

Approved \_\_\_\_\_

Date

4-29-89

MINUTES OF THE SENATE COMMITTEE ON ECONOMIC DEVELOPMENT

The meeting was called to order by Senator Dave Kerr at \_\_\_\_\_  
Chairperson

8:00 a.m./p.m./ on March 28, 1989 in room 123-S of the Capitol.

~~All members were present except~~ MEMBERS PRESENT: Senators Kerr, Francisco, McClure, Moran, Oleen, Salisbury, Steineger, Winter

Committee staff present:

Bill Edds, Revisor of Statutes' Office  
Lynne Holt, Kansas Leg Research  
Carol de la Torre, Secretary to the Committee

Conferees appearing before the committee:

Terry Dinker, Department of Commerce

Charles Warren, President, Kansas Inc.

Mark Burghart, Department of Revenue

The meeting was called to order by Senator Dave Kerr, Chairman.

Lynne Holt, Legislative Research, gave a brief overview of House Substitute for House Bill 2021.

House Bill 2021 - an act relating to economic development; requiring certain reports concerning incentives for investments in enterprise zones to be submitted to the secretary of commerce.

The first conferee was Terry Dinker, Department of Commerce, representing Secretary Priddle. Mr. Dinker presented Secretary Priddle's testimony (Attachment 1), which included suggested changes in the bill. Mr. Dinker questioned whether the bill as written addressed taxpayers inside the enterprise zone only or outside the zones also.

The next conferee was Charles Warren, President, Kansas Inc. His testimony is found in Attachment 2. He stated that the current bill was an improvement over the existing statute and should be adopted by the Committee. However, he did raise several issues for the Committee's consideration.

Mark Burghart, Department of Revenue, was the next conferee. He stated they have no position on the bill itself, but that there was a technical change that needed to be made by inserting some exception language in KSA 79-32-34B. He stated he had discussed this with the revisor and he concurred.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON ECONOMIC DEVELOPMENT,  
room 123-S, Statehouse, at 8:00 a.m./p.m./on March 28, 1989

Senator Winter pointed out the discrepancy in the present situation with respect to the ability of a community to abate taxes for a business that is now located in a community and moves to another community. In that situation, property taxes can be abated. If they stay in the same location, they cannot be abated unless they meet specific expansion guidelines. Senator Winter asked for the Chairman's permission to track down information on this issue. The Chairman advised that the Committee was not planning to meet again. He inquired what kind of response Senator Winter would like. Senator Kerr said he would be pleased to write a letter to the Board of Tax Appeals requesting information on their rulings in these types of cases. This information will then be available for the Joint Committee this summer.

Senator Francisco moved that March 1st be moved to April 1st on line 53 and that the amendment proposed by the Department of Revenue, to correct the disclosure statute be adopted. Seconded by Senator Oleen, motion carried amendments adopted.

The Chairman pointed out that Terry Dinker, Department of Commerce, had recommendations as well on amendments. One was adding "and capital investment" on line 30, and resolving the conflict of lines 24 and 29. Senator Salisbury moved that the amounts of capital investment made by companies be included in the information form provided by the Department of Revenue and that "if any" be removed from line 30. Seconded by Senator Francisco, motion carried, amendment adopted.

Senator Salisbury moved that a sunset provision of three years be added to the bill, seconded by Senator Steineger. Motion carried, sunset clause adopted.

Senator Winter moved that tax incentives be allowed only for basic enterprises with grandfathering of those companies now receiving credits, but which are not basic industries, seconded by Senator Moran. After discussion the motion failed.

Senator Oleen moved that the bill be passed out of Committee as amended and recommended favorably for passage, seconded by Senator Steineger. Motion carried, bill recommended

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON ECONOMIC DEVELOPMENT,  
room 123-S Statehouse, at 8:00 a.m./~~p.m.~~ on March 28, 1989.

favorably for passage.

It was moved by Senator Moran and seconded by Senator Winter that the minutes of the March 21, 22, and 23, 1989, meetings be approved. Motion carried, minutes approved.

There being no further business, the meeting was adjourned.



# Testimony

*Presented to:*

The Senate Economic Development Committee

on House Sub. for Sub. 2021

*by*

Harland E. Priddle  
*Secretary of Commerce*

March 28, 1989

*Attachment 1  
H-28-89  
Sen Eco - Dev*

Mr. Chairman and Members of the Committee, I am pleased to be here this morning to speak about the changes in reporting requirements for enterprise zones as addressed in House Substitute for Substitute for House Bill 2021.

