

MINUTES OF THE SENATE WAYS AND MEANS COMMITTEE

The meeting was called to order by Chairman Jay Emler at 10:30 a.m. on January 15, 2010, in Room 548-S of the Capitol.

All members were present except:

Senator Carolyn McGinn- excused

Senator Mark Taddiken- excused

Committee staff present:

Alan Conroy, Kansas Legislative Research Department

J. G. Scott, Kansas Legislative Research Department

Michael Steiner, Kansas Legislative Research Department

Dylan Dear, Kansas Legislative Research Department

Cody Gorges, Kansas Legislative Research Department

Aaron Klaassen, Kansas Legislative Research Department

Jill Wolters, Office of the Revisor of Statutes

Daniel Yoza, Office of the Revisor of Statutes

Melinda Gaul, Chief of Staff

Shirley Jepson, Committee Assistant

Conferees appearing before the Committee:

William R. Thornton, Acting Secretary, Department of Commerce

Steve Kelly, Deputy Secretary, Department of Commerce

Carol Jordan, Director, Agriculture and Community Development, Department of Commerce

Tracy Streeter, Director, Kansas Water Office

Earl Lewis, Assistant Director, Kansas Water Office

Others attending:

See attached list.

Overview of Investments in Major Projects and Comprehensive Training (IMPACT) and Other Incentive Programs

William R. Thornton, Acting Secretary, Department of Commerce, appeared before the Committee to present an overview of Investments in Major Projects and Comprehensive Training (IMPACT) and other incentive programs within the Department of Commerce (Attachment 1). Mr. Thornton explained that IMPACT was created to respond to the training and capital investment needs of major business expansions as well as job retention and retraining projects provided certain statutory requirements are met. Assistance is targeted to Kansas basic industries including agriculture, mining, manufacturing and other identified industries. A company must show financial strength adequate to accomplish the goals of the project. Start-up businesses are not eligible. Wage thresholds are also a consideration.

Mr. Thornton explained that the IMPACT program is funded through tax exempt bonds issued by Kansas Development Finance Authority with the bonds paid down through the use of the withholding of the employees of the project. Debt service is paid on a bi-annual basis. As of July 2009, withholding taxes in the amount of \$2.2 million had been collected.

Responding to a question from the Committee, Steve Kelly, Deputy Secretary, Department of Commerce, stated that the current debt service is 50-60 percent of the total debt service of \$44.2 million. Those entities receiving the funding are responsible for the debt service they incur. Mr. Thornton noted that re-payments are made on a semi-annual basis. Businesses or entities receiving the funding are required to meet certain thresholds as provided for in the program.

Mr. Thornton continued his testimony and explained the Incentive Programs offered by the Department of Commerce. The Department has three workforce development programs to assist companies in creating new jobs, retrain an existing workforce and industrial training. A number of programs pertaining to income tax incentives are also available.

CONTINUATION SHEET

Minutes of the Senate Ways and Means Committee at 10:30 a.m. on January 15, 2010, in Room 548-S of the Capitol.

Responding to a question from the Committee, Carol Jordan, Director of Agriculture and Commercial Development, Department of Commerce, explained that tax credits requirements vary; however, some tax credits are transferable.

Mr. Thornton explained that the \$48.5 million in IMPACT funds authorized for the Cerner/Wizards Project are to be paid back within a 10-year period. The \$147.8 million of STAR bonds for the Stadium and Complex for the Kansas City Wizards will be paid back over a 20-year period. Responding to a question from the Committee, Mr. Thornton indicated that the Department did not do a study to find successful soccer facilities in other parts of the country before the authorization of the STAR bonds for the soccer complex.

Responding to a question from the Committee, Mr. Thornton felt that the incentive of the available programs is not to make money for the state but to provide incentives to businesses to expand. Mr. Kelly noted that there are programs that do not make their goals or major projections; however, are required to repay the loans.

The Committee requested the agency to provide an additional report to include the following:

- The amount of usage of the individual tax credit programs.
- Programs that have a sunset attached to the program by the legislation.
- Size of the programs, how successful, how much money is spent on the program, effectiveness of the program.
- The number of programs that are subject to the legislative appropriation process and those outside the appropriation process.
- Percent of projects that have been successful.
- Research to document soccer stadiums across the nation who have been successful in obtaining a profit with the facility.
- Programs that are available to new businesses.
- Programs that have not met their benchmarks.

The Committee requested that the Legislative Research Department the following report:

- The effect of the machinery and equipment property tax exemption on local counties.

