

MINUTES OF THE SENATE COMMERCE COMMITTEE

The meeting was called to order by Chairperson Nick Jordan at 8:35 A.M. on March 8, 2005 in Room 123-S of the Capitol.

All members were present except:
Susan Wagle- excused

Committee staff present:
Kathie Sparks, Kansas Legislative Research Department
Helen Pedigo, Revisor of Statutes
Jackie Lunn, Committee Secretary

Conferees appearing before the committee:
Representative Ann Mah
Senator Anthony Hensley
Christi Caldwell, Greater Topeka Chamber of Commerce
Doug Kinsinger, Greater Topeka Chamber of Commerce
Mike O'Brien, Vice President, Manufacturing Americus
Vic Miller, Chairman Shawnee County Commission
Steve Rothrock, Whiteley's Pallett

Others attending:
See attached list.

Chairperson Jordan opened the meeting by introducing Kathie Sparks to explain **HB 2265**. Ms. Sparks explained the Supplemental Note on **HB 2265**. She stated **HB 2265** would create the Qualified Manufacturer Act. Under the provisions of the Act, a manufacturer could receive up to \$1.0 million in Kansas income tax withholding paid by the manufacturer to its employees. The maximum period is four years. A qualified manufacturer is a person, corporation, partnership or other entity engaged in the production of cellulose film in Shawnee County, Kansas, and meets the requirements set forth.

Upon completion of Ms. Sparks explanation of the Supplemental Note on **HB 2265** Chairperson Jordan opened the hearing on **HB 2265** by introducing Representative Ann Mah to give her testimony.

Representative Mah stated supporting **HB 2265** would be an opportunity to save jobs and help the economy in Kansas with rewards for both the state of Kansas and the nation. She asked the Committee to pass HB 2265 out favorably. Representative Mah offered written testimony. (Attachment 1)

Chairperson Jordan introduced Senator Anthony Hensley to give his testimony in favor of **HB 2265**. Senator Hensley stated this was not just a Shawnee County issue. This facility employed people who live in other counties in the state who commute. Senator Hensley gave a brief history of this bill and stated this is a jobs retention bill. There are 190 full time jobs that can be retained. He stated House discussion included the information that the local authorities have also invested money into this project.. This is retaining a long time employer who will continue to retain long time employees. If the plant closes it would be very difficult for these employees of Innovia Films to find other jobs. Senator asked the Committee to help retain these jobs and vote in favor of **HB 2265**. Senator Hensley offered cleanup amendments to **HB 2265** which were suggested by the Department of Revenue. (Attachment 2) In closing Senator Hensley explained the amendments to the Committee.

A discussion followed Senator Hensley's testimony regarding the closing of one of the plants. Senator Hensley referred the Committee to Mr. O'Brien, plant manager of Innovia. He stated that when the plant sold to the new company, a study was done that produced information that one of the plants needed to be closed. The company owns two plants in Great Britain and one in Kansas. The decision has not been made as of this time.

Chairperson Jordan introduced Christi Caldwell, Topeka Chamber of Commerce. Ms. Caldwell introduced the remaining conferees to testify, starting with Doug Kinsinger, President, Greater Topeka Chamber of Commerce. Mr. Kinsinger stated a package of incentives have been put together from several sources, local,

CONTINUATION SHEET

MINUTES OF THE Senate Commerce Committee at 8:35 A.M. on March 8, 2005 in Room 123-S of the Capitol.

federal and state, to keep this plant in Kansas. Mr. Kinsinger reviewed the funding package. In closing Mr. Kinsinger stated if Innovia stays here in Kansas there has been serious interest by a technology company in the eastern US who desires to relocate adjacent to Innovia, as long as they are in production. This company utilizes portions of their raw material-viscose and is to a point of relocating their productions closer to the plant. This technology firm could add 35 additional high wage positions in the state of Kansas. Mr. Kinsinger offered written testimony. (Attachment 3)

Upon completion of Mr. Kinsinger's testimony there was discussion by the Committee. Senator Barone has concerns in regards to requiring this company to close a plant in Great Britain before they would receive the incentives. Mr. O'Brien stated if they did not close a plant in Great Britain then they would close the one in Kansas because they will close one plant. The Committee was not sure if language requiring a plant in Great Britain be closed is proper. The discussion continued regarding the language of the bill. Senator Barone and Senator Wysong would like the language removed from the bill that was forcing a plant to be closed in Great Britain. Senator Hensley explained that the House amended the bill to change the language from foreign country to Great Britain. Senator Reitz entered the discussion and is also concerned with the Kansas Legislature stating a company had to close one of the plants in Great Britain. The discussion continued and there was also concern there was no guarantee these jobs would still be in Kansas in years to come.

