

Approved

February 5, 1992
Date

MINUTES OF THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT

The meeting was called to order by Representative Diane Gjerstad at
Chairperson

3:40 ~~am~~ p.m. on Tuesday, January 28, 1992 in room 423-S of the Capitol.

All members were present except:

Representatives Baker, Mead and Wisdom. Excused.

Committee staff present:

Lynne Holt, Legislative Research
Jim Wilson, Legislative Revisor
Betty Manning, Secretary

Conferees appearing before the committee:

John Parks, Senior Analyst, Department of Revenue
Bernie Koch, Vice President, Governmental Relations, Wichita Chamber
Bud Grant, KS Chamber of Commerce and Industry
Bill Thompson, Director, KS Industrial Development Division, DOC
Tom Riederer, Director, Economic Development, Lenexa Chamber of Commerce
Alan Cobb, KS Association for Small Businesses
Don Goss, President, Olathe Chamber of Commerce
Mark Burghart, General Counsel, Department of Revenue

Chairperson Gjerstad called the meeting to order at 3:40 p.m.

The Chair reviewed briefly actions of the previous day regarding the staff briefing on **HB 2681**. She stated that after the hearing today, she will ask Jim Wilson, Legislative Revisor, to prepare a balloon of the subject bill, for further hearing by the committee during the week of February 10, 1992.

Chairperson Gjerstad recognized John Parks, Senior Analyst, Department of Revenue, who explained four items distributed giving a brief overview and critique of the current enterprise zone program. Attachment 1.

The first conferee called in support of **HB 2681** was Bernie Koch, Vice President of Government Relations, Wichita Area Chamber of Commerce. Mr. Koch listed pros and cons of the pending legislation. Attachment 2.

Second conferee was Bud Grant, Kansas Chamber of Commerce and Industry. He stated KCCI is supportive of the direction on which this bill is taking, however, listed policy points the committee might consider. Attachment 3.

Next proponent was Bill Thompson, Director, Kansas Industrial Development Division, Department of Commerce. He stated the department's position regarding the proposed legislation is viewed from the perspectives of administration and its use as a recruitment tool. One point to be further reviewed is the transition language. Attachment 4.

Next, Tom Rieder, Director, Economic Development, Lenexa Chamber of Commerce, spoke favorably of the proposed legislation. Attachment 5.

Final proponent was Alan Cobb, Kansas Association for Small Businesses, who expressed support for the direction proposed legislation is taking. One concern expressed was the discrepancy between rural and urban area job expansion and investment tax credits. Attachment 6.

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT,
room 423-S, Statehouse, at 3:40 ~~a.m.~~/p.m. on Tuesday, January 28, 1992.

The Chair recognized Don Goss, President, Olathe Chamber of Commerce, opponent to the proposed legislation. One problem cited was in finding equity for the metropolitan areas which would adversely impact sites that help generate a majority of the state's wealth. Another concern was competition with Missouri communities. Attachment 7.

Written testimony was also distributed from Don Seifert, Assistant Director of Administrative Services, City of Olathe, opponent to subject legislation. Attachment 8.

Mark Burghart, General Counsel, Department of Revenue, commented that 60% of corporations in Kansas do not pay any tax and another 25% had taxable incomes of less than \$25,000. Another 10% had incomes less than \$50,000. Basically, 10% of taxpayers in Kansas carrying in excess of 90% of tax burden and approximately 2500-2600 taxpayers pay meaningful taxes to the state. There are only 1600 taxpayers in the state with incomes over \$100,000.

The Chair asked that the Department of Commerce and Department of Revenue meet to develop a reporting procedure and language for the transition. She requested that they report back by February 6. The revisor will create a balloon incorporating these suggestions.

The meeting was adjourned at 4:45 p.m.

STATE OF KANSAS

PAAK

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Department of Revenue
Research & Revenue Analysis

MEMORANDUM

TO: Steve Stotts
FROM: John Parks
DATE: August 12, 1991 - Revised September 27, 1991
RE: Analysis of Business and Job Development Credits

Explanation of Revision - This is a minor revision to correct some erroneous data regarding enterprise zone activity. In 1983, one taxpayer filed amended returns for the years 1980, 1981 and 1982, claiming enterprise zone credits. It has been determined that this taxpayer was not eligible for the enterprise zone credits so the number and amount of these credits have been taken out of enterprise zones and put in the non enterprise zone category. The combined totals for these years is unchanged. The following narrative, EXHIBIT I and CHARTS 1, 2 and 3 have been revised to reflect these changes. This analysis is complete with all attachments so you may destroy the August 12, 1991 version.

BACKGROUND

In preparation for making our annual report to the Commerce Department regarding our CY 1990 processing of all eco-devo credits and incentives, we had data processing download the Focus data base from the main frame to our MAC so we could more easily analyze and summarize the sizeable history on the Job Expansion and Investment Credits, better known as the Business and Job Development Credits.

This is the first time I have been able to look at the entire history of this program in one data base since it became law in 1976 and the first credits were filed in 1977. I have made several interesting observations which are described in the following narrative.

CLAIMS HISTORY

Attached EXHIBIT I summarizes the claims experience history by the calendar year in which we processed the claim. Claims from enterprise zones are separated from those from non-enterprise zones. The most significant finding is shown in the comparison of the number of taxpayers to the number of claims processed. In the first year, 1977, the number of taxpayers and the number of claims were the same at 11. In the next year, there were only 28 new taxpayers filing new claims but there were 41 claims in total. As you know, once a claim has been filed, the taxpayer may submit claims for credits on the facility for the next nine years. Assuming all 11 taxpayers filing in

Eco-Devo
Attach #1
01-28-92

1977 also filed in 1978, there would have been 39 filers. The difference between 39 filers and the 41 claims is accounted for the fact that a specific taxpayer may file more than one claim if more than one facility is involved. By 1979, the number of separate taxpayers totaled 85 (i.e. 11 + 28 + 46), but the number of claims totaled only 77. This is explained by the fact that some eligible (repeat) claimants did not file in CY 1979 either because they had no tax liability or because they were no longer in business.

