

Approved February 2, 1989
Date

MINUTES OF THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT

The meeting was called to order by Elizabeth Baker at
Chairperson

3:34 ~~a.m.~~/p.m. on Thursday, January 26, 1989 in room 423-S of the Capitol.

All members were present except:

Committee staff present:

Jim Wilson, Revisor
Lynne Holt, Research
Elaine Johnson, Secretary

Conferees appearing before the committee:

Dr. Charles Krider, Director of Business Research, Institute for Public Policy and Business Research
at the University of Kansas
Larry Danielson, Kansas Industrial Developer's Association
Ron Favrow, Village Properties, Olathe, Kansas
Larry Huckelberry, Olathe/Santa Fe Partnership
Ray Barmby, Mayor, City of Olathe

The meeting was called to order at 3:34 p.m. by Chairman Baker. Representative Frank Weimer was recognized.

Representative Weimer made a motion to conceptually introduce a bill to permit the production of swine in the state by corporation for farrow/feed breeding purposes and a second bill for farrow/feed/finish operations. Representative Mead seconded. Motion passed unanimously.

The continuation of hearings on H.B. 2021 began with the first conferee Dr. Charles Krider, Director of Business Research, Institute for Public Policy and Business Research at the University of Kansas testifying as a proponent. Dr. Krider testified on the definition of "Kansas Basic Enterprise" H.B. 2021. (Attachment 1). He also provided the committee with copies of testimony previously presented before the Joint Committee on Economic Development by Dr. Tony Redwood. (Attachment 2).

Dr. Krider responded to questions from the committee. Representative Helgerson asked Dr. Krider if there were any other states that had similar legislation to H.B. 2021? Dr. Krider said there were and would get back to Representative Helgerson on this.

The next conferee was Larry E. Danielson of the Kansas Industrial Developers Association who testified as an opponent to H.B. 2021. His main concern is who qualifies? (Attachment 3).

The next conferee in opposition to H.B. 2021 was Ron Favrow, Director of Development for Village Properties, Inc. He stated that he is opposed to the bill because it would in effect be an economic development deterrent rather than an economic development tool. (Attachment 4).

Mr. Favrow responded to questions from the committee.

Larry E. Huckelberry, Managing Partner of Olathe/Santa Fe Partnership testified next. He testified that the proposed deletion of tax benefits may serve to sabotage the very expensive, complex and time-consuming process of making a large mall they have been developing a reality. More importantly will be the loss of creditability of the state when the State of Kansas sets forth to solicit the cooperation of large employers, the development industry and others who are able to assist in creating the kind of economic development the state aspires to achieve. (Attachment 5).

Mr. Huckelberry responded to questions from the committee.

The last conferee was Ray Barmby, Mayor of the City of Olathe. Mayor Barmby testified that the City of Olathe opposes legislation that would reduce the types of businesses eligible for tax credits under the Job Expansion and Investment Credit Act. (Attachment 6).

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT,
room 423-S, Statehouse, at 3:34 ~~xxx~~/p.m. on Thursday, January 26, 1989.

Letter from Kim C. Dewey, County Manager, Sedgwick County is (Attachment 7).

Roland Smith, Executive Director of the Wichita Independent Business Association was unable to appear before the committee because of illness. Copy of his testimony is (Attachment 8).

Letter from Jordon Perlmutter of Jordon Perlmutter & Co., Denver, Colorado is (Attachment 9).

This concluded the hearing on H.B. 2021.

The meeting adjourned at 4:40 p.m.

*Elizabeth
Baker*

te: 1/26/89

GUEST REGISTE

HOUSE

Committee on Economic Development

NAME

ORGANIZATION

ADDRESS

<u>NAME</u>	<u>ORGANIZATION</u>	<u>ADDRESS</u>
J E Suckelberg	Village Properties Inc	41 Holly Olathe
DON SEIFERT	CITY OF OLATHE, KS	Box 768 OLATHE, KS 66061
Rep FAUROW	Village Properties	1006 E. 1st St
Roy Barnard	City of Olathe, KS	Mayor
Jean Barbu	Kansas Lodging Assn	Topeka
Scott Hessel	KANSAS, Inc	Topeka
Whitney Damm	Topeka	W.G.P., Inc
HAROLD FRIDAN	KU	CAMPUS
R. Schulz	P.H.R.	Topeka
Ann Patterson	KDOC	Topeka
Terry Decker	KDOC	Topeka
LeRoy Bowler	Kansas NFO	Pittsburg
Don Harris	Ks NFO	Walmart
Archie Hurst	Ks Red Opn	Topeka
Jerry Jost	Ks Rural Center	Whiting
Rich McKee	Ks Livestock Assoc	Topeka
Carl Helmer		
LARRY DANIELSON	Ks. Industrial Developers	Wichita

TESTIMONY ON DEFINITION OF
"KANSAS BASIC ENTERPRISE" : HB 2021

presented to

The House Committee on Economic Development

presented by

Dr. Charles Krider
Professor, School of Business,
University of Kansas
and
Director of Business Research,
Institute for Public Policy and Business Research
January 26, 1989

For further information contact:
Roger P. Nelson,
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House Eco Dev Comm.
Attachment 1, 1/26/89

Definition of "Kansas Basic Enterprise": HB 2021

Regarding the definition of basic industry, I wish to express my continued support for this legislation and have provided you with testimony previously presented before the Joint Committee on Economic Development by Dr. Tony Redwood.

