Approved February 21, 1991
Date

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 February 20, 1991 in room 123-S of the Capitol.

All members were present except:

Senator Janice McClure (excused)

Committee staff present:

Bill Edds, Revisor of Statutes' Office
Lynne Holt, Legislative Research Department
LaVonne Mumert, Committee Secretary

Conferees appearing before the committee:

Lynne Holt, Legislative Research Department
Dr. Anthony Redwood, University of Kansas

Senator Dave Kerr, Chairman, called the meeting to order and introduced Lynne Holt.

SB 29 - Income tax credits and sales tax exemption for location of business in enterprise zone repealed

Lynne reviewed the Memorandum regarding enterprise zones and SB 29 (Attachment 1). She said there are currently 257 enterprise zones in Kansas. Lynne reviewed the enterprise zone designation procedure, reporting requirements and state incentives. She said that SB 29 would reduce the enhanced credits for a business within an enterprise zone, and the bill would also repeal the sales tax exemption in current law. She noted that the information about other states and their enterprise zone incentives is somewhat out of date. Senator Petty asked if a business was located in an area which later became part of an enterprise zone whether or not the business was eligible for incentives. Lynne responded that only subsequent expansion would be eligible.

Dr. Tony Redwood presented a report on The Kansas Enterprise Zone Program (Attachment 2). He compared the structure of the Kansas enterprise zone program with all other states having such programs. He pointed out that Kansas is one of only three states in the nation not to impose limitations on the number of zones. Dr. Redwood compared Kansas to seven states with similar economic development efforts and said Kansas has an unusually high number of zones, has weak qualification criteria, weak local involvement and weak requirements for review, management and oversight. Dr. Redwood talked about the objectives and goals of state enterprise zone programs. He said the Kansas program has not met its legislative objectives and is not targeting distressed areas and disadvantaged workers. He also discussed the fiscal expenditures for Kansas. Dr. Redwood's conclusion was that the existing program is ineffective and costly and should either be abolished or profoundly changed. Senator Feleciano asked Dr. Redwood whether he recommends scrapping the entire program or trying to salvage it. Dr. Redwood answered that he is indifferent between the two. He went on to say that if the program is to be revised, he recommends a very targeted program with very limited expenditures. Dr. Redwood mentioned that the enterprise zone program began as a single program and was not part of any economic development strategy.

Chairman Kerr expressed appreciation to Dr. Redwood and Dr. Helga Upmeier for providing the report to the Committee.

Senator Moran moved that the minutes of the February 19, 1991 meeting be approved. Senator Feleciano seconded the motion, and the motion carried.

CONTINUATION SHEET

MINUTES OF THE Senate COMMITTEE ON Economic Development,

room 123-S, Statehouse, at 8:00 a.m./~~p.m.~~ on February 20, 1991

The meeting adjourned at 9:00 a.m. The next meeting of the Committee will be Thursday, February 21, 1991.

Date 2/20/91

SENATE ECONOMIC DEVELOPMENT
VISITOR SHEET

(Please sign)

Name/Company	Name/Company
Ron Hein Mesa	
Don Seifert City of Olathe	
Jeff Russell - United Tel	
Elizabeth E. Taylor	Groundwater Management Districts
Larry Miller - KDOC	
R. Anderson	Mid Cont Oil & Gas
Mark A. Burghart	Dept. of Revenue

MEMORANDUM

Kansas Legislative Research Department

Room 545-N – Statehouse
Topeka, Kansas 66612-1586
(913) 296-3181

February 19, 1991

To: Senate Committee on Economic Development

Re: Brief Explanation About Enterprise Zones and S.B. 29

The 1982 Kansas Legislature passed the Kansas Enterprise Zones Act (K.S.A. 12-17,108 *et seq.*) (amended in 1983 and further in 1986) to:

> expand and renew the local economy and improve the social and economic welfare of residents in economically distressed zone areas located within counties and cities of the state of Kansas, by providing incentives for business and industry to develop new business and expand existing business within economically distressed areas and thereby create new jobs and sources of income, particularly for disadvantaged workers.

There are currently 257 enterprise zones approved for designation in Kansas. In addition, there are 38 states with enterprise zone incentives (see Attachment I).

Enterprise Zone Designation Procedure

The governing body of a city or county seeking to designate an area as an enterprise zone must submit a resolution to the Secretary of Commerce. This resolution must request that the proposed area be approved as an enterprise zone and must be accompanied by a plan which is to include the following:

1. a map showing the boundaries of the zone;

2. a narrative describing how the enterprise zone will eliminate economic distress; and

3. local incentives (including a schedule of implementation) to consist of at least one of the following: financial assistance; job training; targeted capital improvements; local inspection fee waivers; employee child care; or other incentives approved by the Secretary.

Attachment 1
2/20/91
Sen. Eco. Dev.

Reporting Requirements

The 1989 Legislature added reporting requirements to the Kansas Enterprise Zones Act. Local units of government with approved enterprise zones must submit annual reports to the Secretary of Commerce on or before February 15 of each year, which include the following:

1. a list of local incentives for economic development available within the zone during the prior year;

2. the usage and revenue impact of the local incentives which the governing body committed to provide within the zone; and

3. other information as required by the Secretary of Commerce.

The Secretary of Commerce must submit an annual report, including the above information, to the Governor and the Legislature by April of each year.

State Incentives

In addition to local incentives, state incentives are available to qualified businesses which locate within approved enterprise zones. These include:

1. **Job Expansion and Investment Credit (K.S.A. 79-32,153).** Pursuant to the Job Expansion and Investment Credit Act of 1976, income tax credits are equal to $350 in a given taxable year for each new employee who resides in Kansas; $500 for each new employee who resides in Kansas and whose employment entitles the employer to a federal targeted jobs tax credit in a given taxable year; and $350 for each $100,000 of qualifying facility investment. (By contrast, qualified businesses outside enterprise zones may claim only $100 per new employee and $100 for each $100,000 of qualifying facility investment.) Credits for businesses within and outside of enterprise zones may not exceed 50 percent of the tax attributable to the investment.

2. **Sales Tax Exemptions (K.S.A. 79-3606 (ee)).** A sales tax exemption applies to "all sales of tangible personal property or services purchased for the purpose of and in conjunction with constructing, reconstructing, enlarging or remodeling a qualified business facility within an enterprise zone." This exemption also applies to the sale and installation of machinery and equipment purchased for installation at such facility. To qualify for such exemption, a facility must first qualify for job expansion and investment credits. Since January 1, 1989, sales tax exemptions apply to all sales of manufacturing machinery and equipment. Eligibility for benefits under the Job Expansion and Investment Credit Act is no longer a prerequisite for the sales tax exemption on manufacturing machinery and equipment. However, the exemption available to facilities within enterprise zones may be used on machinery and equipment related to sectors other than that of manufacturing.

3. **Preferential Treatment (K.S.A. 12-17,111).** The Secretary of Commerce and other state agencies are required to give preference to enterprise zones and local incentive projects located within these zones in the provision of programs, funds, and services. Another statutorily provided incentive is a waiver or modification of rules and regulations of state agencies.

S.B. 29

S.B. 29 would amend 79-32,153 by reducing the enhanced credits for a qualified business within an enterprise zone from $350 to $100 for each new employee and $100 for each $100,000 investment. It also would repeal the sales tax exemption pursuant to 79-3606 (ee). A fiscal note from the Kansas Department of Revenue indicates projected increased revenue collections totaling $2,120,500 in FY 1992: $120,500 in income tax credits and $2 million in sales tax exemptions. Expected annual revenue increases due to elimination of enhanced credits are $241,000 in fiscal years after 1992.

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ATTACHMENT I

ENTERPRISE ZONE INCENTIVES

ALABAMA

1) Five-year corporate income tax credit, based on hiring. Qualifying companies must certify that 30 percent of new permanent employees were unemployed for at least 90 days before being hired. Employers may claim up to $2,500 in credits per new permanent employee. The benefit phases out as follows:

   - o 80 percent--1st year
   - o 60 percent--2nd year
   - o 40 percent--3rd year
   - o 20 percent--4th year
   - o 20 percent--5th year

2) $1,000 credit per new employee for enterprise zone businesses, based on skills training.

3) Tax credit for new investments within the state and expansion of existing facilities with five or more new employees. Level of incentive breaks down as follows:

   - o 10 percent of first $10,000 invested
   - o 5 percent of additional investment up to $90,000
   - o 2 percent of investment over $100,000

4) Employment training, including Alabama Industrial Development Training Institute and Job Training Partnership Act (JTPA) programs.

5) Local, state and federal infrastructure redevelopment funds and financial assistance. targeted to state-designated enterprise zones.

6) Alabama financial and technical assistance funds.

ARIZONA

1) $5,000 corporate income tax credit based on each new employee hired by an enterprise zone business. Employers must certify that 35 percent of its employees live within the enterprise zone and received some form of public assistance before being hired.

ARKANSAS

1) $2,000 corporate income tax credit, based on each new job created by an enterprise zone business.

2) Refund of sales and use taxes paid for purchase of construction materials, equipment and machinery used in an enterprise zone business.

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CALIFORNIA

(The State of California has enacted two enterprise zone-styled statutes. Some of the benefits are identical in both programs. Two are available only under zones designated through the actual Enterprise Zone Act. One is available only in zones selected under the Employment Incentive Area Act.)

1) Expensing of depreciable property. Deductions may be claimed only in the year of purchase--up to $10,000 under the Enterprise Zone program and up to $40,000 under the Employment Incentive Area program.

2) Up to $1.2 million in sales taxes paid for purchases of machinery used in a zone may be claimed as a credit against corporate income taxes.