Chairperson Jordan introduced Michael O'Brien, Innovia Plant Manager. Mr. O'Brien offered written testimony, (Attachment 4) Mr. O'Brien gave a history of cellophane stating cellophane wrapped products never go moldy and stay fresh. When the business sold there were 3 plants doing the work of 2 ½ plants. The company decided that one plant would need to be closed and one of the remaining would be increased to carry the load of production. Mr. O'Brien stated the site in Kansas has been in operation for a long time. Mr. O'Brien believes the cellophane market is here to stay. He stated he understands that one plant must close and will work as hard as he can to keep his plant in Kansas open.

Chairperson Jordan introduced Vic Miller, Shawnee County Commissioner, 2nd District. Commissioner Miller urged the Committee, on behalf of the Topeka City Commission, to approve **HB 2265**. He stated Shawnee County cannot afford to lose long-term, established employers out the back door. Passing this bill gives an opportunity to keep good paying jobs, with benefits in Shawnee County, and in the US. In closing he stated it would be very difficult for these workers to find similar employment and they could require state assistance to survive. He urged the Committee to help by passing this legislation and together work with Innovia to increase their production of cellophane and position them for future growth that will be in all our best interests. Commissioner Miller presented written testimony. (Attachment 5)

Chairperson Jordan introduced Steve Rothrock, Vice President, Whiteley's Pallet, to give his testimony in support of **HB 2265**. Mr. Rothrock stated Innovia Films is a major part of his business and if they close the plant, it is very probable that he would have to close his company. He stated that closing his doors would affect others such as the wood supplier located in Belvue, Kansas. The wood supplier might have to lay off employees also. In closing Mr. Rothrock urged the Committee to support this bill stating the closing of this plant would not only affect Innovia but others across the state as well. Mr. Rothrock presented written testimony (Attachment 6)

A short discussion occurred upon the completion of Mr. Rothrock's testimony regarding international trade agreements, exports and imports at a national level with the Federal Government.

Chairperson Jordan closed the hearing on **HB 2265**. The meeting was adjourned at 9:25 a.m. with the next meeting scheduled for Wednesday, March 9, 2005 at 8:30 a.m. in room 123 S.

ANN E. MAH

REPRESENTATIVE, 53RD DISTRICT
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COMMITTEE ASSIGNMENTS

EDUCATION
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HOUSE OF
 REPRESENTATIVES

Testimony on HB 2265
 Senate Commerce Committee
 Sen. Brownlee - Chair

Thank you for allowing me to testify today on behalf of my constituents and Innovia Films. We talk a great deal around here about public-private partnerships, about saving jobs and helping the economy. We tell our constituents that we will fight to keep Kansas jobs in Kansas. Seldom do we have the opportunity to make good on that promise. This is one of those opportunities and I'm asking you to say yes to a proposal that will reap rewards for both our state and nation.

Innovia Films is an international company that is in the position of needing to close one of its three plants to meet market demand and improve efficiency. They have two plants in England and one here in Tecumseh, just outside of Topeka. They had more reasons to close our Tecumseh plant than to keep it open. If that had happened we would have lost not just the \$10 million annual payroll, not just the additional \$5 million in employee benefits, and not just the nearly 200 jobs there, but also the 85 ancillary jobs of supporting businesses, plus the opportunity for future growth of related industries at the same location.

It is exciting that we in Kansas have the chance to stop the flight of industry from our shores to other countries. The Tecumseh cellophane plant is the last of its kind in the U.S., where we once had 23 such plants. In fact, we make more cellophane in Tecumseh than is used by all of the Americas, thereby helping reduce the U.S. trade deficit.

Thanks to the work of the Chamber of Commerce and city, who first heard about the possible plant closing, we were able to work with Innovia owners to prepare a comprehensive incentive package to save the Tecumseh plant. The total package is worth about \$2 million and everyone has done their part so far. The Shawnee County voters contributed sales tax monies, the county commission offered tax abatements, the Department of Commerce has its incentive packages, and now the legislature has its job to do. This is what we came for – the chance to save Kansas jobs. As far as I'm concerned, saving jobs in the state is at least as important as bringing in new jobs; and these are good jobs, averaging \$50,000 per year plus benefits.

Let me clear on one other point. Innovia did not come to us to "bail them out". They don't need the Legislature's help to survive. They simply need to decide which plant to close. We are making this effort solely at the request of Kansas workers to save Kansas jobs.

