chamber (Attachment 3).

CONTINUATION SHEET

MINUTES OF THE House Taxation Committee at 9:00 A.M. on February 11, 2005 in Room 519-S of the Capitol.

Gerald Cook, testified on behalf of the Salina Area Chamber of Commerce and the Salina Economic Development Corporation and urged the Committee's favorable consideration of **HB 2102** (Attachment 4). The legislation would permit the transfer of ownership of a new manufacturing facility, that the Salina Economic Development would construct for their benefit. Immediate transfer of ownership to the company on completion of construction would allow the company to utilize the Federal 1031 exchange and accomplish the community and state goal of company ownership of production facilities. The new facility would provide the company with significant room for future expansion and help solidify its future in Salina.

Tim Rogers, Salina Airport Authority rose in support of **HB 2102** (Attachment 5). He stated that Salina Vortex Corporation was a worldwide leader in the manufacturing of slide gates and valves for handling bulk material for all dry and bulk industries. They have been a stellar tenant at the Salina Airport Industrial Center for over twenty-five years and the bill was an important component to a process that will enable Salina Vortex to build and own a new corporate headquarters and manufacturing campus.

A question was raised regarding why the bill was limited to Salina. Mr. Cram gave the background of the bill and expressed the Department's concern over the fiscal note if this exemption would be extended statewide, thus creating a potential loss of sales tax revenue to the state. It was suggested that a viable alternative might be to possibly narrow the language, with the intention to make it statewide, and to include protection of the exemption through a long term contract requirement. The Chairman stated that the reason behind the exclusivity of the bill to Salina was that it provided a clean bill, easier to process, with a sunset in place, consequently, they haven't made legislation that may have future unintended consequences.

Further discussions followed regarding: definition of economic development corporation, the intent of the original bill, improvement and expansion projects of Vortex, ownership of land used as building site, importance of a long-term commitment to protect the sales tax exemption and scenarios in which abuse of the law could occur.

The Vice Chairman closed the hearing on **HB 2102**.

Chairman Wilk announced a Conference Committee on **SB 23** at 3:00 p.m., February 14 in the Senate Majority's office. Conferees: (Representatives Wilk, Huff and Thull). **SB 23** should be on its way to the Governor by February 18. He explained the process of action for a bill. After the conference committee, and the required signatures are secured, it proceeds to the Governor. She has 10 days to sign the bill, after which it is published in the Kansas Register. An approximate time frame would be mid-march for the bill to take effect. The refund forms are being drafted and would be available on the Department of Revenue's website as well as the County Treasurer's offices. The Chairman requested that the Department of Revenue develop procedural guidelines that would be given to the Representatives for their use and inclusion in newsletters.

The Vice Chairman adjourned the meeting at 10:10 a.m. The next meeting is February 15, 2005.

HOUSE TAXATION COMMITTEE GUEST LIST

DATE: February 11, 2005

NAME	REPRESENTING
Timothy J. Rogers	Salina Airport Authority
Bill Cook	Salina Area Chamber of Commerce
Jim Greer	Salina Area Chamber of Commerce
Shirley Allen	Salina Airport Authority
Bud Burke	Cessna Aircraft Co.

PETE BRUNGARDT

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TOPEKA

SENATE CHAMBER

COMMITTEE ASSIGNMENTS

CHAIR: FEDERAL AND STATE AFFAIRS
VICE CHAIR: HEALTH CARE STRATEGIES
MEMBER: FINANCIAL INSTITUTIONS
AND INSURANCE
PUBLIC HEALTH AND WELFARE
ORGANIZATION, CALENDAR
AND RULES

INTERIM COMMITTEES:
CORRECTIONS AND JUVENILE
JUSTICE OVERSIGHT
STATE-TRIBAL RELATIONS

**Testimony for the House Committee on Taxation
Friday, February 11, 2005**

Good morning Chairman Wilk and members of the House committee on Taxation. **HB 2102** is an attempt to apply the spirit and intent of our current statutes to a slightly altered circumstance.

We allow a manufacturing company to obtain a sales tax exemption when building a facility. This encourages business expansion and economic development. Our statute addresses the usual situation where a company leases a space from an economic development corporation.

