

Kansas Department of Commerce HB 2298 – Removing the sunset for the Rural Opportunity Zones Program

**Prepared for the House Taxation Committee
Room 582-N, The Statehouse
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The Kansas Department of Commerce supports HB 2298, which would remove the sunset for the Rural Opportunity Zones (ROZ) program. ROZ was created in 2011 as a means of bringing new residents to areas of rural Kansas that had suffered population loss for decades. The program has proven to be a highly effective resource for rural counties to use in attracting new residents, and has become a model for other states.

Commerce, in conjunction with the Kansas Department of Revenue, administers the ROZ program. ROZ allows out-of-state residents who move to designated counties to receive state income tax waivers for up to five years. In addition, ROZ counties may offer student loan repayments of up to \$15,000 to qualified new residents. As the student loan repayment program is a shared cost between the state and the county, ROZ counties must opt-in to this portion of the program.

The Legislature has expanded the ROZ program twice. The first expansion occurred in 2013, when 23 new counties were added to the 50 that were originally part of the program. In 2014, the Legislature added four more counties, bringing the current total to 77 counties that are eligible to participate in ROZ. Of these 77 counties, 70 have opted to partner with the state in the student loan repayment program.

Economic Impact

In 2014, the Department of Revenue estimates that 330 individuals will receive income tax waivers through the ROZ program with the state foregoing \$800,000 in revenue. As seen in Table 1, the income of these individuals is approximately \$29.9 million, for an economic impact of more than \$44 million to Kansas.

As seen in Tables 2 and 3, the total net present value for the state and counties of the Student Loan Repayment (SLR) part of the program is \$3.2 million over five years and \$6.7 million over 10 years. This calculates only the direct benefit of the program in spending changes and property taxes. Induced benefits from business growth or additional children in school districts are not captured.

A key difference between the economic impacts for the state between the two programs is that all individuals receiving income tax waivers are new residents of Kansas, while many of the SLR participants are existing Kansas residents who are new to rural areas. Therefore, the income of these individuals is not counted as new to the state.

However, in many cases the SLR portion of ROZ acts as a retention program that keeps new graduates of Kansas colleges and universities in the state. While their income is not counted as a benefit, it is possible that it would have otherwise been lost. Furthermore, the income of these residents is new to rural counties, which gain a tremendous positive impact from new workers.

Student Loan Repayment Program

Commerce oversees the student loan repayment portion of the ROZ program. This has proven to be a highly effective economic development tool for counties that choose to utilize it.

