

MINUTES OF THE SENATE COMMERCE COMMITTEE

The meeting was called to order by Chairperson Nick Jordan at 8:30 A.M. on March 9, 2007 in Room 123-S of the Capitol.

All members were present except:
Jim Barone- excused

Committee staff present:
Kathie Sparks, Kansas Legislative Research Department
Jason Long, Revisor of Statutes
Jackie Lunn, Committee Assistant

Conferees appearing before the committee:
Christy Caldwell, Topeka Chamber
Marlee Carpenter, KCCI
Ashley Sherard, Lenexa Chamber
Betty Nelson, CBIZ

Others attending:
See attached list.

SB 83-Employment security law; contribution rates

SB 342-Enacting the Kansas investment credit act and the Kansas jobs credit act

Chairperson Brownlee announced the Conference Committee on **SB 83** will be Monday morning at 9:00 a.m. or 9:30 a.m. in room 527 S. She also announced there would be a subcommittee on SB 148 and the members will be Senator Emler, Senator Barone and Senator Brownlee. They will start on resolving the technology issues and how to achieve a uniform platform.

Chairperson Brownlee turned the Chair over to Senator Jordan. Chairperson Jordan announced the Committee would be continuing the hearing on **SB 342**. He called on Betty Nelson, CZIB, to continue her testimony from yesterday as a proponent on the bill. Ms. Nelson presented additional documentation regarding "Timing Concerns" (Attachment 1) and documentation regarding the investment thresholds. (Attachment 2) Ms. Nelson reviewed the documentation for the Committee.

Questions and discussion followed regarding thresholds and the fiscal note.

Chairperson Jordan introduced Marlee Carpenter, KCCI, to give her testimony as a proponent of **SB 342**. Ms. Carpenter offered written copy. (Attachment 3) Ms. Carpenter stated that KCCI supports the bill, and offered an amendment changing the thresholds. (Attachment 3a) She explained the amendment. KCCI feels the training tax credit is essential with a change to allow for computer based training. They also have concerns with the timing issues as it relates to carry forward of current tax credits that could be lost. Ms. Carpenter stated if there is 10% credit and there is a \$2 Million fiscal note that means there is \$20 Million investment happening in Kansas and they feel that is a very good thing.

Questions and discussion followed regarding the training tax credit and the fiscal note.

Chairperson Jordan introduced Christy Caldwell, Greater Topeka Chamber, to give her testimony as a proponent of **SB 342**. Ms. Caldwell presented written copy. (Attachment 4) Ms. Caldwell stated they were in support of the bill with recommendations for changes in the threshold amounts. They feel the thresholds are too high and would be in support of the amendment from KCCI.

Questions followed.

Chairperson Jordan introduced Ashley Sherard, Lenexa Chamber, to give her testimony as a proponent of **SB 342**. Ms. Sherard presented written copy. (Attachment 5) Ms. Sherard stated there was a need to simplify tax credits and is in support of the bill. They also have concerns with the thresholds being set too high and

CONTINUATION SHEET

MINUTES OF THE Senate Commerce Committee at 8:30 A.M. on March 9, 2007 in Room 123-S of the Capitol.

feel it is critical to maintain the training tax credit.

Chairperson Jordan called the Committee's attention to proponent written only testimony of:

Kelly Schoen, CEO, Z3 Graphix (Attachment 6)

R. Lee Harris, Cohen-Esrey Real Estate Services, Inc. (Attachment 7)

D. Roxanne Helpingstine, President, Mission Electronic, Inc. (Attachment 8)

and the opponent written only testimony of :

Bob Vancrum, Greater Kansas City Chamber (Attachment 9)

Questions and discussion followed regarding rural areas and the tax credit training program. David Bybee, Department of Revenue, will provide information for the Committee regarding the tax credit training programs.

Chairperson Jordan asked Betty Nelson, CBIZ, to work with the Department of Revenue on how the timing issue could be settled.

Chairperson Jordan closed the hearing on SB 342 and adjourned the meeting at 9:35 a.m. The next scheduled meeting scheduled for March 13th at 8:30 a.m. in room 123 S.

Betty Nelson
CZIB

Timing concerns

- Making this legislation retroactive to 12/31/06 will adversely affect companies that have already planned their investment for 2007 based on the current High Performance Incentive Program.