In Salina a very successful business, Salina Vortex, is working with the Salina Airport Authority to build a bigger new facility. The only twist is that Vortex wants to own the facility.

The minor amendment to amend the statute would permit that ownership while granting the sales tax exemption on materials and services purchased in the construction of that plant.

I'm sure others will provide more detail.

I would be happy to stand for questions.

Pete Brungardt
State Senator
District #24

Hs Taxation Committee
February 11, 2005
Attachment 1

**Testimony
Kansas House of Representatives
Taxation Committee
February 11, 2005**

Mr. Chairman, Committee Members:

My name is Jim Gregory of James Gregory Consultancy with offices in Wichita and Topeka. I appear today in support of HB 2102 and to introduce two conferees this morning. I would also point out that The Kansas Chamber of Commerce has submitted testimony in support of HB 2102.

I would like to present two individuals to speak on behalf of this legislation – one from the business community, and the other from the public sector.

First is Gerald Cook, president of the Salina Area Chamber of Commerce and the Salina Economic Development Corporation. Mr. Cook can address the committee from the Salina business perspective.

Next to appear will be Tim Rogers, executive director of the Salina Airport Authority. Mr. Rogers will be speaking from the perspective of the government entity, which operates the Salina Municipal Airport and the Salina Airport Industrial Center.

Thank you.

Hs Taxation Committee
February 11, 2005

Salina Vortex Corporation Salina Airport Industrial Center Salina Chamber of Commerce

New Corporate Headquarters and Manufacturing Campus

Salina Vortex Corporation requests an amendment to Kansas statutes to enable the company to build and own a new corporate headquarters and manufacturing campus, while taking advantage of a sales tax exemption for new construction. Current Kansas law prohibits the company from owning the building constructed by an economic development corporation vs. leasing it from an economic development corporation in order to obtain the benefit of the sales tax exemption on the new construction.

\$3.5-\$4 Million Investment

Salina Vortex Corporation's proposed new worldwide corporate headquarters and manufacturing complex will be 105,000 square feet of new construction on a 17-acre parcel of land to be purchased from the Salina Airport Industrial Center. Total investment by the company in its Kansas headquarters/manufacturing campus will be \$3.5-\$4 million with 85 employees. Salina Vortex's investment decision is contingent upon obtaining the amendment.

Premier Kansas Exporter

Salina Vortex is an industry-leading manufacturer of slide gates and valves for handling dry bulk material for all dry bulk industries. Fully 90% of the company's annual revenue of more than \$10 million comes from outside Kansas, including 15% from international export sales. It directly competes for sales with manufacturing companies in North America and Europe.

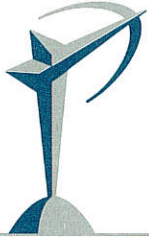
Suggested Amendment to K.S.A. 74-50,115(d)

House Bill 2102 (attached) amends K.S.A. 74-50,115(d) to permit Salina Vortex to build and own a new corporate headquarters and manufacturing campus, while taking advantage of a sales tax exemption for new construction. HB 2102 is effective upon publication in the Kansas register and sunsets in 2007.

Promoting Economic Development Ownership

Under existing statutes, if Salina Vortex leased the building from a third party rather than owning it, it would be entitled to better tax treatment for its substantial investment in the Kansas economy. The statutes should be amended to promote more permanent corporate ownership in new and expanded headquarters and manufacturing facilities.

2005



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Legislative Testimony

HB 2102

February 11, 2005

**Testimony before the Kansas House Taxation Committee
By Marlee Carpenter, Vice President of Government Affairs**

The Kansas Chamber of Commerce supports HB 2102. This legislation gives the Salina Economic Development Corporation the ability to transfer title of a proposed new corporate headquarters and new manufacturing plant to Salina Vortex Corporation. Salina Vortex is a homegrown and owned industry and HB 2102 will permit the company to benefit from the usual sales tax exemption on new construction.

Current law prescribes that the sales tax exemption is only available to a company that leases the property from an economic development corporation. The Kansas Chamber supports this change, which is applicable to Salina and will sunset in 2007, as a way to encourage permanent Kansas corporate ownership of a new corporate headquarters and plant.