Overview of Federal Reservoir Debt

Tracy Streeter, Director, Kansas Water Office, provided an overview of the Kansas Federal Reservoir Debt ([Attachment 2](#)). Mr. Streeter explained that the state of Kansas has purchased water supply storage in 13 federal reservoirs through contracts with the U.S. Army Corps of Engineers for a total storage of just over 900,000 acre-feet. Of this amount, approximately 415,000 acre-feet contained in five reservoirs (Milford, Perry-Clinton, Hillsdale and Big Hill) does not have an immediate buyer and is not financially secured. The storage is for future use and referred to as "unfunded liability". A significant portion of federal reservoir storage was secured through a lump sum purchase in the 1990's.

In FY 2011, \$1.49 million will be paid to the Corps of Engineers for annual principal and interest payments due for storage previously called into service. The unfunded liability on current contract was based on 1962 and 1964 costs. If these contracts are renewed, they will be renewed at current day costs, sufficiently higher than costs in the 1960's.

Mr. Streeter explained that the Kansas Water office and Kansas Water Authority recommended the establishment of an interest-bearing escrow account in 2004 to provide for financial security to pay for the water storage. The escrow account was established in the Governor's Budget Report in 2005; however, no funding has been appropriated for the purpose.

Responding to a question, Earl Lewis, Kansas Water Office, noted that there is no funding available at the present time for dredging of any of the state's reservoirs.

Adjournment

The next meeting is scheduled for January 19, 2010.

The meeting was adjourned at 12:10 p.m.

SENATE WAYS AND MEANS COMMITTEE

GUEST LIST

DATE: January 15, 2010

NAME	REPRESENTING
Bob North	Dept. of Commerce
D. FEITH MEYERS	DEPT. OF COMMERCE
Steve Kelly	Dept of Commerce
Carole Jordan	Dept of Comm
JEFF CONWAY	DEPT. OF COMMERCE
Kendra Hanson	Hein Law Firm
Mark Boranyc	CAPITOL STRATEGIES
Mike Huttles	Schullerbank
Justin [unclear]	Budget
John Thomas	"
Tom Bruno	Bruno & associates
MAX Foster	State Conservation Commission
GREG A. FOLEY	SCC
STACEY WASHINGTON	KDA
MARK HEIM	KWO
Earl Lewis	KWO
Tracy Struth	KWO
Dan Kopber	Kansas Inc
Matt Casey	GBA
ROD MEALY	KEARNY & Assoc.
Patrick Woods	SRS
Jan Bruning	OP Chamber
Kent Eckles	KS Chamber of Commerce

**Testimony on the IMPACT Program,
Economic Development Incentives,
and the Cerner Project**

to

The Senate Ways and Means Committee

**By William R. Thornton
Acting Secretary
Kansas Department of Commerce**

January 15, 2010

Chairman Emler, and Members of the Committee:

I. OVERVIEW OF IMPACT

The IMPACT (Investment in Major Projects and Comprehensive Training) Program was created to respond to the training and capital investment needs of major business expansions. It can also be used to address job retention and retraining projects provided certain statutory requirements are met. IMPACT has two major components; SKILL (State of Kansas Investment in Lifelong Learning) and MPI (Major Project Investment). The SKILL funds can be used to pay for expenses related to training, and MPI can be used for capital investment expenses tied to the job creation/retention effort (such as land or building purchase, equipment purchase or costs associated with equipment relocation, build out costs, and recruitment activities). Finally, up to 10 percent of total project funding may be transferred into the Workforce Solutions Fund to invest in human capital, training expertise and infrastructure upgrades for our state workforce development system for the benefit of all employees.

Eligibility Requirements

Assistance is targeted to "Kansas basic industries" (K.S.A. 74-50,103), which includes agriculture, mining, manufacturing, and other identified industries.

Companies involved in job creation are typically required to train 100 or more employees. Companies involved in retraining activities must retrain a minimum of 250 in the metro region or 100 in the rest of the state. Companies engaged in retraining employees must show that employees to be trained are likely to be displaced because of obsolete or inadequate job skills and knowledge.

A company must show financial strength adequate to accomplish the goals of the project; therefore, start-up businesses are not eligible. Wage thresholds for the program are \$11.00 in the metro region and \$9.50 in the rest of the state.

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Attachment 1

What is the Funding Source?

The IMPACT program is funded through tax exempt bonds issued by KDFA; the bonds are paid down through the use of the withholding of the employees of the project. The program has access to up to 2% of the statewide withholding. Debt service is paid on a bi-annual basis. As of July 2009, withholding taxes collected was \$2,227,000,000; therefore, our capacity for debt service is \$44.2 million.

History/Amendments

- The program was developed and implemented in 1990 as a training program and allowed a dedicated funding stream of 1 percent of statewide withholding taxes.
- July 1996, Major project investment (MPI) was added as the second component to allow for flexibility. MPI was limited to 10 percent of total project awards.
- July 2005, withholding cap was increased to 2 percent
- July 2007, MPI threshold suspended

All IMPACT projects must have a training component.