3) Enterprise zone businesses may carry over net operating losses for up to 15 years.

4) The interest earned on loans made to enterprise zone firms are exempt from state taxation.

5) Enterprise zone-based firms receive preference in the awarding of all state procurement contracts.

6) Small businesses in enterprise zones have priority in receiving state financing.

Benefits Available Only Under Enterprise Zone Act

1) $450 maximum tax credit available annually for employees in enterprise zone-based business, based on earnings under $16,000.

2) Hiring tax credit of up to $5,000 annually for enterprise zone-based firms, based on each new employee.

Benefits Available Only Under Employment Incentive Area Act

1) $1,200 annual hiring tax credit for zone-based firms, based on each new employee hired.

COLORADO

1) $500 refundable tax credit for enterprise zone-based companies, based on hiring of new employees in new or expanding operation.

2) An additional $500 credit is available for each new hire by a zone-based firm adding agricultural processing jobs.

3) Another $200 tax credit per new hire is available for zone-based companies that offer employee-sponsored health insurance.

4) 3 percent tax credit against corporate income taxes for all new investment in a zone-based company.

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5) Purchases of new machinery used in a zone-based manufacturing operation are exempt from state use and sales taxes.

CONNECTICUT

1) 50 percent state corporate tax abatement for 10 years to manufacturers and certain other firms in the services sector that employ at least 30 percent of new hires from JTPA-eligible employees or zone residents.

2) Property tax assessments abated over seven years for new construction or renovation of retail or commercial operations.

3) $1,000 grant to manufacturers for each new job created in a zone-based business, provided 30 percent of new workers are JTPA-eligible or live in the zone.

4) Venture capital loan pool of $1.5 million available to small zone-based businesses. Ceiling on loans set at $200,000.

5) Exemption from state sales taxes of purchases of replacement parts for machinery used in manufacturing.

6) 80 percent property tax abatement for new manufacturing or certain service sector companies in the zones. Benefit phases out over five years.

7) Employment training vouchers for JTPA-eligible workers or zone residents.

8) New zone businesses exempt from real estate conveyance taxes.

9) $500 grants to certain service sector companies in the zone, based on each new job created. At least 30 percent of the new hires must be JTPA-eligible or zone residents.

DELAWARE

1) Exemption from gross receipt taxes for manufacturers and wholesalers for five year. Such firms are liable for only 10 percent of the tax in the sixth year, with the benefit phasing out by the end of the 16th year.

2) Corporate income tax credit of $500 per $100,000 of investment, with a minimum investment of $200,000.

3) Jobs tax credit against corporate income tax liability or $500 for each new job created in the zone, with a minimum of five new permanent jobs.

FLORIDA

1) Hiring tax credit claimed against sales taxes, based on new jobs created in the zones.

2) Purchases of building materials used in renovation of real property in the zones are exempt from state sales taxes.

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3) Purchases of business equipment used in a zone business are exempt from state sales taxes.

4) Commercial sales in zone-based companies are exempt from state sales taxes.

5) Contributions to non-profit community service organizations operating in zones may be claimed against corporate income tax liability.

GEORGIA

1) Exemption from city and county real property ad valorem tax for zone-based companies as follows:

   - o 100 percent for first five years;
   - o 80 percent for following five years;
   - o 60 percent for following five years;
   - o 40 percent for following five years;
   - o 20 percent for the final five years.

2) Exemption from city and county inventory ad valorem taxes for new zone-based companies throughout the 25-year life of the zone.

HAWAII

1) General state excise taxes on sale of items by qualified zone business are abated for up to seven years. Such taxes amount to 4 percent for retail sales and .5 percent for all other intermediate sales.

2) 80 percent state corporate income tax reduction for new qualified zone-based businesses. Phases out after the first year in 10 percent increments over the following six years.

3) 80 percent abatement of state unemployment tax for new qualified zone businesses. Phases out in 10 percent increments over the following six years.

ILLINOIS

1) Investment tax credit of as much as 1.5 percent on new investment in a zone business.

2) Dividends from corporations doing substantially all their business in a zone are exempt from state corporate income tax.

3) Lenders may deduct some interest payments to zone businesses from state income tax liability.

4) Access to pool of $100 million in revenue bonds for enterprise zones.

5) Retail establishments in zones may deduct sales taxes paid on building materials used in a zone.

6) $500 hiring credit claimed against state corporate income tax liability, based on employment of new eligible employees.

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7) Sales tax exemption for enterprise zone firms, based on purchases of machinery and materials used in businesses that create 200 jobs or retain 2,000 jobs.

8) Exemption of utility taxes for zone companies investing in operations that create at least 200 jobs or retain at least 1,000 jobs. Abatement extends up to 20 years.

INDIANA

1) 10 percent credit against corporate income taxes, based on wages paid by zone businesses to employees.

2) 5 percent credit against state income taxes for loans to zone-based companies.

3) Property tax credits.

4) Investment by Small Business Investment Corporations (SBICs), Minority Enterprise Small Business Investment Corporations (MESBICs) and the Corporation for Innovation Development in zone businesses.

5) Availability of tax increment financing.

6) Equity expensing of 30 percent for investment in zone businesses, to be claimed against state personal income tax liability.

KANSAS

1) Hiring tax credit for zone based businesses. Benefit is set at $350 for hiring of resident of the state and $500 for hiring of employee who can be defined as disadvantaged. Credit can be claimed over a 10-year period.

2) Purchases of machinery or materials used for construction or renovation of business facilities in a zone are exempt from state sales taxes.

3) Availability of tax increment financing.

4) Targeting of state redevelopment programs and services.

5) Investment tax credit equal to $350 per $100,000 committed to zone-based business operations.

KENTUCKY

1) Exemption from state taxation of interest paid on loans to zone-based businesses or on mortgages for properties developed within a zone.

2) Exemption from state motor vehicle usage tax for businesses within a zone that purchase vehicles.

3) Exemption from state income tax profits earned from sale of property within a zone.

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4) Sales tax exemption for building materials used to construct or renovate business facilities in a zone.

5) Sales tax exemption for equipment purchased by a business for use in a zone.

6) Carry forward of net operating losses for zone-based businesses.

7) Tax-exempt neighborhood resident associations within zones may lease unused state or locally owned property at $1 per year for purposes of business or housing development.

LOUISIANA

1) Aviation and aerospace industries may receive a one-time $5,000 tax credit for addition of each net new employee. Credits can be used to reduce state income and corporate franchise taxes. Credits may be carried forward for up to five years.

2) Hiring tax credit of $2,500, based on addition of each new employee in a zone business. Credits may be claimed against state income or corporate franchise taxes and may be carried forward for up to five years.

3) Purchases of equipment used in a zone-based business are exempt from state sales taxes.

4) Purchases of building materials used to construction or renovate business facilities or housing in a zone are exempt from state sales taxes.

MAINE

1) State grants of up to $1,250 for each new permanent job created by a zone-based business. Benefit is available for companies creating up to 200 jobs.

2) Access to up to $750,000 in business assistance funds for zone-based companies from the state's Finance Authority.

3) Other forms of assistance available through the state's Development Office include:

   - o Financial assistance to local governments to develop administrative capabilities.
   - o Access to state's Infrastructure Assistance Program.
   - o Technical and management assistance from Small Business Assistance Centers.
   - o Access to Opportunity Zone Service Delivery System Program, designed to coordinate state development services.
   - o Planning and technical assistance for zones in formulation of overall economic development strategies.
   - o Exemption from limitations on use of tax increment financing.
   - o Access to Opportunity Zone Human Resource Development Program.

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MARYLAND

1) Access to up to $2 million in loan guarantees from State of Maryland Venture Capital Guarantee Fund.

2) State corporate income tax credit, based on net new wages for employees in zone businesses, including wages for rehiring of laid-off workers.

3) 10-year abatement of local property taxes for development of new zone-based business facilities.

MICHIGAN

1) 10-year exemption from state single business taxes for zone-based companies.

2) 60 percent local property tax abatement for new zone-based facilities. May extend for up to 10 years.

3) Purchase of materials used by zone-based companies are exempt from state sales and use taxes for up to 10 years.

MINNESOTA

(Minnesota has designated 15 zones under a conventional competitive process and another six zone along the border with other states. Some incentive are available only to the competitively designated zones, and others are tailored specifically to the border zones.)

Competitive Zones

1) Allocation of $20,400,000 for tax reductions over life of the state zone program.

2) $3,000 hiring credit may be claimed against state corporate income tax for each net new job created in a zone.

3) Purchases of equipment and materials used in construction of new zone business facilities are exempt from state sales taxes.

4) Debt financing credit may be claimed against state income tax liability for cost of building new zone-based business facilities.

5) Property tax credit for new industrial or commercial operations or expansion of existing facilities.

Border Zones

1) A total of $16,600,000 allocated for tax reductions over the life of the zone program.

2) Hiring tax credit of up to $1,500 for jobs created in a zone-based company.

3) Property tax credit for new industrial or commercial facilities in a zone.

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MISSISSIPPI

1) $1,000 hiring tax credit for each net new job created in a zone-based business.

2) Purchases of equipment or building materials used in construction of new zone-based business facilities is exempt from state sales and use taxes.

MISSOURI

1) Exemption of 50 percent of taxable income earned by zone companies from state income taxes for zone-based firms, provided 30 percent of employees are residents of the zone or have used up state unemployment benefits.

2) 10 percent investment tax credit for initial $10,000 investment in zone-based operations. Credit reduces to 5 percent for next $90,000 in investment and to 2 percent for all investment over $100,000.