Total Applications: 2,082

Out of state applicants: 583

Number of states: 42

Approved: 993

Pending: 474

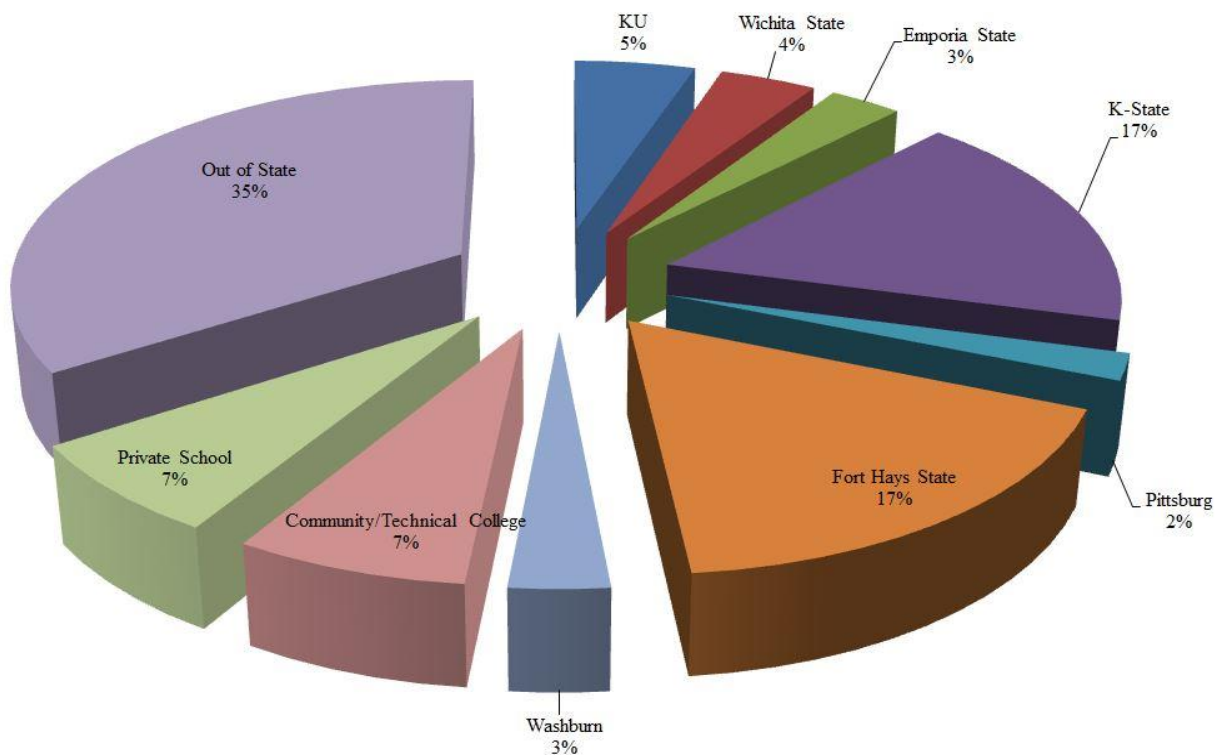
Denied: 615

Fiscal Year 2015 Student Loan Repayment: \$1,220,626.24

The program has proven useful for counties all across the state. Phillips County has the largest number of approved applicants (55), followed by Marion County (41) and Pratt County (40). In terms of applications relative to population, Greeley County has received the most interest, with 3.24 applications per 100 residents.

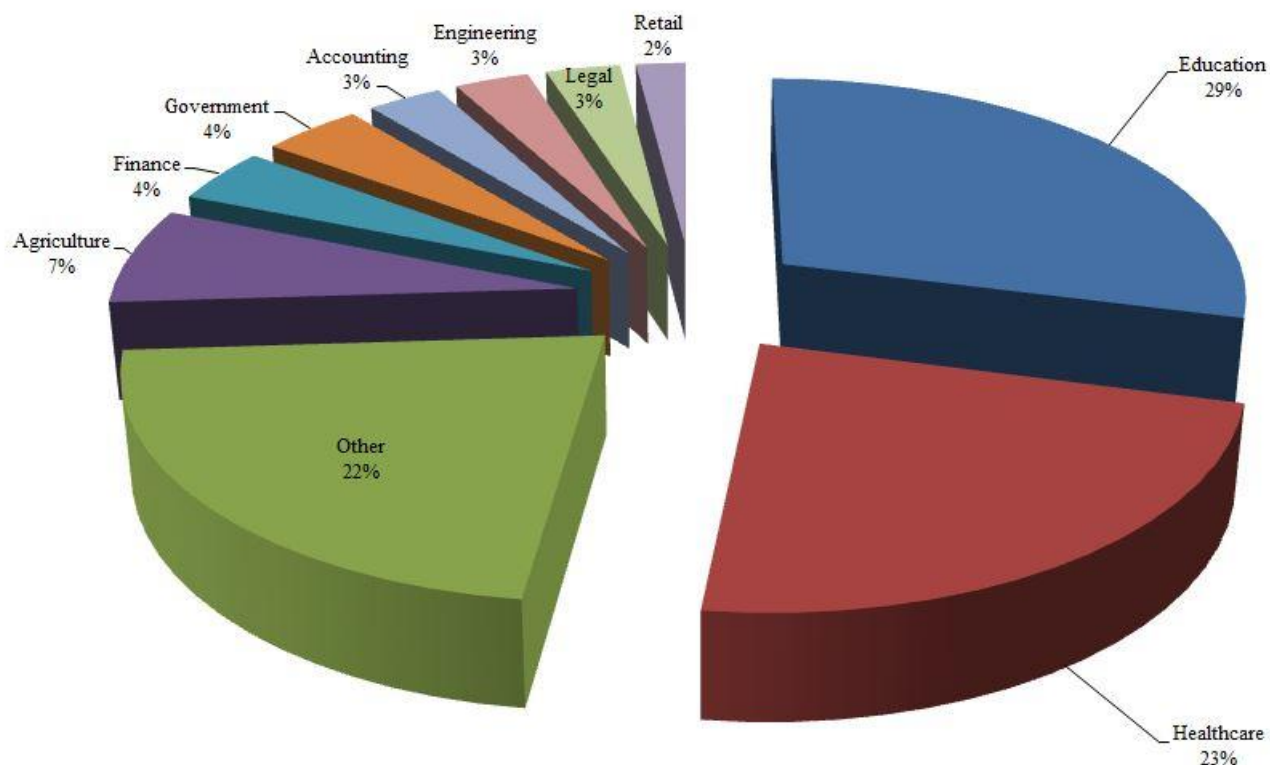
ROZ has also been successful drawing applicants from graduates of a broad number of educational institutions. 35 percent of participants attend out of state colleges and universities. Within Kansas, the program is most popular with alumni of Fort Hays State University and Kansas State University.