I am also pleased that one factor in the company's decision was the quality of the Kansas workforce. With the approval of this bill, we recognize the diligence of the American worker. Now it's our turn to do the right thing by them and show the world that we "get it" – that the Kansas legislature understands what it takes to be a player in a world market and that we are here for the long run. I ask your support for HB 2265.

Senate Commerce Committee

3-8-05

Attachment 1-1

Sen. Anthony Hensley

HOUSE BILL No. 2265

By Committee on Economic Development

2-2

10 AN ACT concerning commerce; concerning qualified manufacturers of
11 cellulose film.

12
13 *Be it enacted by the Legislature of the State of Kansas:*

14 Section 1. The provisions of this act shall be known as and may be
15 cited as the "qualified manufacturer act."

16 Sec. 2. For the purposes of this act:

17 (a) "Agreement" means an agreement entered into between the qual-
18 ified manufacturer and the secretary for benefits under this act.

19 (b) "Gross compensation" means gross wages and benefits paid to or
20 on behalf of employees receiving wages.

21 (c) "Qualified manufacturer" means a person, corporation, partner-
22 ship or other entity engaged in the production of cellulose film in Shaw-
23 nee county, Kansas, or proposing to engage in the production of cellulose
24 film in Shawnee county, Kansas, that satisfies conditions imposed by the
25 secretary which shall include, among other conditions, that the person,
26 corporation, partnership or other entity meet the requirements of sub-
27 section (a) of section 3, and amendments thereto.

28 (d) "Secretary" means the secretary of commerce.

29 Sec. 3. (a) A qualified manufacturer may be eligible for a period of
30 three and no more than four calendar years to receive 100% of the rev-
31 enue, not to exceed \$1,000,000 in the aggregate, realized from withhold-
32 ing upon Kansas wages paid by the qualified manufacturer pursuant to
33 K.S.A. 79-3294 et seq., and amendments thereto, if the qualified manu-
34 facturer complies with the following requirements:

35 (1) Has paid or agrees to pay at least \$10,000,000 in [existing] annual
36 gross compensation [paid to jobs] located in Kansas;

37 (2) has an average wage and salary of at least \$50,000 plus benefits;

38 (3) has currently at least \$26,000,000 total investment in Kansas;

39 (4) employs at least 190 full-time equivalent employees in Kansas as
40 defined in K.S.A. 74-50,114, and amendments thereto; and

41 (5) enters into an agreement with the secretary in which in return
42 for the benefits authorized pursuant to this act, the qualified manufac-
43 turer agrees to maintain at least 190 full-time equivalent employees as

an amount

from the special qualified manufacturer fund

to employees

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defined in K.S.A. 74-50,114, and amendments thereto, in Kansas for a period of five years or such longer period as the qualified manufacturer and the secretary may agree.

(b) A qualified manufacturer may apply to the secretary to enter into an agreement for benefits under this act. The application shall include (1) evidence that the applicant is a qualified manufacturer as defined in section 2, and amendments thereto, and (2) that the qualified manufacturer intends to employ at least 190 full-time equivalent employees for [at least] a period of five years commencing from the date of the agreement.

at least

(c) Upon receipt of an application described in subsection (b), if the secretary finds that the application is from a qualified manufacturer, the secretary may enter into an agreement with the qualified manufacturer for benefits under this act. The agreement shall commit the secretary to request that for a period of three years, but in no event longer than four years at the discretion of the secretary, from the date of the executed agreement, [and in] an amount not to exceed \$1,000,000, [that the withholding upon Kansas wages paid by the qualified manufacturer shall be credited to] the special qualified manufacturer fund created in subsection (d) and shall be transferred by the state treasurer to the qualified manufacturer. The agreement shall set forth the terms and conditions under which the secretary shall direct the state treasurer to transfer revenues in the special qualified manufacturer fund to the qualified manufacturer. The agreement shall specifically provide that if at any time [revenue from the withholding upon Kansas wages paid by the qualified manufacturer] is insufficient to make a payment prescribed by the agreement, that the qualified manufacturer [is not] entitled to the payment. In the event the qualified manufacturer [terminates, cancels or reduces the scope of the terms and conditions approved by the secretary in] the agreement, the agreement shall provide that the secretary can terminate the agreement, and the qualified manufacturer shall not be entitled to further distributions from the special qualified manufacturer fund.

