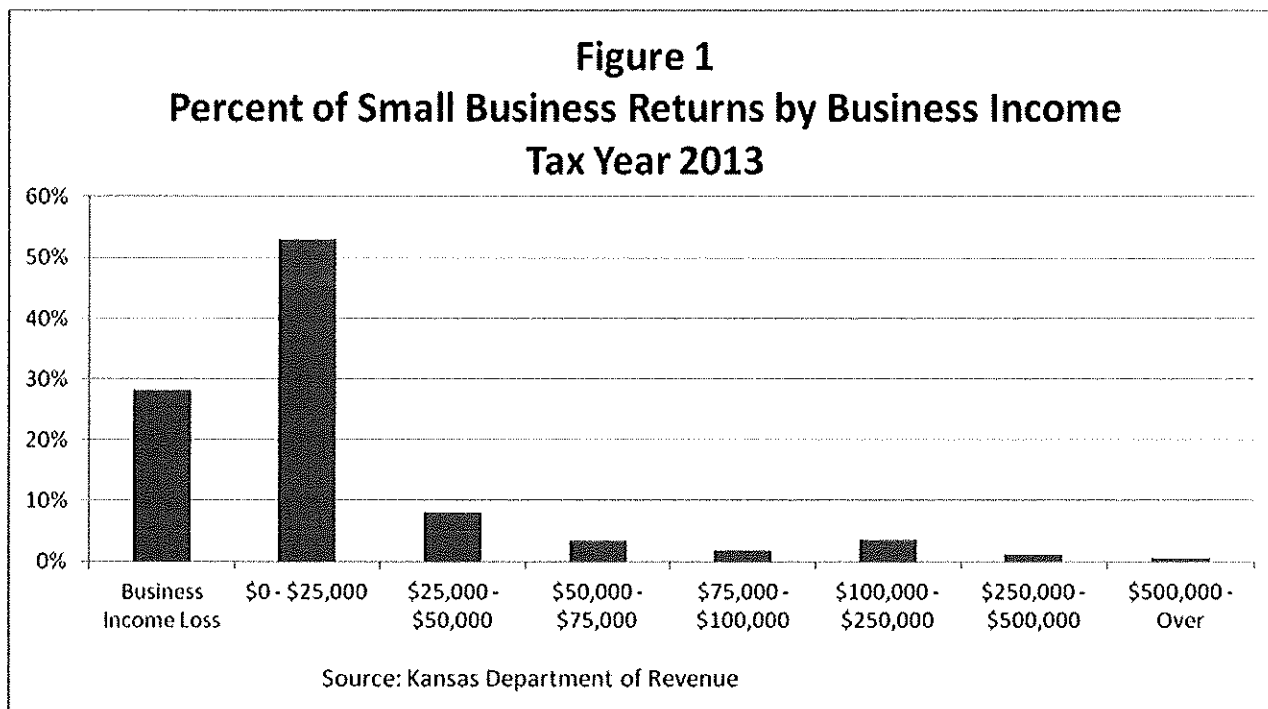


Good Afternoon House Members and Chairman. My name is Michael Austin, and I am a Financial Economist for the Kansas Department of Revenue and Economic Research Fellow for the Brownback Administration. As noted by Mr. Carlson, I will speak on the economic effects that the tax policy has had on small businesses in Kansas.

I think one of the most important concepts to define in this committee hearing, is the term "Small Business". A seemingly objective term, "Small Business" can mean a myriad of ideas to different people. Therefore my presentation today will consider small businesses in Kansas under two "umbrellas" that I hope you would believe to be reasonable; business income and employee size.



Looking at *Figure 1*, it is evident that the majority of business returns make less than 25,000 dollars of business income a year, a percent of near 81 for Tax Year 2013. This means two things, the first, is that the majority of these returns have supplement income such as wages from other jobs, capital gains, and/or retirement, and second, is that the perception that the wealthy are solely benefitting from the tax exemption does not hold as much weight, if any.

| <b>Table 1</b><br><b>Small Business Income</b><br><b>Annual Growth Rate Since 2013Q1</b> |               |               |               |
|------------------------------------------------------------------------------------------|---------------|---------------|---------------|
| <i>Area</i>                                                                              | <i>2014Q1</i> | <i>2014Q2</i> | <i>2014Q3</i> |
| United States                                                                            | 4.2           | 4.3           | 4.5           |
| Colorado                                                                                 | 5.5           | 5.2           | 5.2           |
| Kansas                                                                                   | 7.3           | 6.4           | 6             |
| Missouri                                                                                 | 4.7           | 4.3           | 4.4           |
| Nebraska                                                                                 | 6.1           | 5.8           | 5.2           |
| Oklahoma                                                                                 | 4.5           | 3.8           | 4             |
| Plains                                                                                   | 5.2           | 4.9           | 4.9           |