ROZ Applicant Education



Education (29 percent) and healthcare (23 percent) are the leading professions among ROZ applicants. Professional services (13 percent) and agriculture (7 percent) are also common professions for ROZ applicants.

ROZ Participant Occupations



Participant Survey

The Department regularly surveys participants of the ROZ SLR program to obtain feedback about the usefulness of the program and to capture additional data that is not required in application and reporting forms. Information on business and home ownership, as well as specific income levels, is not a requirement, but participants have generally been eager to share this information and helped Commerce obtain excellent response rates from its surveys.

Key findings from the most recent survey include the following:

- 58.7 percent of participating households have purchased or built homes in ROZ counties.
- 17 percent of participants have purchased or started a business in a ROZ county.
- The average annual income per participating household is \$61,957.15.
- According to 87 percent of participants, ROZ has contributed to their decision to remain in rural Kansas.
- ROZ participants brought 514 additional children to rural schools districts.

Table 1: Economic benefit to the state of Rural Opportunity Zones state income tax waiver program

Table 1 shows the economic impact on Kansas of the income tax waiver portion of the Rural Opportunity Zones program. The cost of the program is foregone state income taxes each year for a five year period. The economic benefit is calculated by multiplying income by an economic impact multiplier of 1.7.

Due to the confidentiality of tax data there is no way of determining the exact number of individuals participating in both the income tax waiver and student loan repayment program. Assuming that all who are eligible for both programs are participating in both, there is a 25 percent overlap. Table 1 accounts for this by adding the average student loan repayment cost for 25 percent of credits filed to better capture the full cost.

Please note that participants are not eligible to receive income tax waivers until their first full year as a resident of the county. Therefore a participant who moved in June of 2012 would pay state income taxes for part of tax year 2012 and would not claim the waiver until tax year 2013. This is captured in the column labeled "Stagger."

Year	Credits Filed	Foregone Revenue	Income	25% SLR Overlap	Stagger	Actual Cost	Economic Benefits
2012	102	\$275,251.00	\$9,241,818.00	\$49,113.51	\$68,812.75	\$255,551.76	\$13,668,648.82
2013	255	\$588,938.00	\$23,104,545.00	\$108,370.44	\$156,843.50	\$540,464.94	\$34,171,622.06
2014*	330	\$800,000.00	\$29,900,000.00	\$152,578.28	\$105,531.00	\$847,047.28	\$44,222,100.00

*YTD Estimate provided by Kansas Department of Revenue

Table 2: Economic benefit to the state of the Rural Opportunity Zones Student Loan Repayment program

Unlike Table 1, Table 2 assumes that no income of SLR participants is new to the state, as participants may be moving from an urban area of Kansas to a rural area. Therefore, the impact does not include any consideration of the economic impact of this income. For the same reason Department has also not attempted to capture sales taxes or income taxes paid by SLR participants. As a result, the overall economic benefits appear to be smaller than in Table 1, only accounting for the increased spending resulting from repaying an individual.