3) $400 credit for business expenditures on employee training, other than State of Missouri training programs or JTPA.

4) Up to $1,200 in tax credits for net new hires by zone-based firms, including:

   o $400 for each net new job created.

   o An additional $100 credit for each three months that the new employee has lived within the zone.

   o An additional $100 credit for each three months that a "difficult to employ" worker spends on a new job.

5) Unused tax credits to be refunded at 50 percent of value or up to $50,000 during the first year and at 25 percent or up to $25,000 during the second year.

6) At least 50 percent exemption from local ad valorem property taxes for the first 10 years for improvements to real property in a zone. Benefit may extend for 25 years.

NEVADA

1) Availability of job training vouchers.

2) Access to state technical assistance services for zone-based companies.

3) Availability of tax increment financing.

4) Availability of tax-exempt revenue bonds for development of zone-based facilities.

NEW JERSEY

1) $1,500 hiring tax credit for zone-based businesses that hire persons listed as unemployed for at least 90 days prior to the date of hire. Limited to residents of the city in which the zone is designated.

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2) $500 hiring credit for any unemployed resident of a city in which a zone is designated.

3) Purchases of tangible property or building materials used in a zone business are exempt from state sales taxes.

4) 50 percent rebate for new employers in a zone, based on costs of unemployment insurance. Benefit extends for four years, then declines in 10 percent increments over the following four years.

5) Up to five zones are eligible for special 50 percent exemption from the state's 6 percent sales tax for all zone-based retailers. Zones receive proceeds from the remaining collection of sales taxes as infrastructure development funds.

6) All zones receive priority for financial assistance from the New Jersey Local Development Financing Fund (LDFF).

7) Access to special state job training program.

NEW YORK

1) Hiring tax credit for zone-based businesses, provided at least 20 percent of new jobs are filled by residents of a zone.

2) Utility rates reduced by 3 percent.

3) State investment tax credit available at higher than usual rate.

4) Availability of capital corporation investment tax credit.

5) Purchases of materials used in construction or renovation of business facilities in a zone are exempt from state sales taxes.

OHIO

1) Zones designated by counties may provide 10-year abatement of up to 50 percent of real and tangible personal property taxes for new qualified businesses.

2) City-designated zones may offer such property tax abatements up to 100 percent.

3) Abatement of state income and corporate franchise taxes.

4) Employers may receive a tax credit for reimbursing newly hired workers in zone business for day care costs, based on a rate of $300 per child.

5) Zone employers may receive a tax credit of up to $1,000 per employee for the costs of training programs for newly hired workers.

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OKLAHOMA

1) Exemption from state sales taxes for zone businesses.

2) Zone businesses may receive double the normal state investment tax credit.

3) Availability of low-interest loans for zone businesses.

OREGON

1) 100 percent property tax exemption for all new real property investments. Eligible properties include:

   - o New buildings.

   - o Renovations of existing structure, provided nature of the building is changes or assessed value rises by at least 40 percent.

   - o New fixtures.

   - o Structural additional to existing buildings, such as wings.

   - o Personal business property, including:

     - o All property valued at $50,000 or more, except self-propelled motorized vehicles.
     - o All equipment used for manufacturing or construction that is valued at $1,000 or more.

   - o Real properties whose value increases due to site preparation.

2) Zones receive priority in allocations of federal funds for economic development and job training.

PENNSYLVANIA

1) All state economic development programs are targeted to zone-designated areas, including:

   - o Infrastructure improvements,

   - o Capital for new small business enterprises,

   - o Low-interest loans for developing industrial properties, and

   - o Specialized job training services.

2) Real estate tax abatement of up to 10 years, beginning at 100 percent and declining in 10 percent increments over 10 years for new zone businesses.

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RHODE ISLAND

1) Targeting of federal development grants or training services to zone-designated areas.

2) Payroll tax credit of up to $15,000 per employee during first three years of operation of a new zone business. Credit equal to 75 percent of zone employee's wages (up to $12,000) may be claimed in the fourth and fifth years. Benefit declines to 25 percent in sixth and seventh years (maximum of $5,000).

3) New zone businesses are exempt from property taxes during the first year of operation. Benefit phases out in 20 percent increments over a five-year period.

4) Owners of new zone-based businesses may deduct up to $50,000 from total net worth or income from state tax liability for the first three years of operation. Benefit declines to $25,000 deduction during fourth and fifth years.

5) Employees of companies in enterprise zones may deduct from gross state income the lesser of $5,000 or the level of wages earned per year during two taxable years. Benefit is available only to employees earning at least 90 percent of gross income from a qualified zone-based company.

SOUTH CAROLINA

1) Hiring tax credit for zone-based firms, based on addition of new full-time jobs. Benefit is available over a five-year period, beginning after the end of the first full year of hiring new workers. Specific types of credits include:

   - $1,000 for each new job created by zone businesses in less developed counties, with a minimum of 10 jobs created.

   - $600 per job created in moderately developed counties, with a minimum of 18 new jobs.

   - $300 per job created in developed counties, with a minimum of 50 jobs.

TENNESSEE

1) Corporations contributing to the creation, operation, maintenance or improvement of public schools within a zone may receive a credit against corporate excise tax liability equal to such donation, with a ceiling of $100,000.

2) Interest payments to zone-based business on loans for the renovation or expansion of operations are exempt from state taxation.

3) Set-asides of state educational assistance grants and guaranteed student loan funds for zone residents.

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TEXAS

1) Targeting for zones in allocation of state loan and grant program.

2) Abatement of state sales tax on machinery used in selected zone-based projects.

3) Waiver of performance bonds on public works projects of less than $200,000.

VERMONT

1) Targeting of both state and federal employment training programs.

2) Grants equal to as much as 50 percent of the eligible costs of approved pollution abatement projects and water supply projects within designated zones.

3) Targeted infrastructure development grants of up to $1 million to reimburse localities for annual interest costs connected with economic development projects.

4) Priority in allocation of funds from the Vermont Industrial Development Authority for zones.

5) Availability of technical assistance from the Agency of Development and Community Affairs in preparing community improvement and economic development project grant applications.

6) Access to services of state small business development center.

VIRGINIA

1) State business income tax credits, based on zone company's payments for state unemployment taxes.

2) Exemption from state sales taxes for purchases by zone-based companies for a period of up to five years.

WEST VIRGINIA

1) 50 percent exemption from state taxation, based on interest paid in the acquisition of real property, tangible property or inventory held for sale or use in a zone.

2) Sales tax exemption for purchases of building materials used in construction or renovation of zone-based business facilities. Exemption also applies to purchase of machinery used in a zone-based company.

3) Businesses may carry forward net operating losses incurred in a zone.

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INSTITUTE FOR PUBLIC POLICY AND BUSINESS RESEARCH
UNIVERSITY OF KANSAS

THE KANSAS ENTERPRISE ZONE PROGRAM

Presented to

The Senate Committee on Economic Development

Presented by

Anthony L. Redwood
Executive Director, Professor of Business

and

Helga K. Upmeier
Research Associate

February 20, 1991

Attachment 2
2/20/91
Sen. Eco. Dev.

INTRODUCTION

The Institute for Public Policy and Business Research has initiated research on the Kansas enterprise zone (EZ) program regarding its structure, objectives and expenditures.

The program's structure is studied in a comparative analysis of states with similar economic development efforts and the 36 states with an active EZ program in 1990. The program's stated legislative objectives are reviewed with respect to program implementation and the program's effectiveness of targeting economically distressed areas.

The lack of fiscal data for individual EZs did not permit an evaluation of the program regarding cost-effectiveness and "success of the program" in terms of targeting specific distressed areas, job creation, business development or improving social welfare of zone residents. The time frame and availability of data imposed further limitations on the study of the fiscal impact of the EZ program on the state and host communities.

THE STRUCTURE OF THE KANSAS ENTERPRISE ZONE PROGRAM COMPARED WITH OTHER STATES

Overview

The Kansas EZ program offers three major state incentives to "revenue producing enterprises" located within an EZ for a 10-year period: job creation credits, investment credits, and a sales tax exemption (see Appendix Exhibit 1 for details). In addition, communities are required to provide at least one local incentive. Although zone designation is valid for 5 years, state and local incentives are granted for a 10-year period. Zone designation criteria are related to physical and economic distress of the areas comprising a zone (see Appendix Exhibit 2).

The Kansas program is administered through the Department of Commerce's Community Development Division. For zone approval through the Secretary of Commerce, the governing body of a city or county has to provide a resolution, along with supporting documentation for qualification. Zones can be reapproved after a 5-year period. No restrictions apply to amendments and rescindments of zones within that period.

As of January 15, 1991, Kansas had 256 zones approved. City zones totaled 202, and county zones numbered 54. (See Table 1 and Figure 1). Since the program started, the number increased from 6 zones in 1982 to 256 at the beginning of 1991 (Table 1).

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General Comparisons with Other State EZ Programs

1. **Kansas is one of only three states across the nation not to impose limitations on the number of zones.**

Among the 36 states with an active EZ program in 1990, only three states did not limit the number of zone designations by law: Louisiana (745), Kansas (256) and Ohio (193).[1] States that had no limitations in their original legislation have since imposed restrictions on the number of zones: Florida (30) and Missouri (33).

In their original legislation, most states already restricted the number of zones designated : Tennessee (1), Vermont (3), Virginia (12), Indiana (10), Colorado (8), West Virginia (2 per annum), Maryland (6 zones per annum), Kentucky (2 zones per annum for 3-year period). (See "State Enterprise Zone Roundup", NASDA, Dec. 1986.) Legislative amendments in some of these states allowed a slight increase in the maximum number of zones.