from

the balance of the fund

shall not be

fails to comply with the terms and conditions set forth in

(d) The state treasurer shall credit all revenue collected or received from withholding upon Kansas wages paid by a taxpayer which is a qualified manufacturer, as certified by the secretary, to the special qualified manufacturer fund, which fund is hereby created in the custody of the state treasurer, but which fund shall not be a part of the state treasury or the state general fund. Distributions from the fund shall not be subject to appropriation. On or before the 10th day of each month, the director of accounts and reports shall transfer from the state general fund to the special qualified manufacturer fund interest earnings based on: (1) The average daily balance of moneys in the special qualified manufacturer fund for the preceding month; and (2) the net earnings rate of the pooled money investment portfolio for the preceding month. The provisions of

this section shall expire when all revenues that, pursuant to the agreement are to be paid to the qualified manufacturer, have been distributed. Mon-
 3 eys credited to the special qualified manufacturer fund in accordance with
 4 the foregoing provisions shall be distributed to or on the order of the
 5 secretary. The state treasurer shall make such distributions on such dates
 6 as mutually agreed to by the secretary and the state treasurer, serving as
 7 paying agent pursuant to the terms of the agreement. The total of all
 8 distributions under this section shall not exceed \$1,000,000 or the amount
 9 realized from 100% of the withholding upon Kansas wages paid by the
 10 qualified manufacturer for a period of three years or four, as may be
 11 approved by the secretary, from the date of the agreement whichever
 12 amount is less.

(e) Income tax refunds and balances due resulting from withholding
 14 upon Kansas wages paid by the qualified manufacturer pursuant to K.S.A.
 15 79-3294 et seq., and amendments thereto, with respect to the eligible
 16 project shall be reconciled on at least an annual basis by a method defined
 17 in the agreement described in subsection (c).

(f) The qualified manufacturer shall not be allowed to participate in
 19 the IMPACT act or program pursuant to K.S.A. 74-50,102 et seq., and
 20 amendments thereto. The secretary may include provisions in the agree-
 21 ment described in subsection (c) to limit or reduce the amount of eligible
 22 credits related to the provisions of this act, including, but not limited to,
 23 those allowed pursuant to K.S.A. 79-32,160a or 79-32,182b, and amend-
 24 ments thereto. Nothing in this subsection shall be construed to prohibit
 25 the qualified manufacturer from receiving credits allowed by law for any
 26 investment not related to the provisions of this act.

(g) The agreement which shall be entered into between the qualified
 28 manufacturer and the secretary before any incentives may be provided
 29 under this act, shall specify that should the qualified manufacturer fail to
 30 maintain the employment levels set forth in the agreement, that the qual-
 31 ified manufacturer shall be required to repay a proportionate amount of
 32 withholding distributed to the qualified manufacturer from the special
 33 qualified manufacturer fund, as may be determined by the secretary.

(h) Incentives awarded under this act shall not be used to provide for
 35 or to increase compensation packages, rewards, bonuses, pensions, en-
 36 hanced retirement, stock options, buyouts or substantial severance pay or
 37 other financial benefits to any chief executive officer, chief financial of-
 38 ficer or any officers of the company.

(i) Incentives which may be awarded under the provisions of this act,
 40 may be provided only upon the occurrence of the closure of a cellulose
 41 film production facility in a foreign country **Great Britain**, as determined by the secretary.

Sec. 4. This act shall take effect and be in force from and after its
 43 publication in the state book **Kansas register**.

A

shall be entered into before any benefits

and

an amount in proportion to the level that employment has fallen below the agreement, which has been

Benefits authorized pursuant to

Benefits authorized pursuant to

, as determined by the secretary.

Senate Commerce Committee

Attachment 2-3

Testimony before the Senate Commerce Committee
HB 2265 – regarding retention of a cellulose plant in Kansas
March 8, 2005
By Doug Kinsinger, President
Greater Topeka Chamber of Commerce

