

MINUTES OF THE HOUSE COMMERCE AND LABOR COMMITTEE

The meeting was called to order by Chairman Steve Brunk at 9:18 A.M. on February 12, 2008 in Room 784 of the DSOB.

All members were present except:

Brenda Landwehr- excused
Broderick Henderson- excused
Candy Ruff- excused
John Grange- excused
Lana Gordon- excused

Committee staff present:

Jerry Ann Donaldson, Kansas Legislative Research Department
Jill Wolters, Office of Revisor of Statutes
Rena Jefferies, Office of Revisor of Statutes
Stephen Bainum, Committee Assistant

Conferees appearing before the committee:

Stan R Ahlerich, President, Kansas, Inc.
Dr. Art Hall, Executive Director, Center for Applied Economics, KU School of Business

Others attending: See attached list.

The Chairman called for bill introductions. Representative Ruiz introduced a resolution for compensation to the Department of Labor. It was received without objection.

Stan R Ahlerich, President, Kansas, Inc. provided a written bill summary about the Kansas, Inc. proposal for Universal Expensing of Capital Investment in **HB 2751** and **SB 571 (Attachment 1)**. He made no comments about the proposal. His testimony continued with a single page written testimony about the Strategic Plan for Kansas, Inc. (**Attachment 2**). A 92 page report called Leveraging our Foundations and Designing the Future: A Kansas Economic Renaissance, The 2007 Kansas Economic Development Strategic Plan dated January 2008 was distributed to the committee. It is available from Kansas, Inc.

Mr. Ahlerich said that Kansas, Inc. was charged with developing a strategic plan for a safe Kansas and doing research and benchmark work for understanding the dynamics of the Kansas economy. We have compiled what the business leaders in Kansas needed and wanted. We have come up with 43 strategies to improve the business climate in Kansas. The participants to the plan are listed on pages 2 through 6 of the report. Starting on page 7 the recommendations for each of the 43 strategies are listed. These strategies are broken down by business categories such as Manufacturing–Aerospace and General, Rural Development and Agriculture, Professional, Scientific, and Technical Services, Energy and Natural Resources, Bioscience and 5 other categories.

Representative Grant asked which was better, a hundred small businesses or one large business. Stan's answer was that it was better to go for the hundred small businesses because that gives more diversity and prevents some corporate headquarters somewhere pulling the business out of Kansas.

Mr. Ahlerich continued his comments with Strategy 7, found on page 9, about the rural development of wireless coverage in Kansas. This is a new utility and is needed throughout Kansas, not just in the large cities. If we don't have high speed internet service throughout the state it will prevent some companies from locating here. He commented on the training for employment that Kansas, Inc. does for workforce development.

Representative Huntington wanted to know if the subject of immigration was addressed in the plan. Mr. Ahlerich said that first and foremost we have to build capacity. That goes to all segments of the population. Immigration has to be a part of the plan but it has to be legal.

Representative Goico said that the estimate was that we have 75,000 unlawful immigrants in Kansas and most of them are employed. What policy do you have to develop legal workers if the unlawful immigrants are forced to leave? Mr. Ahlerich said that the policy has to be the same as it is and it has to be legal. Many of

CONTINUATION SHEET

MINUTES OF THE House Commerce and Labor Committee at 9:18 A.M. on February 12, 2008 in Room 784 of the DSOB.

these decisions are made at the Federal level.

The next portion of testimony was presented by **Dr. Art Hall, Executive Director, Center for Applied Economics, KU School of Business (Attachment 3)**. He began his testimony with the Implementation of Expensing in Kansas. Kansas, Inc. has a motto that says, "Every business matters". To honor that theme they sought to do something that could benefit every business. They proposed an expensing as an automatic option in lieu of other, select investment tax credits. There are many good tax incentives in the Kansas tax code but most of them have restrictions on them. "Expensing" is automatic, the business can take this option if they choose to. Simply speaking, it is a tax deduction related to capital investment. It is not the granting of a new privilege, it is the removal of a penalty. The idea is not new. It is decades old. It has been offered at different times in the Federal tax codes.

Expensing allows business taxpayers the option between expensing and other investment-related tax credits available under Kansas law. It is a mutually exclusive option. The business can not take the tax credit and expensing both. While there are restrictions on what kind of business can take the tax credits there are no such restrictions on the expensing plan. Only about 130 companies are taking the most valuable tax credit in Kansas but expensing would apply to every business in Kansas.

Representative Grant inquired about revolving low interest loans for small business. Dr. Hall replied that Network Kansas was created as a micro loan organization. They are just getting up and running. The Kansas Business Center is also helping out with new information.

Dr. Hall continued with a comparison of tax credits and expensing. He presented a chart to show the different amounts of Kansas Tax Liability that would result with expensing or tax credits.

Representative Kiegerl said that in the long term expensing would increase tax receipts. Dr. Hill completely concurred. He said that the whole point of this was to make Kansas a more profitable place to invest.

Representative Brunk asked if it would then be profitable to borrow for investment. Dr. Hill said that yes it absolutely would be profitable. Representative Brunk wondered further what the initial impact would be to the state. Dr. Hill said the initial impact would be about 79 million dollars. There would be some transition cost to a new regime. What we expect is a growing economy.

Representative Huntington asked who would not like this in Kansas. Dr. Hill said it would be anybody who does not think that this is a transition cost to a superior tax economy. It is a long term investment environment. This is a way for Kansas to invest in every business in Kansas rather than pick and choose which ones to invest in.

Representative Tietze wondered if the Federal tax policy was using expensing. Dr. Hill said that they have used it off and on. The idea is decades old. It should be a permanent fixture of Kansas economy. Representative Tietze then asked why other states were not doing it. Dr. Hill said that many states have tax credit programs which are meant to accomplish the same thing but they are very targeted. What we are saying is that we are not playing favorites. This will be available to every business in Kansas.

Representative Huntington asked what it would do to revenue in the long term if we don't have the growth of business coming into Kansas. Dr. Hill said that we need to look at the incentives for business coming into Kansas. The state would make an investment in new business that would ultimately pay off. On average Kansas business growth has been 2 to 3% a year.

Representative Quigley asked on the example on page 3 what the deduction would be for years 2 through 8. if expensing was taken. Dr. Hill answered that they would be the same as in the example. This is an extra deduction made in the first year only on each investment. This is to make Kansas a better place to invest.

The meeting adjourned at 10:20 A.M. The next meeting is scheduled for February 13, 2008.