I wish to reiterate the contention that the current guidelines determining inclusion or exclusion from Kansas' economic base are often either too indefinite or too restrictive. A clear and consistent, yet flexible definition of "basic industry" would allow the state to derive the greatest possible benefit from its available economic development resources.

The principle of an "economic base" is founded in economic theory, which divides economies into basic and nonbasic sectors. The basic sector is that which produces goods and/or services that are to be sold outside of their place of origin, whether it be a city, a nation, or, in this case, a state. The nonbasic sector is made up of all goods and/or services produced that are consumed within the state itself. This sector is supported by the basic sector, which also provides a means of payment for products imported into the area. The basic sector acts as a source of growth, as it has the potential to expand the nonbasic sector through regional, national, and international sales, independent of the current level of wealth in the community or area. Thus, a strong basic sector can greatly influence an area's overall economy. Because of this strong link between the basic sector and

the overall economy, it is important that efforts directed at economic development be concentrated in this sector.

A clear analogy to state basic vs. nonbasic industry is that of an economy of a single community. The local market of Lawrence, for example, is essentially a "fixed pie", in that there is a relatively constant pool of income available for expenditure by consumers, and thus the amount of goods and services consumed, in aggregate, is relatively constant as well. Since the economy of the city only requires a certain level of supply, it can only support the number of producers/suppliers necessary to provide that level. Thus, if a new retailer, such as a grocery store, opens in Lawrence, the population will not suddenly consume more groceries. Any business that the new store receives is at the expense of the existing grocery stores. The number of dollars spent is not increased, but simply redirected within the local economy. Unless the new retailer brings in new business from outside the community, the city's economy has really gained nothing.

In the state context, industry which brings in additional wealth from outside the state itself is clearly more beneficial to the economy as a whole than the mere redirection and redistribution of resources already within the economic system of the state. Another important point to consider is that State support of base industries does no direct harm to any other Kansas competitors, as they are competing in such a vast external market. Support of locally-based industry, in contrast, would be at the expense of competitors. Subsequently, the policy question facing this

committee is whether or not to promote the enactment of legislation that will serve to concentrate our state's limited economic development resources on the basic economic sector, where the payoff is the greatest. Clearly this limitation of funding to basic industry will have a far greater impact than funding directed toward local developments.

If the state were to assist a local retailer, there would be a negative impact on other retailers in the same community. In the example considered above, if the state provides incentives to a grocery store, then that store will be able to more efficiently compete with other area stores. Thus, the state is essentially subsidizing one Kansas business at the expense of another. Not only is this unfair, but there is also no overall gain to the economy of the state. In my judgement, exclusion of retail establishments from the definition of basic industry is necessary.

In order to direct economic development resources to the proper industries and enterprises, I stress the need for an identification system which is flexible and dynamic enough to determine what enterprises should be considered truly "basic" to the Kansas economy. I believe that the definition of "Kansas Basic Enterprise" as included in HB 2021 would fulfill this goal, and that targeting of our state's economic development resources to this basic sector is appropriate.

DEFINING KANSAS' ECONOMIC BASE

presented to the
Joint Committee on Economic Development
October 16, 1987

presented by:

Dr. Anthony Redwood
Professor, School of Business
Executive Director, Institute for Public
Policy and Business Research
University of Kansas
Lawrence, Kansas

for further information contact:

Ms. Gina Sanborn
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House Eco Devo Comm.
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DEFINING THE ECONOMIC BASE

Current Kansas economic development legislation describes Kansas' economic base in several different ways which often do not provide very definitive guidelines for determining which types of firms and organizations are to be included or excluded under the legislation. This includes legislation on venture capital, the Kansas Technology Enterprise Corporation and the Department of Commerce (see appendix for a listing of this legislation). Some of the definitions in the legislation are too broad and indefinite, and others are too restrictive. A clear, consistent and flexible definition of the economic base industry is needed to allow for the most efficient use of the State's economic development resources. In order to come up with such a definition it is necessary to look at some of the theory behind the economic base concept.

Theory

Economic base analysis is one method for studying the economic structure of a state or local economy. The theory underlying an economic base analysis is that economic activity can be divided into two sectors, basic and nonbasic. The basic sector includes those firms which produce goods and services locally but sell them outside the local or state area. The basic sector provides the means of payment for imports into the area. It also supports the nonbasic sector--those activities that produce goods and services locally for local consumption and service the basic sector.