CLAIMANTS

CHART 1. shows the yearly number of new (unduplicated) taxpayers that have filed claims for Business and Job Development Credits.

Over the 14 year life of the program, from 1977 through CY 1990, there have been only 1,003 corporate taxpayers that have benefitted from this program. Based on a total number of about 35,000 corporations plus another 10,000 sub-chapter S corporations in Kansas, the 1,003 claimants represents only 2.2% of the 45,000 potential. This appears to be a relatively miniscule proportion of claimants for the 14 year period.

CLAIMS

CHART 2. shows the total number of claims filed each year, which includes both new claims and on-going claims. Beginning with claims processed in 1985, those from Enterprise Zones have had a steady growth which has slightly more than offset the decline in claims from Non-Enterprise Zones.

The 2,829 claims to date represents an average of only 2.82 claims per claimant (i.e. 2,829/1,003).

AMOUNTS

Regarding the three dollar amount columns in EXHIBIT I, the "Amount Claimed" column represents the amount of the credit which the taxpayer claimed and is the amount by which the taxpayer reduced their tax liability in the year processed. It is, therefore, the amount by which the general fund revenues were reduced on the tax returns filed - before our audit.

Although claims are processed immediately, and are entered to our data base immediately, the amount claimed by the taxpayer is still subject to our audit. Subsequently, as claims are audited, the amount claimed by the taxpayer may be disallowed, either in part or in total. In some cases, the taxpayer may not have claimed all they are allowed and the auditor will increase the "Amount Allowed" over that claimed. In the year 1977, \$3,826 more was allowed in total (\$20,567) than was claimed (\$16,741). Similarly, in 1987, \$63,146 more was allowed in total for Enterprise Zones than was claimed.

CHART 3. shows the total amount of the credits claimed by process year. For the first four years of the program, 1977 through 1980, the annual amounts were less than \$1.0 million. For the next four years, 1980 through 1984, the annual amounts hovered around \$1.0 million, then grew to the peak of \$5.9 million in 1989, with the 1990 total dropping to only \$3.3 million, less than the 1988 total of \$4.0 million.

OVERVIEW

For the program totals to date, about \$24.3 million has been claimed but only \$11.9 million has been allowed. It should be pointed out that it would be incorrect to say that only 49% of the amount claimed is allowed because many of the claims have not yet been audited. Until a claim has been audited, a zero amount is entered in the "Amount Allowed" field of the data base. Essentially all of the claims processed through CY 1987 have now been audited and the cumulative "Amount Allowed" is about 85% of the "amount claimed" for those

11 years. Applying 85% to the \$24.3 million amount claimed to date, it would appear that the actual cost to the state (or benefit to the taxpayer) will be about \$20.7 million for all claims processed through CY 1990. For the 14 years involved, this amounts to an average of about \$1.9 million per year. This life-of-the-program average is a little misleading because the initial credit amounts in 1977 were only \$50 per employee and \$50 per \$100,000 investment. In the 1982 session, the legislature doubled the credit amounts from \$50 to \$100. The 1983 session authorized the creation of city enterprise zones and the credits for facilities in an enterprise zone were increased to \$350 per employee and \$350 per \$100,000 investment. These benchmarks are shown just above the horizontal scale on CHART 1.

The biggest incentive for increasing the number of claims and, hence, the total amount of credits came after the 1986 session where H.B. 3121 created the concept of a "qualified facility" (as defined in K.S.A. 79-32,154). This bill also provided for a sales tax exemption for personal property and services, including machinery and equipment, for installation in a "qualified facility" (K.S.A. 79-3606(ee) which required that a claim for the Business and Job Development Credit must be filed. This was applicable to tax years commencing after December 31, 1985 which means the first full year returns would have been received in 1987. EXHIBIT I shows that the enterprise zone number of claims jumped from 62 in 1986 to 90 in 1987, a 45% increase. In 1989 and 1990, the enterprise zone claims averaged about 185, more than twice their 1986 level of 62 claims. The total amount claimed peaked in 1989 at \$5.9 million but an insufficient number have been audited to accurately estimate how much of this amount will be allowed. Within this total, one claim alone accounts for \$2.6 million. Because of budget constraints, there are more than 500 claims which have not yet been audited.

CRITIQUE

Perhaps the most significant information obtained from this review was the further analysis of the 1,003 taxpayers you requested. EXHIBIT II is a breakdown of the number of taxpayers, the number of claims, and the total amount claimed, BY AMOUNT CLAIMED BRACKETS, for the 14 year period from 1977 through 1990. On the first line, in bold print, it can be seen that only 3 taxpayers filed 21 claims totaling between \$1.0 million to \$5.0 million or a little over 30 percent of the total amount claimed for the 14 year period. On the third line, it is even more significant that less than 2.0% of the taxpayers accounted for almost 57% of the amounts claimed.

The accumulative percentages in bold print on the sixth line of EXHIBIT II show that only 12.46 % or 125 of the 1,003 taxpayers filed 25.95% of the 2,829 claims and accounted for 87.62% of the \$24.3 million claimed. Restated, these 125 taxpayers, representing only 0.3% of the corporate taxpayer potential beneficiaries (i.e. 125/45,000) are receiving about 88% of the benefits of the program.

One has to wonder whether the Business and Job Development Credit Program is achieving the results the legislature intended.

Please let me know if you have any questions or desire any additional information.

John Parks

Attachments: EXHIBITS I and II
CHARTS 1, 2, and 3.

