

MINUTES OF THE SENATE COMMERCE COMMITTEE

The meeting was called to order by Chairperson Nick Jordan at 8:30 A.M. on February 2, 2006 in Room 123-S of the Capitol.

All members were present.

Committee staff present:

Kathie Sparks, Kansas Legislative Research Department
Helen Pedigo, Revisor of Statutes
Jackie Lunn, Committee Secretary

Conferees appearing before the committee:

Dr. Art Hall-University of Kansas
Secretary Joan Wagnon-Department of Revenue

Others attending:

See attached list.

Chairperson Jordan opened the meeting by introducing Senator Brownlee to make a conceptual introduction of a bill regarding the Bioscience Authority and the Department of Revenue. Senator Brownlee stated there were some questions on what businesses would qualify. Senator Brownlee stated the concept of the bill would be that if there is disagreement as to whether or not a business qualifies then KTEC would make that call. Senator Brownlee made the conceptional motion to introduce. Senator Wysong seconded. Motion carried.

Chairperson Jordan asked the Committee if they were comfortable with working **SB 319**. Senator Wysong made a motion to move the bill out favorably as amended. Seconded by Senator Schodorf. Motion carried.

Chairperson Jordan then called the attention of the Committee to **SB 324**. There was some discussion on amending the bill to remove the word services. A motion was made by Senator Reitz to pass the bill out favorably with the amendment to remove the word services. Senator Kelly seconded. Motion carried.

Chairperson Jordan introduced Dr. Art Hall-University of Kansas, to complete his presentation on the "Productivity Puzzle." Dr. Hall presented copies of "*Local Government and the Kansas Productivity Puzzle*" (Attachment 1) Dr. Hall gave a brief review of the information in the first part of his presentation which he presented to the Committee on January 12, 2006. In doing so Dr. Hall stated that the Kansas economy lags in productivity and has for the past 20 years. Dr. Hall then began the completion of his presentation by referring to graphs and charts contained in each page of the "*Local Government and the Kansas Productivity*". Many questions were asked and comments made by the Committee during his presentation. Senator Barone asked what impact cattle prices have on productivity. Dr. Hall stated the measure of productivity would fluctuate but that sector of the economy, agriculture, is a very small percentage of the Kansas economy. During his presentation Dr. Hall stated there are parts of the state that are doing very well but parts are doing poorly. The major point he would like to make from a policy perspective is to say that productivity is a front line business phenomenon; the businesses are the only ones that can improve their productivity. It is an experimental process and from a policy perspective, the best you can do is provide is an environment that is going to allow for that type of experimentation.

Dr. Hall wanted to emphasize the spirit in which he is looking at local government structure is really in the spirit of overhead and organization, citing General Motors as a good example. Their front lines are very productive but they are suffering from massive overhead which at some point was needed and now is strangling them. In comparison, is the local government overhead in Kansas weighing the state down? Kansas ranks fourth in terms of local government employees per capita and has been the fourth fastest growing state in local government employees in the country.

State and local government employment has been in the top three fastest growing sectors in the economy in Kansas for the past thirty years. The physical policy that drives local government is property taxation. 46% of the total revenues from local government in the state is property tax. If you look at just tax revenues it is about 78%. It is a huge amount of the local tax fiscal policy. The entire burden is falling on capital one way

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or another whether it is houses, machinery or other types of capital. Not all capital is equal in this regard. The general point is Kansas has a very storied history with the property tax, going back to the post war era and it has continued up to today. The state made some major reforms in the 90's but in order to solve the productivity it is important to go back and look at this.

Dr. Hall stated he is beginning research to look at the distribution of property tax burdens across the state. He also stated that Kansas, Inc. is underwriting the program. He stated, on the average, the trend is the smaller the community the higher the mill levies tend to be. Kansas state and local government spending has been growing faster than the Kansas economy. The more government spends out of the economy the slower the economy tends to grow. Lastly tax policy affects growth but spending policy affects growth much more. And in particular, the larger the government wage bill the less investment there is. Basically the government sector is competing with the private sector bidding up wages for labor; higher wages lead to lower profitability for businesses. Lower profitability leads to less investment. Kansas is soaking up a lot of people into the workforce and the question is when does that become a restraint; when do we need more people and not more jobs? The whole jobs versus people question becomes very important.

Upon the completion of Dr. Hall's presentation Chairperson Jordan introduced Secretary Wagon from the Department of Revenue to give her presentation and update on the re-evaluation on the Kansas economy incentives programs, "*Kansas Tax Credits*". (Attachment 2) Secretary Wagon stated it was a joint effort with the Department of Revenue and the Department of Commerce to obtain the information in the report. Secretary Wagon reviewed the first two pages of the report in detail with the hope that the Committee could review and study the other pages. Upon completion of the review of the "*Kansas Tax Credits*", Secretary Wagon proposed language to require that corporations claiming the Business and Job Development credit or High Performance Incentive Program credit provide additional information needed by the Department of Revenue to make tax incentive effectiveness analysis stated under K.S.A. 74-99b35, as condition for claiming the credits. (Attachment 3) The language change would permit the Department to get the information needed to complete the study on the Kansas tax credits. In closing Secretary Wagon called the Committee's attention to the *Kansas Department of Revenue Office of Policy and Research analysis of Corporate Income Tax 2000-2002 Executive Summary dated October 15, 2004*, (Attachment 4) and the *Kansas Department of Revenue Office of Policy's Update to Analysis of Kansas Corporate Income Tax Dated October 14, 2004 To Reflect Tax Year 2003*. (Attachment 5). A discussion followed with the Committee regarding tax incentive programs and the information needed to tract these programs. Secretary Wagon stated the Department of Revenue and the Department of Commerce would meet and put a work group together to overhaul all of the incentives based on the work done so far and come back with a comprehensive proposal next session on how to modernize these efforts.

Upon completion of Secretary Wagon, Senator Jordan entertained a motion to introduce the language offered by the Department of Commerce to obtain additional information needed to evaluate to programs, moved by Senator Emler . Seconded by Senator Brownlee. Motion Carried.

Chairperson Jordan introduced Dr. Hall again to give a review of the incentive programs. Dr. Hall called the Committee's attention to "*An Economic Evaluation of Two Kansas Tax Credit Programs: High Performance Incentive Program and Business and Job Development Credit*" (Attachment 6) Dr. Hall referred the Committee to Page 4, of the document entitled, **Investment Returns Under HPIP Assumptions** and gave a brief review. In closing, he stated if the goal is not to get tax revenue for the state but to stimulate people into making economic decisions, the HPIP is basically doing that and the Business Job & Development Credit is not.

Chairperson Jordan adjourned the meeting at 9:30 a.m. with the next meeting scheduled for February 7, 2006 at 8:30 a.m. in room 123S.