

Approved: 2/19/08

Date

MINUTES OF THE HOUSE COMMERCE AND LABOR COMMITTEE

The meeting was called to order by Chairman Steve Brunk at 9:16 A.M. on January 30, 2008 in Room 784 of the DSOB.

All members were present except:

Brenda Landwehr- excused

Kasha Kelley- excused

Committee staff present:

Jerry Ann Donaldson, Kansas Legislative Research Department

Dennis Hodgins, Kansas Legislative Research Department

Jill Wolters, Office of Revisor of Statutes

Renae Jefferies, Office of Revisor of Statutes

Stephen Bainum, Committee Assistant

Conferees appearing before the committee: David D Kerr, Secretary of Commerce

Others attending: See attached list.

The Chairman introduced Secretary Kerr. He presented some sheets showing an overview of the five divisions within the Kansas Department of Commerce and the Departments 2008 funding sources **(Attachment 1)**.

Representative Grant asked about travel and tourism. Secretary Kerr mentioned a bill to be sponsored by the State Association of Travel Industry. They want to establish a quasi-governmental agency that will have responsibility for travel and tourism. They are suggesting that 4 to 4.5 million dollars be transferred from Commerce to this new agency. They would also be seeking 10 million dollars from other agencies to increase the funding from 5 million to a total to 15 million dollars a year.

Representative Goico mentioned the fact that the workforce in the aircraft industry in Kansas is ageing. What initiative is the Department of Commerce taking to ensure that the aircraft industry continues to have qualified workers? Secretary Kerr agreed that the workforce is an asset and that overall Kansas is very well perceived in regard to the workforce. The only problem we have is in western Kansas. Their unemployment rate is less than 3%. That means they have a labor shortage. We are working very closely with the aviation industry in regard to training the workforce.

Representative Tietze asked if the 5 million dollars for the 2008 Airfare Program was only for the Wichita area. Secretary Kerr indicated that it was primarily for south central and western Kansas. There has been one request for a Salina to Topeka route.

Representative Huntington asked how the money in the Wire Grant was going to be used. The first grant was a 15 million dollar bi-state grant with Missouri which was focused on workforce development and innovation, healthcare and the bio-sciences field. The second Grant of 5 million dollars was for the Wichita area 10 county region focused on composites.

Secretary Kerr returned to his presentation. He called attention to his overview of the Fiscal Year 2007 Highlights of the Department of Commerce **(Attachment 2)**.

Representative Brunk asked about the guidelines for the use of the emergency funds. Secretary Kerr said they are under strict guidelines to use the funds only for employment to clean up the cities. They have been able to convince congress to allow them to expand the program to pay for city inspectors.

Secretary Kerr then presented an overview of the 2008 Legislative Proposal about the Impact Program Enhancements **(Attachment 3)**.

Representative Brunk asked if the training for a company coming to Kansas can be done ahead of time. Secretary Kerr indicated that much of the training could be done before the factory was set up.

CONTINUATION SHEET

MINUTES OF THE House Commerce and Labor Committee at 9:16 A.M. on January 30, 2008 in Room 784 of the DSOB.

Representative Huntington asked how they would direct computer training within a company. They work with the company to develop a plan for internet based training. Are the MSA requirements being eliminated? Those requirements are still in there.

Representative Brunk asked how eliminating the 95% requirement would affect funding. It does not affect the amount of money that Commerce receives. It does affect how much can be given to a particular company. This would allow the Secretary of Commerce to increase the reward to a company where it is justified.

The Secretary continued with The Tax Incentive Package (**Attachment 4**). He said that it was a re-packaging of **HB 2170** that was proposed last year. It involved the establishment of a Tax Credit Program, the creation of Opportunity Zones, replacing existing Tax Credit Programs with Streamlined Investment Tax Credit and Job Creation Credit Plans and Simplifying Qualified Investment Calculation for Investment Based Credits.

Representative Gordon asked how this package compared with the Kansas Inc. plan. The Kansas Inc. plan has included a way to reduce the total taxes paid for the business. Commerce is not opposed to that at all. Secretary Kerr indicated that he did not know what the fiscal note would be for depreciating assets in the first year compared to depreciating them over 5 or 10 years. The question is how expensive it is and how you pay for it.