Examples of Projects

We currently have 38 open IMPACT projects with awards ranging from \$100,000 to \$25.8 million. MPI awards range from 0 to 95 percent for an individual project. One of the largest projects ever funded to date involved retaining 2,300 and creating 300 new jobs for Black & Veatch in FY09.

FY08 totals: 18 projects; \$14.1 Million; 9,390 total new and existing jobs

FY09 totals: 14 projects; \$62.5 Million; 10,259 total new and existing jobs

Other

- New job creation projects are typically structured with a 3-year hiring schedule. A company has up to 36 months from the date a position is created to train a new employee. The average life of a new job creation project is about 6 years but can last up to a maximum of 10 years.
- Retraining projects must be completed within 36 months. Jobs must remain filled for a minimum of twelve months after the project end.
- The employer must maintain a significant business operation in Kansas for two years following the completion of a training project.
- A company is reimbursed up to the total award based on expenses incurred, ability to meet minimum new job creation and/or retraining standards, and associated Kansas withholding taxes collected.

II. INCENTIVE PROGRAMS

Promoting Employment Across Kansas (PEAK) – This program offers qualified companies that are relocating operations to Kansas the ability to retain 95% of their payroll withholding tax for a period of 5 to 7 years. Companies need to create at least 10 new jobs within two years in metropolitan areas or 5 new jobs within two years in all other counties of the state. High-impact projects that create 100 new jobs within five years can retain 95 percent of payroll withholding tax for seven to 10 years. The number of years that withholding tax can be retained depends on how much the annual average wage of the relocated jobs at the Kansas worksite will exceed the county average wage.

Wind and Solar Bond Financing – This allows the State to issue up to \$5 million in bond

financing for eligible wind and solar energy manufacturers locating in Kansas. The bonds are paid off from the payroll withholding tax of the new jobs. To qualify, a project must create at least 200 new jobs within five years, pay at least a \$32,500 average salary and generate a minimum capital investment of \$30 million.

Kansas Economic Opportunity Initiatives Fund (KEOIF) – The Department of Commerce can provide a 0% interest forgivable loan to qualified companies. This loan can offset costs associated with the establishment of a new facility or the expansion of an existing facility. Eligible costs include site improvements, construction, build-out and purchases and relocation of machinery and equipment. These are typically 5-year loans and the loan is forgiven in 20% annual increments over the period based on achievement of job and payroll targets. Approval of funding for this program is based on the number of new jobs created, the level of wages paid to the new employees and the economic impact of the project.

Industrial Revenue Bonds – Industrial Revenue Bonds are a popular method of financing up to 100% of a growing business' land, building and equipment. IRBs are securities issued by cities and counties to provide funds for creditworthy companies to acquire land, construct and equip new facilities or remodel and expand existing facilities. IRBs allow fixed-rate financing for the life of the bond for the project. Federal authority allocated to the state allows some of these bonds to be federally tax-exempt, thereby reducing interest costs.

Community Development Block Grant – Eligible small city and county governments may apply for Community Development Block Grant economic development funds to make water, sewer, rail spur, roadway or other infrastructure improvements designed to assist companies in creating jobs. These funds may also be used by a business to acquire land or buildings, construct or renovate facilities, purchase machinery and equipment or for working capital. Under this program, companies can apply for up to \$35,000 per job created with a maximum limit of \$750,000. At least 51% of the jobs created with CDBG funding must be held by individuals who, at the time of hire, meet the low- to moderate-income guidelines for the county location.

Infrastructure funding requires that half of the funding be paid back over a 10-year period at a rate of 2%. Financing for working capital, equipment and real property carries a fixed rate equal to 4% or 3% below prime, whichever is greater, set on the award date. The term of the loan depends on the type of assets being financed: working capital up to 5 years, equipment up to 10 years and real property up to 15 years.

Partnership Fund – Commerce provides low-interest state funds to cities and counties for infrastructure improvements that support Kansas basic enterprises such as manufacturing and distribution. Eligible projects may include construction, rehabilitation or expansion of public facilities, including roads, streets, highways, water supply and treatment facilities, water distribution lines, wastewater collection lines and related improvements. This is a revolving loan fund wherein repayment of existing loans provides the funding base for new projects.

Kansas Bioscience Authority – Commerce works in partnership with the Kansas Bioscience Authority to assist in the expansion and recruitment of bioscience companies. The KBA has direct financing programs and other resources that can be used to recruit new bioscience companies and world-class scholars, fund equipment and lab space for research and facilitate the commercialization of bioscience discoveries.

Kansas Enterprise Technology Corporation (KTEC) --The Kansas Department of Commerce oftentimes works with KTEC to recruit out-of-state companies to Kansas; promote the Kansas business climate to various audiences; and help technology-based companies grow and expand in Kansas. The Secretary of Commerce is a member of the KTEC Board of Directors and has regular contact with KTEC leadership.