The Kansas Chamber, with headquarters in Topeka, is the statewide business advocacy group moving Kansas towards becoming the best state in America to do business. The Kansas Chamber and its affiliate organization, The Kansas Chamber Federation, have more than 10,000 member businesses, including local and regional chambers of commerce and trade organizations. The Chamber represents small, medium and large employers.

Hs Taxation Committee
February 11, 2005
Attachment 3

**Salina Area Chamber of Commerce
Salina Economic Development Corporation**

Testimony to:
Kansas House of Representatives
Taxation Committee
February 11, 2005

Mr. Chairman and Distinguished Committee Members,

My name is Gerald Cook. I am the President of the Salina Area Chamber of Commerce and the Salina Economic Development Corporation, and I am here on behalf of these organizations to urge your favorable consideration of HB 2102.

This legislation will permit the transfer of ownership of a new manufacturing facility and corporate headquarters from the Salina Economic Development Corporation to Salina Vortex Corporation, while preserving the sales tax exemption on new plant construction already available.

HB 2102 amends K.S.A. 74-50,115(d) by waiving the five-year lease rule, which prescribes that a company must lease a facility for a minimum of five years in order to receive the benefit of sales tax exemption on the costs associated with the construction of a new facility. Immediate transfer of ownership to the company on completion of construction allows the company to utilize the federal 1031 exchange and accomplishes the community and state goal of company ownership of production facilities. A 1031 exchange also enables the company to invest more in capital equipment than would otherwise be possible. The promotion of permanent corporate ownership in new manufacturing facilities and headquarters is a continuing goal of the Salina community and a positive direction for the State.

As written, this bill is applicable only to Salina and will sunset in two years.

Salina Vortex Corporation is a Salina owned and grown company that produces precision gate valves used in dry material handling. The company has grown from local, to regional, to national, and to international in market penetration. The international market place is growing larger as monetary exchange rates become more advantageous for U.S. and Kansas companies. This new 105,000 square feet, \$3.5-\$4.0 million, manufacturing facility and corporate headquarters, to be located in the Salina Airport Industrial Center, will provide the company with state of the art facilities and new manufacturing processes in which to better compete in the world market. The new facility will provide the company with significant room for future expansion and helps solidify its future in Salina.

Thank you for the opportunity to present to you today and for your consideration of this important economic development legislation.

**Written Testimony Before the
Kansas House of Representatives
Taxation Committee**

By

**Timothy F. Rogers, A.A.E.
Executive Director
Salina Airport Authority**

Friday, February 11, 2005

HB 2102

Good Morning Mr. Chairman and members of the Committee. Thank you for the opportunity to appear before you and present the Salina Airport Authority's views concerning HB 2102.

If approved by the Kansas Legislature, this bill will facilitate the further growth and expansion of a Kansas owned and based company that traces its roots back to the early pioneers who settled the great State of Kansas.

Salina Vortex Corporation is a worldwide leader in the manufacturing of slide gates and valves for handling bulk material for all dry and bulk industries. Your morning cup of coffee, and bowl of cereal was made possible by Salina Vortex products. Please read the attached Exhibit A for more details on how Salina Vortex and its employees worked hard to make your day a better one.

For over 25 years, Salina Vortex has been one of the Airport Authority's most stellar tenants. The Airport Authority and Vortex have worked together to

grow & develop the corporation's current facility, which is located at the Salina Airport Industrial Center. The current 60,000 + sq. ft. facility sits on 3.2 acres of land. Vortex has outgrown this facility and is not able to construct additional expansions on the 3.2 acre site. The fact of the matter is that the current facility has become functionally obsolete for Vortex's purposes.

In order to remain competitive in today's world economy, Salina Vortex must expand and modernize its manufacturing facility. Since expansion at its current site is not a possibility, the corporation has selected a 17 acre site located in the southern portion of the Salina Airport Industrial Center. It is upon this site with access to the newly constructed I-135 and Waterwell Road interchange that Vortex wants to invest for its future growth. Salina Vortex wants to own its new state of the art manufacturing facility, which demonstrates the company's commitment to Salina and Kansas.