EXHIBIT I - REVISED 9-25-91

BUSINESS AND JOB DEVELOPMENT CREDITS - AS OF JUNE 26, 1991

CREDITS SUMMARY - PROGRAM HISTORY BY CALENDAR YEAR PROCESSED

CAL. YR. PROC.	ZONE	UNDUPLICATED		CLAIMS		
		NO. OF CORP. TAXPAYERS (1)	NO. OF CLAIMS	AMOUNT CLAIMED	AMOUNT ALLOWED	DIFFERENCE
1977	TOTAL	11	11	\$16,741	\$20,567	(\$3,826)
1978	TOTAL	28	41	\$140,542	\$137,206	\$3,336
1979	TOTAL	46	77	\$367,747	\$365,534	\$2,213
1980	TOTAL	100	163	\$673,667	\$578,023	\$95,644
1981	TOTAL	107	227	\$1,052,672	\$790,735	\$261,937
1982	TOTAL	85	224	\$1,129,122	\$1,186,363	(\$57,241)
1983	ENTERPRISE	2	2	\$294	\$294	\$0
	NON-ENT.	50	196	\$1,048,679	\$1,029,411	\$19,268
	TOTAL	52	198	\$1,048,973	\$1,029,705	\$19,268
1984	ENTERPRISE	6	8	\$43,023	\$34,970	\$8,053
	NON-ENT.	58	196	\$1,170,565	\$974,387	\$196,178
	TOTAL	64	204	\$1,213,588	\$1,009,357	\$204,231
1985	ENTERPRISE	18	28	\$116,222	\$81,829	\$34,393
	NON-ENT.	62	234	\$1,247,570	\$1,015,457	\$232,113
	TOTAL	80	262	\$1,363,792	\$1,097,286	\$266,506
1986	ENTERPRISE	37	62	\$188,689	\$144,302	\$44,387
	NON-ENT.	35	185	\$1,719,316	\$1,379,025	\$340,291
	TOTAL	72	247	\$1,908,005	\$1,523,327	\$384,678
1987	ENTERPRISE	41	90	\$514,811	\$577,957	(\$63,146)
	NON-ENT.	41	184	\$1,602,877	\$979,081	\$623,796
	TOTAL	82	274	\$2,117,688	\$1,557,038	\$560,650

(1) How many different (new) taxpayers have received benefits.

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KANSAS DEPARTMENT OF REVENUE - RESEARCH AND REVENUE ANALYSIS
BUSINESS AND JOB DEVELOPMENT CREDITS - AS OF JUNE 26, 1991

CREDITS SUMMARY - PROGRAM HISTORY BY CALENDAR YEAR PROCESSED

CAL. YR. PROC.	ZONE	UNDUPLICATED		CLAIMS		
		NO. OF CORP. TAXPAYERS (1)	NO. OF CLAIMS	AMOUNT CLAIMED	AMOUNT ALLOWED	DIFFERENCE
1988	ENTERPRISE	52	112	\$546,118	\$488,395	\$57,723
	NON-ENT.	35	149	\$3,502,936	\$583,377	\$2,919,559
	TOTAL	87	261	\$4,049,054	\$1,071,772	\$2,977,282
1989	ENTERPRISE	72	188	\$4,446,527	\$420,315	\$4,026,212
	NON-ENT.	37	141	\$1,433,689	\$261,967	\$1,171,722
	TOTAL	109	329	\$5,880,216	\$682,282	\$5,197,934
1990	ENTERPRISE	50	183	\$1,952,712	\$557,483	\$1,395,229
	NON-ENT.	30	128	\$1,366,828	\$303,572	\$1,063,256
	TOTAL	80	311	\$3,319,540	\$861,055	\$2,458,485

PROGRAM TOTALS TO DATE:

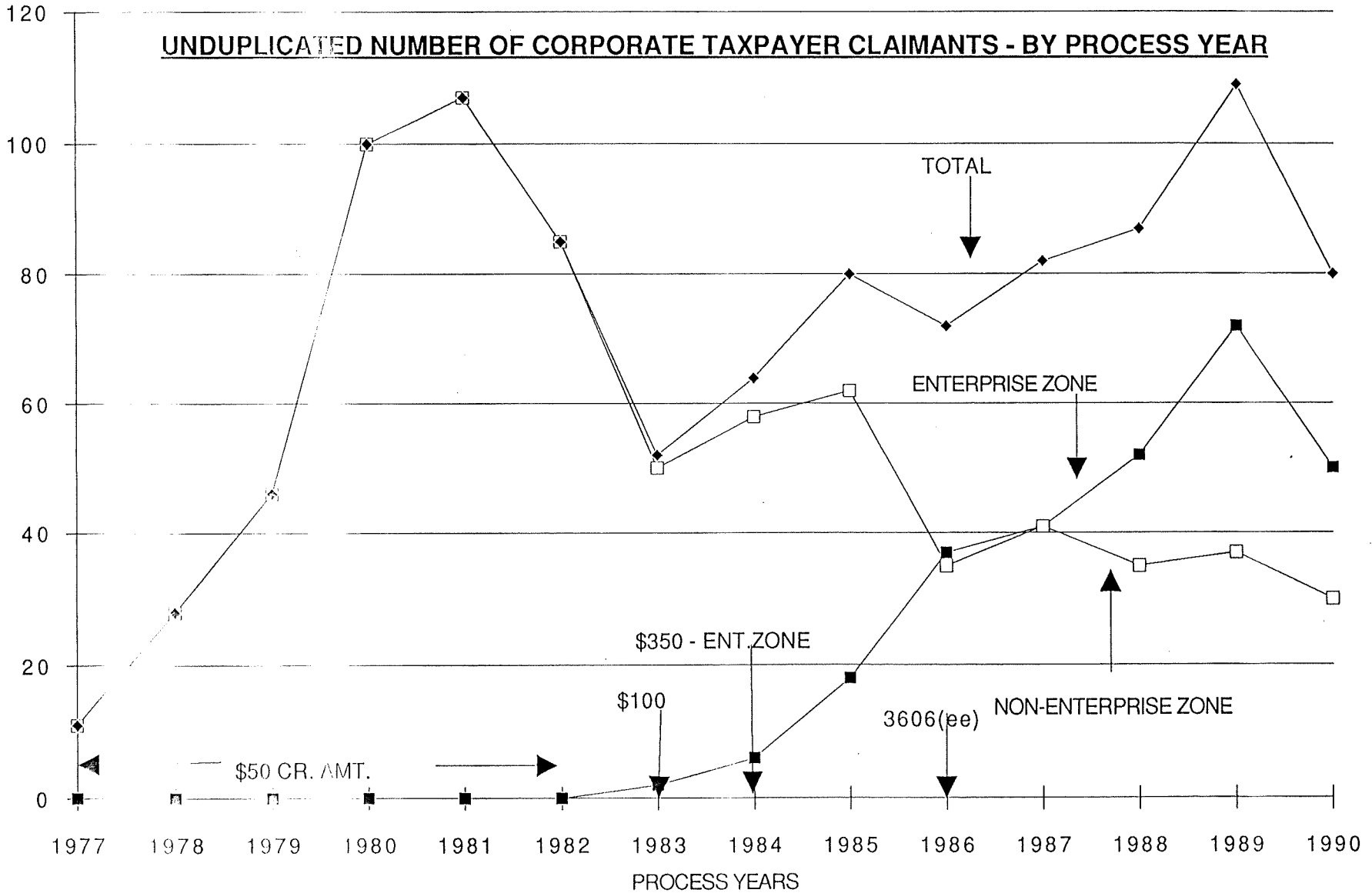
(1977 - 1990)