WORKFORCE DEVELOPMENT PROGRAMS

The Department of Commerce has three workforce training programs to offset a company's training costs. Companies creating new jobs may qualify for Investments in Major Projects and Comprehensive Training (IMPACT) or Kansas Industrial Training (KIT) assistance. Eligibility for either program depends on the number of jobs created and the corresponding wages. We also have the Kansas Industrial Retraining (KIR) program to retrain a Kansas company's existing workforce on new technology or production activities. Projects involving a Kansas Basic Industry – which includes manufacturing, distribution or regional/national service facilities – may qualify for these programs.

All of these programs offer direct financial assistance to pay a negotiated portion of the costs to train a company's employees. Companies may apply the assistance toward items such as instructors' salaries; meals, travel and lodging (including out-of-state or international travel); video development; textbooks and training manuals; supplies and materials; temporary training facilities; curriculum planning and development and in certain situations reimbursement of trainee's wages for up to six months.

INCOME TAX INCENTIVES

Enterprise Zone Program – This program offers corporate income tax credits for new job creation and qualified capital investment in Kansas. The entire state of Kansas is designated as an Enterprise Zone. Eligibility for this program depends on the type of business and the number of jobs created. Manufacturers need to create at least two net new jobs, non-manufacturers five net new jobs and ancillary support and headquarters need to create at least 20 net new jobs.

The job creation tax credit in the metropolitan areas of Kansas City, Topeka, Wichita and Lawrence is \$1,500 per new job created. Designated non-metropolitan areas can provide a credit of \$2,500 per new job created. The investment tax credit is one percent of qualified investment. The credits can be used to significantly reduce a firm's corporate income tax liability in a given year, and allowed unused credits may be carried forward.

High Performance Incentive Program (HPIP) – This program provides a 10% corporate income tax credit on the qualified capital investment of an eligible company. Qualified capital investment can include such items as the purchase or lease of a facility or equipment, remodeling or build-out costs, fixtures, furniture and computers. Equipment transferred to Kansas from out-of-state is also credited at the original acquisition cost.

The 10% tax credit is awarded to companies that operate an eligible business, pay above-average wages and invest in employee training. The credits can be used to significantly reduce a company's corporate income tax liability in a given year. Credits must be used within a consecutive 10 year period. This program targets capital intensive industries and projects.

Rural Business Development Tax Credit -- The investment generated by this tax credit is utilized by each of the regions to stimulate economic growth, preserve jobs, and provide support to Kansas businesses. Donations made to designated regional foundations by taxpayers, including corporations, are eligible for a state tax credit. The credit is 75 percent of the donation, with a minimum donation of \$250. A total of \$2.0 million in tax credits are available each year through Fiscal Year 2012.

Kansas Downtown Redevelopment Tax Rebate (LOCAL) -- Through the Downtown Redevelopment Act, areas designated by the Secretary of Commerce can receive a rebate of property tax collected on properties that have undergone approved improvements. The city must request and be approved by Commerce before businesses can take advantage of the

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rebate. The amount of the rebate depends on the city and whether or not there are inter-local agreements in place with all local taxing entities or if the rebate is only from the city's percentage. A property owner submits a written application to the governing body of the city to request the rebate. A rebate of the incremental tax increase between the valuation prior to the improvements and the new assessed valuation is made available for five years. For the sixth year through ninth years, the rebate declines 20 percent each year. Beginning in the 10th year, no rebate is available.

Community Service Program Tax Credit -- The Kansas Community Service Program authorizes tax credits against the state income tax, premium tax and privilege tax for businesses that make contributions toward state- approved community service capital projects. The awarded organizations or entities must engage in activities that meet demonstrated needs in the state in the areas of community service, health care, and/or crime prevention. Contributions toward approved projects are eligible for up to a 50 percent credit. Contributions toward approved projects in designated rural areas are eligible for up to a 70 percent credit. The Community Development Division of Commerce administers this program, determining the eligibility of contributing recipients by process of application.

ENERGY TAX CREDITS

Refinery Tax Credits -- Kansas allows refineries a tax credit equal to the sum of 10 percent of the qualified investment for the first \$250 million invested plus 5 percent of the investment after \$250 million.

Biomass-to-Energy Plant Tax Credit -- Kansas provides an income tax credit for expenditures in new construction or expansion of an existing biomass-to-energy plant. The credit is 10 percent of the taxpayer's investment on the first \$250 million invested and 5 percent of the taxpayer's investment after \$250 million.