This bill is a first step in the attempt to provide information on enterprise zone activity. We believe more information is necessary to make informed analysis of the effectiveness of enterprise zones in the development of job creation and investment.

We would suggest the inclusion of amounts of capital investment made by companies be included in the information form provided by the Department of Revenue. This change could be incorporated on Line 30.

We also recognize a potential problem exists in the reporting dates as stated in this bill. We suggest the March 1 date contained in Line 53 be replaced by an April 1 date. We feel this would allow more time to compile the data and print the necessary reports to comply with the proposed statute.

I stand for questions.



Governor Mike Hayden, Co-Chairman  
Eric Thor Jager, Co-Chairman

Charles R. Warren, President

CAPITOL TOWER, SUITE 113 • 400 S.W. 8TH • TOPEKA, KANSAS 66603-3957 • TELEPHONE (913) 296-1460

ENTERPRISE ZONES  
H.B. 2021

Testimony before the  
Senate Committee on Economic Development  
March 28, 1989

by

Charles R. Warren  
President, Kansas Inc.

*Attachment 2  
4-28-89  
Sen Cos - Revs*

## ENTERPRISE ZONES

Senator Kerr, members of the Committee. Thank you for this opportunity to testify on H.B. 2021 which would make certain amendments to the Enterprise Zone Act.

First, I would like to point out that you are currently sitting within an Enterprise Zone designated by the City of Topeka and approved by the Kansas Department of Commerce. A similar situation existed in the State of Florida which prompted their legislators to drastically reduce the number of zones within their states and move toward a program which required much tighter eligibility requirements on the part of local governments desiring to take advantage of the incentives being offered by their State of Florida to improve distressed areas and attract industrial development.

In November 1988, I presented at the Committee's request two options for reforming the current Enterprise Zone Act. The first would have extended the current incentives now provided within Enterprise Zones statewide to basic enterprises only. The second would have provided a competitive model with a limited number of zones authorized within the State. Both options would have "grandfathered" all establishments currently within zones.

The second option was rejected by the Interim Committee and aroused a great deal of controversy and concern among local governments, chambers of commerce, and industrial development groups within the State. The Joint Committee did report out a



bill which would have restricted incentives only to basic enterprises, although with a grandfather clause.

The Joint Committee Bill was heard by the House Economic Development Committee and numerous groups opposed the elimination of incentives to retailers. The Department of Revenue testified that the definition of "basic industry" contained in the bill was unworkable, and too imprecise to provide enough guidance for implementation. A compromise position was reached that would have provided a job tax credit of \$500 to manufacturing establishments and would have reduced credits for all others to \$200. That compromise was rejected by the House and the current substitute bill leaves the existing levels of credits intact, but does add a reporting requirement.

I believe that the current bill is an improvement over the existing statute and should be adopted by the Committee. ✓

However, I would like to raise some issues for the Committee's consideration.

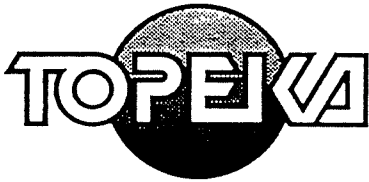
1) As a general rule, retailers and professional services should not be granted enterprise zone incentives. Both require customers much more than incentives to be successful. Our economic development strategy should concentrate on the expansion and attraction of basic industries to provide growing local economies which will provide the jobs and income to purchase goods and services. A more fundamental reason not to provide incentives to retailers and services is that, in most cases, these firms are competing with existing establishments which can

be placed at a disadvantage if they are operating without comparable tax breaks.