ENTERPRISE	278	673	7,808,396	2,305,545	\$5,502,851
NON-ENT.	725	2,156	16,472,951	9,604,705	\$6,868,246
TOTAL	1,003	2,829	\$24,281,347	\$11,910,250	\$12,371,097

(1) How many different (new) taxpayers have received benefits.

ANNUAL NUMBER
OF CLAIMANTS

CHART 1.
BUSINESS AND JOB DEVELOPMENT CREDITS



7-1

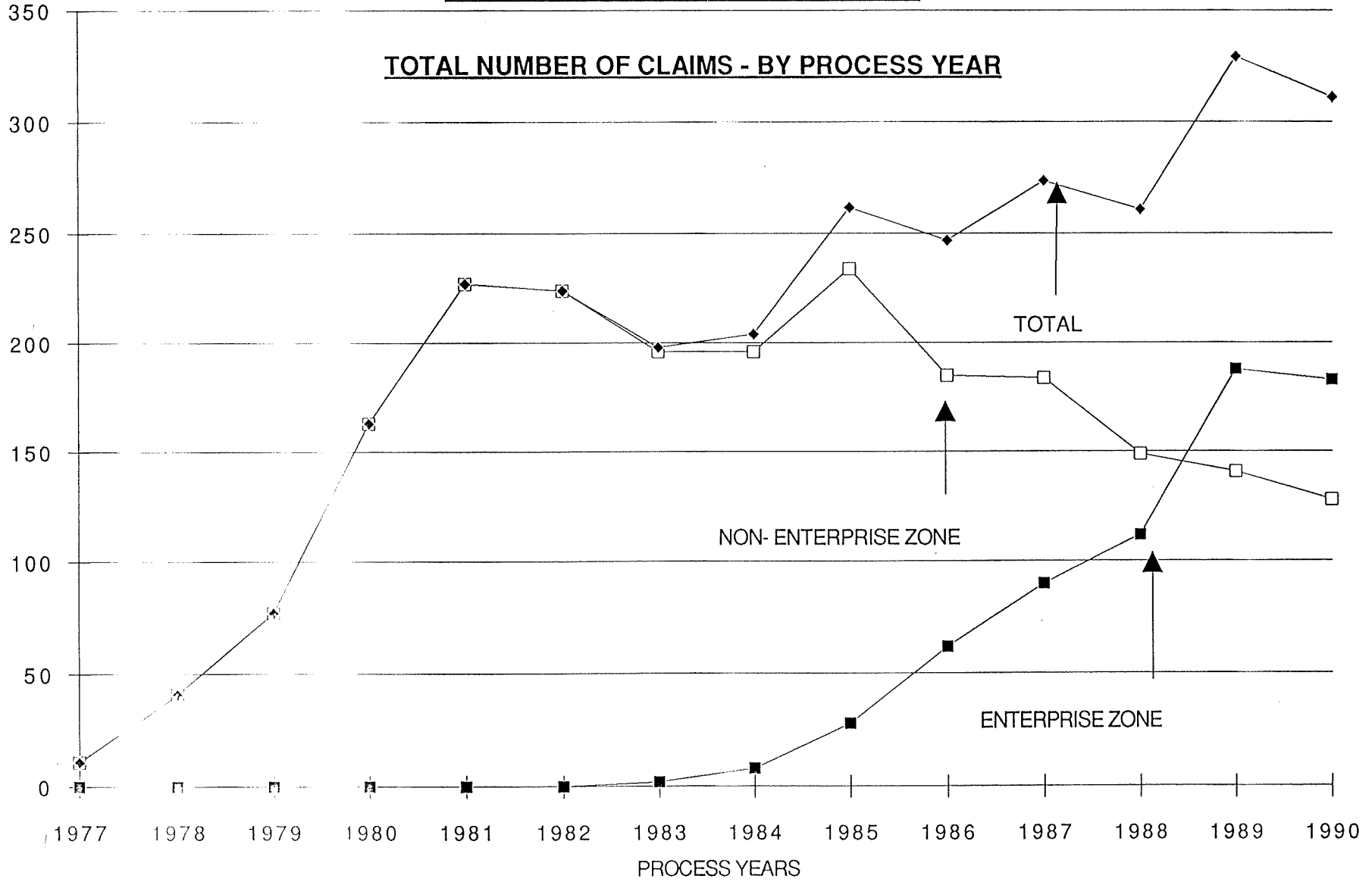
ANNUAL NUMBER

CHART 2.