Representative Huntington asked if Commerce was proposing eliminating 60% of the 452 million in outstanding credits that haven't been used. Secretary Kerr said no it could not be used for anything that was on the books through the end of last year.

Representative Brunk asked what would be the priority in this new legislation. The first priority would be the modifications to the Impact Program. It gives us the tools to make us competitive with other states. A further question was whether or not we have any requirement for the trainee to stay in the state. The packages have a requirement of how long they have to stay in the state. They tend to be 3 to 5 year programs. They are required to stay in the state two years past the end of the program.

The meeting was adjourned at 10:37 A.M. The next meeting is scheduled for January 31, 2008.

COMMERCE & LABOR COMMITTEE

DATE: 1-30-2008

NAME	REPRESENTING
Casey Johnson	
Kathlyn Beech	
GLADYS KERR	Commerce Dept
Janna Keflin	" "
Caleb Ash	" "
Kae Anne Davis	Commerce
Steve Kelly	" "
WALLY KEARNS	KSBO
STEVE RADLEY	NETWORK KANSAS
Cristal Viurquez	KS Hispanic Latinos Commission
Bethany Harris	Legislative Shadow Day
Taylor Runion	
Emily Wagemaker	
Joseph Rothschild	Legislative Shadow Day - Annie Fitzer
Stan Ahlerich	Kansas, Inc
Karla Jolente	KRAJ
J. Kent Eckles	O. P. Chamber of Commerce
Bernie Koch	Wichita Chamber of Commerce
JEFF GLENDEN	KS CHAMBER
Jacquelyn Koenler	Kansas, Inc.
Cheryl Herrelson-Lewis	Shawnee Mission North HS

KANSAS DEPARTMENT OF COMMERCE

Secretary of Commerce

Deputy Secretary

AGRICULTURE MARKETING DEVELOPMENT

MISSION: To enhance the value of agricultural products through marketing and new uses to provide a greater returns to Kansas producers, processors and rural communities.

MAJOR ACTIVITIES:

- Agricultural Value Added Center
 - Food & Feeds
 - Non-food/Industrial Uses
 - Cooperative Development Program
- Market Development
 - Domestic
 - International
- From the Land of Kansas Trademark Program
 - Trade Show Assistance Grant
 - Business Enhancement Grant

BUSINESS DEVELOPMENT

MISSION: To maximize positive impacts on the Kansas economy through the creation retention of jobs and increased capital investment.

MAJOR ACTIVITIES:

Business Assistance

- Enterprise Zone
- High Performance Incentive Program (HPIP)
- Kansas Cavalry
- Kansas Economic Opportunity Initiatives Fund (KEOIF)
- Minority & Women-Owned Business
- Regional Field Offices: Pittsburg – Overland Park
Wichita – Hays – Topeka – Manhattan
Garden City
- Small Business Development Center
- Business Recruitment Contract Offices: Scotia, NY
Chicago, IL – Los Angeles, CA
- Film Commission

COMMUNITY DEVELOPMENT

MISSION: To partner with Kansas communities to help enhance their livability by providing financial, technical and business assistance.

MAJOR ACTIVITIES:

- Small Cities Community Development Block Grant
 - Community Improvement
 - Housing Grants
 - KAN STEP Program
 - Urgent Need Grants
- Community Assistance Services
 - Center for Entrepreneurship
 - Kansas Downtown Redevelopment Act
 - Enterprise Facilitation
 - Main Street Program
 - PRIDE Program
 - Rural Business Tax Credits

TRADE DEVELOPMENT

MISSION: To provide business leadership through increasing international sales of Kansas goods and services and increasing international investment and jobs in Kansas.

MAJOR ACTIVITIES:

- Export Counseling
- International Investment Recruitment
- International Missions and Trade Shows
- Kansas International Offices
- Kansas International Trade Show Assistance Program (KITSAP)

Deputy Secretary

WORKFORCE SERVICES

MISSION: To provide workforce solutions to Kansas businesses and job seekers.