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Innovia Films Information

- Candover Partners Ltd., a British investment firm, acquired Innovia's 3 cellulose plants for approx. \$400 million on October 1, 2004.
- Innovia is the world major producer of cellophane owning three of the world's four major manufacturing facilities. The Topeka Tecumseh facility is the only cellophane manufacturer in North America.
- Cellophane is in its mature product lifecycle; it has many decades of demand left for its usage.
- Cellophane was developed by Dupont in the 1920's and has unique characteristics compared to its petroleum-based competitor, polypropylene and polyethylene of which plastic is made. Cellophane has more twist memory to its shape, and is able to be perforated and torn much easier. Produced in certain forms, cellophane allows humidity and vapor to escape and therefore is more desirable for certain food products. Innovia is a primary supplier of packaging for Russell Stover Candies and for many other companies around the nation and world. Cellophane is a biodegradable product produced from cellulose (wood pulp) and a fully compostable version is being developed which could be made in Topeka. Whereas, polypropylene and polyethylene are petroleum-based; a non-renewable energy source.
- Innovia has determined that to maximize efficiency they must close one of their three manufacturing facilities. Cellophane sales were declining for many years, but have now bottomed out and have been rising slowly based on a niche market for packaging that requires the very special properties of cellophane (e.g. cheese, breads and high end candies). Innovia currently sells 30 million pounds of their product around the world through its three plants. Each of the three Innovia plants can easily produce 15 million lbs. of cellophane without any significant alteration or additional equipment. Therefore, the overhead and expense of a third manufacturing plant is not required to meet production demands.
- Innovia's Topeka plant is the newest cellophane plant in the world built in 1958 by and originally owned by Dupont. Over \$25 million has been invested in the facility in recent years to modernize and improve efficiency in the plant's processes. With respect to the future, as far as cellulose and BOPP films are concerned, Innovia has the largest Research and Development facility in Europe and they intend to fully utilize the experience and expertise, which exists within the business, to increase operations worldwide.
- Innovia's Topeka plant employs 169 permanent and 19 temporary employees. The temporary employees would be moved to permanent status if the plant remains in operation. If Topeka is one of the two remaining plants, production will increase by 35 % and an additional 10 new positions may be added. Supplementing the current positions on Innovia's payroll, the company has identified an additional 85 positions with contractors that are directly dependent on the operation of the Topeka Innovia facility whose jobs would also be lost by a closure. It is estimated that an additional 115 positions are supported indirectly through a multiplier effect. This totals almost 400 jobs affected by the future of the Innovia Topeka manufacturing plant.
- The 169 Innovia positions are paid an average of \$50,000 annual compensation plus attractive benefits averaging another \$12,000 for health insurance, retirement, etc. (Note: A survey conducted by the Kansas Department of Labor indicates the average wage for manufacturing in the Topeka MSA to be over \$43,000 annually which is approximately \$7,000 less than Innovia's average wage.)

Senate Commerce Committee

3-8-05

Attachment 3-1

Chairs Brownlee and Jordan and committee members; my name is Doug Kinsinger. I am president of the Greater Topeka Chamber of Commerce and appreciate your time in hearing from us today about the future of Innovia Films in Shawnee County, Kansas.

A package of incentives has been determined in negotiations to keep the Innovia plant in Kansas:

1. Our local community along with KDOC has developed an \$750,000 local incentive package:
 - a. \$500,000 from our local economic development sales tax, paid over a 3 year period
 - b. County tax abatements - approximately \$250,000 over a 4 year period
 - c. Local utilities have been working with Innovia to assist in minimizing utility costs wherever possible
2. The federal government will provide \$75,000 in assistance from a 50/50 match program available through the Mid-America Trade Adjustment Assistance Center
3. KDOC package Innovia is eligible for:
 - Up to \$60,000 in KEIEP funds (forgivable loan)
 - Up to \$20,000 in KIT funds (training for new employees)
 - Up to \$80,000 in KIR funds {retraining of existing employees – the company must match 50% of these funds}
 - \$30,000 in Enterprise Zone tax credits for the 20 new jobs
 - \$10,000 (estimated) in Enterprise Zone tax credits if the company has \$1 M in capital investment {this could change to \$95,000 tax credit if they qualify for HPIP}
 - \$75,250 (estimated) in sales tax savings from the Enterprise Zone Program if \$1 M of capital investment in machinery & equipment
4. Legislative package: \$350,000 per year for three years, capped at \$1 million total, will offset closure costs of their plant in England enough to keep their Topeka facility open. (HB 2265)
5. Innovia has committed to keep their Topeka facility open and maintain 190 FTE for a minimum of five years. If they reduce their employment below the 190 FTE, a proportional amount of the incentives per job reduction would be paid back to the State of Kansas and the local community. The incentive is only given if the company performs as stated, the plant in England is closed, and production is moved to Topeka/Tecumseh.

Our Alternatives: Bottom Line for the State of Kansas
One option is guaranteed to happen – which would you prefer?

- ✓ The Innovia Topeka plant is closed and the State of Kansas receives no further revenue from the operation of the plant, or its employees. A total of 275 Kansans

Senate Commerce Committee

3-8-05

Attachment 3-2

(190 Innovia employees + 85 related contracted positions) will be put out of work. There will likely be a drain on state resources for substantial re-training, social assistance, and unemployment benefits. The plant's equipment and technology is so highly specialized that the employees will be unable to find any comparable positions at a skill or compensation level commensurate to their current income without significant retraining. The state will lose the \$350,000 per year in income tax collection plus additional sales and property tax receipts. The plant is unlikely sold due to its unique function and will remain unoccupied, quickly decelerating any property tax revenues. It would be prudent for the company to destroy or remove any taxable assets to lower future anticipated property tax carrying charges.