BUSINESS AND JOB DEVELOPMENT CREDITS

OF CLAIMS

TOTAL NUMBER OF CLAIMS - BY PROCESS YEAR



1-7

CHART 3.

BUSINESS AND JOB DEVELOPMENT CREDITS

TOTAL AMOUNT CLAIMED - BY PROCESS YEAR

ANNUAL AMOUNT

CLAIMED
\$6,000,000

\$5,000,000

\$4,000,000

\$3,000,000

\$2,000,000

\$1,000,000

\$0

1977 1978 1979 1980 1981 1982 1983 1984 1985 1986 1987 1988 1989 1990

PROCESS YEARS

TOTAL

NON-ENTERPRISE ZONE

ENTERPRISE ZONE

18

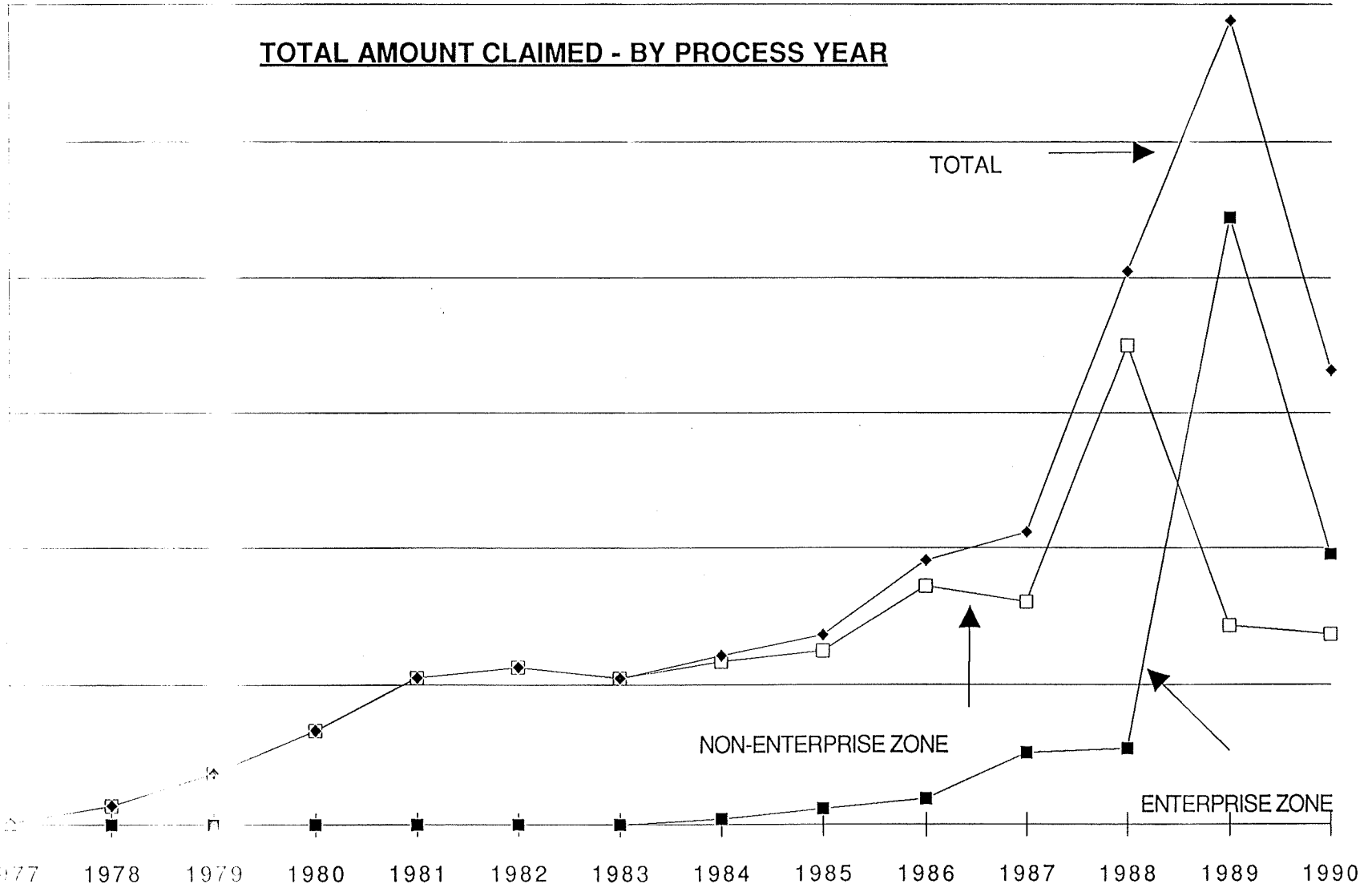


EXHIBIT II

SUMMARY - BUSINESS AND JOB DEVELOPMENT CREDITS

TAXPAYER TOTALS - PROCESSING YEARS 1977 THROUGH 1990.