The date needs to be changed to no earlier than 12/31/07

- The proposed legislation says "The eligible taxpayer shall claim the credit on the original return for the tax year in which the qualified investment is placed into service." Page 5 line 41 – 42.s This will eliminate the ability for a company to amend their tax return.

New companies coming into the state must wait four full quarters before applying for the investment tax credit (the same as is required under the current High Performance Incentive Program). If a company made their initial investment on July 1, 2008 (four quarters would be 7/1/08 – 6/30/09). The company will not qualify for the program until August or September of 2009. The company will have already filed their 2008 tax return and would not be able to amend the return to claim the credit. (Assuming that the company's year end is 12/31)

All existing companies will have little time to submit the appropriate documents to Commerce and have time for Commerce to approve the application so that it can be attached to the original tax return. The company must prove that they pay higher than average wages yet they do not receive their Employer Wage and Contribution Returns until the end of January or mid February. The investment application will take time to prepare and then Commerce will take roughly 4-5 weeks to approve the investment application so the company will be hard pressed to file their tax return by March 15th or April 15th for the original year.

The following steps need to take place from 1/31 – 4/15:

1/31 - 2/15

- Company receives Employer Wage and Contribution Return from payroll service

2/16 – 2/28

- Investment application is prepared by the company or their tax preparer

3/1 – 3/31

- Investment application is waiting at Commerce for program director's approval.

4/1 – 4/15

- Revenue needs to sign off on the new one page form
- Preparer must have investment approval from Commerce so that they can attach appropriate documents to the tax return.

Senate Commerce Committee
March 9, 2007

Attachment ↓

**Software business considering locating from out of state into the Kansas Metropolitan Statistical Area (MSA)
Using \$1,000,000 capital investment threshold - 20 net new jobs and no training tax credit**

Assumptions:

Total investment of \$6,500,000 over 5 years
 Total jobs of 70 over 5 years
 Type of business - Software developer
 Job creation is \$1,500 per net new job

	Year 1	Year 2	Year 3	Year 4	Year 5	
Investment	\$3,000,000	\$875,000	\$875,000	\$875,000	\$875,000	\$6,500,000
Job creation	30	10	10	10	10	70
Benefits under the current tax credit programs						
HPIP (minus first \$50,000)	\$295,000	\$82,500	\$82,500	\$82,500	\$82,500	\$625,000
Business & Job Tax credit	\$45,000	\$15,000	\$15,000	\$15,000	\$15,000	\$105,000
Training tax credit	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000	\$250,000
Sales tax exemption (using 7.225)	\$72,250	\$63,219	\$63,219	\$63,219	\$63,219	\$325,126
Total benefit						\$1,305,126
Benefits under the proposed legislation						
Investment tax credit (\$50,000 will no longer be deducted)	\$300,000	\$0	\$0	\$0	\$0	\$300,000
Jobs Credit	\$45,000	\$0	\$0	\$0	\$0	\$45,000
Sales tax exemption (using 7.225)	\$72,250	\$0	\$0	\$0	\$0	\$72,250
Training Tax Credit	\$0	\$0	\$0	\$0	\$0	\$0
Total benefit						\$417,250

By raising the investment level from \$50,000 to \$1,000,000 in any given year and raising the job creation requirement from 5 to 20 jobs the company will lose \$887,876 in incentives that would be offered under the current incentive programs.

*Senate Commerce
March 9, 2007.
Attachment 2-1*

*Beth Nelson
CZ1B*

Senate Commerce Committee
March 9, 2007
 Attachment 2-1

**Existing manufacturing business considering a new location/could locate in either Kansas or Missouri
Using \$1,000,000 capital investment threshold - 20 net new jobs and no training tax credit**

Assumptions:

Total investment of \$1,400,000 over 5 years

Total of 25 jobs added over the next 5 years

Type of business - Manufacturer of electronic components

Job creation is \$1,500 per net new job

Existing jobs - 30

One half of the equipment investment each year is for non-manufacturing equipment.

Training tax credit - The company can earn up to \$50,000 each year but we are only estimating the company will earn \$20,000 each year.

This company is a Sub S and is taxed at the individual level.