The basic sector is considered to be the foundation of the local economy and source of growth in the area. The non-basic sector derives income from transactions within the local area and its income is determined by the level of income existing within the local community. In contrast, the basic sector is

independent of the amount of wealth in the community, but is instead dependent on sales to the regional, national and international markets. The basic sector has the potential to expand employment and output and thereby expand the non-basic sector. Increased sales and employment in the basic sector lead to increases in the sales and employment of the nonbasic sector. Since the basic sector's exports pay for the area's imports and support the nonbasic sector, the health of the overall economy in an area is a reflection of the health of the basic sector of that economic area.

Economic base theory provides a measure of the effect of growth in the basic sector on the overall economy in a ratio called the multiplier. The multiplier is the ratio of total economic activity to basic sector economic activity for the state or local area. Indicators which are commonly used as measures of economic activity are employment and income. The multiplier represents the increase in the number of total jobs in the economy attributed to the increase in one job in the basic sector when employment data is used. When income data is used, it represents the increase in the number of dollars of income in the total economy attributed to the increase of a dollar of income from the basic sector. The multiplier effect is the total impact on the economy due to an initial increase in the basic sector.

Since a total economy is assumed to expand due to an expansion in its basic sector, it is important to concentrate economic development efforts on this important sector. The nonbasic sector is dependent on what takes place in the basic sector, so the nonbasic sector is indirectly effected by development efforts in the basic sector. By concentrating efforts on creating growth in the basic sector one can stimulate growth throughout the economy. Economic development efforts can have the greatest impact on the overall economy when they are focused on the basic sector.

Proposal for Change

However, before one can begin such an effort to concentrate development efforts on the basic sector, it is necessary to identify the businesses and organizations that make up this sector. Unfortunately, a clearcut list of the industries which make up the basic sector is not possible. Various methods of identification are flawed and the Standard Industrial Code (SIC) system for classifying businesses is outdated in light of today's rapid changes in technology and business organization. It is not possible in this changing environment to draw up a definitive list of industries in a local or state economy, classified according to SIC code labels, which make up the basic sector for that economy. Hence it is necessary to have an identification system which is flexible enough to include firms which are a part of the basic, exporting sector, although they are in an industry which is not normally considered to be a part of the basic sector. Such a flexibility would also allow the identification system to reflect changes which occur in businesses over time.

Rather than using just a simple list of current basic sector industries which could easily become outdated, criteria should be developed based on the conceptual idea of the economic base to enable identification of firms which are truly a part of Kansas' basic sector even though they are in industries which are not usually considered to be a part of Kansas' economic base. These criteria can be used as a supplement to a general list of industries considered to make up the basic sector and can be used for assistance under economic development legislation if they are not included in an industry generally considered to be a basic industry. A list of industries which are generally accepted as the basic industries of Kansas can be used to streamline the process of deciding which firms are included in the basic sector; however, a list of generalized criteria

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can supplement this list of industries to ensure a definition which is flexible enough to include all firms which are a part of the basic sector.

We propose that the following list be used to define those industries which are generally assumed to make up the basic sector:

- 1) Agriculture, except for locally consumed production.
- 2) Mining, except for locally consumed production.
- 3) Manufacturing, except for locally consumed production.
- 4) Interstate transportation.
- 5) Wholesale distribution that is principally multistate in activity.
- 6) Financial services principally engaged in interstate or international transactions.
- 7) Business services principally serving an out-of-state market.
- 8) Research and development of new products, processes or technologies.
- 9) Tourism activities that are principally engaged in attracting tourists from out of state.
- 10) Corporate or regional headquarters of a multistate firm used for the supervision of business activities, when the majority of such business activities (measured in dollars of sales) takes place outside the boundaries of the state.

We propose that the following list of criteria be used to supplement the above list of specific industries in order to provide flexibility in the definition of Kansas' economic base. A firm should be considered a part of Kansas' basic sector if it is:

- 1) A firm which designs, develops or produces products, processes or services principally sold out of state.
- 2) A firm which provides products or services which predominantly attract out-of-state consumers into the state.
- 3) A firm which produces raw materials, ingredients or components for other

firms that are exporting the majority of their product beyond the boundaries of the state.

4) A national or regional firm which is principally engaged in interstate commerce.

Legislation Which is Effected by Defining Kansas' Economic Base

K.S.A. 74-5047, Department of Commerce. Statute establishing the purpose of the division of trade development.

K.S.A. 74-8102, Technology Enterprise Corporation. Statute defining the purpose of the Kansas Technology Enterprise Corporation.

K.S.A. 74-8104, Technology Enterprise Corporation. Statute which describes the authority of the Kansas Technology Enterprise Corporation.