SORTED BY AMOUNT CLAIMED BRACKETS - DOLLARS IN MILLIONS

PERCENTAGES ARE ACCUMULATIVE

TOTAL AMOUNT CLAIMED		TAXPAYERS		CLAIMS		AMOUNT CLAIMED	ACCUM. % OF TOTAL
FROM	TO	NUMBER	ACCUM. % OF TOTAL	NUMBER	ACCUM. % OF TOTAL		
\$999,999	\$5,000,000	3	0.30%	21	0.74%	\$7,431,734	30.61%
\$500,000	\$999,999	5	0.80%	40	2.16%	\$3,240,005	43.95%
\$250,000	\$499,999	9	1.69%	76	4.84%	\$3,117,151	56.79%
\$100,000	\$249,999	22	3.89%	159	10.46%	\$3,336,074	70.53%
\$50,000	\$99,999	28	6.68%	142	15.48%	\$2,136,086	79.32%
\$25,000	\$49,999	58	12.46%	296	25.95%	\$2,013,565	87.62%
\$10,000	\$24,999	92	21.64%	417	40.69%	\$1,428,111	93.50%
\$5,000	\$9,999	99	31.51%	347	52.95%	\$723,841	96.48%
\$2,500	\$4,999	128	44.27%	404	67.23%	\$461,502	98.38%
\$1,000	\$2,499	158	60.02%	396	81.23%	\$269,290	99.49%
\$500	\$999	110	70.99%	170	87.24%	\$74,319	99.80%
\$100	\$499	172	88.14%	222	95.09%	\$46,997	99.99%
\$0	\$99	119	100.00%	139	100.00%	\$2,672	100.00%
TOTALS		1,003	100.00%	2,829	100.00%	\$24,281,347	100.00%

STATE OF KANSAS

PARK

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Department of Revenue
Office of the Secretary

August 28, 1991

Laura E. Nicholl, Secretary
Department of Commerce
400 S.W. 8th Street, 5th Floor
Topeka, Kansas 66603-3957

Dear Secretary Nicholl:

Enclosed for your information is a copy of our most recent Summary of Economic Development Incentives. We have just completed updating our data bases through the processing year 1990 and the data contained in the Summary reflects the status of data base information as of June 26, 1991. Basically, we have provided summary data for each of the last five years although some of this data, like Solar Energy Credits, goes back to 1978. This is the information we will be providing to legislative committees this Fall and during the next session.

As you know, we honor these credits as they are claimed on the tax returns in the year processed. Subsequently, when we have time to audit these claims, we may either increase or decrease the claimed amount, or even disallow the claim, based on the audit results. This is the reason that these most recent figures may disagree with figures previously provided to you or others as recently as last March. Even these most recent figures are likely to change after we can find enough manpower to clear out a backlog of about two year's worth of claims (i.e. about 550 claims) which have not yet been audited. The fact that our data base is in a constant state of flux does not make this information any less useful because the totals are, for a given date, correct as of that date.

Please let me or John Parks know if you have any questions or desire any further information.

Mark Beshears
Mark Beshears
Secretary

Enclosure

cc Mark Burghart
Steve Stotts

SUMMARY OF ECONOMIC DEVELOPMENT INCENTIVES

THROUGH CALENDAR YEAR 1990

(DATA BASE AS OF JUNE 26, 1991)

INCOME TAX CREDITS AND SALES TAX REFUNDS- BY TYPE AND BY CALENDAR YEAR PROCESSED

TYPE OF CREDIT CLAIMED (STATUTE)	CAL. YR. PROCESSED	TAXPAYERS (1)		CLAIMS	
		TYPE	NUMBER	NUMBER	AMOUNT
INCOME TAX CREDITS:					
LOCAL SEED CAPITAL POOL INV. (74-8401)	1989	INDIV.	2	2	\$7,527
	1990	INDIV.	0	2	\$10,179
	TOTALS	1989-90 TOTAL	2	4	\$17,706
VENTURE CAPITAL INVESTMENT (74-8205, 8206, & 8304)	1986	INDIV.	7	7	\$6,846
		1986 TOT.	7	7	\$6,846
	1987	INDIV.	9	15	\$22,448
		CORP.	2	3	\$3,629
		FIN.	1	1	\$125
	1987 TOT.		12	19	\$26,202
	1988	INDIV.	30	46	\$156,302
		CORP.	2	4	\$5,391
		FIN.	132	135	\$300,990
	1988 TOT.		164	185	\$462,683
	1989	INDIV.	25	67	\$2,249,475
		CORP.	2	4	\$388,272
		FIN.	31	147	\$345,712
	1989 TOT.		58	218	\$2,983,459
	1990	INDIV.	5	22	\$380,712
CORP.		0	1	\$2,353	
FIN.		3	71	\$151,717	
1990 TOT.		8	94	\$534,782	
1986-90	INDIV.	76	157	\$2,815,783	
	CORP.	6	12	\$399,645	
	FIN.	167	354	\$798,544	
TOTALS	1986-90 TOTAL	249	523	\$4,013,972	

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KANSAS DEPARTMENT OF REVENUE - RESEARCH AND REVENUE ANALYSIS
 INCOME TAX CREDITS AND SALES TAX REFUNDS- BY TYPE AND CALENDAR YEAR PROCESSED

TYPE OF CREDIT CLAIMED (STATUTE)	CAL. YR. PROCESSED	TAXPAYER (1)		CLAIMS	
		TYPE	NUMBER	NUMBER	AMOUNT
JOB EXPANSION AND INVESTMENT - NON ENTERPRISE ZONES:					
(79-32,153)	1986	CORP.	35	185	\$1,719,316
	1987	CORP.	41	184	\$1,602,877
	1988	CORP.	35	149	\$3,502,936
	1989	CORP.	37	141	\$1,433,689
	1990	CORP.	30	128	\$1,366,828
	1986-90	TOT.	178	787	\$9,625,646
JOB EXPANSION AND INVESTMENT - ENTERPRISE ZONES ONLY:					
(79-32,153)	1986	CORP.	37	62	\$188,689
	1987	CORP.	41	90	\$514,811
	1988	CORP.	52	112	\$546,118
	1989	CORP.	72	188	\$4,446,527
	1990	CORP.	50	183	\$1,952,712
	1986-90	TOT.	252	635	\$7,648,857
JOB EXPANSION AND INVESTMENT - COMBINED TOTALS:					
(79-32,153)	1986	CORP.	72	247	\$1,908,005
	1987	CORP.	82	274	\$2,117,688
	1988	CORP.	87	261	\$4,049,054
	1989	CORP.	109	329	\$5,880,216
	1990	CORP.	80	311	\$3,319,540
TOTALS	1986-90	TOT.	430	1,422	\$17,274,503
RESEARCH AND DEVELOPMENT					
(79-32,182)	1988	INDIV.	2	2	\$498
		CORP.	6	6	\$4,456
		1988 TOT.	8	8	\$4,954
	1989	INDIV.	4	5	\$2,220
		CORP.	15	20	\$97,956
		1989 TOT.	19	25	\$100,176
	1990	INDIV.	0	0	\$0
		CORP.	24	33	\$120,125
		1990 TOT.	24	33	\$120,125
	1988-90	INDIV.	6	7	\$2,718
		CORP.	45	59	\$222,537
TOTALS	1988-90	TOT.	51	66	\$225,255
CHILD DAY CARE					
(79-32,190)	1990	CORP.	6	6	\$8,245
		1990 TOT.	6	6	\$8,245