	Year 1	Year 2	Year 3	Year 4	Year 5	
Investment	\$600,000	\$200,000	\$200,000	\$200,000	\$200,000	\$1,400,000
Job creation	5	5	5	5	5	25
Benefits under the current tax credit programs						
HPIP (minus first \$50,000)	\$45,000	\$15,000	\$15,000	\$15,000	\$15,000	\$105,000
Business & Job Tax credit	\$7,500	\$7,500	\$7,500	\$7,500	\$7,500	\$37,500
Training tax credit	\$20,000	\$20,000	\$20,000	\$20,000	\$20,000	\$100,000
Sales tax exemption (using 7.225)	\$7,225	\$7,225	\$7,225	\$7,225	\$7,225	\$36,125
Total benefit						\$278,625
Benefits under the proposed legislation						
Investment tax credit (\$50,000 will no longer be deducted)	\$0	\$0	\$0	\$0	\$0	\$0
Jobs Credit	\$0	\$0	\$0	\$0	\$0	\$0
Sales tax exemption (using 7.225)	\$0	\$0	\$0	\$0	\$0	\$0
Training Tax Credit	\$0	\$0	\$0	\$0	\$0	\$0
Total benefit						\$0

By raising the investment level from \$50,000 to \$1,000,000 in any given year and raising the job creation requirement from 2 to 20 jobs the company will lose \$278,625 in incentives that would be offered under the current incentive programs.

2-2

2-2

Yellow reflects those companies that had <\$300,000 investment
 Orange reflects those companies that had >\$300,000 of investment but still < \$1,000,000

Tax Increase if proposed legislation passes

COMPANY NAME	FLOW THRU ENTITY OR C CORP	INDUSTRY	CITY	2001	2002	2003	2004	2005
	FT	Manufacturer	Lenexa				\$234,360	\$1,154,110
	C	Document Processing	Olathe				\$8,324,220	\$2,642,800
	C	Wholesale Food Distribution	Kansas City		\$1,982,080	\$5,969,410	\$7,117,760	\$6,696,510
	FT	Technologies	Leawood			\$296,740	\$609,540	
	FT	Consulting	Leawood			\$402,250	\$1,323,900	
	C	Consulting	Leawood			\$2,533,670	\$3,866,490	\$3,175,050
	C	Insurance	Leawood			\$6,096,070	\$5,451,010	
	C	Medical Billing	Leawood			\$803,100	\$1,530,800	
	C	Accounting	Leawood			\$11,324,260	\$9,111,480	\$758,960
	FT	Gasoline Distributor	Overland Park	\$2,692,860	\$313,230	\$249,300	\$737,990	\$762,210
	FT	Call Center	Overland Park					\$180,730
	FT	Develop Educational Products	Merriam					\$1,432,180
	C	Manufacturer	Olathe					Not completed yet
	FT	Nonmanufacturer/Non retail	Leawood		\$1,880,280	\$145,820	\$54,300	\$124,530
	FT	Manufacturer	Kansas City			\$588,000	\$247,670	\$308,370
	FT	Manufacturer	Lenexa		\$2,892,400		\$1,783,630	\$871,510
	FT	Manufacturer	Lawrence		\$91,680	\$327,340	\$400,190	
	FT	Manufacturer	Leawood				\$3,048,700	\$1,059,370
	FT	Outsourcing/Headquarters	Leawood				\$10,645,560	\$204,140
	FT	Commercial Equipment Leasing	Lenexa		\$1,475,220			
	FT	Architects	Overland Park					\$483,200
	FT	Headquarters	Tonganoxie			\$417,390	\$490,190	\$321,890
	FT	Manufacturer	Gardner	\$219,220	\$402,710	\$450,890	\$717,910	Not completed yet
	C	Energy Consulting	Overland Park			\$497,270	\$277,870	\$776,670
	C	Manufacturer	Lenexa	\$255,870	\$333,330	\$306,520	\$124,980	
	FT	Management Services	Lenexa	\$1,002,860	\$108,430			
	FT	Provides Network Electronic Service	Lenexa					\$730,490
	C	Distributor of ceiling tiles	Kansas City			\$1,363,520	\$885,320	\$299,340
	C	Manufacturer	Kansas City					Not completed yet
	FT	Printing	Lenexa		\$800,380	\$333,620	\$186,990	\$347,555
Total investment				4170810	\$10,279,740	\$32,105,170	\$57,170,860	\$22,329,615

All of these clients have used the sales tax exemption certificate either under HPIP or based on job creation.
 Based on historic investment 14 of the 30 companies will be adversely affected by raising the investment to the \$300,000 threshold.
 Based on historic investment 21 of the 30 companies will be adversely affected by raising the investment to the \$1,000,000 threshold.
 17 more clients will be HPIP certified in for 2007/2008 tax years that are not listed in this spreadsheet.
 19 of the 30 Kansas City area companies are Flow through entities