5 Year Net Present Value: \$986,056.02

10 Year Net Present Value: \$1,933,093.37

Return on Investment: 40%

	FY2013	FY2014	FY2015	FY2016	FY2017
Expenses	\$196,454.03	\$433,481.76	\$610,313.12	\$676,309.85	\$676,309.85
Benefits	\$290,555.51	\$641,119.52	\$902,653.10	\$1,000,262.27	\$1,000,262.27
PV of Costs	\$183,601.90	\$378,619.75	\$498,197.30	\$515,953.55	\$482,199.58
PV of Benefits	\$271,547.21	\$559,978.61	\$736,833.81	\$763,095.30	\$713,173.17
	FY2018	FY2019	FY2020	FY2021	FY2022
Expenses	\$676,309.85	\$676,309.85	\$676,309.85	\$676,309.85	\$676,309.85
Benefits	\$1,000,262.27	\$1,000,262.27	\$1,000,262.27	\$1,000,262.27	\$1,000,262.27
PV of Costs	\$450,653.81	\$421,171.78	\$393,618.49	\$367,867.75	\$343,801.63
PV of Benefits	\$666,516.98	\$622,913.07	\$582,161.75	\$544,076.40	\$508,482.62

Economic Multiplier Effect = 1.7, Marginal propensity to Consume = .75, Discount rate = 7 percent, Participation rate = .87

Table 3: Economic benefit to counties of the Rural Opportunity Zones Student Loan Repayment program

Table 3 shows expenses and benefits of the student loan repayment program in each ROZ county to date, as well as the expected net present value after five and 10 years based on current and projected expenses.

The expense to the county is based upon the amount paid to participants in the ROZ student loan repayment program. Benefits are calculated using the following:

- Current per capita mill levy rate for each county multiplied by the number of participants.
- The impact of average student loan repayment value in a county. This estimate assumes that the average participant has a marginal propensity to consume of .75 with an economic multiplier effect of 1.7. Therefore an individual receiving \$1,500 in SLR benefits would consume \$1,125 of that for an impact of \$1,912.50 in a year.

Benefits do not include the economic impact of the income of the new residents or any increase in sales tax as a result of new residents.

Approximately 87 percent of participants indicate in surveys that ROZ is important to their decision to move to or remain in rural Kansas. The benefits are multiplied by .87 to indicate that 13 percent may have moved without the program.

Please note that some counties may show no current expenses or benefits but may have a positive net present value. This is due to several counties that have recently had their first approved participants who have not yet received their first student loan repayment.

Statewide 5 Year Net Present Value for Counties: \$2,242,834.87

Statewide 10 Year Net Present Value for Counties: \$4,758,830.59

Average County Return on Investment: 33%

	SLR Expenses to Date	SLR Benefits to Date	5 Year NPV of Current Level	10 Year NPV of Current Level	Current Return on Investment
Allen	\$0	\$0	\$1,326.08	\$3,952.74	38%
Anderson	N/A	N/A	N/A	N/A	N/A
Barber	\$21,815.71	\$36,560.04	\$43,659.63	\$97,254.03	32%
Bourbon	\$1,500.00	\$1,990.13	\$1,805.09	\$4,107.26	40%
Brown	N/A	N/A	N/A	N/A	N/A
Chase	N/A	N/A	N/A	N/A	N/A
Chautauqua	\$3,000.00	\$4,139.46	\$3,444.42	\$7,377.83	35%
Cherokee	\$0	\$0	\$4,495.53	\$13,400.16	40%
Cheyenne	\$16,343.68	\$25,614.71	\$24,742.47	\$51,669.78	32%
Clark	\$32,859.91	\$56,745.22	\$70,111.09	\$154,944.90	30%
Clay	\$1,500.00	\$2,191.10	\$5,340.95	\$14,273.36	37%
Cloud	\$10,500.00	\$13,983.08	\$9,148.86	\$17,476.12	38%
Coffey	\$934.99	\$3,000.73	\$9,932.00	\$25,539.95	26%
Comanche	\$0	\$0	\$4,093.36	\$12,201.36	26%