MAJOR ACTIVITIES:

America's Job Link Alliance (AJLA)

Training Services

- Apprenticeship Program
- Kansas Industrial Training (KIT)/Kansas Industrial Retraining (KIR)
- Kansas JobLink (KANSASWORKS.com)
- Investments in Major Projects and Comprehensive Training (IMPACT)

Employment Services

- Older Kansans Employment Program (OKEP)
- Workforce Investment Act (WIA): Adult and Youth Dislocated Worker – National Emergency Grant
- Workforce Centers
- Foreign Labor Certification
- Migrant Farm Workers
- Veterans Program

Chief Legal Counsel

ATHLETIC COMMISSION

KANSAS COMMISSION ON DISABILITY CONCERNS

REGULATORY COMPLIANCE

Senior Director

MARKETING SERVICES

MAJOR ACTIVITIES:

- Communications & Marketing
- Research
- Public and Media Affairs

INFORMATION TECHNOLOGY MANAGEMENT

MAJOR ACTIVITIES:

- Web Services
- Data Management
- Technical Support

TRAVEL & TOURISM

MISSION: To promote the State of Kansas to travelers and to generate and facilitate tourism and travel-related spending throughout the state.

MAJOR ACTIVITIES:

- Advertising Campaign
- Attraction Development Grant Program
- Group Tour Marketing
- International Marketing
- Kansas Visitor's Guide
- KANSAS! Magazine
- Tourism Attraction Signage Program
- Tourism Marketing Grant Program
- Tourism Web Site: TravelKS.com
- Travel Information Centers
- Travel Media Relations

OPERATIONS

MISSION: To provide quality support services for internal and external customers.

MAJOR ACTIVITIES:

- Building Services
- Fiscal Management
- Human Resources
- Legislative & Administrative Liaison

House Commerce & Labor Committee
1-30-08
Attachment 1

Commerce Department 2008 Funding Sources

Division	Budget	Funding Source
Human Resources/Fiscal Services/Building Services/Information Services	\$2,509,931	EDIF, Federal Indirect Funds
Communications & Marketing	\$2,285,956	EDIF, Federal Indirect Funds
Travel & Tourism	\$4,121,579	EDIF, Publications & Other Sales
General Council/Regulatory Compliance	\$851,926	EDIF/Federal Indirect Funds/WIA/CDBG
Regulatory Compliance	\$426,775	WIA/EDIF/Indirect Costs/Athletic Fee Fund/Wagner Peyser/CDBG
Athletic Commission	\$172,719	EDIF/Athletic Fee Fund
Kansas Commission on Disability Concerns	\$240,563	SGF
Business Development	\$2,811,892	EDIF/General Fees/Small Employee Cafeteria Plan
Trade	\$1,322,643	EDIF/General Fees
Ag Development	\$569,720	EDIF/General Fees/USDA
Community Development	\$1,641,007	EDIF/General Fees/CDBG
Employment, Training & Workforce Development Services	\$8,190,634	WIA/Wagner Peyser/Disability Navigation Program/Impact/Other Federal Grants/Veterans Programs/NEG/Trade Adjustment Act/Reimbursement & Recovery/EDIF/SGF
Workforce Centers	\$6,977,877	Wagner Peyser/Veterans Programs/Impact/Trade Adjustment Act/WIA/Other Federal Grants
AJLA	\$3,116,365	Reimbursement & Recovery/Other Federal Grants/Trade Adjustment Act
Office of the Secretary	\$1,414,908	EDIF

\$36,654,495

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Non Operating (Aid to Local & Other Assistance)

EDIF grants

Eisenhower Foundation	200,000
Sports Hall of Fame	250,000
Rural Opportunities Program	1,600,000
Ag Products	396,880
Trade Show Assistance	50,000
CDC's	279,500
KIT/KIR	2,895,000
Older Kansans Employment Program	320,227
Attraction Development	167,000
SBDC'S	350,000
Center for Entrepreneurship	435,000
IWW	195,000
Total EDIF Aid to Local and Other Assistance	\$ 7,138,607