**Software business considering locating from out of state into the Kansas Metropolitan Statistical Area (MSA)
Using Joan's numbers of \$300,000 min. investment - 10 jobs over a two years and no training tax credit**

Assumptions:

Total investment of \$6,500,000 over 5 years
 Total jobs of 70 over 5 years
 Type of business - Software developer
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Sales tax exemption (using 7.225)	\$72,250	\$63,219	\$63,219	\$63,219	\$63,219	\$325,126
Total benefit						\$1,305,126
Benefits under the proposed legislation						
Investment tax credit (\$50,000 will no longer be deducted)	\$300,000	\$87,500	\$87,500	\$87,500	\$87,500	\$650,000
Jobs Credit	\$45,000	\$15,000	\$15,000	\$15,000	\$15,000	\$105,000
Sales tax exemption (using 7.225)	\$72,250	\$63,219	\$63,219	\$63,219	\$63,219	\$325,126
Training Tax Credit	\$0	\$0	\$0	\$0	\$0	\$0
Total benefit						\$1,080,126

By raising the investment level from \$50,000 to \$300,000 in any given year and raising the job creation requirement from 5 to 10 over a two year period - the company will lose \$225,000 in incentives that would be offered under the current incentive programs.

2-4

7-8

2-5

**Existing manufacturing business considering a new location/could locate in either Kansas or Missouri
Using Joan's numbers of \$300,000 min. investment - 10 jobs over a two years and no training tax credit**

Assumptions:

Total investment of \$1,400,000 over 5 years

Total of 25 jobs added over the next 5 years

Type of business - Manufacturer of electronic components

Job creation is \$1,500 per net new job

Existing jobs - 30

One half of the equipment investment each year is for non-manufacturing equipment.

Training tax credit - The company can earn up to \$50,000 each year but we are only estimating the company will earn \$20,000 each year.

This company is a Sub S and is taxed at the individual level.

	Year 1	Year 2	Year 3	Year 4	Year 5	
Investment	\$600,000	\$200,000	\$200,000	\$200,000	\$200,000	\$1,400,000
Job creation	5	5	5	5	5	25
Benefits under the current tax credit programs						
HPIP (minus first \$50,000)	\$45,000	\$15,000	\$15,000	\$15,000	\$15,000	\$105,000
Business & Job Tax credit	\$7,500	\$7,500	\$7,500	\$7,500	\$7,500	\$37,500
Training tax credit	\$20,000	\$20,000	\$20,000	\$20,000	\$20,000	\$100,000
Sales tax exemption (using 7.225)	\$7,225	\$7,225	\$7,225	\$7,225	\$7,225	\$36,125
Total benefit						\$278,625
Benefits under the proposed legislation						
Investment tax credit (\$50,000 will no longer be deducted)	\$60,000	\$0	\$0	\$0	\$0	\$60,000
Jobs Credit	\$7,500	\$7,500	\$7,500	\$7,500	\$0	\$30,000
Sales tax exemption (using 7.225)	\$7,225	\$7,225	\$7,225	\$7,225	\$0	\$28,900
Training Tax Credit	\$0	\$0	\$0	\$0	\$0	\$0
Total benefit						\$118,900

By raising the investment level from \$50,000 to \$300,000 in any given year and raising the job creation requirement from 2 to 10 over two years - the company could lose \$159,725 in incentives that would be offered under the current incentive programs.

2-5

Legislative Testimony

SB 342

March 8, 2007

**Testimony before the Kansas Senate Commerce Committee
By Marlee Carpenter, Vice President of Government Affairs**

Chairman Brownlee, Chairman Jordan and members of the committee;

The Kansas Chamber and our over 10,000 members encourages the Kansas Legislature to look at pro-growth business tax policy that will encourage capitol investment and job creation in the state. The Kansas Chamber represents business of all sizes and from all part of the state. More than 95% of our members have less than 50 employees so we speak on behalf of large medium and small business.

The Kansas Chamber is here is support of SB 342, the simplification of the tax credits. The current HPIP program is the flagship economic development program of the state. The current HPIP program is so complicated and complex that only very sophisticated taxpayers that have access to accountants or lawyers can claim this credit. The proposed simplification is overdue and supported by our business members. Our concern comes with the threshold increase. We believe that the proposed \$1 million threshold is much too high. Many small and medium sized businesses that make significant investments in the state would not qualify for tax credits. We believe that a threshold amount between \$100,000 and \$200,000 would be more reflected of the types of investments make in Kansas.

