



Legislative Post Audit Performance Audit Report Highlights

Highlights

Economic Development: Determining Which Economic Development Tools are Most Important and Effective in Promoting Job Creation and Economic Growth in Kansas, Part 3

Report Highlights

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Summary of Legislator Concerns

Legislators have expressed interest in knowing which Kansas economic development programs and incentives are most helpful to Kansas businesses.

Background Information

The Department of Commerce, the Kansas Bioscience Authority, and the Department of Revenue administer the state's main economic development programs. This analysis does not include programs offered through the Kansas Bioscience Authority.

The state's major programs may be bundled together or combined with local government incentives to form packages of incentives or "projects."

In this audit, we evaluated the state's six major economic development programs based on a judgmental sample of 42 projects initiated between fiscal year 2006 and fiscal year 2011. These projects comprised 98 different agreements from the six main state programs and local government incentives.

QUESTION 1: Has the Implementation of Major Kansas Economic Development Programs Been Successful?

Program-Level Findings

- According to our analysis, the state's six major economic development programs created significant returns on investment for Kansas with regard to business activities.
 - All programs appeared to generate significant returns on investment, which means the business activities programs generated greatly exceeded the incentives they contributed.
 - The programs also appeared to generate more business activities in Kansas than an across-the-board tax cut equal to the incentive (net present value).

**Business Activities Created by the Six Major Kansas
Economic Development Programs and Local Incentives
(in millions) (a)**

Program	Incentives Contributed	Measures of Success	
		Net Present Value	Return on Investment (b)
IMPACT	\$133.7	\$17,206.5	\$128.7
PEAK	\$51.2	\$2,916.5	\$57.0
HPIP	\$60.3	\$3,387.8	\$56.2
KIT/KIR	\$0.6	\$24.6	\$44.6
JCF	\$8.5	\$334.8	\$39.6
KEOIF	\$12.1	\$353.8	\$29.1
Local	\$113.7	\$5,321.6	\$46.8

(a) The values above are based on our full sample of 42 projects and reflect the midpoint of our estimates. The high and low estimates are +/- 9% of the midpoint.

(b) Values are per \$1 of investment.

Source: LPA analysis of unaudited Kansas Department of Commerce and Kansas Department of Revenue economic development data.

- All major programs also appeared to yield positive returns on investment in terms of tax revenue generated for state and local governments.
 - All programs appeared to generate a positive return on investment, which means that the tax revenue programs generated exceeded the incentives they contributed.
 - The programs also appeared to generate more tax revenue in Kansas than an across-the-board tax cut equal to the incentive (net present value).

State and Local Tax Revenue Created by the Six Major Kansas Economic Development Programs and Local Incentives (in millions) (a)

Program	Incentives Contributed	Measures of Success			
		State Tax Net Present Value	Local Tax Net Present Value	Total Tax Net Present Value	Return on Investment (b)
IMPACT	\$13.2	\$287.4	\$71.9	\$359.3	\$27.2
JCF	\$2.8	\$14.2	\$3.5	\$17.7	\$6.3
PEAK	\$29.4	\$102.2	\$25.5	\$127.7	\$4.4
KIT/KIR	\$0.4	\$1.1	\$0.3	\$1.4	\$3.9
HPIP	\$49.4	\$135.9	\$34.0	\$169.9	\$3.4
KEOIF	\$6.8	\$7.4	\$1.8	\$9.2	\$1.4
Local	\$71.9	\$83.6	\$20.9	\$104.6	\$1.5

(a) The values above are based on 19 projects from our full sample of 42 projects. The values reflect the midpoint of our estimates. The high and low estimates are +/- 12% of the midpoint.

(b) Values are per \$1 of investment.

Source: LPA analysis of unaudited Kansas Department of Commerce and Kansas Department of Revenue economic development data.

Project-Level Findings

- A couple of factors significantly influenced the return on investment of the 42 projects we evaluated.
 - The number of jobs a project created or retained had a more significant effect on return on investment than a project's capital investments.
 - The likelihood a project occurred as a direct result of state and local incentives had a significant influence on our return-on-investment estimates.
 - A few projects involved companies that either closed or left the state, but the return to Kansas was still positive.

Other Findings

- The High Performance Incentive Program (HPIP) is fundamentally different than the other major economic development programs we evaluated.
 - Because HPIP is more like an economic development entitlement program, its incentives may be given to companies for investments that would have been made even without the incentive.
 - We were not able to analyze projects that only included HPIP incentives because of the program's structure and lack of documentation.

We selected the 42 projects to ensure the sample included all six major programs and companies from a variety of counties and industries. The results of our work are not projectable because the sample is not representative of the population.

We hired an economic consultant who used IMPLAN to model the direct and secondary effects of the job and capital investment data we collected. IMPLAN is an economic modeling software package that is commonly used to study economic effects.

- *The jobs, payroll, and capital investments that companies create are benefits to state and local governments. The incentives the Department of Commerce or local government award to companies are a cost to state and local governments.*
- *To quantify jobs, investments, and economic development incentives in past years, we generally relied on data from Department of Commerce or Department of Revenue files. We also called local government officials to identify local incentives provided to the projects we sampled.*
- *To estimate jobs, investments, and incentives in future years, we generally relied on company projections, program agreements, and other supplemental information from Department of Commerce files. We estimated a range of possible jobs, investments, and incentives in future years.*

This analysis had two outputs:

- Business activities measure the economic activity a business creates through increased production and associated secondary effects. It measures the activities that occurred within Kansas and contribute to the state's gross domestic product.
- Tax revenue measures the state and local tax revenue from sales, income, property, and several other categories of taxes.

We allocated the business activities and tax revenue from the sample projects to the six major economic development programs. We then evaluated each program's success based on net present value and return on investment.

We made several assumptions as part of this evaluation, which are explained in more detail in Appendix C of the report.

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Assumptions and Limitations

- Return on investment is an indicator of program success, but should not be interpreted as an absolute value. Our analysis is subject to the following limitations:
 - Job and capital investment data from the Department of Commerce and Department of Revenue are based on company-reported information that is largely unaudited. However, there is no other source of information to analyze.
 - We generally projected jobs through 2023 and capital investments and economic development incentives through the end of a company's contract period. Therefore, jobs, investments, and incentives are frequently based on estimates because most projects do not have records for that entire time period.
 - Business activities and tax revenue may be inflated because we potentially attributed jobs and capital investments to one project when they should have been attributed to multiple projects.
 - Our analysis does not account for factors such as the timing of incentives (upfront or over time) or form of the incentive (cash payment or a tax credit) that may ultimately have a large influence on a company's decision.
 - Because we only looked at a sample of projects, the business activities and tax revenue of one large project could significantly influence the business activities and tax revenue we estimated for an entire program. A sample of different projects could result in different program returns than those described above.
 - Although different methodologies and assumptions could produce different results, any variations likely would not change the overall results from positive to negative.

SUMMARY OF RECOMMENDATIONS

- This report contains no recommendations.

AGENCY RESPONSE

- Department of Commerce officials generally agreed with the report's findings and conclusions, although they disagreed with a few of the assumptions we made to estimate programs' returns. Department of Revenue officials did not submit a formal

HOW DO I REQUEST AN AUDIT?

By law, individual legislators, legislative committees, or the Governor may request an audit, but any audit work conducted by the division must be directed by the Legislative Post Audit Committee. Any legislator who would like to request an audit should contact the division directly at (785) 296-3792.