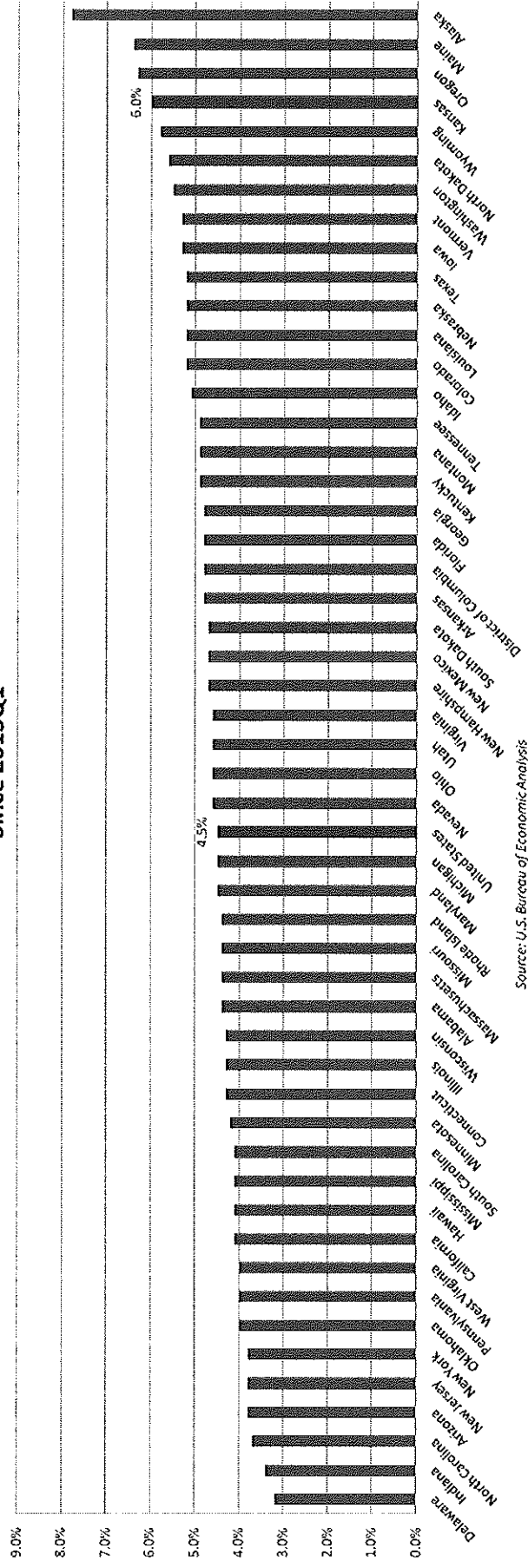
*Source: U.S. Bureau of Economic Analysis*

| <b>Table 2</b><br><b>Non Farm Personal Income</b><br><b>Annual Growth Rate Since 2013Q1</b> |               |               |               |
|---------------------------------------------------------------------------------------------|---------------|---------------|---------------|
| <i>Area</i>                                                                                 | <i>2014Q1</i> | <i>2014Q2</i> | <i>2014Q3</i> |
| United States                                                                               | 3.9           | 4.0           | 4.0           |
| Colorado                                                                                    | 5.5           | 5.7           | 5             |
| Kansas                                                                                      | 4.2           | 4.2           | 4.1           |
| Missouri                                                                                    | 2.9           | 3.3           | 3.3           |
| Nebraska                                                                                    | 2.9           | 3.4           | 3.2           |
| Oklahoma                                                                                    | 3.5           | 3.6           | 3.7           |
| Plains                                                                                      | 3.5           | 3.7           | 3.7           |