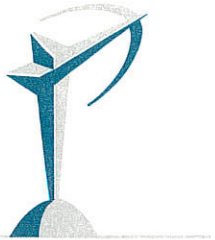
The same is true with the new Jobs Credit. We believe that the 20 jobs requirement is too high, even in the metro area. We would suggest that this number is reduced below Missouri's 10 net new job credit.

The Kansas Chamber is supportive of the overall goal of the bill and is ready and willing to continue to work with the Department of Revenue and Department of Commerce to come to an agreement so that these pro-jobs, pro-business measures advance though the legislative process and gain passage.

Thank you for your time and I will be happy to answer any questions.

Senate Commerce Committee
March 9, 2007

Attachment 3



**THE KANSAS
CHAMBER**

The Force for Business

835 SW Topeka Blvd.

Topeka, KS 66612-1671

785-357-6321

Fax: 785-357-4732

E-mail: info@kansaschamber.org

www.kansaschamber.org

SB 342

Business Proposal

Investment Tax Credit

- **Threshold reduced to \$150,000**
- **Threshold reduced to \$50,000 in opportunity zone**
- **Maintain Training Tax Credit** with computer based training allowed to meet requirement
- **Change date for new tax credit** from December 31, 2006 to December 31, 2007

Jobs Credit

- **5 net new job threshold**
- **2 net new job threshold in opportunity zone**
- 20 net new job threshold maintained for headquarters and back-office facilities
- **Change date for new jobs credit** from December 31, 2006 to December 31, 2007

Presented by
KCC1
Marlee Carpenter

Senate Commerce Committee

March 9, 2007

Attachment 3a

Testimony: SB 342
Senate Commerce Committee
Thursday, March 8, 2007
By: Christy Caldwell, Vice President Government Relations
Greater Topeka Chamber of Commerce
ccaldwell@topekachamber.org

120 SE 6th Avenue, Suite 110
Topeka, Kansas 66603-3515

P.785.234.2644 F.785.234 8656
www.topekachamber.org
topekainfo@topekachamber.org

Chairwoman Brownlee, Chairman Jordan, and members of the Committee:

The Greater Topeka Chamber of Commerce would like to express our support for the concepts embodied in SB 342, regarding tax credits for investment and job creation, with recommendations for changes in the threshold amounts.

This last summer, the President of the Greater Topeka Chamber of Commerce was asked by Secretary of Revenue Wagon to participate in a working group to review Kansas tax policy and recommend changes that could make our state more competitive. He and the other members of the working group were able to make suggestions and propose concepts intended to help grow the Kansas economy. SB 342 embodies some of those recommendations.

This bill proposes to modify the investment and jobs tax credit programs currently available to qualified companies growing and locating in Kansas. For some businesses the unwieldy nature of the current programs and the uncertainty of gaining or retaining the credits from year to year has been a disincentive to participate. This legislation makes significant strides to simplify the process to utilize the tax credits, which we greatly appreciate.

One of the challenges within the proposed legislation is the significant hike in the thresholds required to attain the tax credits. SB 342 requires \$1 million in new investment, instead of the current \$50,000 and the creation of 20 new jobs instead of 2 manufacturing jobs (or 5 non-manufacturing jobs) in existing law. This is a significant departure from what are now the current thresholds to access the program. We are concerned these very high investment and job creation requirements will result in many small and mid-sized companies no longer eligible to participate. The program will have become simplified but less effective. Our state and community may miss some great opportunities to assist smaller companies today in growing to become the giants of industry tomorrow. The Topeka Chamber would like to express our support for the proposed threshold changes offered by the Kansas Chamber of Commerce; \$150,000 in investment and 10 new jobs over a two-year period.

We commend the Commerce Committee for your efforts to further encourage the growth of investment and jobs in Kansas. In the past this Committee has been very supportive of efforts here in the capital city as we work to retain and grow our local business and industry. Additionally, a giant step was made last year by the Legislature and Administration with the removal of property tax on newly purchased machinery and equipment. We greatly appreciate that all actions that make our state more competitive and business-friendly. We all benefit with the creation of more jobs and more investment anywhere in Kansas; you have been a significant partner in this goal.