K.S.A. Supp. 74-8106, Technology Enterprise Corporation. Statute which amends legislation on the functions of the centers of excellence.

K.S.A. Supp. 74-8302, Kansas Venture Capital Company Act. Legislation which amends the Kansas Venture Capital Company Act.

K.S.A. Supp. 74-8306, Kansas Venture Capital Company Act. Statute which defines qualifications for certification of a venture capital company.

K.S.A. Supp. 74-8307, Kansas Venture Capital Company Act. Amendment which restricts the use of funds invested by Kansas Venture Capital, Inc. for Kansas business and venture capital companies.

K.S.A. 74-8307, Kansas Venture Capital Company Act. Legislation which defines requirements for the continued certification of a Kansas venture capital company.

Danielson Associates

Development Consulting

TESTIMONY

PRESENTED TO HOUSE ECONOMIC DEVELOPMENT COMMITTEE

January 26, 1989

BY: Larry E. Danielson
Kansas Industrial Developers Association (KIDA)

RE: HB 2021

KIDA is concerned about HB 2021. I appear as an opponent to the bill, but frankly I'm not sure because everytime I read Lines 196 through 238 a new concept of who qualifies and who doesn't qualify pops into my mind.

Our concerns are as follows:

1) We made sweeping revisions to the Enterprise Zone Law in 1986. Only now, two years later, after working with many Department of Revenue interpretations do many companies understand how this incentive for job creation and investment can benefit them. Are we premature in making new, drastic changes?

2) Who qualifies? With the loose definitions that are written here, there will be a whole new round of Revenue interpretations that companies will have to go through to find out.

This is so vague I believe, that almost without exception, a company will have to provide documented details on the type of operation they conduct and basically will have to ask for Revenue's approval before they can make decisions on expansions, etc.

Let me raise bona fide questions:

Line 197 - Define "principally based".

Line 214 - How do you provide demonstrable evidence that business will supplant goods or services which "would" be imported into the state.

Line 224 - Every wholesale firm could say if they weren't in Kansas, an out-of-state firm would provide the goods or service.

Line 233 - How does, Boot Hill, our top tourist attraction, document its purpose of attracting out-of-state tourists.

I appreciate the concept of targeting incentives to certain types of firms, but this bill raises more questions than it provides answers. I urge you to leave the enterprise zone statutes alone until we can come up with a better idea than what is presented in HB 2021.

TO: MEMBERS OF THE HOUSE ECONOMIC DEVELOPMENT COMMITTEE

FROM: Ron Favrow, Director of Development
for Village Properties, Inc.

SUBJECT: HOUSE BILL #2021

I am opposed to House Bill #2021 because it would in effect be an Economic Development deterrent rather than an Economic Development tool. This conclusion is a result of the following information:

Over the past sixty days I have been in contact by phone, personal interview and letter with over sixty percent (60%) of all the Enterprise Zones throughout the State of Kansas. The following are general comments, actual cases and partial results from those contacts:

- House Bill #2021 in defining Kansas Basic Enterprise and/or Kansas Basic Industry would adversely affect over ninety-five percent (95%) of all zones contacted with the elimination of retail, general office and professional services from the program. Of the zones contacted ninety-five percent (95%) have an area that is designated for retail, general offices or professional services.
- "We need more information and help with our Enterprise Zones" was probably the most general statement made, with "we need to make the forms simpler or easier to work with" a very close second.
- This is only a feeling and not a fact, but I believe that the Enterprise Zone Incentives Program may be the main Economic Development tool that many of the cities contacted have. If we take away this foundation, the house will follow.
- Many of the zones contacted have their total downtown area in an Enterprise Zone. The question was asked, "What are we suppose to do with these areas if we can't offer Enterprise Zone incentives?"
- Many also stated that, as a small town, retail, general offices and professional services are the foundation for the attraction of industry - "How can we attract a factory if we don't have a doctor, a place to shop or a place to eat?"
- A question that was asked over and over again - "What do we do or say to companies that we are negotiating with now - that may not be in business by January 1, 1990?"
- Retail is probably one of the most competitive and toughest businesses to be in, as well as the entry level for our young into the job market. It also has a longer horizon for development and attaining profitability. Why are they attempting to penalize retailers?
- A number of cities mentioned reappraisals of downtown as a possible blow and how could House Bill #2021 even be considered in the light of reappraisal.

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To: Members of House Economic Development Committee
From: Ron Favrow - Director of Development,
for Village Properties, Inc.
Subject: House Bill #2021

- The Job Credit portion of the Enterprise Zone incentives is a real attention grabber. They all may not use it but it sure gets companies' attention when it is mentioned.
- The perception of industry and business is that Kansas has an Economic Development program in the Enterprise Zone Incentives. If that perception is questioned, it may take years to rebuild.