In other states, designation focused on the number of rural or urban zones (Arkansas, Colorado, Wisconsin), on city size (Connecticut) and on geographic location (border zones in Minnesota).

In states with numerous zones, it becomes a problem for state agencies to administer the program. The compliance with rules and regulations of the statutes for each individual zone and zone-based business is difficult to oversee. The process is further complicated since communities can apply for reapproval after 5 years and for more frequent amendments and rescindments of their existing zones.

2. The Kansas Program is neither large-scale nor small-scale

A review of the relevant literature revealed that the structure of state EZ programs varies considerably among the 36 states that had enacted EZ legislation by 1989. Variations exist regarding the number of zones designated, the number and value of incentives offered, and the zone designation criteria.

A study by ERICKSON (1990) has grouped state programs in two major categories: large-scale and small-scale programs. Large-scale programs offer a higher number (4-8) of state incentives and require compliance with a high number (9-12) of designation criteria to ensure targeting of the EZ program. (Examples are California, Florida, Missouri, Indiana, New Jersey and Alabama.)

[1] Arkansas has an upper limit of 860 eligible zones (= 25% of the total number of enumeration districts and block groups).

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Small-scale programs provide only a few state incentives and have a limited number of designation criteria. (Examples are Georgia, Oklahoma, Louisiana, Nevada, Virginia, West Virginia and others). The Kansas program is classified as an intermediate program. The grouping based on cluster analysis shows that states offering many (costly) incentives pay more attention to the designation process to limit fiscal expenditures and to target the program.

3. The package of incentives varies across the 36 states with an active EZ program in 1990

A nationwide comparison of three relevant state EZ incentives is contained in Table 2. A variety of additional state incentives such as research credits (Colorado, Wisconsin), loan guarantees, venture capital provision, financial and technical assistance are not shown in Table 2 due to time constraints of this study.

Although Table 2 should be treated as a guide rather than an authoritative source of information, it illustrates the variation in the size of incentives across the 36 states with an active EZ program in place[2]. A comparison reveals some common features of state programs:

(A) Job creation is the main focus of the majority of programs with an emphasis on job training in a few states (Alabama, Connecticut, Nevada, Ohio, Pennsylvania).

(B) The job creation tax credits offered vary in size as well as the time period for which the credit can be claimed after business operations commenced. Although Kansas appears to offer one of the lowest job tax credits ($350), the ten-year claiming period for the credit in Kansas is not matched in many states. Most states appear to phase out job tax credits over a 2-3 year period.

(C) The majority of states offer sales tax exemptions or refunds. Generally, the sales tax benefits are allowed for machinery, equipment and building materials used in the construction or remodeling of business facilities.

(D) Investment tax credits represent a less common incentive and are generally tied to eligibility for the job creation tax credit.

[2] Part of the information contained in Table 2 has been obtained directly from EZ authorities in each state and is considered reliable (Arkansas, Colorado, Indiana, Kansas, Minnesota, Oregon). For other states, secondary sources have been used that might not provide current, accurate information.

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Lessons from States with Similar Economic Development Efforts

A comparison of state incentives offered in EZ programs for seven states with similar economic development efforts (Arkansas, Colorado, Indiana, Kansas, Minnesota, Missouri and Oregon)[3] points out some of the weaknesses of the Kansas program, and at the same time gives suggestions of how the Kansas program might be redirected. Some findings of the comparisons for our limited sample include:

1. **Relative to the comparison states, Kansas has an unusually large number of zones (256).**

In the sample of six other states, only Arkansas has more. The remaining states have far fewer: Colorado - 12; Indiana - 14; Minnesota - 21; Missouri - 33; and Oregon - 30.

Kansas is unusual in the maximum number of zones is not specified by statute. This makes it difficult to focus the available incentives.

2. **Relative to the comparison states, Kansas has a weak set of qualification criteria.**

Enterprise zone designation in Kansas is essentially automatic for communities which satisfy the criteria. In contrast, enterprise zone designation in several of the comparison states is a two stage process. First, the area wishing to be designated as a zone must meet a set of threshold criteria based on income, population, and employment. But this does not automatically guarantee designation. Designation is a competitive process since the maximum number of zones is fixed. The applicant must pass a review where its need and potential is compared with those of competing communities.

As an example, the application review process in Colorado considers a) the local measures proposed to support the zone's objectives; b) the relative degree of economic distress; and c) the zone's potential for job creation and business development.

3. **Local involvement in Kansas enterprise zones is weak in comparison with the other states.**

In Kansas, local involvement is not required to extend beyond submitting an application and offering at least one local incentive. In contrast, most of the states in the sample require and encourage local involvement.

Colorado is one of the best examples. As a part of their

[3] Oklahoma did not submit data and information

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application, local governments are required to submit a **development plan.** The plan must describe the zone's potential for business development and job creation, show that the enterprise zone is consistent with the preservation of economically viable central business districts, describe zone objectives, describe the local measures which will be undertaken to achieve zone objectives, and offer a zone marketing plan. As the Colorado Enterprise Zone Guidelines state :

> While these development plans are oriented to the specific requirements of seeking enterprise zone designation, the process of adopting a development plan can provide a flexible tool which any community can use to benefit its economic development efforts. It assesses the areas's assets and liabilities. It then maps out a strategy to capitalize on assets, overcome liabilities, and achieve its objectives.

Although the local involvement requirements in Missouri are less extensive, they illustrates the same theme: **Enterprise Zones should fit into an overall development plan.** Missouri Enterprise Zone applications require a public hearing, a description by the local government of measures to be taken to waive burdensome local regulations, a description of specific actions to be taken to encourage business growth, and a statement of the expected positive and negative impacts of zone designation.

5. Kansas requirements for review, management, and oversight of enterprise zones are weak in comparison with the other states.

For example, renewal of enterprise zone status beyond the original five year term requires only that the local area show that it still meets a fairly minimal set of qualification criteria. In contrast, several of the states in the sample require periodic assessment of whether the zone has met its objectives.

Missouri and Indiana offer examples of more effective review processes. Missouri zones are reviewed every five years. The number of new jobs and amount of new investment in each zone is evaluated. Zones which have failed to implement their plans in good faith may be canceled. Indiana has a review program based on both state and local involvement. Each enterprise zone has a managing board which consists of a) a state legislator from the area in which the zone is located; b) a representative of the Indiana Department of Commerce; c) three representatives of city government; d) three representatives of zone businesses; and e) three enterprise zone residents. The boards coordinate zone activities, initiate development programs, recommend boundary changes, and recommend that businesses which have not participated in zone programs be disqualified.

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CRITIQUES OF THE KANSAS EZ PROGRAM

1. Kansas zone designation criteria are weak, resulting in a large number of zones.

State comparison

Qualification criteria for zone designation in Kansas are among the weakest across the nation, allowing a large number of jurisdictions to establish EZs. The weak criteria suggest that the program is equity driven rather than targeted to economically distressed urban or rural areas.

Most comparison states impose more restrictions on zone designation. Colorado, Indiana and Minnesota have much tighter designation criteria in order to target the program to distressed areas and/or limit public expenditures.

Main criteria

Under current law, communities in Kansas can qualify for establishing an EZ by two methods: (1) Urban Development Action Grant (UDAG)-certification which implies criteria referring to the age of housing, per capita income change, population change and others, and (2) distress measures based on criteria such as unemployment, low income, population decrease of more than 10%, and deterioration of buildings or tax arrearage. (See Appendix, Exhibits 2 and 3).

Since funding for UDAG ceased after 1987, the most recent list of UDAG eligible cities is no longer relevant and dates back to October 14, 1987 (Vol. 52, No. 196, Federal Register). Some communities may have obtained their initial UDAG-certification in the 1970s and remained on the list.

Although both methods focus on the eligibility of physically and economically distressed areas for zone designation, none of the two methods ensure exclusion of relatively prosperous cities from obtaining EZ approval (See Table 4).

Examples of communities that could show compliance with the Kansas zone designation criteria are:

- Mission Woods, which ranks highest in income, but lost 33 out of 213 residents from 1980 to 1990, qualified for EZ approval.

- Overland Park and Lenexa, which had high population gains from 1980 to 1990 (36.7% and 82.6%, respectively), but must have found pockets of deterioration, low income, population decrease or high unemployment in order to comply with Kansas zone designation criteria.

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Noncontiguous zones

Another weakness in zone designation is the allowance of noncontiguous zones consisting of numerous sites and areas. Cities and counties are free to combine and "design" areas for EZ designation which may include low-income as well as prosperous districts. The patchwork of land areas composing one zone can be seen from maps depicting local communities EZs.

Restricting the area of an EZ to 25% of the total land area of a city is meaningless if cities can amend and rescind zones frequently.

Under current law, the land area for a city's EZ is restricted to 25% of a city's total land area. The purpose of this restriction is to limit zone size within each jurisdiction.

However, the process of amendment and rescindment of zones allows cities to change zone boundaries frequently. Because zone businesses are entitled to claim EZ credits for a 10-year period, situations can arise where a substantial number of businesses formerly located in an EZ continue to claim credits.

2. **The majority of all cities in Kansas with a population of more than 500 had an EZ approved.**

Of the 288 cities with a population of more than 500 in 1990, 170 cities or 59% had EZs. Among all cities with more than 2500 in population, 88% had zones in 1990. All but three cities (Prairie Village, Leawood, Merriam) with a population of more than 5000 had at least one EZ in place (Table 5).