*Source: U.S. Bureau of Economic Analysis*

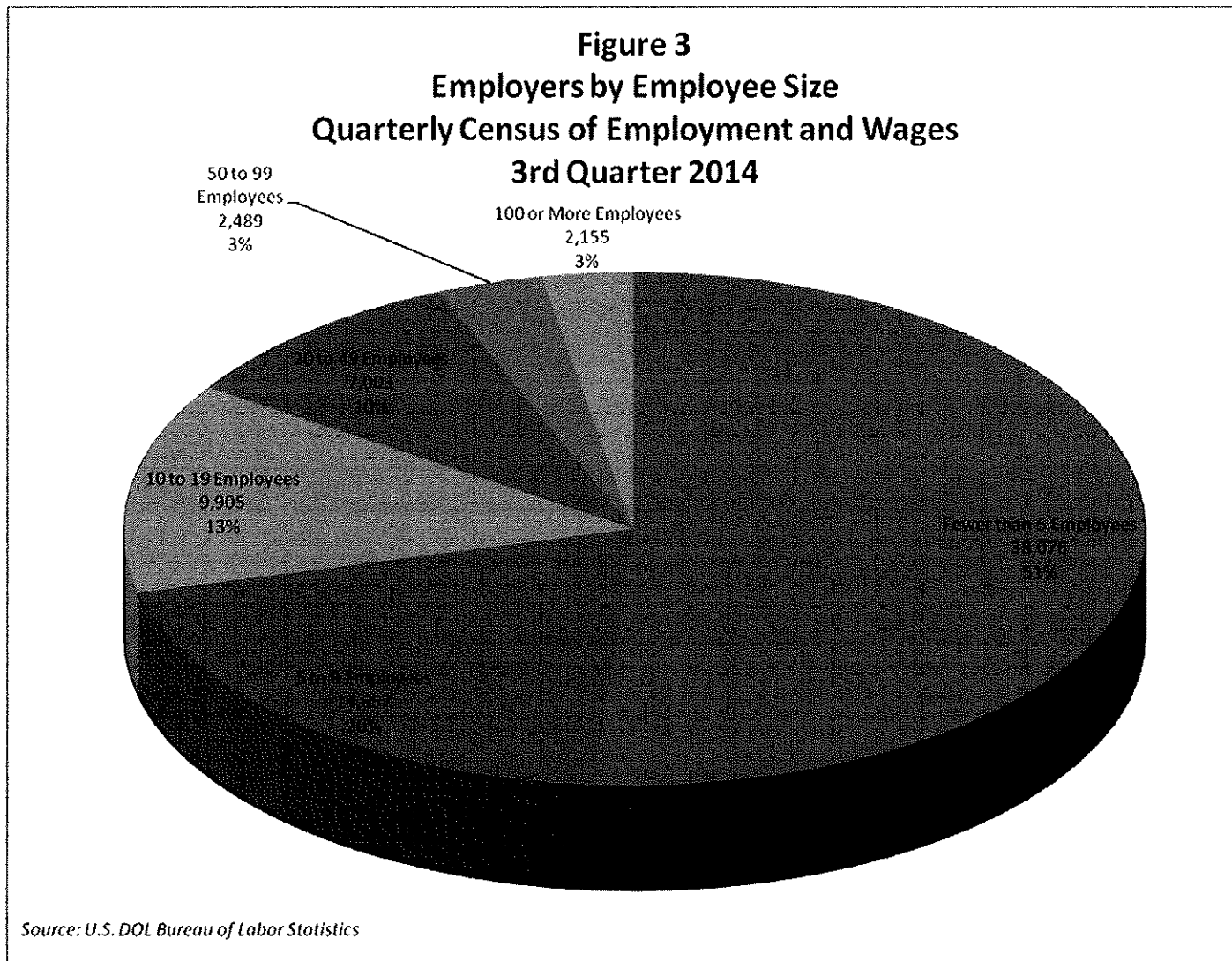
Table 1 and Table 2 show the superiority Kansas small businesses have experienced in the last couple of years. Since 2013Q1 Kansas small business income growth has surpassed neighbor states, the plains region aggregate, which includes Missouri, Nebraska, Minnesota, North and South Dakota, and the nation. Take note, that this growth in small business income is associated with high non-farm personal income growth, showing how sensitive small business welfare affects all Kansans. How do these Kansas small businesses compare across the nation?

**Figure 2**  
**State Ranking of Small Business Income Growth**  
**Annual Average Growth Rate**  
**Since 2013Q1**



Kansas small businesses are seeing growth that puts it fourth in the nation. Kansas small businesses are growing at least 30% faster than the nation since implementation of the small business exemption.

Now as stated previously, there is another way that we can interpret the concept of a small business, and that is through employee size as seen in *Figure 3*.



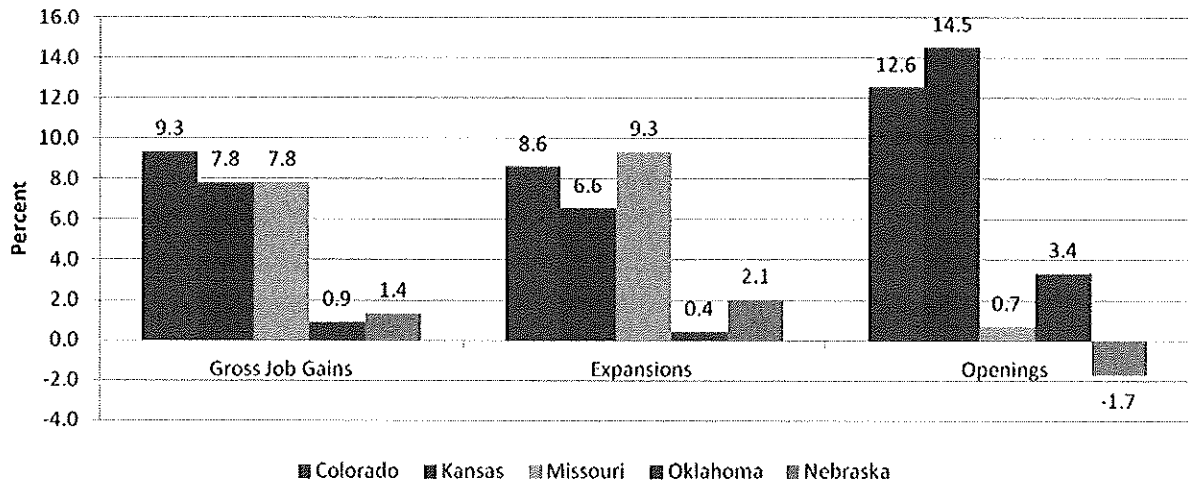
Similar to the distribution of returns by business income, in terms of number of employees, the majority of employers have less than 5 employees, and less than one percent has 100 or more employees. These statistics come from the U.S. DOL's Bureau of Labor Statistics Quarterly Census of Employment and Wages program or QCEW. This program is a hard count of jobs and wages reported by employers who pay UI. Even though it is currently difficult to track a particular business return and find its corresponding firm within the U.S. Department of Labor, we can still assume overlap and trends due to their very similar distribution.