I have two final comments that I think summarizes Enterprise Zone Incentives and Kansas Basic Enterprise/Industry:

In Economic Development, we are trying to create jobs, services and products. What is the difference between a job in a smoke-stack industry versus a retail clerk selling a dry good or a doctor saving a life?

Finally, one individual made the comment concerning House Bill #2021 in that with the exception of the Kansas farmer, the first Kansas Basic Enterprise/Industry probably was a retail trading post.

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To: Members of the House Committee on Economic
Development

From: Larry E. Huckleberry
Managing Partner
Olathe/Santa Fe Partnership
Olathe, Kansas

Subject: House Bill 2021

Date: January 25, 1989

Thank you for the opportunity to share some thoughts relative to your consideration of House Bill 2021. I have an ownership interest in two properties situated in an enterprise zone in Olathe, Kansas.

I serve in the capacity of Managing Partner of the Olathe/Santa Fe Partnership which owns a 362 acre mixed-use development near the Highway 7 and I-35 Interchange. This property is located within the Olathe enterprise zone. The Partnership is comprised of eight Olathe residents.

During February, 1988, we were able to reach an agreement with The Perlmutter firm of Denver, Colorado to purchase a 70 acre site for the purpose of developing a superregional mall. We touted the economic benefits of locating the mall within the enterprise zone. The Perlmutter firm was favorably impressed with those benefits and spent considerable time with the Department of Revenue learning the intricacies of calculating income tax savings and reviewing the mechanics of realizing the savings of sales tax costs related to the construction of the facility.

During the last year, the Perlmutter firm has incorporated the enterprise zone economic benefits in all of their presentations to anchor store prospects. Negotiations with most of the anchors have been ongoing for much of the year and in some cases are in their final stages. The proposed deletion of those benefits may serve to sabotage the very expensive, complex and time-consuming process of making a large mall a reality.

While this certainly offends my sense of fair play and causes harm to those who have made investments relying on the incentives the state has offered, the State of Kansas is the real loser. It has been projected that the State of Kansas would receive as much as \$5,000,000 in sales tax revenues from such a facility.

More importantly will be the loss of creditability of the State when the State of Kansas sets forth to solicit the cooperation of large employers, the development industry and others who are able to assist in creating the kind of economic development the State aspires to achieve.

Large projects, which result in substantial economic benefits to an area, often have a lead time that is measured

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not in a handfull of months, but more often in many months or a few years. Huge amounts of money and effort is expended relying, in no small part, on those extolled benefits being available for a reasonable period of time. Failure to provide what has been promised will penalize our statewide efforts as we work together to enhance Kansas as a good place to live and work.

My wife and I own a red brick, turn-of-the-century building across from the courthouse square in downtown Olathe. Like many older downtown areas we are struggling to attract retail and office users to an area which represents some of the most precious parts of our community's history. When the enterprise zone was being considered for Olathe, many of us felt it provided us with a needed tool to preserve our downtown area. The zone included downtown, I believe, not because we wanted to attract manufacturing or mining, but specifically because it offered us more opportunities to attract those retail and office employers. This bill will serve to eliminate those employers from participating in the tax incentive package made available in these zones.

In my discussions with other community leaders their cities were able to generate a broader base of community support because the enterprise zones did offer some hope for providing incentives to those who would consider locating in downtown areas.

In summary, we strongly support any efforts to make our State's economic development package more effective and more affordable, as long as that effort does not violate a reasonable sense of fair play nor sabotage the State's creditability which would hurt our long range goals for the state. It seems to me that we should not attempt to make this band-aid repair to a far more complex problem, but should undertake a more comprehensive plan which will take into consideration the full range of goals and hopes that motivated the creation of enterprise zones.

SOUTHPARK PLAZA
Olathe, Kansas

PROJECT DEVELOPMENT COST ESTIMATE
April 20, 1988

The following is a preliminary estimate of project development costs associated with the buildout of the 300,000 s.f. GLA/4-department store shopping center at Southpark in Olathe, Kansas.

A. Mall Development Cost @ \$98.92/s.f. (Assumes 70% efficient building/GBA to GLA or 428,570 s.f. of gross building area and 300,000 s.f. of GLA. Cost includes all hard and soft costs for the Mall, land and all on-site improvements.)	\$ 42,393,949.00
B. Mall Tenant Improvement Cost @ \$55.00/s.f. (300,000 s.f. @ \$55.00/s.f.)	\$ 16,500,000.00
C. Major Department Store Construction Cost (4 majors/total building area of 569,000 s.f. @ \$100.00/s.f.)	\$ 56,900,000.00
D. Residual Property Development Cost assuming 60,000 GBA @ \$100.00/s.f.	<u>\$ 6,000,000.00</u>
TOTAL PROJECT DEVELOPMENT COST AT FULL BUILD-OUT	\$121,793,949.00 =====

SOUTHPARK PLAZA
Olathe, Kansas

SALES TAX PROJECTION
April 20, 1988

The following is an estimate of annual income and sales tax revenues generated by the proposed 300,000 s.f./GLA, 4-department store shopping center.