- ✓ The Topeka/Tecumseh Innovia plant remains as one of Innovia's two manufacturing plants. Production increases by 35%, the plant begins to export product outside our country's borders, and permanent employment increases to 190 positions, with potential for further growth. The State of Kansas foregoes the employee withholding taxes, approximately \$350,000/year, for three years. The State of Kansas continues to receive withholding revenue from the 85 contracted positions, plus additional sales, property, and corporate revenues.

By retaining the plant we will have the opportunity to compete for Innovia's new \$25 million polypropylene plant within the next 5 years, which could create an additional 100 high-waged positions. There has also been serious interest by a technology company from the eastern US who desires to relocate adjacent to Innovia, as long as they are in production, to utilize portions of their raw material - viscose. This technology firm could also add an additional 35 additional high wage positions.

Co-Chairs and committee, it may not be very glamorous to retain company, but economically it is just as important, if not more, to keep mature companies in our state. The positive impact manufacturing companies have on a community were outlined at the Kansas Chamber's dinner last week; I think we all can agree that primary jobs like these are good for our economy and good for our citizens.

We respectfully ask that you assist us in keeping this quality Kansas company and vote yes for HB 2265. Thank you.

Senate Commerce Committee

3-8-05

Attachment

3-3

Innovia Films Kansas Plant
Presentation to Kansas Senate
Commerce Committee

8th March 2005



Senate Commerce Committee

3-8-05

Attachment 4-1

Innovia Films

- Formed in 2004 to purchase the Films business from UCB Group
- The company is a leading global producer of specialty Biaxially Oriented Polypropylene (BOPP) and cellulose films with production sites in the UK, USA, Belgium and Australia.
- Innovia Films holds a leading global position in the markets for labels and security films, coated packaging, overwrap and biodegradable and compostable films, employing some 1,600 people worldwide. Brands include Propafilm™, Cellophane™, Rayoface™, Rayoart™ and Guardian®.



Introduction

- Innovia Films has decided that one of its 3 Cellophane plants must close to reduce costs
- The closure decision is between the plant in Kansas and a plant in England
- Based on plant operating and closure costs, the decision is very close
- If the Kansas plant remains open, production will increase by 33% and additional jobs will be created



Kansas Site Overview

- Built in 1958 by Dupont and then operated by Dupont, Flexel & UCB
- Innovia Films purchased UCB Films including the Topeka/Tecumseh plant from UCB in October 2004
- Plant makes Cellophane which is used in food packaging and tape
- Plant currently has 190 full time equivalent employees with a gross compensation in 2004 of over \$10 million
- A further 85 people are employed by contractors either on or off site in Kansas



What is Cellophane?

- The original transparent packaging material developed by Dupont in the 1920's
- Made from woodpulp, a renewable resource
- Cellulose is biodegradable
- Used to package foods such as cheese and candies to preserve freshness
- Easy to print clearly
- Retains shape after folding or twisting