State General Fund	380,000
Publication and Other Sales	4,000
Impact	17,979,468
General Fees Fund	15,000
Market Development Fund	55,000
Kansas Existing Industry	50,000
Association Assistance Plan	500,000
Ks Economic Development Fund	3,000,000
State Affordable Airfare	5,000,000
Goodyear Bond Repayment	249,349
Other Federal Grants	1,013,372
Greensburg NEG	11,757,770
WIA Federal Funds	20,109,740
Trade Adjustment Act	4,269,696
WIRED	1,483,126
Southeast Ks Flood NEG	4,907,340
National Mainstreet Center Fund	47,424
Community Development Block Grants	19,700,000
Community Development Revolving Loans	3,000,000
Kansas Partnership Fund	200,000
All Funds Aid to Local and Other Assistance	\$ 100,859,892

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Fiscal Year 2007 Highlights

- Commerce was involved in 43 location/expansion/retention projects, which created 6,603 jobs created or retained at an average hourly wage of \$14.29, with \$505 million in capital investment. Commerce was also involved in 204 expansions of existing Kansas companies, which resulted in 6,831 new jobs at an average hourly wage of \$15.24, with \$1.4 billion in capital investment.
- Our training programs – Kansas Industrial Training (KIT), the Kansas Industrial Retraining (KIR), and the Investments in Major Projects and Comprehensive Training (IMPACT) – combined to fund 110 projects at \$18.3 million, involving 103 companies in 32 counties. These State funds leveraged \$12.5 million in private sector matching funds. Once training is complete, these projects will result in the training of 9,769 individuals.
- Staff continued to recruit veterans, particularly disabled veterans, into state civil service positions. Kansas achieved a 93 percent “Entered Employment Rate” for Vocational Rehabilitation and Employment program participants.
- Kansas was selected as the North American headquarters location for four international companies, including biotech leader Onclmmune of England, as well as firms from Germany, India and the Netherlands. Kansas companies took advantage of matching funds through the Kansas International Trade Show Assistance Program (KITSAP) that created opportunities for them to reach new international markets. Thirteen Kansas companies were funded for 13 international trade shows, with sales reported of over \$1.9 million, creating a return on investment of \$109 per dollar expended.
- Commerce continued to facilitate the development of alternative energy production facilities throughout Kansas, including: eight ethanol plants combining for 2,245 million gallons in total annual output; one biodiesel facility with an annual output of 72 million gallons; and two large-scale wind farms.
- Commerce awarded \$420,000 in Value Added Loans to nine Kansas companies, totaling \$147 million in sales, through Agriculture Marketing Development. The department also registered 26 new agritourism vendors, bringing the total number of licensed operators to 221.
- Commerce provided \$24.5 million in federal Community Development Block Grant funds to 95 projects producing \$61 million in private investments benefiting 79,000 Kansans and creating 358 jobs. The department also provided services to 22 designated Main Street cities, which resulted in 172 new or expanded businesses in downtown districts (64 more than last year), 272 new jobs (16 more than last year) and \$32 million in reinvestment in downtown districts (\$13 million more than last year).
- Seven tourism projects received \$120,350 in Attraction Development Grants, resulting in \$358,000 in matching contributions. The Tourism Division also worked with *National Geographic* magazine photographer Jim Richardson to create a traveling exhibit of 32 photos of the Flint Hills, including those featured in the April issue of the magazine.

2008 LEGISLATIVE PROPOSAL

IMPACT PROGRAM ENHANCEMENTS

House Commerce & Labor
Committee

1/30/08

Attachment 3

House Commerce & Labor
Date: 1-30-08
Attachment # 3

2008 Legislative Proposal
IMPACT Program Enhancement

3-2

➤ **IMPACT - Current Law**

- Utilized for Training and Cash Incentives for New or Retained Jobs
- Allows for Use of 2% of Overall Withholding Taxes Collected
- Capacity for Debt Service and Program Fees
 - 2007: \$1.9B of overall withholding taxes; \$39.3M available to service debt (bond payments)
 - 2007: \$13.5M paid for debt service; \$1.5M paid for program fees
- Awards Restricted to 95% of Estimated Withholding Tax for New or Retained Jobs