As you continue to examine state policy to incent the growth of business, we would suggest an examination of the possibility of providing cash-based, front-end incentives. Other states are already out there with such programs and are having great success. Many companies who are ready to expand or build find the early costs of growing their business most challenging, cash assistance can be a very attractive means to draw their interest when they are making location decisions.

Locally, the citizens of Shawnee County have seen the benefit of using local tax revenues to provide similar cash support; these front-end investments have assisted our efforts to attract new investment and jobs and retain companies on the verge of leaving our community. The state's involvement in a similar program could enhance our local efforts and assist all Kansas communities in their efforts to draw new business investment and jobs.

We encourage your support for SB 342 with modifications provided by the Kansas Chamber to make it more effective. Thank you for the opportunity to address this important issue today.

Senate Commerce Committee
March 9, 2007

Attachment 4



The Historic Lackman-Thompson Estate

11180 Lackman Road
Lenexa, KS 66219-1236
913.888.1414
Fax 913.888.3770

TO: Senator Karin Brownlee, Co-Chairperson
Senator Nick Jordan, Co-Chairperson
Members, Senate Commerce Committee

FROM: Ashley Sherard, Vice-President
Lenexa Chamber of Commerce

DATE: March 8, 2007

RE: **SB 342—Changes to Economic Development Incentive Programs**

The Lenexa Chamber of Commerce appreciates the opportunity to express its views on Senate Bill (SB) 342, which is intended to simplify and streamline key statewide economic development incentive programs.

We strongly support the business-friendly concept represented in SB 342. The current process businesses must undergo to access and retain certain state economic development incentives is often criticized for being cumbersome and complicated – so complicated that some companies are discouraged from even applying. We believe simplifying and streamlining this process could increase the state's competitiveness in attracting and retaining businesses and help to foster a more healthy and growing statewide economy.

While we applaud this step in the right direction, we do have very serious concerns about other specific proposals in the bill. We believe these proposed changes would simply put economic incentives out of reach of most growing companies and make Kansas much less competitive in attracting new businesses, particularly against our neighboring states.

First, we do not believe increasing the investment tax credit threshold from \$50,000 to \$1 million is good public policy. This significant jump effectively limits the availability of investment tax credits to only the largest companies and ignores the many growing companies that make up our economic foundation. It also does not make sense to simplify the program's application process to encourage broader participation, and concurrently increase the eligibility criteria to the point that few companies can qualify! We do understand the need to control the fiscal impact of the bill and to also ensure tax credits are awarded to projects that represent meaningful new investment in the state, so we would propose an increase in the minimum investment threshold up to a level of around \$100,000.

Senate Commerce Committee
March 9, 2007

Attachment 5-1

Second, we do not believe increasing the job creation tax credit from 5 net new jobs up to 20 jobs is good public policy. Again, this significant jump effectively limits the availability of job creation tax credits to only the largest companies – it's simply not realistic for most growing businesses. It would also put us at a specific competitive disadvantage with Missouri, which offers a job creation tax incentive based on the addition of 10 net new jobs over two years (rather than receiving a tax credit, the company is simply allowed to retain its withholding tax.) To maintain a job creation stimulus for smaller growing companies and preserve our competitiveness, we would propose the minimum job creation threshold remain at five net new jobs total.

Lastly, we do not believe eliminating the training tax credit program is good public policy. In a globally competitive marketplace, why would Kansas want to stop encouraging and rewarding employers that spend above-average resources investing in their workforce? More highly skilled workers are both more productive and earn better wages – all of which generates additional revenue for the state. We would propose not only preserving the training tax credit program, but also recognizing the 21st century workplace by including computer-based training among the program's eligible expenditures.

Without these suggested changes, SB 342 will hurt backbone Kansas businesses like Z3 Graphix, a printing operation with 32 full-time employees located on two sites in Lenexa. Z3 Graphix has consistently added employees and invested \$200,000-\$500,000 per year in additional equipment and a second operational site, all of which increased capacity and generated new revenue for the state. Z3 Graphix simply would not have been able to make these investments and hire additional employees without the investment tax credit – but under SB 342, Z3 Graphix would no longer qualify for those incentives.

While we strongly support the simplification provisions embodied in SB 342, we must oppose other specific details currently in the proposal. We sincerely hope that our concerns can be resolved so that we may fully support the bill, which we believe can enhance business attraction and expansion efforts across Kansas. Thank you very much for your time and attention to these important business issues.