| <b>Table 3</b>                                                   |                                      |                                      |                                                        |
|------------------------------------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------------------------|
| <b>Kansas Job Growth*</b>                                        |                                      |                                      |                                                        |
| <b>Total Private</b>                                             |                                      |                                      |                                                        |
| <i><b>Employer Class Size</b></i>                                | <i><b>Annual Rate Since 2011</b></i> | <i><b>Annual Rate Since 2013</b></i> | <i><b>Average Contribution to Total Job Growth</b></i> |
| Employees in Small Firms                                         | 1.7%                                 | 2.0%                                 | 65.0%                                                  |
| Employees in Large Firms                                         | 1.0%                                 | 1.2%                                 | 35.0%                                                  |
| <i>*Up to the most recent quarter available 3rd Quarter 2014</i> |                                      |                                      |                                                        |
| <i>Source: U.S. Bureau of Labor Statistics</i>                   |                                      |                                      |                                                        |

As of the most recent quarter available, there are nearly 920,000 employees who work in firms of 250 employees or less. These employees in small firms grew at 1.7% a year if you look back at 2011, while employees in firms of more than 250 employees grew at 1%. Since the implementation of the small business exemption, employees at small firms are growing at an annual rate of 2.0% contributing to 65% of total private sector job growth.

Figure 4 presents a subset of the QCEW program known as Business Employment Dynamics or BED. This program allows us to observe the dynamics of the Kansas labor market through job gains, by opening, or expanding businesses. In the most recent quarter available, Kansas has done well in growth of job gains by openings and growing businesses, reflected by contributions to growth by small businesses. In fact, for the current quarter Kansas grew at 14.5% in job gains by new businesses.

**Figure 4**  
**Private Job Quarterly Gain By State & Type**  
**Business Employment Dynamics\***  
**2nd Quarter 2014**

