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*Testimony on SB 342*  
*Before the Senate Commerce Committee*  
*Kelly Schoen, CEO, Z3 Graphix*  
*March 8, 2007*

*Z3 Graphix HPIP Program History*

- In 1999 I purchased the assets of a Missouri corporation to use as the basis to launch a new business model. The predecessor company had low-tech equipment and pay rates that were low by industry standards. Given that, I purchased the assets with the intention of leveraging them into a "High Value" marketing services company that utilized technology to produce value-based marketing products and services.
- As we built the plan for the new business model, we began the search for a location to launch our new printing & marketing services center. We evaluated properties in both Kansas & Missouri, as the predecessor organization had facilities in both states. During the evaluation process, our realtor introduced us to CBIZ so that they could educate us on the potential tax incentives that might be available if we chose to locate in Kansas. After learning more about the HPIP program, and factoring the tax benefits of the HPIP program into our decision, we chose to locate in the College Crossing business park in Lenexa, Kansas.
- Like most small businesses we struggled with the challenges of meeting our debt service related to the leveraged buy out, while still committing the financial resources necessary to equip the company with the assets necessary to execute our business model. By utilizing the HPIP investment tax credit program, we were able to justify investments that we wouldn't otherwise have been able to make. We averaged over \$200,000 in equipment investments per year for a total of over \$1,000,000.
- Another thing that most small businesses struggle with is dedicating the financial resources and time to train their workforce. The purchase of higher tech equipment required a higher skilled operator. The HPIP Training Tax Credit program provided us with the incentive to dedicate the resources to train our employees to higher skill levels. The result is that we have a work force with significantly higher skill levels, and in turn can deliver a higher level of value to our customers, and accordingly are compensated at significantly higher levels (average compensation is nearly double that of the predecessor organization).
- More skilled employees operating higher tech equipment led to a higher value of products and services for our clients. In turn, our sales grew at double-digit annual rates (sales growth of approximately \$2 mm over the past 5 years). This in turn has allowed us to add new jobs (10 over the past 5 years).

- As we grew sales and added equipment and employees, space became tight. Once again the HPIP investment tax credit program provided us with the incentive to open a new facility in the State of Kansas. In 2005 we opened our second facility in Lenexa.

### ***Primary Concerns With Proposed Legislative Changes To The HPIP Program:***

- The raising of the investment threshold from \$50,000 would eliminate the incentive for small businesses such as Z3 to continue to invest in equipment and facilities in the State of Kansas. Very often the investment tax credit is the difference maker in allowing a small business to be able to stretch into a deal. Small business provides the majority of jobs and fuel for the economy, and the proposal to raise the investment threshold to a level that is not attainable for most small business would be detrimental.
- The elimination of the training credit would significantly reduce the incentive for small businesses to properly train their employees to be competitive into the future. Because employees in small companies wear a lot of hats, it is extremely difficult to justify the time and expense to train employees to the levels that will enhance their future value. Without the incentive of the HPIP Training Credit, small businesses will be more likely to take a shorter-term approach and reduce or eliminate much of their training. Over time, this will lead to lower skilled and lower paid employees.
- Increasing the jobs creation requirement from 2 to 20 will essentially eliminate the incentive for small businesses. While it may be possible to strive to add 2-5 new jobs per year, it is not realistic to expect to add 20.

### ***Summary***

- In summary, I see the proposed legislative changes to the HPIP program as being extremely detrimental to the small businesses of Kansas. It will eliminate much of the incentive for investment and training, which in turn will slow the growth potential for the company, which in turn will slow the growth of the economy.
- I believe the Z3 story is a classic example of how the HPIP program can provide the incentive and capability to expand and grow the company. The result has been a substantial increase in sales which has led to increased sales tax revenue and income tax revenue for the State of Kansas. It has also led to substantially higher wages which has provided increased income tax revenue for the State. Increased equipment has led to increased property taxes.