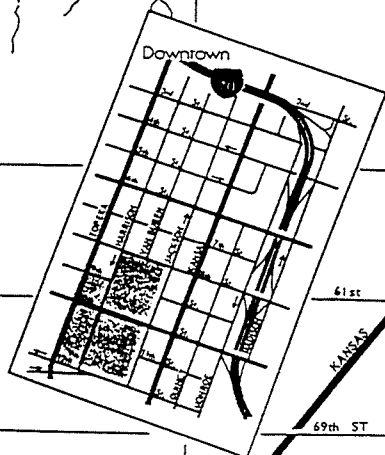
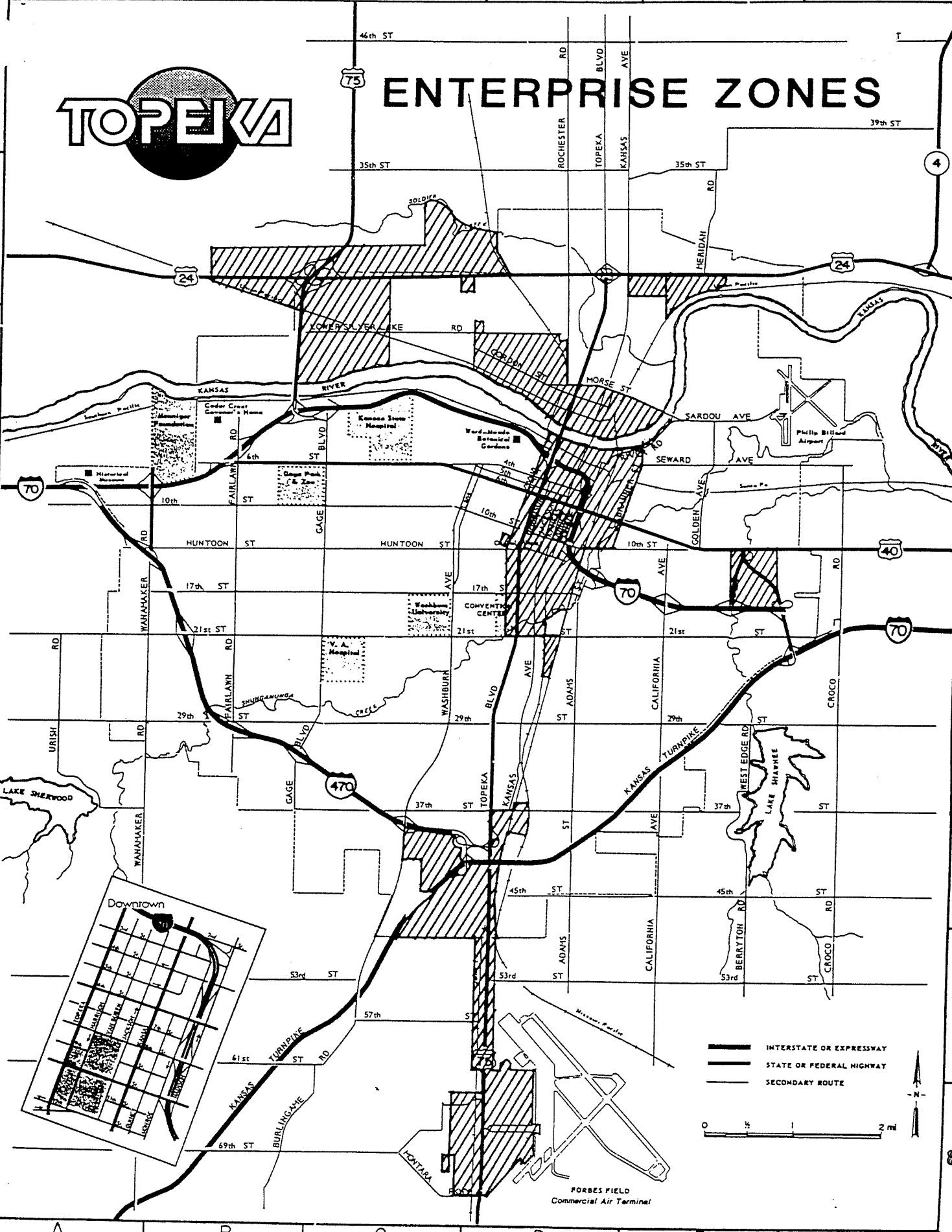
2) The requirement of annual reports on enterprise zone activity is a positive step. It should have the effect of making local governments much more aware of their local economies and whether they are achieving the most effective results from their own EZ designations. EZ's should be a tool for use by local government, not merely a state incentive program.

3) A final issue which this Committee must consider in dealing with the enterprise zone program is whether the current system of 212 zones would make it difficult to increase the level of incentives offered in future years. The State of Missouri provides tax credits of \$1200 per job compared to our \$350 per job in an EZ. Increasing the level of credits would have a significant fiscal impact since it would be tantamount to providing them statewide.

Attached for your information is: 1) a map of enterprise zone boundaries for the City of Topeka; 2) excerpts from my testimony on enterprise zones before the Interim Committee on the Department of Commerce's research report and their survey results; and, 3) a table listing the number of enterprise zones and incentives provided by states in our region.



# ENTERPRISE ZONES



INTERSTATE OR EXPRESSWAY  
 STATE OR FEDERAL HIGHWAY  
 SECONDARY ROUTE

0 1 2 mi

N

## Department of Commerce Research Report

A research report on Enterprise Zones was prepared by the Department of Commerce and provided to the 1988 Interim Committee. Data on the types and amounts of incentives available and actually used by businesses located in enterprise zones was compiled and analyzed for the first time. The survey of businesses located in the zones presented a much clearer picture on the impact of these incentives.