Renewable Electric Cogeneration Facility Tax Credit -- A renewable electric cogeneration facility is a facility owned and operated by the owner of an industrial, commercial or agricultural process to generate electricity for use in such process to displace current or provide for future electricity use. Kansas allows an income tax credit for such facilities equal to 10 percent of the investment for the first \$50 million and 5 percent after \$50 million.

Incentives for Ethanol Production -- Kansas offers direct financial incentives for existing and/or new or expanded production of agricultural ethanol. New facilities that produce more than 5 million gallons, or existing facilities that increase production by 5 million gallons, are eligible for an incentive of \$0.075 per gallon sold up to 15 million gallons per year.

Incentives for Biodiesel Fuel Production -- Facilities producing biodiesel fuels receive an incentive of \$0.30 per gallon sold by the producer. In addition, an income tax credit is available for tax years 2007-11 for investment in the purchase, construction or installation of equipment used for storing and blending petroleum-based fuel and biodiesel, ethanol or other biofuels and installed at a fuel terminal, refinery or biofuels production plant. The tax credit is equal to 10 percent of the taxpayer's qualified investment for the first \$10 million invested and 5 percent of the investment after \$10 million.

Waste Heat Utilization System -- A waste heat utilization system includes facilities and equipment for the recovery of waste heat generated in the process of generating electricity and the use of such heat to generate additional electricity or to produce fuels from renewable energy resources or technologies. A waste heat utilization system is exempt from all property taxes for 10 taxable years immediately following the taxable year in which construction or installation is complete.

Incentives for Cellulosic Alcohol Production -- Kansas provides an income tax credit for cellulosic alcohol production of 10 percent of investment for plant construction or expansion for the first \$250 million invested and 5 percent of qualified investment over \$250 million.

Incentives for Alternative-Fuel Fueling Station Tax Credit -- Expenditures for qualified alternative-fuel fueling stations are allowed a credit equal to 40 percent of the total amount expended but not to exceed \$160,000 for each fueling station.

Carbon Dioxide Capture/Sequestration Tax Deduction -- A taxpayer is entitled to a deduction from Kansas adjusted gross income with respect to the amortizable costs of carbon dioxide capture, sequestration or utilization machinery and equipment over a period of 10 years. The amortization deduction shall be an amount equal to 55% of the amortizable costs of such machinery and equipment for the first taxable year in which such machinery and equipment are in operation and 5% of the amortizable costs of such machinery and equipment for each of the next nine taxable years.

Alternative-Fueled Motor Vehicle Tax Credit -- Expenditures for qualified alternative-fueled motor vehicles are allowed a credit against the income tax imposed against the owner of such vehicle. Depending on the date of the vehicle's purchase and/or conversion, the amount is either 40 or 50 percent of the incremental cost or conversion cost and not to exceed either \$40,000 or \$50,000.

Storage and Blending Equipment Tax Credit -- Kansas provides an income tax credit for fuel storage and blending equipment, including any equipment used for storing and blending petroleum-based fuel and biodiesel, ethanol or other biofuel and is installed at a fuel terminal, refinery or biofuel production plant. An income tax credit is available that is equal to 10 percent of the taxpayer's qualified investment for the first \$10 million invested and an amount equal to 5 percent of the amount that exceeds \$10 million.

Coal Gasification Power Plant Tax Credit -- Kansas provides an income tax credit for the placement of a new integrated coal gasification power plant into service or the expansion of an existing plant. The income tax credit is equal to 10 percent of the taxpayer's qualified investment for the first \$250 million invested and an amount equal to 5 percent of the amount that exceeds \$250 million.

Crude Oil or Natural Gas Pipeline Tax Credit -- The State of Kansas provides an income tax credit for the placement into service of a new or the expansion of a refinery. The income tax credit is equal to 10 percent of the taxpayer's qualified investment for the first \$250 million invested and an amount equal to 5 percent of the amount that exceeds \$250 million.

PROPERTY TAX INCENTIVES

Machinery and Equipment Property Tax Exemption –

Commercial and industrial machinery and equipment acquired by qualified purchase or lease or transferred into the state is exempt from state and local property tax. The exemption pertains to machinery and equipment used in the expansion of an existing facility or the establishment of a new facility. The exemption covers machinery and equipment used in manufacturing or warehousing/distribution, commercial equipment, computers, desks and chairs, copiers and fax machines.

SALES TAX EXEMPTIONS

Sales Tax Exemption – For qualifying companies, both the Enterprise Zone Program and High Performance Incentive Program offer a 100% sales tax exemption on the purchase of labor and materials to construct or remodel a facility, as well as on the machinery, equipment, furniture and fixtures used in the facility.

Other Sales Tax Exemptions include:

- 1) Labor related to original construction
- 2) New machinery and equipment for manufacturing and distribution. This also includes pre- and post-production machinery and equipment, including

III. CERNER/WIZARDS PROJECT

A. Office Park

The Cerner office complex provides an opportunity to create a proposed 4,500 jobs at an average annual wage of \$65,000. The proposed office complex would cost on the order of \$150 million to construct and equip. This would be the first large-scale operation of the Cerner Corporation in the state of Kansas.