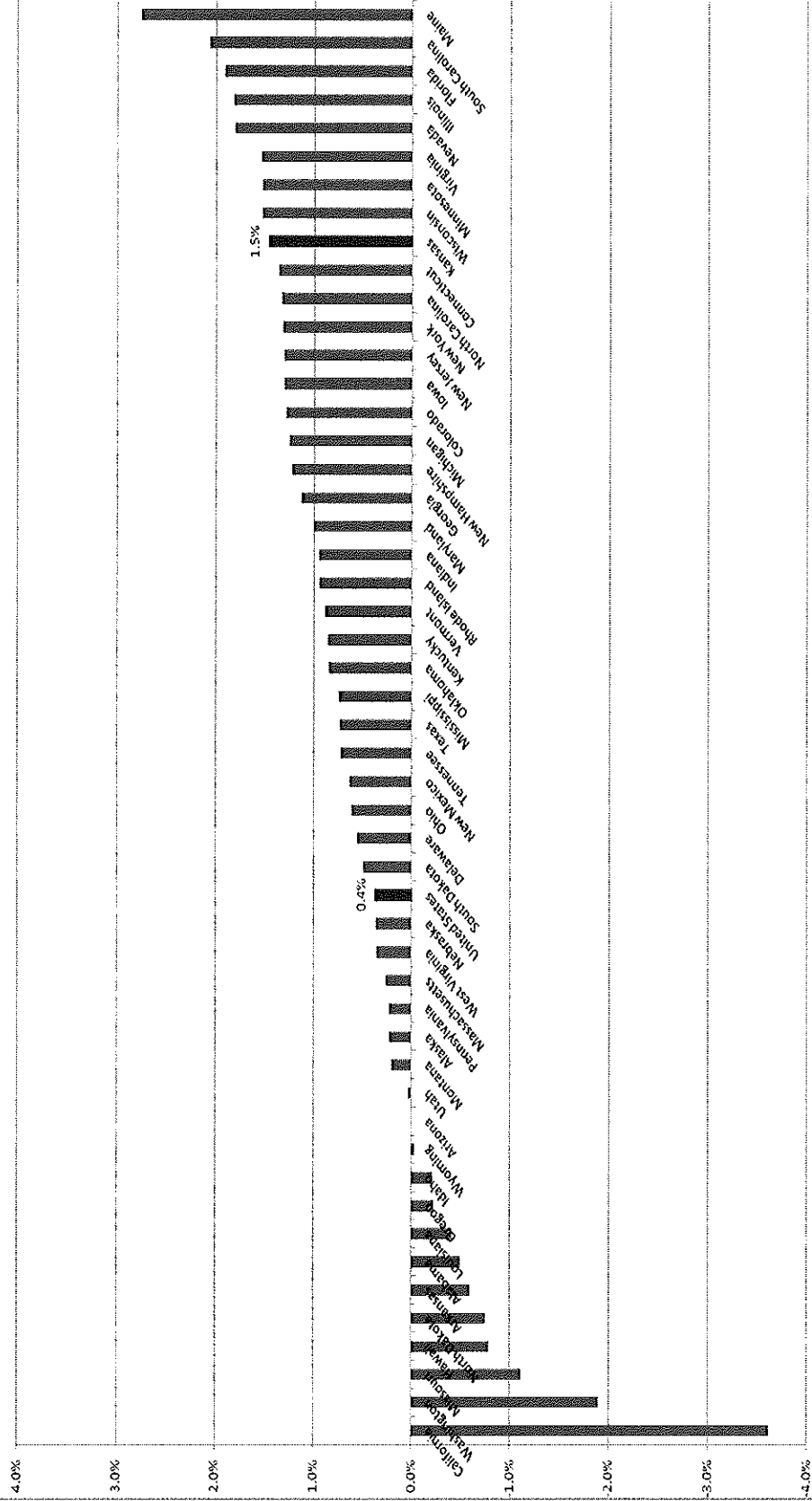


*\*Seasonally Adjusted*

*Source: U.S. DOL, Bureau of Labor Statistics*

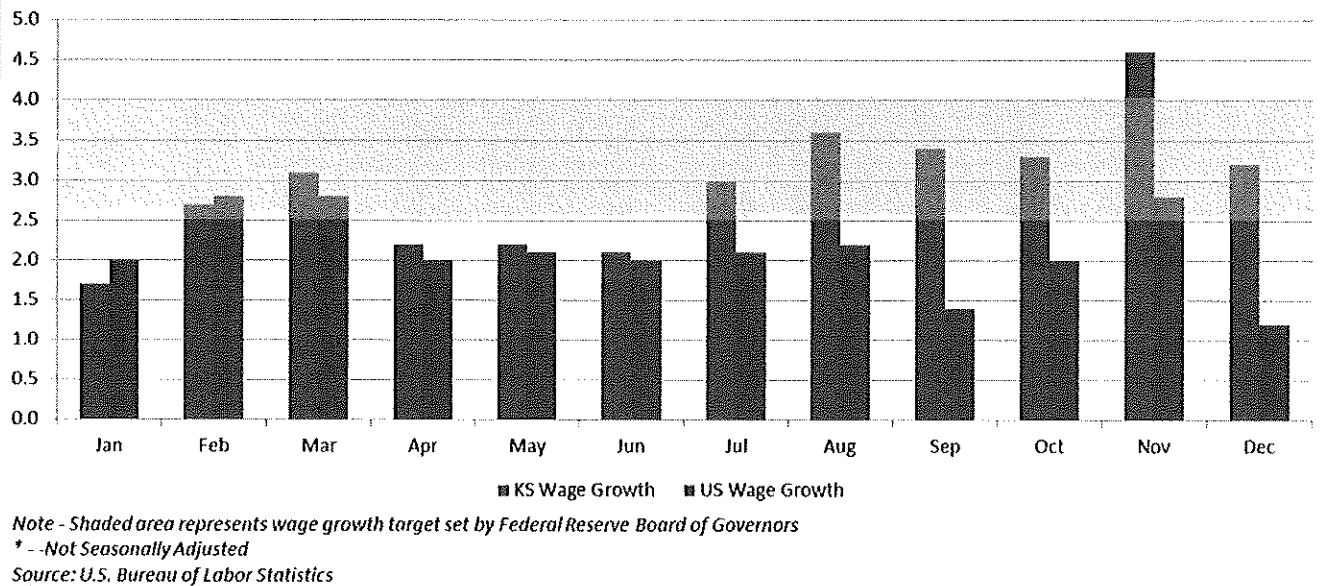
Though this is merely a one point in time, how well has Kansas performed on a consistent basis? *Figure 5* shows that Kansas has added private sector jobs by new and expanding businesses at a rate of 1.5% every quarter, which is almost 4 times faster than the national average.

**Figure 5**  
**Private Average Job Gains/Quarter**  
**Business Employment Dynamics\***  
**50-State Ranking Since 2013**



\*Seasonally Adjusted  
 Source: U.S. DOL, Bureau of Labor Statistics

**Figure 6**  
**Private Hourly Wages Growth**  
**Current Employment Statistics and Current Population Survey\***  
**2014**