Testimony on SB 342
Before the Senate Commerce Committee
Kelly Schoen, CEO, Z3 Graphix
March 8, 2007

Z3 Graphix HPIP Program History

- In 1999 I purchased the assets of a Missouri corporation to use as the basis to launch a new business model. The predecessor company had low-tech equipment and pay rates that were low by industry standards. Given that, I purchased the assets with the intention of leveraging them into a “High Value” marketing services company that utilized technology to produce value-based marketing products and services.

- As we built the plan for the new business model, we began the search for a location to launch our new printing & marketing services center. We evaluated properties in both Kansas & Missouri, as the predecessor organization had facilities in both states. During the evaluation process, our realtor introduced us to CBIZ so that they could educate us on the potential tax incentives that might be available if we chose to locate in Kansas. After learning more about the HPIP program, and factoring the tax benefits of the HPIP program into our decision, we chose to locate in the College Crossing business park in Lenexa, Kansas.

- Like most small businesses we struggled with the challenges of meeting our debt service related to the leveraged buy out, while still committing the financial resources necessary to equip the company with the assets necessary to execute our business model. By utilizing the HPIP investment tax credit program, we were able to justify investments that we wouldn’t otherwise have been able to make. We averaged over \$200,000 in equipment investments per year for a total of over \$1,000,000.

- Another thing that most small businesses struggle with is dedicating the financial resources and time to train their workforce. The purchase of higher tech equipment required a higher skilled operator. The HPIP Training Tax Credit program provided us with the incentive to dedicate the resources to train our employees to higher skill levels. The result is that we have a work force with significantly higher skill levels, and in turn can deliver a higher level of value to our customers, and accordingly are compensated at significantly higher levels (average compensation is nearly double that of the predecessor organization).

- More skilled employees operating higher tech equipment led to a higher value of products and services for our clients. In turn, our sales grew at double-digit annual rates (sales growth of approximately \$2 mm over the past 5 years). This in turn has allowed us to add new jobs (10 over the past 5 years).

Senate Commerce Committee

March 9, 2007

Attachment 6-1

- As we grew sales and added equipment and employees, space became tight. Once again the HPIP investment tax credit program provided us with the incentive to open a new facility in the State of Kansas. In 2005 we opened our second facility in Lenexa.

Primary Concerns With Proposed Legislative Changes To The HPIP Program:

- The raising of the investment threshold from \$50,000 would eliminate the incentive for small businesses such as Z3 to continue to invest in equipment and facilities in the State of Kansas. Very often the investment tax credit is the difference maker in allowing a small business to be able to stretch into a deal. Small business provides the majority of jobs and fuel for the economy, and the proposal to raise the investment threshold to a level that is not attainable for most small business would be detrimental.
- The elimination of the training credit would significantly reduce the incentive for small businesses to properly train their employees to be competitive into the future. Because employees in small companies wear a lot of hats, it is extremely difficult to justify the time and expense to train employees to the levels that will enhance their future value. Without the incentive of the HPIP Training Credit, small businesses will be more likely to take a shorter-term approach and reduce or eliminate much of their training. Over time, this will lead to lower skilled and lower paid employees.
- Increasing the jobs creation requirement from 2 to 20 will essentially eliminate the incentive for small businesses. While it may be possible to strive to add 2-5 new jobs per year, it is not realistic to expect to add 20.

Summary

- In summary, I see the proposed legislative changes to the HPIP program as being extremely detrimental to the small businesses of Kansas. It will eliminate much of the incentive for investment and training, which in turn will slow the growth potential for the company, which in turn will slow the growth of the economy.
- I believe the Z3 story is a classic example of how the HPIP program can provide the incentive and capability to expand and grow the company. The result has been a substantial increase in sales which has led to increased sales tax revenue and income tax revenue for the State of Kansas. It has also led to substantially higher wages which has provided increased income tax revenue for the State. Increased equipment has led to increased property taxes.

March 8, 2007

Senate Commerce Committee
Kansas Statehouse
Topeka, Kansas

RE: ***SB 342--Proposed Economic Development Tax Incentive Reforms***

Dear Senators:

I am writing to express my concern regarding the proposed economic development tax incentive reforms, which I believe will have a tremendously negative impact on small and medium businesses in the State of Kansas. Furthermore, the changes will affect the state's ability to attract new companies to relocate their businesses to Kansas.