3. **EZ program is not geographically targeted to distressed areas.**

As can be seen from Figure 1, EZs are distributed across the entire state. A concentration of zones in metropolitan areas is evident. County zones are more widespread in the western part of the state. Only 11 rural counties do not have EZs. Although the number of zones does not reveal zone activity, zones in rural areas appear less able to benefit from the EZ program for obvious reasons: lower level of job creation for which credits can be claimed, lower level of business investment and tax-exempt sales volume. On a broader basis, this casts serious doubt on the role of these incentives to foster business development.

4. **State EZ incentives benefit only a small number of taxpayers**

Although the number of businesses located in Kansas' EZs is not known, the number of taxpayers claiming credits is unexpectedly low. Compared to a total of 236 EZs in March 1990, only 246 claims for sales tax exemption were processed for calendar 1989. Claims for job creation and investment credits amounted to only 159, according to data provided by the Kansas Department of Revenue

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(Table 6A and 6B). On average, this amounts to approximately one claim per zone for the job creation and investment credit and for the sales tax exemption. This may provide indication for a high number of relatively inactive zones with no business claiming credits.

5. **Lack of substantive local incentives to make program a genuine state-local partnership.**

Under current legislation, local jurisdictions have to provide at least one local incentive which can range from a building permit fee waver to tax abatement or land concessions. Zone based businesses are entitled to claim at least one local benefit during a 10-year period.

The most frequently listed local incentives for EZ approval were less costly proposals such as fee waivers for building permits, and exemption from the franchise tax on utilities. In practice, communities may have granted other incentives not exclusively targeted to EZs (tax abatements, infrastructure improvements, IRBs).

A survey of jurisdictions with EZs conducted by the Kansas Department of Commerce revealed that most jurisdictions did not have to provide local incentives (Table 6). Accordingly, businesses appear not take advantage of a local incentive either because firms are unaware of the local incentive or are unable to claim the benefit during the 10-year period (e.g. building permit fee waiver).

OBJECTIVES AND GOALS OF THE STATE ENTERPRISE ZONE PROGRAMS

As originally envisioned, enterprise zone programs were characterized by three features:
(A) concentration of economic development efforts to targeted geographic areas.
(B) selection of enterprise zones based on economic distress criteria.
(C) provisions for regulatory relief.

Kansas was among the first states to enact EZ legislation in 1982, after the initial federal legislative proposals failed to pass Congress in the early 1980s. One of the main objective of the "Kansas Enterprise Zone Act" of 1982 is to "expand and renew the local economy and improve the social and economic welfare of residents of economically distressed zone areas located within the cities of Kansas".

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Findings

1. **Most state programs have shifted away from the original EZ concept.**

The concept of EZs, which originated in Britain in the late 1970s and was introduced to the U.S. in 1979, focused on applying a free enterprise approach to the problem of inner-city decline by offering both tax incentives and regulatory relief to entrepreneurs willing to take risk and be part of the urban redevelopment process.

Kansas and some other states have shifted away from the original EZ concept of exclusively targeting economically distressed or blighted areas.

Although contained in the statutes, regulatory relief has not been widely used as an incentive in Kansas and most other states.

2. **State programs differ in terms of program goals.**

Although the original impetus for state action was anticipation of federal EZ legislation which focused on improving social welfare as well as economic development, state programs differ considerably in goal and orientation (Table 7). Under the common name of EZ programs, goals range from a focus on rural development (Maine, Colorado, Arkansas) to the revitalization of blighted inner-city neighborhoods (Benton Harbor in Michigan, Toledo in Ohio, Atlanta in Georgia) and the development of border zones (Minnesota).

Some states have translated the EZ concept into some form of economic development legislation that fits local needs. The social welfare focus became secondary and limited to labor incentives for hiring structurally unemployed and disadvantaged workers.

3. **The Kansas EZ program deviates from the legislative objectives and has not reached its goal of targeting distressed areas and disadvantaged workers.**

Although "economically distressed" areas were the explicit target of the Kansas EZ program, the high number of zones (256 as of Jan 1991) is evidence that the program is not targeted (see Map). In particular, Kansas designation criteria allow the approval of zones within the most prosperous cities in the state (e.g. Mission Woods, Overland Park, Lenexa). Table 4 shows that jurisdictions with the highest prosperity index received approval for their respective zones.

Social welfare improvement of zone residents is another example of a legislative objective that has not received much attention in practice. The provision of a higher job creation tax

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credit for hiring disadvantaged workers ($500 per job instead of $350), did not spur selective hiring of zone residents, unemployed or disadvantaged workers. In fact, only 38 tax credits for hiring disadvantaged workers were claimed in 1989 versus 4,413 at the $350 level (KDOC, Annual Report on the EZ Program, April 1990).

4. The Kansas program is focused on economic development

The economic development focus of the Kansas program is evident from the Department of Commerce's Guide to Kansas Enterprise Zones: "The incentives available in a Kansas Enterprise Zone have been designed to encourage businesses and industries to create new jobs, start up new operations, provide a climate which will prove beneficial to the community and its citizens."

FISCAL EXPENDITURES FOR THE KANSAS EZ PROGRAM

Direct Expenditures

Direct state fiscal expenditures for the Kansas EZ program increased from $23,000 processed in calendar 1982, when the program started, to a total of $14.9 million processed in calendar 1990, not including administrative costs.

As Tables 8A and 8B show, the vast amount of fiscal expenditures were for sales tax exemptions or refunds rather than job tax credits. For 1990, the respective figures were: $13.4 million versus $ 1.5 million. Sales tax incentives accounted for 95% of total fiscal expenditures in 1988 and 80% in 1989. This shows that sales tax exemptions were generally more attractive to businesses than job creation tax credits.

As Tables 8A and 8B further indicate, fiscal expenditures for EZ benefits have risen considerably since 1988. After the Kansas Enterprise Zone Act of 1982 was amended in 1986 to include expanding firms as "qualifying businesses" (K.S.A. 79-32(153), both sales tax exemptions and job and investment credits started to rise.

Tables 8A and 8B further show that expenditures vary for individual years due to extraordinarily large claims. In 1989, one exceptionally large claim of $2.6 million was processed for job creation, increasing the total amount from $531,215 in 1988 to $4.3 million in 1989.

Administrative Costs

Administrative costs were estimated to amount to $25,000 per year by KDOC, not including the costs occurring to KDR for processing claims. KDR could not provide an estimate of the costs associated with EZ-related tax claims.

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Local Fiscal Expenditures for EZ Program

According to a survey conducted by KDOC, total local incentives in the cities and counties that responded to the survey amounted to $27.5 million in 1989, compared to $21.1 million in total state expenditures for the program in 1989. However, KDOC admits that communities may have overstated their reported amounts due to confusion regarding the interpretation of the survey questions and may have included all local incentives not necessarily related to EZs. (See KDOCs Annual Report on the Enterprise Zone Program, April 1, 1990.).

Sales Tax Exemptions within and outside an EZ

Businesses located in an EZ enjoy a higher level of sales tax exemption than non-zone businesses. While sales tax exemptions outside a zone are restricted primarily to manufacturing machinery and equipment, all businesses within a zone are entitled to claim sales tax credits on machinery and equipment as well as on building material used in construction, remodeling or expansion of business facilities.

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SUMMARY

The existing Kansas EZ program shows major deficiencies regarding the program's structure and its conceptualization. In particular, the structure of the program is not consistent with the stated objectives of "targeting economically distressed areas". An attempt to restrain and restructure the existing program may be less feasible than a new initiative or the abolishment of the program. A new initiative would have to focus on a sound conceptualization of the program and follow some important principles.

Implications and Suggestions

1. Overall, there is no supporting evidence that the existing Kansas EZ program is effective; it fails to achieve several of its stated purposes. Compounding the problem is the lack of a sufficient database to adequately evaluate the program. Our research and analysis creates the clear impression that the program is ineffective and costly in its present form. The existing program should be abolished or profoundly changed. If the program is to be changed, the first task is to define its purpose precisely and to design effective implementation procedures.

2. A good program needs to be clear about its objective of targeting geographically distressed areas. Rural and urban areas may both be targeted. The literature suggests that targeting is a way to establish effective zones. Targeting ensures that the program benefits are directed to the areas in need of assistance.

3. The goal of a genuine EZ program should go beyond job creation and economic development and incorporate a social welfare focus and community development.

4. Strict limitation in number of zones designated have to be imposed to comply with the objective of targeting. A program with a high number of zones may be equity driven, but lacks targeting of limited economic development funds to specific areas. Furthermore, a high number of zones is difficult to oversee by state agencies with respect to reapproval, frequent amendment and rescindment of zones.

5. Zone designation criteria need to be tightened to exclude the wealthiest parts of the state from receiving state subsidies for job creation and investment. One approach to obtain a set of "good" designation criteria is to investigate criteria in states that have a targeted program (Colorado, Indiana).

6. In order to ensure proper documentation of distress criteria and eliminating "loopholes", each EZ has to have continuous

boundaries. Contiguous zones would not allow communities to "compose" areas in a way that ensures compliance with the qualification criteria. Another problem is allowance of amendments and rescindments during the 5-year designation period. This can lead to a situation where a considerable number of former zone businesses are entitled to tax credits within the 10-year period credits are allowed.

7. For a more equal distribution of local benefits, local jurisdictions should be required to become more involved with infrastructure improvements rather than provide costly incentives to a small number of firms (e.g. tax abatements).

8. The structure of a reasonable and well-conceived program needs to be consistent with the stated legislative objectives in several respects:

   (1) Zone designation criteria and number of zones allowed must ensure compliance with stated goals.

   (2) The incentive package needs to be varied and big enough to reach the targeted businesses, some of which may not have a sufficient tax liability to claim certain credits.