1. Annual Income

A. Mall Tenant Space (300,000 s.f./GLA @ 95% occupancy x \$175.00/s.f. income)	\$ 49,875,000.00
B. 4 Department Stores (569,000 s.f. @ \$105.00/s.f.)	\$ 59,745,000.00
C. 60,000 s.f. of Residual Land Development (60,000 s.f. @ \$200.00/s.f.)	<u>\$ 12,000,000.00</u>
 TOTAL ANNUAL INCOME OF SHOPPING CENTER DEVELOPMENT	 \$121,620,000.00 =====

SALES TAX DISTRIBUTION
April 20, 1988

ANNUAL INCOME PROJECTION	STATE OF KANSAS @ 4.0%	JOHNSON COUNTY @ 0.5%	OLATHE @ 1.0%	TOTAL ANNUAL SALES TAX GENERATED
Mall Tenant Space @ \$ 49,875,000/yr.	\$1,995,000	\$249,375	\$ 498,750	\$2,743,125
4 Dept. Stores @ \$ 59,745,000/yr.	\$2,389,800	\$298,725	\$ 597,450	\$3,285,975
Residual Land @ \$ 12,000,000/yr.	\$ 480,000	\$ 60,000	\$ 120,000	\$ 660,000
\$121,620,000/yr.	\$4,864,800	\$608,100	\$1,216,200 =	
				SALES TAX/GRAND TOTAL.....\$6,689,100 ===== Annually

SOUTHPARK PLAZA
Olathe, Kansas

PROPERTY TAX ASSESSMENT
April 20, 1988

In 1985 the Kansas Legislature passed Senate Bill No. 164 requiring a statewide reappraisal of all real property for tax purposes. The last statewide reappraisal was completed in the late 1960's.

Until reappraisal is completed in late 1988 or early 1989, the extent of any individual tax adjustments cannot be accurately assessed.

Based on conversations with Mrs. Agnes Ely of the Johnson County tax reappraisal staff, we were informed that for now we should use the following formula to calculate any anticipated property tax on commercial developments:

$$\text{Total Value of Land \& Building Construction} \div 3.5 \times 24\% \times .1755080$$

Our proposed site falls within the county's taxing district #8 and has a 1987 assessed mil-levy of .1755080 or \$175.51 per \$1,000 of assessed value.

Although no final decisions on adjustments to the tax system will be made for 8 to 9 months, Mrs. Ely did indicate that the County anticipates that residential taxes will decrease and that commercial property taxes will increase. How much, no-one knows.

Using the formula above, the property tax assessment for the proposed shopping center site would be calculated as follows:

$$\$121,793,949.00 \div 3.5 \times 24\% \times .1755080 = \$1,465,770.00/\text{year}$$

=====

The following is an estimated distribution of tax liability based on the Project Development Cost Estimate of \$121,793,949.00 (see attached Project Development Cost Estimate dated 4/20/88).

A. Mall Construction and Tenant Improvement Costs, including Land Cost (48.36% of Total)	=	\$ 708,846.37
B. 4 Department Stores (46.72% of Total)	=	\$ 684,807.74
C. Residual Property Development (4.92% of Total)	=	<u>\$ 72,115.88</u>

TOTAL ANNUAL PROPERTY TAX ASSESSMENT (BASED ON 1988 ASSESSMENT FORMULA)		\$1,465,770.00
		=====

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SOUTHPARK PLAZA
Olathe, Kansas

MAJOR BENEFITS TO THE COMMUNITY
April 20, 1988

The following is a list of major economic benefits which will impact both the City of Olathe and Johnson county as a result of the development of Southpark Plaza Shopping Center.

A. Construction

Based on the project scope being proposed the development will generate approximately \$45 million in construction labor payroll.

B. Sales Tax

At full build-out the shopping center will generate approximately \$6,700,000.00 per year in sales tax which will be distributed to the City of Olathe, Johnson County, and the State of Kansas.

C. Employment

Along with the generation of approximately \$6.7 million in annual sales tax revenue, the shopping center will create employment for approximately 1,650 people in the Olathe/Johnson County area.

Assuming an average annual income of \$12,500.00 per employee, the annual payroll generated by the shopping center would be approximately \$20,592,000.00.

D. State Income Tax

Based on annual payroll of \$20,592,000.00, the proposed shopping center can be expected to generate a state income tax of \$411,840.00 per year at a tax rate of 2.0%.

E. Property Tax

At the time the project is assessed at full value it will generate approximately \$1,500,000.00 annually in property taxes.

F. Other Development

The development of Southpark Plaza Shopping Center will act as a catalyst in promoting other development in the area of the proposed project.