The annualized impact of the office park operations (when fully staffed) to the Wyandotte County community is expected to be \$527.78 million in constant 2009 dollars. The new development would become one of the largest employers in Kansas City metropolitan area and the state of Kansas.

The state is offering about \$48.5 million in IMPACT funds and about \$36 million in tax credits and sales tax exemptions.

B. Stadium and Complex

The Kansas City Wizards are planning the development of an 18,500-seat stadium and a 24-field soccer tournament complex that would serve as the team's training site as well as the home offices of OnGoal, the Wizards' ownership group. In addition to the proposed stadium, the project is also envisioned to include a 100-room hotel as well as an orthopedic center and athletic care facility. Overall, approximately \$267.5 million in construction expenditures are envisioned for all components of the project. It is estimated that the proposed project could host more than 800 events annually drawing more than 2.5 million attendees. During the construction of the proposed project, it is estimated that approximately 910 new full- and part-time jobs could be created in Wyandotte County and approximately 2,090 new full- and part-time jobs could be created in Kansas.

- Jobs: about 2,430 net new full- and part-time jobs in Wyandotte County and about 1,530 net new full- and part-time jobs in Kansas.
- Revenue: about \$3.0 million in annual net new tax revenue to Wyandotte County and about \$4.3 million in annual net new tax revenue to the state.
- Over a 30-year period: about \$59.5 million in net new tax revenue to Wyandotte County and about \$85.8 million in net new tax revenue to the state.

The state has authorized up to \$147.8 million of STAR bonds for the project. This would be funded through the use of up to \$144.5 million in state sales tax receipts from the Village West STAR Bond District. It is estimated that this amount of sales tax would be generated over approximately a 4-year period, likely starting in 2014. The Unified Government would contribute an estimated \$117 million of local sales tax receipts, also beginning in 2014.

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raw material handling, waste storage, water purification and oil cleaning, as well as ancillary property such as gas pipes, electrical wiring and pollution control equipment

- 3) Tangible personal property that becomes an ingredient or component part of a finished product
- 4) Tangible personal property that is immediately consumed in the production process, including electric power, natural gas and water
- 5) Incoming and outgoing interstate telephone or transmission services (WATTS)
- 6) Real and personal property financed with an Industrial Revenue Bond (IRB)

OTHER TAX INCENTIVES & BUSINESS INITIATIVES

Property Tax Abatement (LOCAL) – Cities or counties may exempt real property from ad valorem taxation. The tax abatement can include all or any portion of the appraised buildings, land and improvements. A total or partial tax abatement may be in effect for up to 10 years after the calendar year in which the business commences its operations. Any property tax abatement is the decision of the city or county.

Right-to-Work State – Union membership is well below the national average.

Inventory Tax Exemption – All merchant and manufacturers' inventories are exempt from property taxes.

Research Tax Credit – Kansas offers an income tax credit equal to 6.5 percent of a company's investment in research and development above an expenditure of the previous three-year period. Twenty-five percent of the allowable annual credit may be claimed in any one year.

No Local Income Taxes – Kansas cities and counties do not impose income or earnings taxes on personal or corporate income.

Phase Out of Kansas Franchise Tax – Kansas is phasing out its franchise tax and it will be repealed altogether by tax year 2011.

Workers' Compensation – The Kansas workers' compensation program has undergone major changes over the past few years which has resulted in our premium rates being ranked eighth lowest in the U.S.

Renewable Energy – Kansas has a variety of incentive programs available for renewable energy, including the new wind and solar bond financing program as well as income tax credits for biodiesel, ethanol, cellulosic alcohol, and biomass-to-energy facilities and other renewable energy operations.

Reduction in Corporate Income Tax Rate – Kansas will reduce its corporate income tax rate to 7 percent by 2011.

**Testimony on Kansas Federal Reservoir Debt
to
Senate Ways and Means Committee**

**by Tracy Streeter
Director
Kansas Water Office
January 15, 2010**

Chairman Emler and members of the Committee. I am Tracy Streeter, Director of the Kansas Water Office. I am pleased to appear before the Committee to discuss the State's obligations relative to the ownership of water supply storage in our federal reservoirs.

In 1963, the Legislature and Governor enacted the State Water Resources Planning Act. Under this Act, K.S.A. 82a-910 establishes the authority for the Kansas Water Office to contract with the federal government to purchase storage in reservoirs.