	SLR Expenses to Date	SLR Benefits to Date	5 Year NPV of Current Level	10 Year NPV of Current Level	Current Return on Investment
Decatur	\$58,384.23	\$84,795.33	\$64,148.35	\$122,469.53	36%
Doniphan	\$2,603.76	\$3,843.48	\$5,577.15	\$13,691.10	37%
Edwards	\$8,718.84	\$14,512.92	\$15,928.75	\$32,963.31	32%
Elk	\$6,000.00	\$8,278.92	\$10,860.44	\$26,594.09	35%
Ellsworth	N/A	N/A	N/A	N/A	N/A
Gove	\$24,280.53	\$39,704.78	\$42,483.89	\$90,402.23	30%
Graham	\$13,875.00	\$24,469.29	\$27,401.23	\$56,629.22	29%
Grant	\$10,883.39	\$23,911.36	\$44,290.86	\$105,178.91	29%
Gray	\$3,325.02	\$5,906.78	\$9,804.28	\$23,622.77	33%
Greeley	\$72,441.26	\$145,956.95	\$192,464.59	\$415,056.21	24%
Greenwood	\$7,064.04	\$9,420.06	\$7,041.27	\$14,776.55	36%
Hamilton	\$43,844.29	\$76,586.51	\$87,611.78	\$185,425.90	30%
Harper	\$39,662.50	\$62,404.83	\$53,543.13	\$102,717.37	33%
Haskell	N/A	N/A	N/A	N/A	N/A
Hodgeman	\$9,000.00	\$17,280.81	\$17,244.03	\$31,916.50	28%
Jackson	N/A	N/A	N/A	N/A	N/A
Jewell	\$12,788.50	\$24,354.20	\$29,302.03	\$61,382.49	30%
Kearny	\$31,340.61	\$73,992.87	\$110,646.61	\$238,955.74	23%
Kingman	\$62,327.42)	\$88,624.69	\$64,870.32	\$124,095.18	36%
Kiowa	\$9,000.00	\$19,548.90	\$26,915.90	\$57,453.57	27%
Labette	N/A	N/A	N/A	N/A	N/A
Lane	\$16,567.16	\$42,563.99	\$68,089.20	\$149,242.30	23%
Lincoln	\$12,000.00	\$18,731.10	\$18,250.37	\$37,644.10	33%
Linn	N/A	N/A	N/A	N/A	N/A
Logan	\$46,554.63	\$75,526.57	\$74,568.34	\$153,609.34	31%
Marion	\$9,000.00	\$12,081.69	\$7,407.00	\$13,344.40	38%
Marshall	\$1,500.00	\$2,216.33	\$2,401.06	\$5,463.30	37%
Meade	\$2,348.20	\$4,297.76	\$10,030.43	\$25,707.83	33%
Mitchell	\$23,722.73	\$33,337.95	\$25,977.54	\$52,551.83	35%
Montgomery	\$0	\$0	\$12,419.54	\$37,019.82	39%
Morris	\$3,000.00	\$4,691.91	\$5,485.18	\$12,480.84	36%
Morton	\$13,500.00	\$26,637.23	\$38,531.26	\$85,388.40	28%