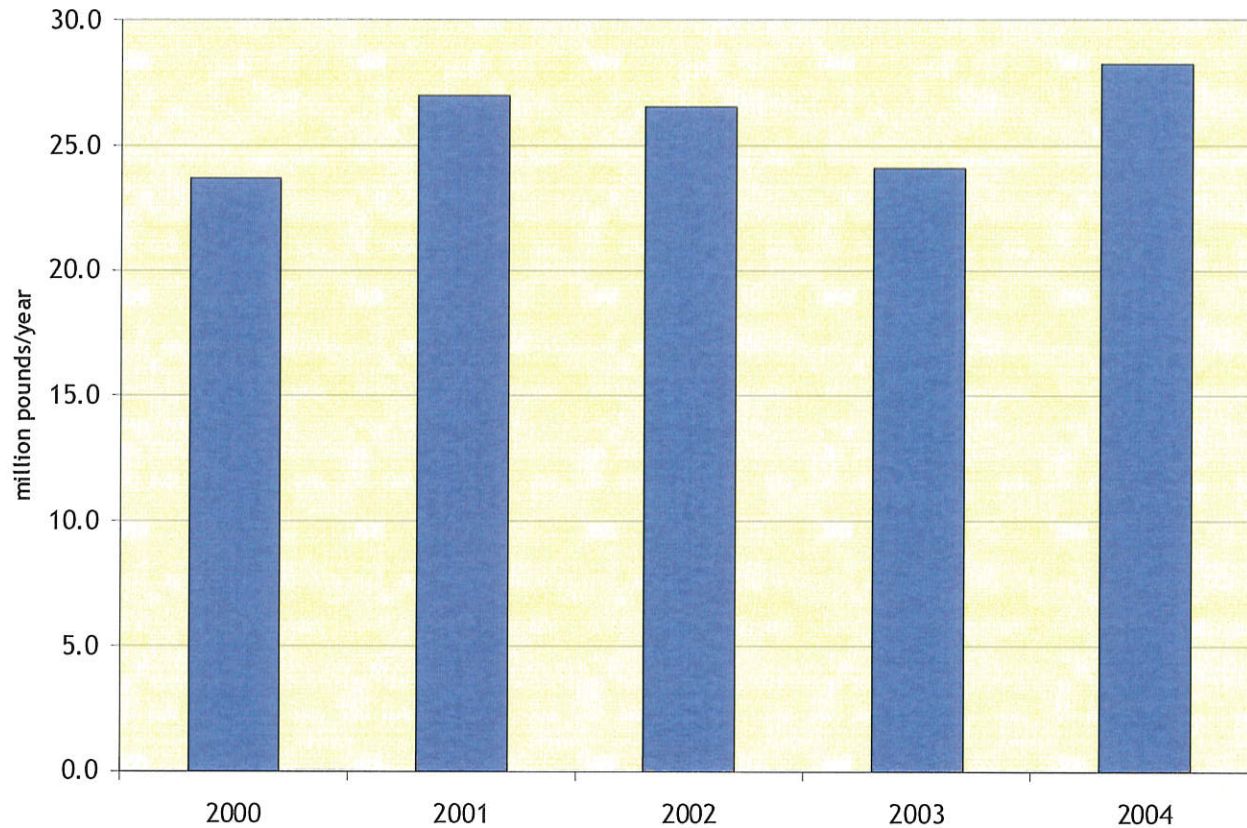


Cellophane Market - Why Close a Plant?

(Confidential Business Information)

- Innovia is the major world producer of Cellophane with 3 of the 4 remaining major factories in the world
- Innovia predicted Cellophane sales for 2005 are:
 - Americas 21 million pounds
 - Europe 33 million pounds
 - Asia/Pacific 8 million pounds
- Tecumseh capacity is currently 33 million pounds
- The other 2 Innovia Cellophane factories are in England and have a combined capacity of about 57 million pounds
- A decision has been taken to close one of the 3 Innovia factories to bring the capacity more into line with sales

Americas Market History



Sales in the Americas have been stable over the past 5 years and are now showing signs of growth





Future Cellophane Prospects

- Overall Cellophane sales have decreased over the past 25 years but have now stabilized
- Sales in the Americas have been stable for the past 5 years and are showing signs of a slow rebound
- If the Kansas plant survives, production will increase by 33% and a further 20 full time employees will be hired. This will allow further development of the market
- New, research based product lines such as compostable packaging and clear bottle labels provide a prospect for further market growth
- The Kansas plant has the capacity for further production increases if sales exist and capital is invested to refurbish unused equipment



Other Future Prospects if the Kansas Plant Survives

- Option remains open to build a Polypropylene plant on the site with \$25 mn additional investment and 100 jobs
- A Technology company from New Jersey is seriously interested in re-locating its production facility to the Innovia site to make use of raw material taken directly from the Cellophane process. This would add a further 35 jobs



Help Needed

- Financial support to upgrade the plant to operate at higher production rate and with a wider range of products
- Projects supported by these funds will include:
 - Equipment upgrades to maintain the higher production rate
 - Film quality improvement
 - Cost Reduction
 - New Product Introduction
 - Investing in people through training