Recent tax changes by the 1988 Legislature, specifically H.B. 2626 which extended statewide the exemption of the sales tax on the purchase of machinery and equipment directly related to manufacturing, may dramatically reduce the comparative advantage of an enterprise zone location.

The legislative intent of aiding distressed areas was circumvented by the fact that approximately 185 enterprise zones were applied for by cities and counties in Kansas and approved by the Department of Commerce. Loose statutory provisions enabled local governments to include healthy or stable areas into locally-defined zones and still meet so-called distressed area criteria. With several notable exceptions, locally required incentives were often limited to low or no cost benefits such as free snow removal. As a result, numerous local governments have taken the program seriously in their designation of zones or their provision of local incentives. Most local governments have not used this program as an explicit redevelopment tool or as a tool to guide the location of development. Generally, local

officials have little idea of the number and types of businesses located in their zones or the numbers of jobs created in the zones.

The survey results in the report substantiate the limited value of the zones to business and to local governments in industrial development or revitalization.

- o 66.3 percent of the companies within a zone were unaware of, or did not use, the sales tax refund or exemption.
- o Nearly three out of four companies were not aware of, or did not use, the business and job development tax credits.
- o Many of those that did use the various credits found that the process was extremely time consuming and the paperwork so confusing that it was not worth their effort.
- o Of the expanding or relocating companies within an enterprise zone, only 48 percent were even aware they were in a zone.
- o Half of the companies which expanded or relocated did so without being aware of the tax advantages that could be available to them by virtue of being within an enterprise zone.
- o Of those companies that were aware of enterprise zone incentives, only 12 percent stated that the designation had any affect on their location decisions.

The Commerce survey demonstrates that few companies knew of the zone designations and few of those considered it an important factor in their decisions to expand or move.

These survey results and conclusions seem to be contradictory in light of the substantial amount of tax breaks afforded to businesses by the enterprise zone program. From August 1985 to August 1988, \$34,290,902 in tax credits and refunds have been provided to companies in the zones. That total dollar amount of incentives awarded is for many indisputable evidence that the program has been and is successful.

The apparent contradiction is easily explained depending upon the criteria chosen to evaluate program success. As a tool for use by local governments to guide development, enterprise zones must be considered of little value. The effectiveness of the program in job creation cannot be evaluated from the information presented in the Commerce report. No attempt was made to identify a causal relationship between the incentives provided and the hiring of employees. And, it is extremely doubtful that such a relationship could be proven. As a tool for use by State government to reduce the tax liability of certain firms and industries already located, or that decided to locate and expand in Kansas, the program must be considered a success because it has reduced business tax liabilities by \$34 million dollars.

Over the past three years, the sales tax credit and exemption certificates accounted for \$33.5 million or 99 percent of all enterprise zone tax incentives. The Job Development and

Business Investment credits accounted for \$735,000 or 1 percent of enterprise zone tax incentives. On an annual average basis, these tax expenditures total \$19,087,175 and \$275,625 respectively.

On January 1, 1989, the sales tax exemption for manufacturing will be available statewide leaving only the \$350 job tax credit and associated investment credits plus the sales tax refunds and exemptions on non-manufacturing purchases exclusive to enterprise zones. Of the annual tax exemptions available before January 1989, only \$2,460,347 or 12.6 percent will be available exclusively within the zones and \$16,554,257 or 87.4 percent will be available statewide.

A further breakdown of the tax breaks which will remain shows that they were used by:

- o Manufacturers - \$169,932 or 6.9 percent
- o Retailers - \$353,861 or 14.4 percent
- o Services - \$816,918 or 33.2 percent
- o All Others - \$1,119,636 or 45.5 percent

ENTERPRISE ZONE PROGRAM

St.	-Credits-		-Tax Abatements-		Other Incentives
	Jobs	Investment	Property	Sales	
Kansas (208 zones)	\$350/ \$500	\$350 on \$100,000 investment	No	Yes, construction	Tax increment financing, targeting of state programs
Missouri (33 zones)	\$400/ \$1,200	10% to \$10,000 5% to 100,000 2% above	Yes, 50% of project cost	(Statewide manu. equip)	\$400 credit on job training programs; 50% income tax credit (qualified use); direct state loans; infrastructure improvements part of local incentives.
Colorado (12 zones)	\$500/ \$1,200	3% on all investment	Local option	Local option	None
Oklahoma (23 zones)	\$1000	2% on \$50,000 investment	(Available Statewide)	(Available Statewide)	None
Nebraska	No enterprise zone program				