To date the state of Kansas has purchased water supply storage in 13 federal reservoirs through contracts with the U.S. Army Corps of Engineers. The total storage under contract in these reservoirs for municipal and industrial use is just over 900,000 acre-feet. Of that amount, approximately 415,000 acre-feet contained in five reservoirs (Milford, Perry, Clinton, Hillsdale and Big Hill) does not have an immediate buyer and is not financially secured. This storage is referred to as *Future Use* and the financial component is referred to as *The Unfunded Liability*. This arrangement is made possible through a contract provision which allows the state to defer both capital and operation costs until such time as the state calls the storage into service.

The state exercised the contract option to defer the payments for *The Unfunded Liability* as a cost containment measure for the state and water marketing customers. The contract provision also set a timeframe under which the costs must be paid. That timeframe is 50 years from the date the first increment is called into service. Interest on the portion not called into service continues to accrue. With each year, our debt grows and the number of years in which we can pay shrinks. The total current debt for this 415,000 acre-feet of storage is \$83 million. The debt for this storage at the end of the contract periods and assuming no water is sold between now and then is \$191 million.

Kansas is fortunate in that a significant portion of federal reservoir storage was secured through a lump sum purchase in the 1990's. 173,000 acre-feet was purchased in seven reservoirs under a 1985 Memorandum of Understanding with the Corps of Engineers. \$15.5 million was appropriated for the purchase that comprises the storage we refer to as *Reserve Capacity*. This 1990's purchase is commonly referred to as *The Big Buy*.

The balance of the storage is either under long-term contract with Water IV or has been dedicated to the three water assurance districts serving mur

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water right holders along the Kansas, Marais des Cygnes and Neosho Rivers. Under the Kansas Water Office's Water Marketing and Water Assurance programs, our customers and users pay the state's cost to purchase and maintain storage dedicated to them. In FY 2011 \$1.49 million will be paid to the Corps of Engineers for annual principal and interest payments due for storage previously called into service.

Of the five reservoirs comprising the *The Unfunded Liability*, Perry and Milford are the most prominent for two primary reasons. First, the storage which has not been paid for is utilized by the Corps of Engineers to support navigation flows on the Missouri River. In previous years, navigation releases have caused lake levels to drop as much as six feet, raising concerns about available storage in prolonged drought and negative impacts to the water-based recreation economy. Secondly, the amount of storage available in these reservoirs is significantly greater than the other three and there is not an apparent municipal or industrial user to purchase the entire amount of storage prior to the contract ending year.

In addition, these contracts contain very favorable purchase terms allowing the state to purchase the storage based on construction costs in the year the reservoir was built. For example, construction began at Milford and Perry in 1962 and 1964, respectively. Notwithstanding the interest which is accruing as we speak, should the state not exercise its options under these contracts by the contract ending year, the purchase costs, which would be determined based on updated construction costs, will increase exponentially. Should the state not be in a position to purchase the storage prior to the end of the contract, the federal government could, theoretically, contract this storage to another entity.

During 2004 the Kansas Water Office and Kansas Water Authority reviewed and gained public input on options to deal with the financial security of the reservoir storage. Three main options evolved. Those are best characterized as: 1) balloon payment at contract term, 2) call storage into service now, or 3) establish interest bearing escrow account. An economist from the University of Kansas Policy Research Institute assisted in evaluating and determined that setting money aside in an interest bearing escrow account was the most fiscally responsible option.

Based on these findings, in November of 2004, the Kansas Water Authority adopted a policy section of the Kansas Water Plan that proposed the establishment of an interest bearing escrow account to address the program's financial feasibility. In the following year, the establishment of an escrow account was included in the Governor's Budget Report. However, no funding was appropriated for this purpose. The establishment of an escrow account has not been proposed in any subsequent budget recommendations of the Kansas Water Authority.

Information detailing reservoir storage, costs and contract term is attached to this testimony along with a map illustrating the location of the federal reservoirs utilized under the Water Marketing and Assurance Programs.

I appreciate the opportunity to provide this information to you and will stand for questions at the appropriate time.