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KANSAS DEPARTMENT OF REVENUE - RESEARCH AND REVENUE ANALYSIS
 INCOME TAX CREDITS AND SALES TAX REFUNDS- BY TYPE AND CALENDAR YEAR PROCESSED

TYPE OF CREDIT CLAIMED (STATUTE)	CAL. YR. PROCESSED	TAXPAYER (1)		CLAIMS	
		TYPE	NUMBER	NUMBER	AMOUNT
INTEREST RATE REDUCTION (79-32,181)	1988	FIN.	78	78	\$188,408
	1989	FIN.	28	108	\$320,404
	1990	FIN.	16	112	\$499,647
	TOTALS	1988-90 TOT.	122	298	\$1,008,459
HANDICAPPED ACCESSIBILITY (79-32,166 & 167)	1979	CORP.	1	1	\$1,229
	1980	CORP.	2	2	\$645
	1981	CORP.	3	3	\$13,591
	1982	CORP.	5	5	\$4,328
	1983	CORP.	5	7	\$19,407
	1984	CORP.	0	3	\$12,183
	1985	CORP.	2	2	\$3,723
	1986	CORP.	3	4	\$8,638
	1987	CORP.	0	2	\$10,608
	1988	CORP.	2	3	\$18,278
	1989	CORP.	0	1	\$543
	1990	CORP.	1	2	\$2,937
	TOTALS	1979-90 TOT.	24	35	\$96,110
SOLAR ENERGY (79-32,166 & 167 - REPEALED IN 1988)	1978	CORP.	1	1	\$865
	1979	CORP.	1	2	\$9,993
	1980	CORP.	8	9	\$15,851
	1981	CORP.	12	12	\$20,463
	1982	CORP.	11	13	\$23,271
	1983	CORP.	18	19	\$29,564
	1984	CORP.	8	9	\$13,240
	1985	CORP.	15	15	\$53,013
	1986	CORP.	13	13	\$37,099
	1987	CORP.	4	5	\$4,458
	1988	CORP.	0	1	\$324
	1989	CORP.	0	0	\$0
	1990	CORP.	0	0	\$0
TOTALS	1978-90 TOT.	91	99	\$208,141	
TOTAL OF ABOVE INCOME TAX CREDITS:					
	1986		95	271	\$1,960,588
	1987		98	300	\$2,158,956
	1988		339	536	\$4,723,701
	1989		216	683	\$9,292,325
	1990		135	560	\$4,495,455
TOTALS	1986-90 TOT.	883	2,350	\$22,631,025	

KANSAS DEPARTMENT OF REVENUE - RESEARCH AND REVENUE ANALYSIS
 INCOME TAX CREDITS AND SALES TAX REFUNDS- BY TYPE AND CALENDAR YEAR PROCESSED

TYPE OF CREDIT CLAIMED (STATUTE)	CAL. YR. PROCESSED	TAXPAYER (1)		CLAIMS	
		TYPE	NUMBER	NUMBER	AMOUNT

SALES TAX INCENTIVES:

SALES TAX EXEMPTION CERTIF. (79-3606(ee))	1987	CORP.	120	125	\$8,144,395
	1988	CORP.	197	210	\$7,338,500
	1989	CORP.	227	246	\$10,084,022
	1990	CORP.	256	273	\$8,604,526
	1987-90	TOT.	800	854	\$34,171,443

SALES TAX REFUNDS (79-3641 - Repealed in 1986) (79-3642 - Sunset Jan. 1, 1989) (79-3606(ee) - For cal. year 1987)	1986	CORP.	33	33	\$1,137,923
	1987	CORP.	52	63	\$2,119,418
	1988	CORP.	41	44	\$1,524,787
	1989	CORP.	60	62	\$1,428,605
	1990	CORP.	38	51	\$1,586,660
	1987-90	TOT.	224	253	\$7,797,392

TOTAL OF ABOVE SALES TAX INCENTIVES:

1986	CORP.	33	33	1,137,923
1987	CORP.	172	188	\$10,263,813
1988	CORP.	238	254	\$8,863,287
1989	CORP.	287	308	\$11,512,627
1990	CORP.	294	324	\$10,191,186
TOTALS	1987-90 TOT.	1,024	1,107	\$41,968,835

TOTAL OF ALL ECONOMIC DEVELOPMENT INCENTIVES:

(INCOME TAX CREDITS PLUS SALES TAX EXEMPTION CERTIFICATES AND REFUNDS)	1986	ALL	128	304	\$3,098,511
	1987	ALL	270	488	\$12,422,769
	1988	ALL	577	790	\$13,586,988
	1989	ALL	503	991	\$20,804,952
	1990	ALL	429	884	\$14,686,641
	TOTALS	1986-91 TOT.	1,907	3,457	\$64,599,860

PARKS

KANSAS DEPARTMENT OF REVENUE
Office of the Secretary
Robert B. Docking State Office Building
Topeka, Kansas 66612-1588

October 31, 1988

The Honorable Wint Winter Jr.
State Senator
737 Indiana
Box 1200
Lawrence, Ks. 66044

The Honorable Rochelle Chronister
State Representative
Route 2, Box 321 A
Neodesha, Ks. 66757

Dear Senator Winter and Representative Chronister :

Attached is a copy of my September 23, 1988 letter to you which we revised today, October 31. Please destroy the original September 23 letter.