3-2

2008 Legislative Proposal
IMPACT Program Enhancement

3-3

Recommendation for IMPACT Enhancement

- **Maximize Value to the State and Businesses by Providing the Flexibility to Utilize Debt Service or Cash**
 - \$27.5M available annually to service bonds (\$39.3M Annually Services \$275M on a 10 Year Bond)
 - \$39.3M available annually if converted to cash
 - Creates a “pay as you go” vs. “mortgage the future” environment
- **Eliminate 95% Withholding Limitation Which Negatively Impacts Business Recruitment**
- **Target a Minimum of 15% for Rural Projects and a Minimum of 20% for Small Business (less than 100 employees) Opportunities**
- **Unallocated Funds Carried Forward Absent of Targets**

3-2

2008 LEGISLATIVE PROPOSAL TAX INCENTIVE PACKAGE

H-Commerce & Labor
Committee

1-30-08
Attachment 4

House Commerce & Labor
Date: 1-30-08
Attachment # 4

2008 Legislative Proposal
Tax Incentive Package

4-2

Tax Incentive Package Objectives:

1. **Establish a Selectively Applied Tax Credit Cash Refund Program**
2. **Establish the Creation of Opportunity Zones**
3. **Replace Existing Tax Credit Programs with Streamlined Investment Tax Credit and Job Creation Credit Plans**
4. **Simplify Qualified Investment Calculation for Investment-Based Credits**

4-2

2008 Legislative Proposal
Tax Incentive Package

4-3

1. Establish a Selectively Applied Tax Credit Cash Refund Program

- Applied on a prospective basis only (12/31/07 and after)
- Total amount of appropriation capped at \$10M annually
- Companies may apply for a select number of a discounted cash refund of up to 40% of earned credits
- If awarded and a discounted cash refund is accepted, the remaining amount of company's tax credits would be forfeited
- Application made through Commerce with selection criteria developed through rules & regulations
- Commerce submits annual report to Legislature, detailing the company and total credit awarded

4-3

2008 Legislative Proposal
Tax Incentive Package

4-4

2. Establish the Creation of Opportunity Zones to Enhance Investment and Job Creation Credits

- **Mirrors Provisions of HB 2170**
 - Established by Secretary of Commerce
 - Comprised of at least one county
 - Economically disadvantaged
 - Outside of designated metropolitan county or micropolitan statistical areas
- **Opportunity Zone Can Be Created in Response to a Disaster Area Designation**

4-4

2008 Legislative Proposal
Tax Incentive Package

4-5

3. Replace Existing Tax Credit Programs with Streamlined Investment Tax Credit and Job Creation Credit Plans

- **Investment Tax Credit - Set at 10% of qualified investment**
 - For-profit businesses
 - Identified under specific NAICS codes or HQ /ancillary support operation
 - Qualified investment
 - Equal or exceeds \$50K for businesses in Opportunity Zones
 - Equal or exceeds \$300K for businesses outside of Opportunity Zones
 - Average wages must exceed regional NAICS code wages
 - Non-manufacturing worksites must generate more than 50% of revenues from Kansas manufacturers or out-of-state commercial or government customers unless an HQ or back-office operation

4-5

2008 Legislative Proposal
Tax Incentive Package

4-6

3. Replace Existing Tax Credit Programs with Streamlined Investment Tax Credit and Job Creation Credit Plans

▪ **Job Credit Creation**

- \$3,500 per new employee with a minimum of 2 new jobs created in an Opportunity Zone
- \$1,500 per new employee with a minimum of 5 new employees outside of an Opportunity Zone
- \$1,500 per new employee with a minimum of 20 employees for HQ / ancillary support operations outside of an Opportunity Zone

▪ **Investment Tax Credit and Job Creation Credit Plans Replace:**

- Enterprise Zone Incentives
- High Performance Incentive Program (HPIP)
- and the Business and Job Development credits

4-6

2008 Legislative Proposal
Tax Incentive Package

4. Simplify Qualified Investment Calculation for Investment-Based Credits

- Qualified investment placed in service during taxpayer's tax year
 - Investment must remain in service through the last day of the year
 - Recertification not required for investment or job credits

4-7

4-7