Kansas settlers pioneered the states world renowned wheat industry. Those that followed set up flourmills that turned Kansas wheat into flour for shipment worldwide. Our state's milling industry gave rise to companies such as Salina Vortex that developed expertise in handling dry bulk materials such as flour. Salina Vortex is a Kansas legacy manufacturing firm that is an acknowledged leader in its manufacturing specialty. The corporation's future growth is good for Salina and the State.

The Salina Airport Authority supports HB 2102 since it is an important component to a process that will enable Salina Vortex to build and own a new corporate headquarters and manufacturing campus. Approval of the bill by the

Kansas Legislature will lead to increased payroll and jobs that will benefit Salina and Kansas.

Thank you for your time and attention to this issue. I would be pleased to answer your questions.

The Salina Airport Authority operates the Salina Municipal Airport and the Salina Airport Industrial Center where over 4,500 employees work for more than 70 businesses and organizations. Employers such as Tony's Pizza Service, Inc. Raytheon Aircraft Company's Salina Division, Eldorado National of Kansas, Inc., Love Box Company, Kansas State University-Salina College of Technology and Aviation, Kansas Army National Guard, Salina Vortex Corporation, Ovation Cabinetry, Inc., Power Ad Company and the Occupational Center of Central Kansas, Inc., contribute more than \$120 million in annual payroll to the Salina economy. The Salina Airport and Airport Industrial Center are integral components to the region's economy and the state's economic development efforts.

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What Is Salina VORTEX?

As explained by company president Lee Young

"Many people ask: 'What does Salina Vortex do?' The answer can create more questions than it answers. The following narrative will help you understand what we do and how we are a part of your daily life.

At Salina Vortex, "We don't make the products, we help make them better." We help our customers make their products more efficiently, with less cost, providing a cleaner environment and a safer work place. We manufacture slide gates, diverter valves and iris valves for controlling the flow of dry bulk materials ranging from valves as small as 5/8" in diameter to as large as 72" square.

We are unknown to you, but a part of your daily life. When you awoke this morning you probably slept on a mattress filled with fiber fluff processed by a company using our products. You jumped into the shower and turned on a faucet made by a manufacturer who required large damper valves made in Salina for dust control in their foundry. You reached for that bar of soap made by a company who used our gate valves to meter the flow of phosphates into their manufacturing process.

After that refreshing shower you then walked into the kitchen for that first cup of coffee specially blended with the use of our patented gate valves with dribble feed controls. You don't like your coffee black so you stirred a sweetener into your coffee, took a bite of your Danish and smelled the aroma coming from your hot oatmeal, all processed using our valves.

As you walked out the front door you noticed how nice your new floor tile looked, not knowing that someone in Salina played a part in its manufacture. It snowed last night and you noticed the side walk was slick; not thinking about the fact the cement came from a company who needed a gate valve to shut off the flow of potash used in its manufacture.

The cold morning air hit your face and it made you glad you took your antibiotic last night, not knowing that a special all stainless steel valve was needed in its manufacture.

You hurry out to your new car and admire its paint job and wonder how they can make it look so good and maybe wonder if the painting

process was environmentally safe. It was made safe by a paint overspray collection system made possible by unique valves made in Salina.

As you get into your car you think those new tires should give you plenty of traction on the wet streets this morning--their manufacture made possible by special valves for handling carbon black.

Driving to work you think about your full day as you listen to your new compact disk, not knowing the aluminum disk and its polycarbonate coating were processed using diverter valves and gate valves from Salina, Kansas. As you drive to work you pull several photo copies of today's itinerary from your brief case, reading as you drive but not knowing how the copy toner was manufactured using a Salina produced product.

You pull up into your parking place at work, step out and breathe in the morning air, thinking it's great to live in Kansas with its fresh air and not noticing an Environmental Protection Agency aircraft passing overhead with a Salina Vortex diverter valve in its nose cone collecting air quality samples for testing.

As you can see, before you get to work people in Salina have worked hard to make your day a better one!"

* * * * *

Salina Vortex currently has 16 product lines encompassing over 700 standard sizes and configurations which can be modified over **500 million** different ways to meet customer's needs.

Salina Vortex currently provides job opportunities for 90 families living in the Salina area.

For further information contact:

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