Taxes matter to business. They affect business decisions, job creation and retention, plant location, competition and the long-term health of our state's economy. Although some things are beyond our control in creating an attractive business climate, Kansas can direct its own tax policies.

The Governor's proposed changes will most negatively affect small and medium-sized businesses in the following areas:

Qualification for Investment Tax Credit

- Current Standard:
Invest at least **\$50,000** at a company's qualified business facility.
- Proposed Standard:
Invest at least **\$1,000,000** at a company's qualified business facility. Investments less than that amount (except in Opportunity Zones) will not qualify.

HPIP "Simplifications/Eliminations"

- Current Standard:
Businesses can receive up to \$50,000 in a training tax credit each year.
- Proposed Standard:
Eliminate the training tax credit altogether.

This will affect approximately 90 percent of businesses that are currently HPIP certified in Kansas.

Job Credit Requirements to Qualify for a Credit of \$1,500 for Each Net New Employee

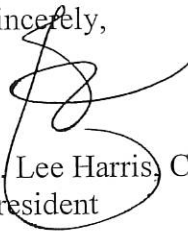
- Current Standard:
 - 2 Net New Manufacturing Jobs

OR

 - 5 Net New Non-Manufacturing / Non-Retail Jobs
(As determined by the net gain in employees on the payroll at year-end)
- Proposed Standard:
 - Minimum of **20** Net New Jobs

As our legislative representatives, it is imperative that you protect and foster the business climate in the State of Kansas. Kansas has worked tirelessly to attract new businesses and to retain the ones that it currently has. Why would we now take a step backward, damaging the groundwork that has been laid to create a positive culture for business in our state? Small and mid-size businesses stand to lose and lose greatly in this new equation. With that in mind, I implore you to act in the best interest of those in your districts by taking steps **now** to diffuse this situation **before** the proposed changes become a bitter reality.

Sincerely,



R. Lee Harris, CRE, CPM
President



January 30, 2007

Senate Taxation Committee
Kansas State Senate
Topeka, KS

Dear Senators:

I, D. Roxanne Helphingstine, am president of Mission Electronics, a small business in Lenexa. We are an audio visual integrator and have been in business for 27 years. In 1995 when we began to see an increase in internet business, Mission Electronics had to change the direction of its sales and service.

Until that time, we were focused on production equipment sales to television stations and production companies. Those entities began purchasing their equipment on the internet to save on sales tax and pricing. We knew if we did not change our business plan, we would most likely be forced to close our doors.

To do so, we had to expand our staff and hire more technically oriented personnel. In this ever changing technological world, we send our employees to training whenever possible. Consequently, we are very concerned by the proposal to eliminate the training tax credit.

This tax credit has enabled us to send more employees to additional training. We would need to pare down some of that training if this occurs. This tax credit has been a great incentive for us to further educate our employees here at Mission Electronics. As our expenses as a small business have continued to increase (such as in health insurance costs), we appreciate any incentives that are available to us.

I appreciate your consideration in not abolishing the training tax credits.

Sincerely,

D. Roxanne Helphingstine
D. Roxanne Helphingstine
President



MEI is proud to have been awarded the Gold Level as a Certified Solutions Provider
11450 W. 79th Street Lenexa, Kansas - Phone: 913.894.9480 - Fax: 913.894.8485

Senate Commerce Committee
March 9, 2007

Attachment 8

Testimony to Senate Commerce
SB 342
Greater Kansas City Chamber of Commerce

March 3, 2007

I am here on behalf of Greater Kansas City Chamber of Commerce in opposition to SB 342 as currently written. This bill would eliminate the High Performance Incentive Plan (HPIP), set at \$1 million threshold for investment tax credit (up from \$100,000), except in an opportunity zone, and set a minimum of 20 new high paying jobs to get a jobs credit (up from 2) except in an opportunity zone.

We do agree that the Revenue Secretary's goal of simplification of credits is a good one and would agree that opportunity zones should get some special treatment. We believe this bill is too restrictive and believe the current version of HB 2496 is about right.

As the Missouri state line splits our metropolitan area, we are very sensitive to the Missouri economic development credits being much more attractive than those of Kansas. Our members in fact have set a priority legislative position seeking increased HPIP credits. We certainly do not support eliminating it, unless there is a comparable replacement.

As always, thank you very much for the opportunity to offer this testimony.

Bob Vancrum
Greater KC Chamber of Commerce

Senate Commerce Committee
March 9, 2007