	SLR Expenses to Date	SLR Benefits to Date	5 Year NPV of Current Level	10 Year NPV of Current Level	Current Return on Investment
Nemaha	\$15,131.24	\$23,236.25	\$26,536.77	\$60,381.05	36%
Neosho	N/A	N/A	N/A	N/A	N/A
Ness	\$19,500.00	\$30,643.58	\$30,081.96	\$63,276.98	32%
Norton	\$105,471.18	\$151,396.32	\$113,574.85	\$218,640.74	35%
Osborne	N/A	N/A	N/A	N/A	N/A
Ottawa	\$3,000.00	\$4,759.77	\$11,022.96	\$28,861.58	35%
Pawnee	\$10,848.44	\$15,917.31	\$14,045.14	\$29,280.83	34%
Phillips	\$137,189.48	\$201,376.80	\$178,643.57	\$372,212.32	34%
Pratt	\$21,577.24	\$32,182.15	\$28,703.14	\$59,033.25	33%
Rawlins	\$4,500.00	\$6,806.45	\$5,152.06	\$9,407.05	34%
Republic	\$7,991.16	\$13,610.04	\$16,474.84	\$36,649.24	31%
Rice	\$6,850.00	\$9,903.86	\$10,392.17	\$23,646.06	38%
Rooks	\$43,488.08	\$67,744.55	\$76,370.29	\$170,357.09	32%
Rush	\$4,500.00	\$7,427.63	\$6,327.37	\$11,626.00	32%
Russell	\$34,379.20	\$52,653.69	\$48,181.63	\$98,572.00	33%
Scott	\$44,352.33	\$71,870.02	\$67,483.72	\$135,061.16	31%
Sheridan	N/A	N/A	N/A	N/A	N/A
Sherman	\$3,772.60	\$4,836.39	\$3,066.34	\$6,169.46	36%
Smith	\$23,760.00	\$37,198.59	\$36,624.25	\$77,094.12	33%
Stafford	\$24,201.47	\$38,846.26	\$36,806.58	\$74,575.36	32%
Stanton	\$15,627.44	\$37,452.62	\$61,364.77	\$136,817.75	22%
Stevens	\$9,444.29	\$24,690.14	\$50,955.75	\$121,271.18	24%
Sumner	N/A	N/A	N/A	N/A	N/A
Thomas	\$9,986.56	\$13,223.01	\$11,113.17	\$24,351.72	39%
Trego	\$26,671.77	\$43,031.51	\$38,747.41	\$75,676.29	32%
Wabaunsee	N/A	N/A	N/A	N/A	N/A
Wallace	\$23,791.47	\$47,322.89	\$58,486.14	\$122,035.79	28%
Washington	N/A	N/A	N/A	N/A	N/A
Wichita	\$19,124.66	\$34,211.83	\$40,266.96	\$85,506.33	30%
Wilson	\$3,000.00	\$3,787.98	\$2,518.38	\$5,270.75	39%
Woodson	\$15,662.18	\$23,493.72	\$18,500.61	\$35,076.20	35%

Economic Multiplier Effect = 1.7, Marginal propensity to Consume = .75, Discount rate = 7 percent, Participation rate = .87

Table 4: Population changes

Table 4 shows U.S. Census Bureau population counts. The Census Bureau has not yet made available county level population estimates for 2014. The most recent county estimates were made on July 1, 2013. As ROZ was expanded for the first time on that same date, only the original 50 counties are included in Table 4. Of these 50 counties, 35 experienced improvements in average population change from the program's implementation on July 1, 2011 to July 1, 2013 when compared with average population change of the previous four decades.

While the two year sample size is very small, there is evidence that the positive changes were impacted by ROZ and not merely the result of other factors. The 27 counties that were not yet part of ROZ mostly continued to lose population from 2011 to 2013. During that period, 22 of those counties lost population at rates greater than or equal to their average changes during the previous four decades.