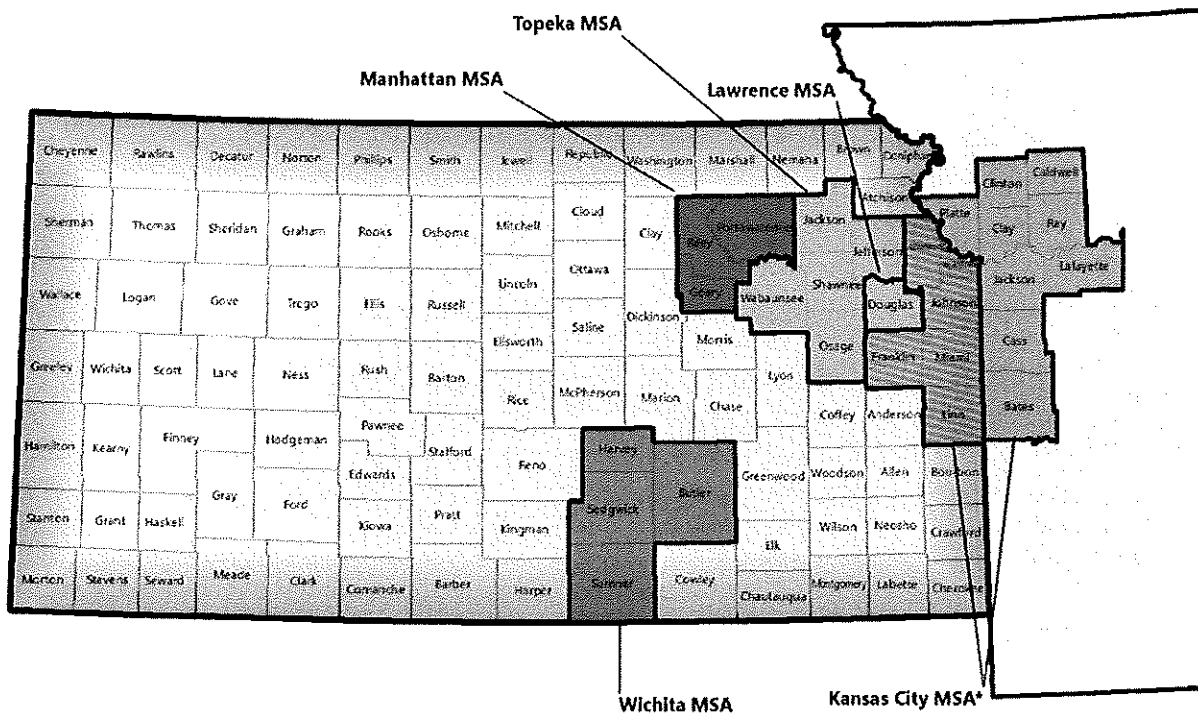


Kansas small businesses have contributed greatly in adding jobs to the Kansas economy. However, not only are Kansas small businesses helping get persons back to work, but they are also contributing to phenomenal wage growth.

Coupled with the previous graph of strong personal income, and our own knowledge of our current historically low unemployment rate, Kansas is seeing wage growth faster than peer states and the nation. The thought process behind this is as Kansas approaches or even gets below its natural rate of unemployment, there should be on average less unemployed or applicants per job opening. This creates pressure for employers to raise wages offered for job opening in order to entice more applicants. At the same time, as an economy continues to grow and prices rise, employees will feel increasing pressure to request raises.

It is these basic economic intuitions that the Chairwoman of the Federal Reserve Board of Governors, Janet Yellen, has indicated that by seeing consistent wage growth of at least 2.5 to 3 percent, it should give notification of a strong and healthy labor market. The U.S. has not hit such a target and yet Kansas has.

# Kansas Metropolitan Statistical Areas And Kansas City Geographic Area

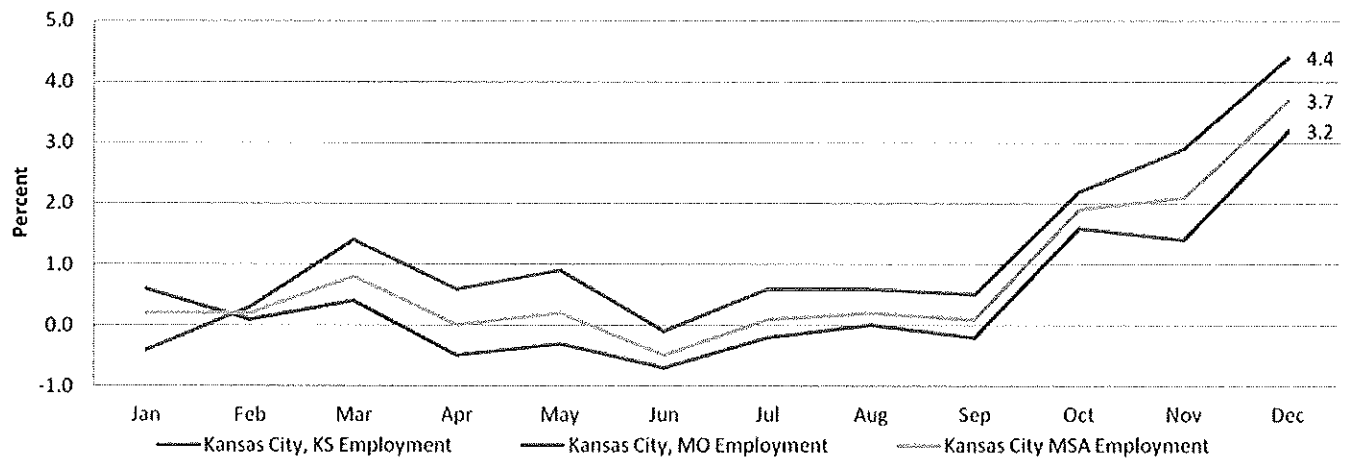


\*Kansas City MSA includes Kansas and Missouri counties, whereas Kansas City Geographic Area includes only Kansas counties.  
Source: Kansas Department of Labor, Labor Market Information Services

Kansas small businesses have contributed greatly to our state in the past couple of years, and nowhere is that more prominent than the Kansas City Area. No other Kansas border has such a large flow back and forth in terms of population migration, and work commuting. For purposes of this presentation, Kansas City, KS will refer to the 6 counties on the Kansas side, while Kansas City Mo, will refer to the 9 counties on the Missouri side.