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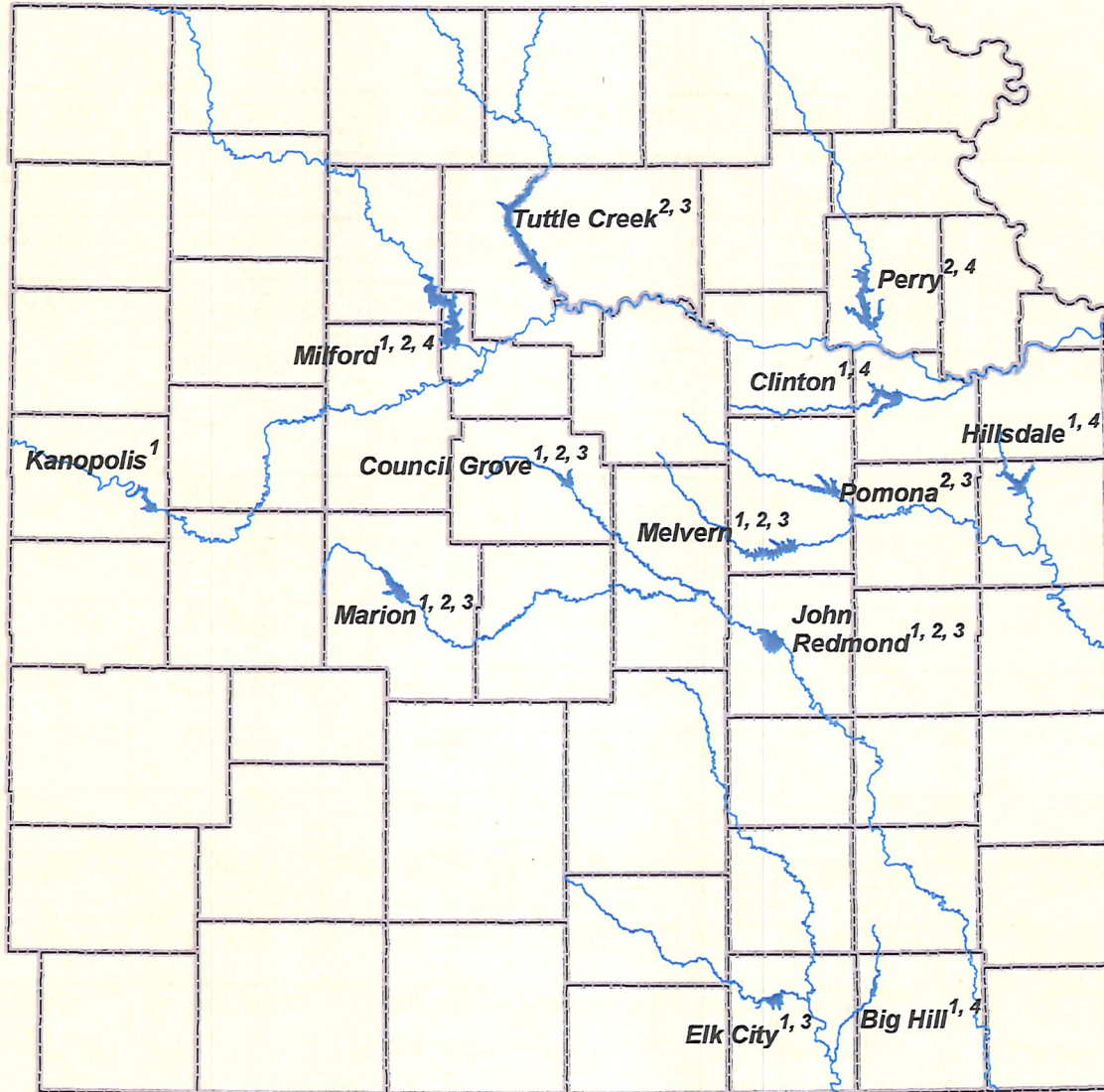
**KANSAS WATER MARKETING and WATER ASSURANCE PROGRAMS
RESERVOIR DATA**

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<i>Reservoir</i>	<i>Reservoir Storage (Acre-Feet)</i>				<i>The Unfunded Liability TODAY</i>	<i>The Unfunded Liability TERM</i>	<i>Year Contract End</i>
	<i>Total Water Supply</i>	<i>In Service</i>	<i>Reserve Capacity</i>	<i>Future Use</i>			
Big Hill	25,700	9,200	0	16,500	\$ 9,000,000	\$ 19,000,000	2029
Clinton	89,200	53,500	0	35,700	\$ 6,000,000	\$ 17,000,000	2028
Council Grove	32,400	24,400	8,000	0			
Elk City	30,180	20,180	10,000	0			
Hillsdale	53,000	13,250	0	39,750	\$ 36,000,000	\$ 83,000,000	2030
John Redmond	37,450	30,950	6,500	0			
Kanopolis	12,500	12,500	0	0			
Marion	44,730	32,230	12,500	0			
Melvern	50,000	24,750	25,250	0			
Milford	300,000	101,650	0	198,350	\$ 16,000,000	\$ 31,000,000	2033
Perry	150,000	25,000	0	125,000	\$ 16,000,000	\$ 41,000,000	2040
Pomona	32,500	10,400	22,100	0			
Tuttle Creek	50,000	41,350	8,650	0			
TOTAL	907,660	399,360	93,000	415,300	\$ 83,000,000	\$ 191,000,000	

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State Owned Storage Lakes



- 1 Water Marketing Lake
- 2 Water Assurance District Lake
- 3 Reserve Storage
- 4 Future Use Storage