	1970	1990	2011	2013	Annual change 1970-2011	Annual change 2011-2013	Did population change improve?
Barber	7,016	5,874	4,933	4,947	-50.8	7	Yes
Chautauqua	4,642	4,407	3,611	3,552	-25.1	-29.5	No
Cheyenne	4,256	3,243	2,702	2,694	-37.9	-4	Yes
Clark	2,896	2,418	2,129	2,193	-18.7	32	Yes
Cloud	13,466	11,023	9,376	9,292	-99.8	-42	Yes
Comanche	2,702	2,313	1,885	1,955	-19.9	35	Yes
Decatur	4,988	4,021	2,920	2,930	-50.4	5	Yes
Edwards	3,787	4,581	3,016	2,945	-18.8	-35.5	No
Elk	3,858	3,327	2,797	2,655	-25.9	-71	No
Gove	3,940	3,231	2,687	2,769	-30.6	41	Yes
Graham	4,751	3,543	2,641	2,593	-51.5	-24	Yes
Greeley	1,819	1,774	1,250	1,290	-13.9	20	Yes
Greenwood	9,141	7,847	6,614	6,424	-61.6	-95	No
Hamilton	2,747	2,388	2,625	2,609	-3.0	-8	No
Harper	7,871	7,124	5,946	5,860	-47.0	-43	Yes
Hodgeman	2,662	2,177	1,983	1,950	-16.6	-16.5	Yes
Jewell	6,099	4,251	3,088	3,046	-73.4	-21	Yes
Kearny	3,047	4,027	3,959	3,923	22.2	-18	No
Kingman	8,886	8,292	7,896	7,844	-24.1	-26	No
Kiowa	4,088	3,660	2,557	2,523	-37.3	-17	Yes
Lane	2,707	2,375	1,764	1,720	-23.0	-22	Yes
Lincoln	4,582	3,653	3,203	3,147	-33.6	-28	Yes
Logan	3,814	3,081	2,770	2,798	-25.5	14	Yes
Marion	13,935	12,888	12,542	12,219	-34.0	-161.5	No
Mitchell	8,010	7,203	6,312	6,378	-41.4	33	Yes
Morton	3,576	3,480	3,173	3,143	-9.8	-15	No
Ness	4,791	4,033	3,128	3,073	-40.6	-27.5	Yes
Norton	7,279	5,947	5,671	5,622	-39.2	-24.5	Yes
Osborne	6,416	4,867	3,843	3,818	-62.8	-12.5	Yes
Pawnee	8,484	7,555	7,041	6,971	-35.2	-35	Yes
Phillips	7,888	6,590	5,547	5,540	-57.1	-3.5	Yes
Pratt	10,056	9,702	9,654	9,878	-9.8	112	Yes
Rawlins	4,393	3,404	2,544	2,589	-45.1	22.5	Yes
Republic	8,498	6,482	4,914	4,820	-87.4	-47	Yes
Rooks	7,628	6,039	5,191	5,190	-59.4	-0.5	Yes
Rush	5,117	3,842	3,201	3,186	-46.7	-7.5	Yes
Russell	9,428	7,835	6,962	6,933	-60.1	-14.5	Yes
Scott	5,606	5,289	4,913	5,035	-16.9	61	Yes

	1970	1990	2011	2013	Annual change 1970-2011	Annual change 2011-2013	Did population change improve?
Sheridan	3,859	3,043	2,545	2,553	-32.0	4	Yes
Sherman	7,792	6,926	6,050	6,115	-42.5	32.5	Yes
Smith	6,757	5,078	3,789	3,706	-72.4	-41.5	Yes
Stafford	5,943	5,365	4,396	4,359	-37.7	-18.5	Yes
Stanton	2,287	2,333	2,237	2,194	-1.2	-21.5	No
Thomas	7,501	8,258	7,943	7,948	10.8	2.5	No
Trego	4,436	3,694	2,981	2,980	-35.5	-0.5	Yes
Wallace	2,215	1,821	1,526	1,569	-16.8	21.5	Yes
Washington	9,249	7,073	5,859	5,629	-82.7	-115	No
Wichita	3,274	2,758	2,261	2,192	-24.7	-34.5	No
Wilson	11,317	10,289	9,240	9,105	-50.7	-67.5	No
Woodson	4,789	4,116	3,305	3,221	-36.2	-42	No