

**Kansas Department of Commerce
Proponent Testimony on HB 2702
David Soffer, Legislative & Policy Director
Prepared for House Commerce, Labor and Economic Development
February 19, 2020, 1:30 p.m.**

The Department of Commerce stands in support of HB 2702, which would remove KIT/KIR as a method to qualify for High Performance Incentive Program (HPIP). This bill would also remove the 2% state payroll training requirement for companies seeking to qualify for HPIP.

Kansas Industrial Training and Kansas Industrial Retraining (KIT/KIR)

The Kansas Industrial Training (KIT) program is designed to assist firms involved in net new job creation. Firms must show they are creating at least one net new job in the State of Kansas. For new companies, any job that is created in Kansas is considered a net new job. For expanding companies, a net new job is any job that is created over and above the employee base, which is determined by calculating the average number of permanent full- and part-time employees over the preceding 12 months. Firms that are creating new jobs that do not satisfy the net new job requirement may qualify for assistance, subject to approval from the Secretary of the Kansas Department of Commerce.

The Kansas Industrial Retraining (KIR) program is designed to assist companies who are restructuring or retraining their workforce. Firms must show they are restructuring their business operations or retraining their workforce due to one or more of the following:

1. Incorporation of existing technology (unable to pay for training associated with upgrades to existing technology)
2. Development and incorporation of new technology (unable to pay for training associated with upgrades to existing technology)
3. Diversification of production
4. Development and implementation of new production

A company must show that employees to be trained are likely to be displaced because of obsolete or inadequate job skills and knowledge. A company must retrain at least one existing position. Training plan must be concurrent with project start date.

When a KIT or KIR contract is created there is a job baseline stated in the contract (IN KITs case it is jobs created). There is also a minimum amount of training investment a company must make in order to receive the maximum amount of reimbursement grants allowable per job under the contract agreement.

Companies submit a Reimbursement Cover Sheet and related documentation, as defined, at the end of the project for actual training expenses.

- The Trainee Roster must include the names of the trainees.
- Reimbursements will be based on the proportion of company matching funds, actual expenses incurred, and on the actual number of positions trained in accordance with the company's approved training plan.

If they meet all the requirements, they receive the grants that were offered in the contract.

Since 2008, funding for KIT/KIR has dropped from \$2.8 Million to \$1.6 Million. As a result, when you combine the awards that were issued to companies in order to qualify for HPIP, we have seen a dramatic drop in the average award we make from \$891.94 for competitive awards in 2008 to \$442.16 today.

High Performance Incentive Program (HPIP)

The High-Performance Incentive Program provides tax incentives to employers that pay above-average wages and have a strong commitment to skills development for their workers. This program recognizes the need for Kansas companies to remain competitive and encourages capital investment in facilities, technology and continued employee training and education. A substantial investment tax credit for new capital investment in Kansas and a related sales tax exemption are the primary benefits of this program.

To qualify, a company currently must:

- 1) be a for-profit company subject to state taxes;
- 2) pay above-average wages (as compared to other similar firms in the same geographical area with matching NAICS codes);
- 3) make a significant investment in eligible employee training and
- 4) be either a manufacturer or able to document that most of its sales are to Kansas manufacturers and/or out-of-state businesses or government agencies. A business in any NAICS code can qualify if it is a headquarters or back-office operation of a national or multi-national corporation.

HPIP offers employers three potential benefits:

1. A 10 percent income tax credit for eligible capital investment that exceeds \$50,000 (\$1M in five metro counties) at a company's facility, with a carry-forward that can be used in any of the next 16 years in which the qualified facility requalifies for HPIP.
2. A sales tax exemption to use in conjunction with the company's eligible capital investment at its qualified facility.
3. A training tax credit of up to \$50,000.

Using KIT/KIR to Qualify for HPIP

Currently, a company may qualify for HPIP by receiving a training incentive through the KIT/KIR program. This was done in order to help companies work around the training requirement equal to 2% of the company's state payroll, which can be quite costly to companies when you also add on the capital investment and wage requirements.

In the last three fiscal years (FY17-FY19), of the 881 certifications and recertifications done for HPIP, 392 were a result of companies using KIT/KIR to qualify. This amounts to 44% of our HPIP certifications. As a result, the KIT/KIR program is losing valuable funding in order to help HPIP companies qualify for that incentive.

In reviewing KIT/KIR grants, over the last 5 years, in 4 of those years we saw 50% or greater amount of our KIT/KIR budget go out the door just to qualify companies for HPIP. That amounts to over \$3.5 MILLION in grants that were used in an inefficient and frankly thoughtless manner just qualifying companies for HPIP. These are dollars that could have gone to companies who were solely focused on training and retraining their employees, an item that is badly needed in our state's workforce.

As we mentioned in the Framework for Growth presentation, there is a severe outmigration of highly skilled individuals in our workforce, so by diminishing one of the major incentives we have to get our workforce trained, we're essentially hurting ourselves, while also letting state dollars be used in an inefficient manner.

This legislation addresses two important issues:

- I. KIT and KIR will no longer be used to assist companies to qualify for HPIP. This frees up funding to assist with companies who can utilize the training and retraining program more efficiently and effectively
- II. The 2% training requirement is eliminated for HPIP certification and rectification. The only benefit that will still require the 2% state payroll training requirement, is the \$50,000 tax credit. The requirement should not be a prerequisite for the other three benefits when the company is making a significant capital investment and wage commitment in Kansas.

For the reasons outlined above, we support the passage of HB 2702 and request the committee report HB 2702 favorable for passage. We thank the committee for allowing us to testify on this important issue.