   (3) A database containing relevant fiscal data is necessary to evaluate the program and study the fiscal impact on the state and communities as well as the cost-effectiveness of the program

9. Examples of reasonably sound EZ programs are found in some states that are similar to Kansas in their economic development efforts:

   (1) Colorado limits the number of zones (4 urban, 8 rural), imposes tight designation criteria and requires communities to compete for designation.

   (2) Indiana has 14 zones designated on a competitive basis and provides an attractive incentive package to firms in fewer targeted areas.

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APPENDIX

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Table 1

NUMBER OF KANSAS ENTERPRISE ZONES

1982	1983	3/29/90	1/15/91
6	35	236	256

Source: Compiled from data provided by Kansas Dept. of Commerce.

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TABLE 2

State Enterprise Zone Incentives

State	Number of Zones	Job Creation Tax Credit Per New Employee and Other Labor Force Related Incentives	Investment Credit	Sales Tax Credit
Alabama	27 (Jan. 91)	Credits for selective hiring (long-term unemployed) and for training in new skill areas (max. of $2500 for job, training and invest. credit).	Tax credit with three incentive levels: 10% for first $10,000 5% for next $90,000 2% for over $100,000	No provision
Arizona	Up to 6 zones per year (Jan. 91)	$5,000 for selective hiring (35% of workers receiving public assistance and residing in enterprise zones.)	No provision	No provision
Arkansas	146 urban and 297 rural (Jan. 90)	$2,000 for each new job.	No provision	Refunds for construction materials, equipment and machinery.
California[1]	10 (Dec. 86)		Expensing of <u>Depreciable Property</u>	
Program I		Up to $5,000 for each new job $450 employee credit	Up to $10,000	Credit against corporate income for machinery for up to $1.2 million
Program II		$1,200 for each new job	Up to $40,000	
Colorado	12	$500 for each new job $1,000 for agricultural processing jobs $700 for jobs providing employee sponsored health insurance.	3% tax credit for equipment	Exemption for new machinery

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[1]Program I = Enterprise Zone Act; Program II = Employment Incentive Area Act.

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Connecticut	10 (Dec. 1986)	$1,000 grant for manuf. jobs based on JTPA-eligibility of 30% of workers. $500 grant for service sector jobs based on zone residency or JTPA-eligibility of 30% of workers.	No provision	Exception for replacement parts for manuf. machinery
Delaware	49 (Dec. 1986)	$500 for each new job (minimum of five new permanent jobs created.	$500 per $100,000 (min. investment of $200,000).	Exemption from gross receipt taxes for manufacturers and wholesalers.
Dist. Columbia	3	NA	NA	NA
Florida	30 (1-1-87)	Selective hiring tax credit claimed against sales tax. ($1200 for each new job for max. of 2 years).	No provision	1) Exemption for business equipment and materials used in renovation of real property. 2) Exemption for commercial sales.
Georgia	3 in Atlanta (Dec. 1986)	No provision	No provision	No provision
Hawaii	24 (Dec. 86)	No provision	No provision	Abatement of state excise tax.
Illinois	81 (June, 90)	$500 for new selective hiring.	0.5% on new investment	Exemption for machinery and equipment for firms creating ≥ 200 jobs or retain ≥ 2000 jobs.
Indiana	14 (Jan. 91)	No provisions (10% credit against corporate income tax based on paid wages.)		
			Eligibility for Job <u>Tax Credit Prerequisite</u>	Eligibility for Job <u>Tax Credit Prerequisite</u>
Kansas	Unlimited 256 (1-15-91)	$350 for each new job for 10 years ($500 for disadvantaged workers) ($100 for out-of-state residents)	$350 per $100,000 (max. of 50% of firms income tax liability).	Exemption of construction materials, machinery and equipment.
Kentucky	7 (Dec. 86)	No provision	No provision	Exemption for equipment and construction materials.
Louisiana	Unlimited 745	$2,500 for each new job (5,000 for aviation and areospace	No provision	Exemption for equipment and construction

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	(Dec. 1989)	Industry)		materials.
Maine	4 rural zones (Oct. 89)	Up to $1,250 grant for each new permanent job (up to 200 jobs).	No provision	No provision
Maryland	11 (Dec. 86)	No provision (corporate income tax credit for new paid wages.	No provision	No provision
Michigan	1 (Dec. 86)	No provision	No provision	Exemption for materials and equipment.
Minnesota	15 competitive zones 6 border zones	$3,000 for each <u>net</u> new job ($1,500 in border zones)	No provision	Exemption for equipment and construction materials.
Mississippi	EZ-Legislation repealed July 1989 and replaced with statewide economic development program providing job tax credits for all counties in the state based on their developmental stage: $2000 per job for 5 years in less developed counties, $1000 in developed counties, and $500 in modern counties. Sales tax exemptions are also provided on a sliding scale.			
Missouri	33 (Jan 91)	$400 for each <u>net</u> new job (up to $1,200 based on criteria such as zone residency of worker, skill and status of worker).	10% for initial $10,000 5% for next $90,000 2% for over $100,000	No provision
Nevada	8 per year (Dec. 86)	No provisions (availability of job training vouchers)	No provision	No provision
New Jersey	10 (Dec. 86)	$500 for each unemployed worker ($1,500 for zone residents which were unemployed for at least 90 days)	No provision	1) Exemption for tangible property and construction material. 2) 50% exemption for retailers in up to five zones.
New York	max. 40 (Dec. 86)	Available for selective hiring of zone residents.	Higher than statewide credit	Exemption for construction materials.
Ohio	Unlimited 193 (Jan. 91)	No provision (max. of $1,000 for training costs per new job)	No provision	No provision
Oklahoma	NA	NA	NA	NA
Oregon	30 (Jan. 91)	No provision	No provision	No provision
Pennsylvania	20 (Dec 86)	No provisions (job training services)	No provision	No provision

Rhode Island	Legislation in 1982 was never implemented due to a missing federal-level legislation. State is in the process of creating new legislation in 1991 with "opportunity zones" designated on a competitive basis in urban distressed areas.			
South Carolina	NA	Up to $1,000 for 5 years based on econ. distress of area and number of new jobs. created.	No provision	No provision
Tennessee	1 (Memphis) (Jan. 91)	$1000 for qualified businesses with a one-time selective hiring record.	No provision	Refund for construction material for new business facilities in excess of 45,000 sq. ft.
Texas	NA	No provision	No provision	Abatement for machinery in selected zones.
Utah	NA	NA	NA	NA
Vermont	3 (Dec. 86)	No provisions (targeting of state and federal programs to EZs)	No provision	No provision
Virginia	12 (Dec. 86)	No provision	No provision	Exemptions for period of up to five years.
West Virginia	2 per year (Dec. 86)	No provision	No provision	Exemption for construction materials and machinery.
Wisconsin	8 (Jan. 91)	Refundable credit for selective hiring (up to 40% of the first $6000 in wages for 2 years).	2.5% on new investment	Refunds for construction materials, machinery and equipment.

NA = Not available.

Source:

State Enterprise Zone Roundup, NASDA, 1986.
Enterprise Zone Incentives, American Association of Enterprise Zones, no date.
Analysis of Information provided by State EZ Program Directors, Institute for Public Policy and Business Research, January, 1991.

NOTE: This table does not claim to be an authoritative source of information for all states. Reliable information has been obtained from EZ authorities of the following states: Arkansas, Colorado, Indiana, Kansas, Minnesota, Missouri and Oregon.

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Table 4
Ranking of Enterprise Zone Host Communities

Host Community of EZ	County	1987 Per Capita Income	1990 Population	Population Change 1980-90: Change in Host Community	Population Change 1980-90: Change in Respective County	Prosperity Index
Kansas (state)		11,520	2,477,574	4.8%		
Mission Woods	Johnson	33,082	182	-14.6%	31.4%	6.75%
Overland Park	Johnson	17,608	111,790	36.7%	31.4%	3.14%
Lenexa	Johnson	16,702	34,034	82.6%	31.4%	2.93%
Merriam	Johnson	15,886	11,821	9.5%	31.4%	2.74%
Shawnee	Johnson	14,660	37,993	28.1%	31.4%	2.45%
Roeland Park	Johnson	14,248	7,706	-3.2%	31.4%	2.35%
Olathe	Johnson	12,411	63,352	70.0%	31.4%	1.93%
Gardner	Johnson	11,298	3,191	33.4%	31.4%	1.67%
County zone	Finney	9,890	33,070	38.8%	38.8%	1.63%
Garden City	Finney	9,999	24,097	32.0%	32.0%	1.39%
Derby	Sedgwick	13,618	14,699	50.2%	10.0%	1.37%
De Soto	Johnson	9,588	2,291	11.2%	31.4%	1.27%
Spring Hill	Johnson/Miami	9,353	2,191	9.3%	31.4%	1.21%
Basehor	Leavenworth	11,682	1,591	7.3%	17.4%	1.21%
Andover	Butler	12,424	4,047	44.5%	12.9%	1.20%
Rose Hill	Butler	12,316	2,399	54.1%	12.9%	1.18%
Ulysses	Grant	11,519	5,474	17.6%	17.6%	1.18%
County zone	Sedgwick	12,480	403,662	10.1%	10.1%	1.11%
Wichita	Sedgwick	12,483	304,011	8.9%	10.0%	1.10%
Dodge City	Ford	11,061	21,129	17.4%	17.4%	1.06%
Mulvane	Sedgwick/Sum.	12,153	4,674	9.9%	10.0%	1.03%
Lawrence	Douglas	10,152	65,608	24.4%	20.9%	.99%
County zone	Butler	11,425	50,580	12.9%	12.9%	.97%

NOTE: Prosperity index is the average of a population and income criteria (deviation from the mean as a percentage of standard deviation for per capita income and population change).