You may hear in the news that the overall Kansas City Metro Area isn't doing as well, in terms of its labor market health, compared to other Metro Areas in the country. While that may be true, you'd be surprised to know that Kansas City, KS has been the star of the area, attempting to pull the Kansas City Metro Area into recovery.

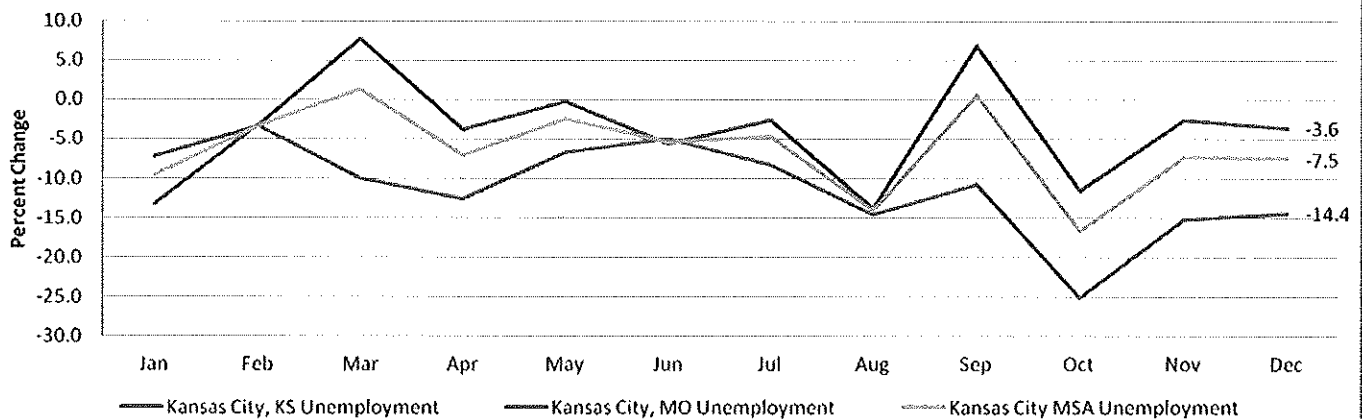
**Figure 7**  
**Kansas City MSA Working Residents Growth**  
**Local Area Unemployment Statistics\***  
**2014**



*\* Not Seasonally Adjusted and not benchmarked*  
*Source: U.S. Bureau of Labor Statistics*

Kansas City, KS has consistently been faster in getting its residents back to work, while Kansas City, MO's growth has depressed the overall area.

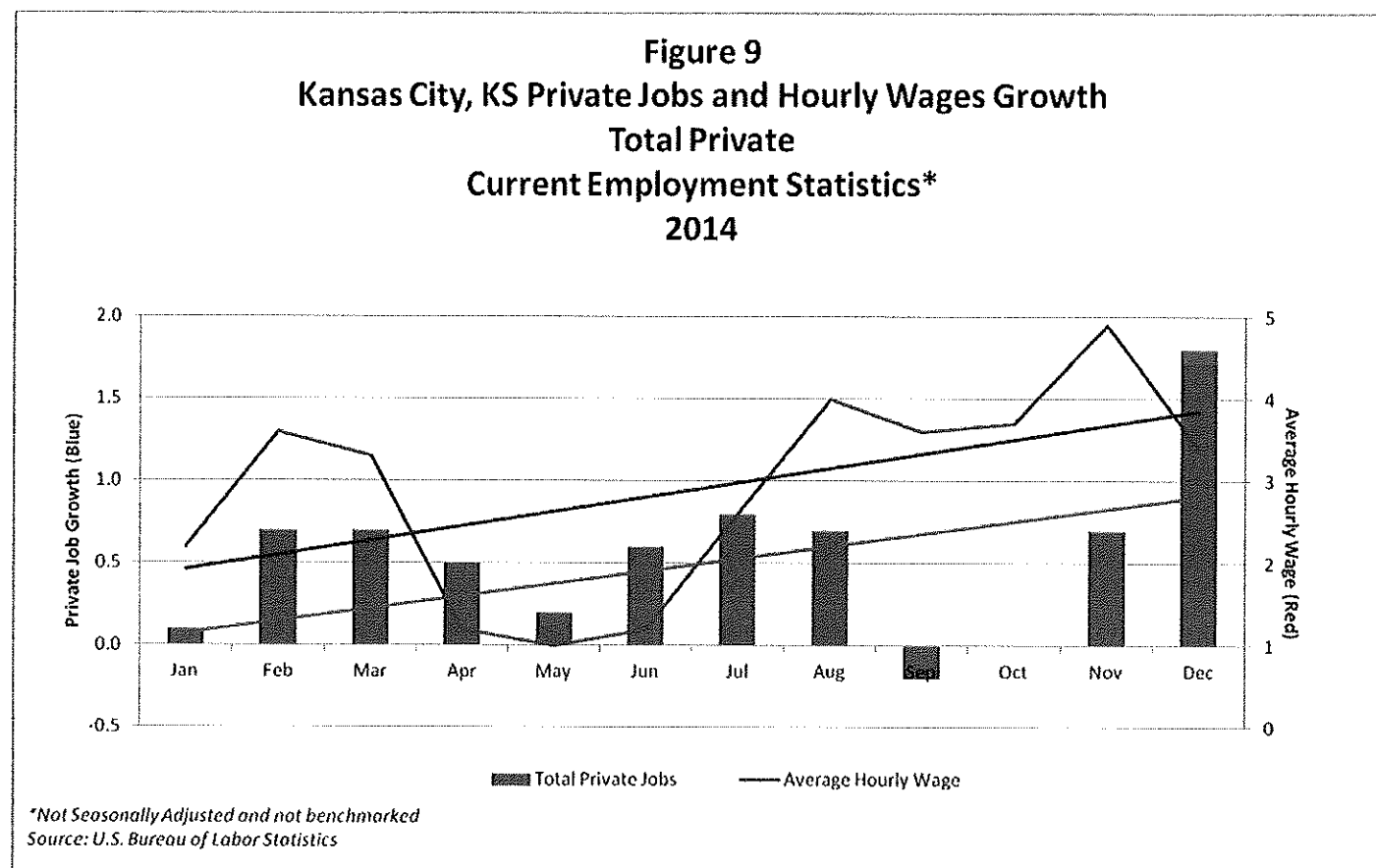
**Figure 8**  
**Kansas City MSA Unemployed Persons Growth**  
**Local Area Unemployment Statistics\***  
**2014**