6000 SE 2nd Street, Tecumseh, Kansas, Phone (785) 379-0571

Tecumseh 5 Year Project List

1	New Film Gauge Measurement Control Devices	\$550,000	quality improvement
2	New Slitting Machine	\$250,000	quality improvement
3	Install Humidifier Box for Coating tower	\$250,000	quality improvement
4	New rolls for coating conditioners	\$200,000	quality improvement
5	New Tension Control for Coating Towers	\$150,000	quality improvement
6	Improved Hopper Lip Control	\$150,000	quality improvement
7	Upgrade A-tank level control	\$100,000	quality improvement
8	New Infrared Spectrophotometer	\$15,000	quality improvement
9	Install Second Conditioner to support increase in Plain Film production	\$400,000	new products introduction
10	Install Additional Equipment in the Mix House	\$200,000	new products introduction
11	Install Colloidal Silica system	\$150,000	new products introduction
12	Increase White Film Capacity	\$100,000	new products introduction
13	New Casting tanks	\$450,000	maintain increased production
14	New Ground Water Storage Tank	\$250,000	maintain increased production
15	Evaporator upgrade project	\$200,000	maintain increased production
16	increase Capacity of Well Water Line	\$150,000	maintain increased production
17	Update Valve set for #1 and #2 anion	\$110,000	maintain increased production
18	Evaporator Condenser water reuse	\$100,000	maintain increased production
19	New Cooling Tower Water Lines	\$100,000	maintain increased production
20	New Precooler coil	\$70,000	maintain increased production
21	Upgrade water line on pipebridge	\$67,000	maintain increased production
22	Environmental Monitoring Instruments	\$350,000	long term environmental compliance
23	Sludge Dewater Equipment	\$350,000	long term environmental compliance
25	Flare project	\$250,000	long term environmental compliance
24	Softener Recovery	\$300,000	material recycling
26	CS2 condenser improvement	\$90,000	material recycling
27	Upgrade Controller for Solvent Recovery system	\$50,000	material recycling
	Total Planned for Next 5 years	\$5,402,000	

Senate Commerce Committee

3-8-05

Attachment 4-11





Shawnee County Board of Commissioners

Rm. B-11, Courthouse Topeka, Kansas 66603-3933

Marice Kane, 1st district

Vic Miller, 2nd district

Theodore D. Ensley, 3rd district

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March 8, 2005

Chairpersons Jordan and Brownlee and members of the committee, I am Vic Miller, Chairman of the Shawnee County Commission. I am here today to share with you the Shawnee County Commission's support for HB 2265.

Innovia Films Inc. has been a fixture in our county's corporate community since 1958. There have been several owners over those years, but the plant has always produced a quality cellophane product with the hard work of some of the best employees our state can produce. As we learned that this plant was at risk of closing it has been a team effort in finding the means to keep Innovia here in Kansas. You have already heard testimony regarding the response from GO Topeka. For our part, the County Commission voted last week to extend tax abatements to Innovia which were initially granted to the previous owner. There are four remaining years of a property tax abatement that was given in 1999 to UCB (previous owner) for their investment of \$1.4 million in new machinery and equipment. Those remaining four years worth of abatements will total about \$200,000, which has been included in the incentive package proposed to Innovia Films to keep this plant from closing. Innovia will continue to pay the county the property tax on real property as they have been doing all along.

On behalf of the Shawnee County Commission we ask that you approve HB 2265 which provides three years of state investment in keeping 190 FTE jobs in Shawnee County, and the last remaining cellophane plant in the United States, in Kansas. Time after time our community works to entice new business to our community just as you do in your communities across the state. We have had some recent success. However, we cannot afford to lose our long-term, established employers out the back door. We have an opportunity to keep good paying jobs, with benefits in Shawnee County, the state, and in the US. The only option, if we lose this company is to write these good paying jobs off and see these families struggle to find other employment in a challenging job market. Their skills are very specialized. It will be difficult for them to find similar employment. This loss may result in workers and families requiring state assistance to survive. I don't think any of us want to see that happen. We can avoid it by your commitment to help us by passing this legislation and together work with Innovia to increase their production of cellophane. We will have saved a mature company in Kansas and positioned them for future growth that will be in all our best interests.

We appreciate your time and attention in listening to us on this important issue. We will answer any questions that you may have. Thank you.

Senate Commerce Committee

3-8-05
Attachment 5-1

WHITELEY'S

Pallet and Blocking

P.O. BOX 8066 • 310 W, NORRIS • N. TOPEKA, KS 66608 • (913) 233-3801
785

March 8, 2005

I am Steve Rothrock, and I own Whiteley's Pallet Manufacturing Company in North Topeka. My company has six full time employees and supplies shipping pallets to Innovia Films on a daily basis. Innovia Films is a major part of our business and if they choose to close this plant, it is very probable that we would close our company too.

If we were to close our doors it would then affect my wood suppliers one of which is Kansas Hardwoods located in Belvue, Ks. It is very possible they would have to lay off an employee because of the work lost from Whiteley's. Innovia currently employees 190 individuals, but its potential closure effects a lot more people other than the existing plant employees.

Being a small business owner I have learned how important it is to retain major business employers in the State of Kansas. Without these major employers our small business wouldn't be able to survive. Over 70% of the goods and services we supply are to companies with over 50 employees. I would ask this committee to pass House Bill 2265 because it affects a lot more people than just the plant employees.

Thank you for your time and consideration in this matter.

Sincerely,



Steve Rothrock
Vice President Whiteley's Pallet

Senate Commerce Committee

3-8-05

Attachment

6-1