Source: Institute for Public Policy and Business Research, January, 1991.

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TABLE 5

Number of Kansas Enterprize Zones by City Size

	EZ Status		
	EZ	No EZ	Total
	# Cities	# Cities	# Cities
	SUM	SUM	SUM
City Size			
under 500	32	307	339
501-1000	23	67	90
1,001-2,500	63	40	103
2,501-5,000	37	8	45
5,001-7,500	9	0	9
7,501-15,000	17	1	18
15,101-25,000	8	2	10
25,001-50,000	7	0	7
50,001-100,000	2	0	2
100,001-200,000	3	0	3
over 200,000	1	0	1
Total	202	425	627

Note: Data for population based on 1990 Census. Enterprise zone designation based on 1-15-91 data from the Kansas Dept. of Commerce.

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Table 6

LOCAL INCENTIVES TO BUSINESSES IN ENTERPRISE ZONES

	Number of Zones
At least one incentive provided	73
No incentive provide (businesses did not apply, unaware or other reason)	123
Nonresponders to Survey	40
<u>Kind of Incentive Provided</u>	
Tax Benefit	10
Financial Assistance	5
Technical Assistance	1
Land	2
Capital Investment	14
Waiver of Permits (building)	40
Services	2
Utilities	18
IRB	3

Source: Adapted from Survey Data by KDOC, 1989.

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Table 7

GOALS OF STATE ENTERPRISE ZONE PROGRAMS

GOALS	Number of States*
Health, Safety & Welfare	18
Job Creation	17
Neighborhood Revitalization	8
Community Development	3
Public Private Collaboration	5
Economic Development only	0

* 37 states had enacted EZ legislation in 1989.

Source: Adapted from ERICKSON 1990.

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TABLE 6A

KANSAS DEPARTMENT OF REVENUE - RESEARCH AND REVENUE ANALYSIS

SUMMARY OF BUSINESS AND JOB DEVELOPMENT CREDITS

ENTERPRISE ZONES ONLY - BY PROCESS YEAR

	TOTAL		NEW (UNDUPLICATED) TAXPAYERS		CARRYOVER (FROM PRIOR YEARS)	
PROC. YR.	NO. OF CLAIMS	AMOUNT	NO. OF CLAIMS	AMOUNT	NO. OF CLAIMS	AMOUNT
1980	1	$12,250	1	$12,250	0	$0
1981	2	$17,394	0	$0	2	$17,394
1982	1	$22,824	0	$0	1	$22,824
1983	3	$23,472	2	$294	1	$23,178
1984	9	$156,210	8	$43,023	1	$113,187
1985	28	$116,222	23	$70,345	5	$45,877
1986	62	$188,689	39	$68,493	23	$120,196
1987	92	$528,468	59	$339,007	33	$189,461
1988	107	$531,215	59	$176,621	48	$354,594
1989	175	$4,333,008	85	$3,827,104	90	$505,904
ADJ. 1989 (1)	174	$1,713,617	84	$1,207,713	90	$505,904
1990	159	$1,515,556	60	$338,289	99	$1,177,267
CUM. TOTALS:						
ACTUAL	639	$7,445,308	336	$4,875,426	303	$2,569,882
ADJUSTED (1)	638	$4,825,917	335	$2,256,035	303	$2,569,882

(1) 1989 WAS ADJUSTED TO ELIMINATE ONE LARGE CLAIM OF $2.6 MILLION.

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TABLE 6B

SUMMARY OF SALES TAX EXEMPTION CERTIFICATES
ANNUAL TOTALS, BY PROCESS YEAR- ENTERPRISE ZONES ONLY

CALENDAR YEAR PROCESSED	NO. OF CLAIMS	ESTIMATED PROJECT COST TOTAL	ESTIMATED PROJECT COST TAXABLE	EST. TAX COLLECTIONS
1987	125	$274,976,134	$191,632,827	$8,144,395
1988	210	$1,023,781,132	$652,220,588	$27,719,375
1989	246	$306,580,457	$237,271,100	$10,084,022
1990	275	$431,283,474	$315,695,637	$13,417,065
4 YEAR TOTAL	856	$2,036,621,197	$1,396,820,152	$59,364,857

NOTE: C.Y. 1988 CONTAINS ONE EXCEPTIONALLY LARGE CLAIM FOR $800,000,000.

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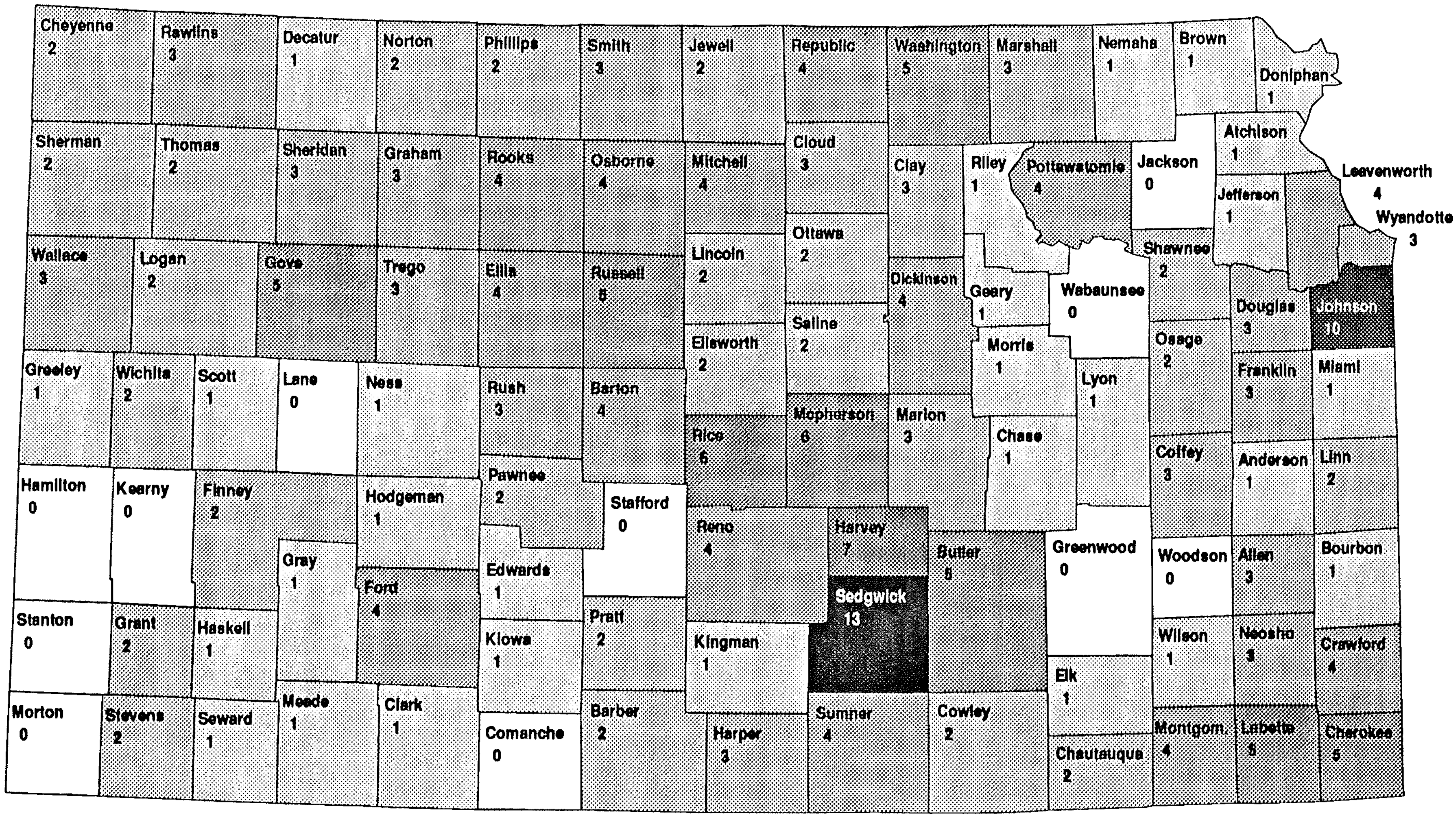
Figure 1

'Distribution of City and County Enterprise Zones



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Numerals indicate number of city and county zones.
Shading according to intensity.

Exhibit 1
Kansas Department of Commerce

DESCRIPTION OF INCENTIVES

JOB CREATION TAX CREDIT

The "Kansas Enterprise Zone Act" allows a Job Creation Tax Credit of $350 per year for each new employee (minimum of two) for a new or expanding business within a Kansas Enterprise Zone. This credit is available for ten (10) years and the start of the 10-year period may be deferred for up to three (3) years.

For those existing businesses expanding or building a replacement facility within a Kansas Enterprise Zone, the term "new employee" refers to those employees over and above the "employee base" which may be calculated by averaging the preceding year's annual employment. The business must have a minimum of two (2) "new employees" to be eligible for the Job Creation Tax Credit.

A Job Creation Tax Credit of $100 is available for each "new employee" who is not a resident of the State of Kansas. This is the same credit available for new employees hired in non-enterprise zone areas.

A maximum of 50% of a business's Kansas Income Tax liability may be offset with the cumulative tax credits available in each eligible year. Tax credits cannot be carried over to succeeding years.