*\* Not Seasonally Adjusted and not benchmarked*  
*Source: U.S. Bureau of Labor Statistics*

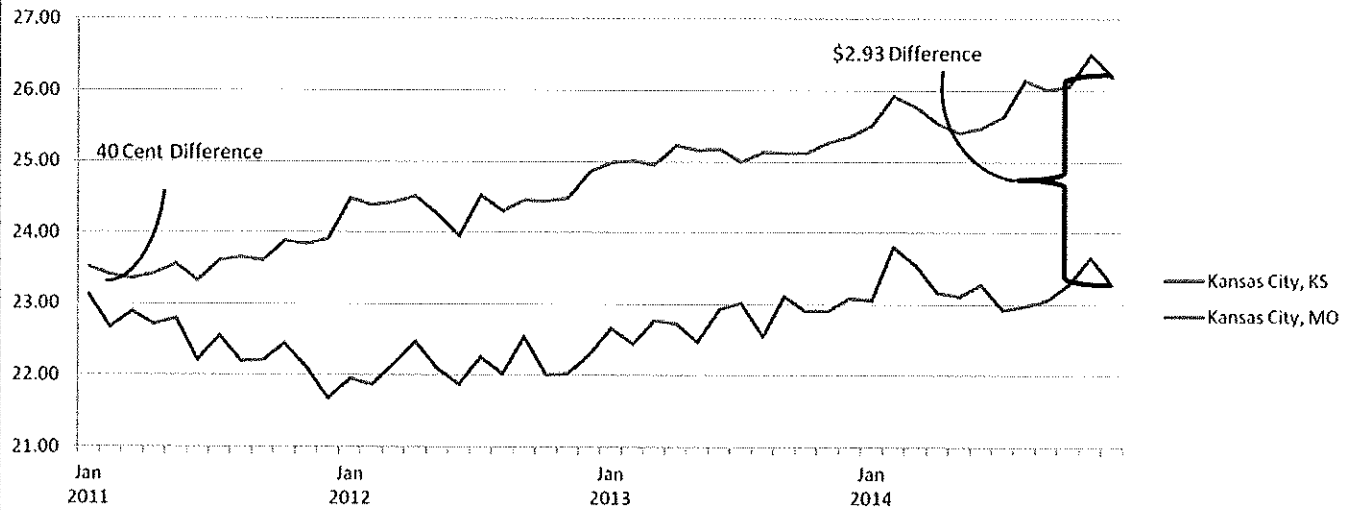
In *Figure 8*, the same relationship is observed when reducing the amount of unemployed. Small businesses in Kansas City, KS are reducing those looking for work exactly four times faster than across the border as of December.

These trends in Kansas City, KS, reflected in part by small businesses, are exhibiting exactly what we want to see in a robust and healthy labor market. Not only is job growth on average increasing every month in 2014, but wages for those jobs are increasing as well, increasing at a faster rate every instance.



Lastly, I would like to leave you with *Figure 10*. The differences in the labor markets between Kansas City, KS and Kansas City, MO is very stark as of late. So stark, that as an example, a worker from Kansas City, MO can leave their job, walk across State Line Road, find the same job as he or she had previously, and yet, be paid on average around 3 dollars more an hour. Small businesses contributed to that fact. They are the cornerstone of the Kansas economy, and epitomize the concept of “economic growth”. Efforts should be taken to continue to foster this foundation.

**Figure 10**  
**Kansas City Geographic Area Hourly Wages**  
**Total Private**  
**Current Employment Statistics\***



\* - Not Seasonally Adjusted and not benchmarked  
 Source: U.S. Bureau of Labor Statistics