CITY OF OLATHE

MEMORANDUM

TO: Members of the House Committee on Economic Development
FROM: Ray Barmby, Mayor
SUBJECT: House Bill 2021 Kansas Basic Enterprises
DATE: January 25, 1989

Thank you for the opportunity to appear to present our views on House Bill 2021 concerning "basic industries." As many of you remember, the City addressed the Joint Economic Development Committee on this issue during the interim.

The City of Olathe opposes legislation that would reduce the types of businesses eligible for tax credits under the Job Expansion and Investment Credit Act. Our principal concern with the bill as drafted is its indirect effect on our newly created enterprise zone in south central Olathe. About 15% of our enterprise zone, including the entire central business district, is commercially zoned. The City hopes to attract new retail, service, and office development to these areas, as well as encourage expansion of existing businesses. As you are aware, in such areas much business activity will fall into the "non-basic" category. We believe the abrupt elimination of income tax credits and sales tax exemptions for these types of businesses in the short time frame contemplated by HB 2021 will have a negative effect on encouraging development as well as redevelopment in downtowns across the state.

*House Eco Devo Comm.
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We would suggest to the committee that HB 2021 may be a solution looking for a problem. Testimony in November from the Department of Commerce indicated that retail businesses accounted for less than 2% of the tax expenditures associated with Kansas enterprise zones. It would appear that definitional and administrative problems associated with this bill far outweigh the revenue losses to the state.

Our zone in Olathe is relatively new, and we are working with the Olathe Area Chamber of Commerce to market its benefits for Kansas, Johnson County, and Olathe. Those of us who work daily on the front line of local economic development urge you not to remove existing tools from the statute book. Like it or not, business decisions are made based in no small part upon the existence of these incentives - their decisions like yours, are bottom line decisions.

Please allow us the opportunity to fully make use of our enterprise zone as an economic development tool by killing this bill. Thank you again for the opportunity to be here today.



SEDGWICK COUNTY, KANSAS

County Manager's Office

Kim C. Dewey

County Manager
525 N. Main, Suite 343
Wichita, KS 67203
(316) 268-7575

January 25, 1989

Rep. Elizabeth Baker, Chairperson
House Committee on Economic Development

RE: HB 2021

Dear Rep. Baker:

I am sorry that I cannot be present in person to discuss HB 2021 dealing with changes in the Kansas Enterprise Zone Law. Although I am now Sedgwick County Manager, I previously held the position of Economic Development Director for Sedgwick County, consequently, I can lay some claim to having had "front line" experience in economic development work with prospective industry.

The first question which comes to my mind is why is the Legislature tinkering with an important incentive which we can offer to business and industry to encourage their location or expansion in the State of Kansas. The Enterprise Zone is an important item in the array of incentives economic developers have to help sell the State to business and industry.

The changes proposed in HB 2021 are, thankfully, not too damaging to the substance of the current law. But they are still unnecessary. The reporting requirements are burdensome and make work for local agencies and I believe the type of information desired would be more readily available from the State Department of Revenue.

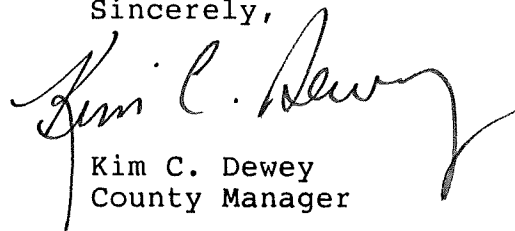
House Eco Devo Comm.

*Attachment 7
1/26/89*

Limiting the incentives to "Kansas Basic Enterprise" is in my mind, a potentially dangerous move which could backfire in unintended ways. I can understand the sentiment to prevent retail, service industries from accessing these incentives. The danger of drawing lines is that most likely a line will be drawn across something unintended. I worry how future interpretations of limitations such as this may stray from the intent of the Legislature. Better, in my mind, to allow the McDonalds' and car dealers to enjoy these incentives than to deny them to some business which might be deserving simply because of an interpretation of an attorney or staff member in Revenue.

We now have a liberal, open process for establishing enterprise zones and accessing the incentives. Let's not diminish this incentive. Yes, it is one of the more liberal laws in the nation. Yes, Kansas does have a proliferation of zones throughout the State. But this is Kansas, not California, and sometimes, we have to try a little harder to stay in the race. Please don't make it any more difficult.

Sincerely,



Kim C. Dewey
County Manager

KCD:ler

cc: Members of the Committee

January 26, 1989

STATEMENT TO: KANSAS HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT
FROM: ROLAND SMITH, EXECUTIVE DIRECTOR OF THE
WICHITA INDEPENDENT BUSINESS ASSOCIATION
SUBJECT: HB-2021

Madam Chairman, members of the Committee, I am Roland Smith, Executive Director of the Wichita Independent Business Association of over 1400 locally owned business in the Wichita trade area.