JOB CREATION TAX CREDIT FOR TARGETED INDIVIDUALS

For either a new business or industry coming into a Kansas Enterprise Zone, or an existing business which is expanding or building a replacement facility within a Kansas Enterprise Zone, an additional $150 Job Creation Tax Credit may be available. If the "new employee" meets the criteria for targeted individuals contained in Section 38 of the Internal Revenue Service (IRS) Code, a maximum total Job Creation Tax Credit of $500 is available.

INVESTMENT TAX CREDIT

Businesses, whether new or existing, in a designated Kansas Enterprise Zone, may be eligible for an Investment Tax Credit of $350 for each $100,000 (or major fraction thereof) in qualified new business facility investment. Businesses must qualify to receive the Job Creation Tax Credit to be eligible to receive the Investment Tax Credit. The combined tax credits may not exceed fifty percent (50%) of the business's Kansas Income Tax liability.

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SALES TAX EXEMPTION

The purchase of certain tangible personal property and services is exempt from sales tax for new or expanding businesses in a Kansas Enterprise Zone. Eligible purchases include materials used in the construction, reconstruction, enlarging or remodeling of a qualified business facility. An exemption is also available on the sale and installation of machinery and equipment.

Businesses must qualify for the $350 Job Creation Tax Credit to receive the Sales Tax Exemption. Businesses must first file a request with the Department of Revenue for the exemption stating that they will qualify for the Kansas Income Tax Credits. They will then receive an Exemption Certificate.

ELIGIBILITY FOR TAX INCREMENT FINANCING

The concept of Tax Increment Financing has been extended to enterprise zones, except for eminent domain provisions if outside the central business district. For example, Tax Increment Financing enables governing bodies to purchase blighted buildings for improvement or new construction and to pay for the improvements with the incremental increase of ad valorem revenue (property taxes) generated from the increased value of the property.

MODIFICATION OR ELIMINATION OF RULES AND REGULATIONS

Businesses or industries located in a Kansas Enterprise Zone may qualify for review and possible modification of those rules and regulations which may negatively impact their economic viability.

PREFERENTIAL TREATMENT

Preferential treatment may be given in the provision of some State programs, funds, and services and other local incentive projects, which may impact the economic viability of businesses located in Kansas Enterprise Zones.

LOCAL INCENTIVES

Cities and counties participating in the Kansas Enterprise Zone Program must provide at least one local incentive to all businesses located within the Kansas Enterprise Zone. Local incentives should provide economic benefits to industries or businesses which locate or expand within the Kansas Enterprise Zone.

Cities and counties should use their ingenuity and imagination in determining what their local incentives will be. The "Kansas Enterprise Zone Act" recommends the following as examples of possible local incentives:

- Financial assistance
- Job training
- Targeted capital improvements
- Local inspection or permit fee waivers
- Employee child care

Exhibit 2

KANSAS ENTERPRISE ZONE DESIGNATION CRITERIA

Method I: UDAD-eligibility

A city meets the requirements for the federal Urban Development Action Grant (UDAG) program of HUD and is on the list of UDAG-eligible communities.

UDAG eligibility implies certain physical and economic distress criteria (see Federal Register, Vol 52, No 192 and 198).

In Kansas, 326 out of a total of 627 cities were on the 1987 UDAG-list. As of Jan 15, 1991, 101 cities qualified for EZ approval because they were included in the list of UDAG eligible cities in 1987. Conversely, of the 326 Kansas cities included in the UDAG listing of physically or economically distressed urban places, only 33% had an EZ.

Critique: List of UDAG eligible cities is outdated and its use is questionable. For example, the listing includes cities with considerable population growth in the decade from 1980 to 1990 such as Lawrence (24.4%), Leavenworth (14.4%), and Junction City (6.7%).

Method II: Measures of Distress

A city or a county "designs" a not necessarily contiguous zone that includes areas that meet at least **one** distress criteria from each of the subsequent groups:

Group I: **high unemployment** (1.5 times the average state unemployment rate for an 18 month period) **or**

low income (70% of residents have incomes below 80% of the median income of city residents) **or**

population decrease (population decreased by at least 10% over **any** ten year period after 1970)

Group II: **deterioration, abandonment or demolition of structures, and substantial tax arrearage.**

Note: Population change for the zone area can be documented by 1970, 1980 or 1990 census tract data or documented by a local survey.

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DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Office of Assistant Secretary for Community Planning and Development

[Docket No. 87-1725; FR-2400]

Urban Development Action Grants; Revised Minimum Standards for Small Cities

AGENCY: Office of the Assistant Secretary for Community Planning and Development, HUD.

ACTION: Notice.

SUMMARY: In accordance with 24 CFR 570.452(b)(l), the Department is providing Notice of the most current minimum standards of physical and economic distress for small cities for the Urban Development Action Grant (UDAG) program.

This Notice supersedes the Notice published October 22, 1985 (50 FR 42822).

The minimum standards of distress have change generally as a result of applying new data from the Bureau of the Census, and the Employment Training Administration within the Department of Labor.

This Notice contains four lists. The first list (see Part II of this Notice) identifies all those cities which qualify as distressed communities based upon the new minimum standards. The second list (see Part III of this Notice) identifies those cities which did not qualify when the October 22, 1985 list was published but which do qualify now. The third list (see Part IV of this Notice) identifies those cities which were classified as distressed on the October 22, 1985 list, but which no longer qualify under the new minimum standards. The fourth and last list (see Part V of this Notice) identifies those towns, townships, and Puerto Rican municipios which qualify as distressed communities based upon the new minimum standards.

EFFECTIVE DATE: October 1, 1987.

FOR FURTHER INFORMATION CONTACT: Jean Samuels, Office of Urban Development Action Grants, Department of Housing and Urban Development, 451 Seventh Street, SW. Washington, DC 20410, Telephone: 202/755–6784. For information on minimum distress standards or the data used to determine whether a community qualifies as distressed contact: Larry Blume Telephone: 202/755–7390.

SUPPLEMENTARY INFORMATION: In an October 22, 1985 Notice, we provided the minimum standards of physical and economic distress which were applicable up to the effective date of this Notice for small cities which met the standards published at that time.

Part I of this Notice specifies the new minimum standards of physical and economic distress. Parts II through V contain the lists enumerated in the Summary section of this Notice. Part II contains a revised list of all the small cities which meet the new standards. Part III of this Notice lists those small cities which, based upon the new minimum standards, appear on the list in Part II but did not qualify when the October 22, 1985 list was published. Part IV is a list of those cities which were classified as distressed on the October 22, 1985 list, but which no longer qualify under the new minimum standards. These cities listed in Part IV have a period of time, as specified in Part IV, during which they may submit UDAG applications. Part V is a revised list of eligible towns, townships, and Puerto Rican municipios.

The new minimum standards are based on updated data from the Bureau of the Census and Employment Training Administration. The data cover units of government incorporated through June 1986. The updated Census data are 1984 population, 1983 per capita income, 1980 housing and poverty (adjusted for boundary changes through 1983), and retail and manufacturing jobs created from 1977 to 1982. The previous Census data were 1982 population, 1981 per capita income, 1980 housing and poverty (reflecting boundary changes through the 1982), and 1977–1982 retail and manufacturing jobs. The updated data from the Employment Training Administration are Labor Surplus Areas designated as of April 1, 1987. A list of eligible labor surplus areas was published in the Federal Register on March 26, 1987 (52 FR 9727). The previous Labor Surplus Areas were designated as of October 1, 1984.

Part I

A small city must pass three minimum standards of physical and economic distress for the categories appropriate to their size, except that if the percentage of poverty is less than half the minimum standard, the city must pass four standards. The most current minimum standards of physical and economic distress are:

A. *Age of Housing.* At least 20.2 percent of the applicant's year-round housing units must have been constructed prior to 1940, based on 1980 Census data, in order to meet this minimum standard;

B. *Per Capita Income Change.* The net increase in per capita income for the period of 1969–1983 must have been $6,203 or less, based on Census Bureau data, in order to meet this minimum standard;

C. *Population Growth Lag/Decline.* For the period 1970–1984 the percentage rate of population growth (based on corporate boundaries as of 1983) must have been 4.6 percent or less, based on Census Bureau data, in order to meet this minimum standard;

D. *Job Lag/Decline.* The rate of growth in retail and manufacturing employment for the period 1977–1982 must have increased by 3.3 percent or less, based on Census Bureau data, in order to meet this minimum standard. The standard is only applicable to cities of 25,000 population or more. For communities where only retail data were available, a job lag percentage for the retail sector was computed. For communities where only manufacturing data were available, a job lag percentage for the manufacturing sector was computed. The retail job lag threshold is 8.5 percent and the manufacturing job lag threshold is 0.0 percent. If neither data source is available, this standard will not be considered;

E. *Poverty.* The percentage of persons within the applicant's jurisdiction at or below the poverty level must be 12.3 percent or more, based on 1980 Census data, in order to meet this minimum standard;

F. *Labor Surplus Area.* The small city must either be entirely within or partially within an area which meets the criteria for designation as a Labor Surplus Area as of April 1, 1987. These areas include counties or county balances (after excluding cities with populations of 50, 000 or more) with an unemployment rate of 9 percent or more for calendar years 1984–1985.

Part II

The following small cities meet the current minimum standards of physical and economic distress appropriate to their class

Alabama

Abbeville	Auburn
Addison	Autaugaville
Akron	Baileyton
Albertville	Banks
Aliceville	Bay Minette
Altoona	Bayou La Batre
Andalusia	Bear Creek
Anderson	Beatrice
Ariton	Belk
Arley	Benton
Ashford	Berry
Ashland	Billingsley
Ashville	Black
Athens	Blue Mountain
Atmore	Blue Springs
Attalla	Boaz

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