We have very mixed emotions over this bill. I would like to explain our position and the concerns we have.

First, the "Enterprise Zone" admittedly is a very useful tool in attracting businesses to an area; however, it is also discrimination against many established businesses not located in the zone that are scattered throughout the city or county. Many times the enterprise zones are created to accommodate large established businesses. As I understand it, the original concept of the enterprise zone was to improve blighted areas. This no longer seems to be the criteria.

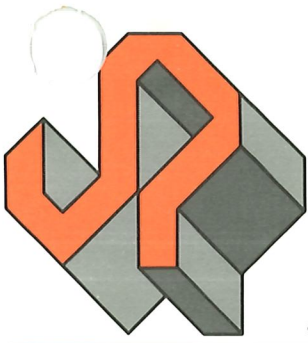
The "Kansas Basic Enterprise" or basic industries concept is bringing in out-of-state money with retail and service businesses being spawned as a result is a true assumption; however, it is only partially true. Many entrepreneurs and local businesses are left out because they start on a local level and if given the same breaks, could grow to exporting and/or selling intrastate. The biggest complaint I get is from businesses that are basic industries, but are not in an enterprise zone or are doing interstate business. They feel they are discriminated against.

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The fastest growing retail, as a result of increased manufacturing or basic industries, is the mass merchandiser. They create many jobs at the expense of the locally owned businesses. It is true they create payroll, local and state tax income, but most of the money goes out of state overnight each day. There seems to be a great concern in preserving the family farm, but none for preserving the family business. Independent retailers, grocery stores, banks and even trash services are vanishing. There is very little economic development directed toward the independent except as a spin-off, if he can find his niche.

There are many good aspects to HB-2021, however, because it is targeted so narrowly and discriminates in many situations we cannot support it in its present form. We could support a provision that would give the Commerce Department discretion enough to support any business that would contribute substantially to economic development and not be at the cost of a competing business in that market; also, if the enterprise zone provision was eliminated.

I'll be glad to answer any questions.



Jordon Perlmutter & Co.

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January 24, 1989

The Honorable Elizabeth Baker
Representative and Chairman
of House Economic Development Committee
State Capitol
Topeka, Kansas 66612

Re: House Bill 2021

Dear Ms. Baker:

It has been brought to our attention that the legislature is presently considering a Bill to eliminate commercial development from the benefit of Enterprise Zones. This legislation is of grave concern to the undersigned inasmuch as it directly affects our purchase in February, 1988, of certain real property in Olathe, Kansas, for usage as a regional shopping center. At the time of the acquisition of this property by us we considered the Enterprise Zone a major factor in our proceeding with the purchase of this property. Although the Enterprise Zone does not constitute a direct benefit to the developer of a shopping center, it is of prime importance to certain key elements in such development by virtue of the benefits provided to both anchor department stores and other tenants of the mall.

It must be recognized that the development of a regional shopping center is a difficult task and involves the procurement of department stores willing to become a part of the shopping center. In our negotiations with department stores, which commenced and has proceeded on a continual basis from the time of our acquisition of this property, we have represented to them that this property is in an Enterprise Zone and specifically delineated the benefits to them by virtue of that fact. It is our opinion that the elimination of the benefits of the Enterprise Zone will be a major deterrent to us in our ability to develop a regional shopping center.

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Certainly we recognize that the intent of the Enterprise Zone is to provide economic development incentive to only those enterprises which are basic to the state's economic structure which have the greatest potential for effecting economic growth. It is our firm opinion that the placement of a regional shopping center within an Enterprise Zone meets the intent of the Enterprise Zone and provides for economic growth. Further, we can understand that certain legislators may feel to the contrary notwithstanding the inclusion of commercial in the original legislation; however, it is deemed manifestly unfair to eliminate commercial from existing Enterprise Zones inasmuch as many people, including ourselves, relied upon this legislation in their determination to acquire property. The proposed legislation grandfathers the benefits of the existing legislation to those parties able to benefit therefrom prior to January 1, 1990. This is of little aid to those parties who have relied upon the Enterprise Zone but, due to the time factors involved in the development of a regional shopping center, will not be able to obtain the benefits prior to January 1, 1990.

It is our hope that the legislators will see fit to retain commercial development within the benefits of the Enterprise Zone for the reason that proper commercial development does have a great potential for economic growth. In the event that the legislators deem fit to eliminate commercial development, then we strongly feel that such legislation should affect only new Enterprise Zones and permit existing Enterprise Zones to confer the benefits upon commercial development. This procedure would permit those persons who relied upon existing legislation in acquiring of property to realize the benefits anticipated at the time of acquisition and achieve the legislative purposes in future designations of Enterprise Zones.

Respectfully submitted,

JORDON PERLMUTTER & CO.

By: 
Jordon Perlmutter

JP:SS:pr

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1/26/89