The reason for this revision is to correct an error we discovered in Exhibit 1. where, in the summary table at the bottom of the page, in the taxpayer column, the "Other(33)" total of 29 should have been 57. As a result, the "Grand Total" of 113 should have been 141. The narrative at the top of page 2 has been revised accordingly. All other counts and dollar amounts check out O.K.

I sincerely regret any inconvenience this may have caused.



Ed C. Rolfs, Secretary
Department of Revenue

ECR:JP:jp

Enclosure

- cc: Lynne Holt, Legislative Research
- Ann Patterson, Commerce Department
- Mark Burghart
- Dan Walstrom
- John Parks ✓

KANSAS DEPARTMENT OF REVENUE
Office of the Secretary
Robert B. Docking State Office Building
Topeka, Kansas 66612-1588

September 23, 1988
REVISED OCTOBER 31, 1988

The Honorable Wint Winter Jr.
State Senator
737 Indiana
Box 1200
Lawrence, Ks. 66044

The Honorable Rochelle Chronister
State Representative
Route 2, Box 321 A
Neodesha, Ks. 66757

Dear Senator Winter and Representative Chronister :

We had a problem with furnishing you data for tax year 1984. This would have required pulling individual tax returns from remote storage at considerable time and expense so I asked John Parks, Senior Analyst in our Planning and Research Bureau, to talk to Lynne Holt and Tom Severn. The exemption certificates didn't start until January 1, 1987 so they agreed that, to keep the data as comparable as possible, the most recent two years of data would serve your purpose just as well.

What we have come up with is the most extensive information yet available on three economic development incentives by county. For this study, we have analyzed data from ENTERPRISE ZONES ONLY.

I JOB EXPANSION AND INVESTMENT CREDITS, better known as BUSINESS AND JOB DEVELOPMENT CREDITS, are shown on EXHIBIT 1. The number of credit claims filed exceeds the number of taxpayers because the taxpayer is only counted once but the taxpayer may file additional claims for either another location or another year. It should be pointed out that for the

process year 1986, the number of unique taxpayers is overstated because the process year 1985 was not analyzed to determine whether they had previously filed a claim. However, for process years 1987 and 1988, only "first time" claimants were counted. For the three years studied, Sedgwick County leads the others with 46 taxpayers or 33% of the total of 141 taxpayers who utilized this credit. Wyandotte was second with 22 taxpayers followed by Shawnee with 10 taxpayers or about 9% of the total. There were 33 "other" counties with a total of 57 taxpayers using this credit but confidentiality statutes prevents publishing any total with fewer than 5 taxpayers.

There were a total of 201 credit claims for this three year period or an average of 1.4 per taxpayer for a total of about \$735,000 in credits or about \$3700 per credit.

II SALES TAX REFUNDS are shown on EXHIBIT 2. Historical records did not readily lend themselves to identification of unique taxpayers; however, it is believed that only 3 to 5 taxpayers are duplicated in the total refund count of 98. For the four process years shown, Sedgwick County clearly leads all counties with 36 refunds or about 37% of the total of 98 refunds paid to date. The statute providing these refunds, K.S.A. 79-3641, was repealed by the 1986 legislative session, effective January 1, 1987, at which time the new enterprise zone sales tax exemption K.S.A. 79-3606(ee) took effect. However the Department is still receiving a few retroactive refund requests and has a backlog of 18 requests in the process of being audited. The total refund amount for the 98 refunds paid was about \$3,925,000 representing an average of about \$40,000 per refund.

III SALES TAX EXEMPTION CERTIFICATES issued are shown on EXHIBIT 3. This latest economic development incentive, effective January 1, 1987, is obviously the most used of the three incentives in this study.

In less than two years, 242 taxpayers have been issued a total of 256 exemption certificates, worth an estimated total tax benefit of \$29.7 million or about \$123,000 per project. It should be pointed out that this fiscal impact is computed from exemption certificates issued, at the time of issue, whereas the actual projects are ongoing and may extend into 1989, 1990 or even later so this total fiscal impact on cash flow will not be entirely felt until all purchases are made and the projects are completed.

Confidentiality statutes prohibit the Department of Revenue from making such disclosures as a list of company names (see K.S.A. 79-3234 and K.S.A. 79-5133). However, I understand the Commerce Department has a list of names of companies located in enterprise zones. Perhaps that list could be of benefit to you.

For your information, we are also working on a related project for Ann Patterson of the Commerce Department which will show these three economic development incentives, for enterprise zones only, by business class. This project required that we go back and code the detail by business class codes; however, we felt this was a very worthwhile project in that it will provide answers to that frequently asked question, "What types of businesses are using our economic development incentives?". We hope to finish that study in a week or so and I will see that you get a copy.

Please let me know if I can be of any further assistance.

Sincerely,



Ed C. Rolfs, Secretary
Department of Revenue

ECR:JP:jp

Enclosures

cc: Lynne Holt, Legislative Research
Ann Patterson, Commerce Department
Mark Burghart
Dan Walstrom
John Parks

EXHIBIT 1.

KANSAS DEPARTMENT OF REVENUE - PLANNING AND RESEARCH

BUSINESS AND JOB DEVELOPMENT CREDITS - ENTERPRISE ZONES ONLY

K.S.A. 79-32,153

TAXPAYER SUMMARY - SORTED BY PROCESS YEAR AND COUNTY
 PROCESSED IN CALENDAR YEARS 1986,1987 AND1988 THROUGH AUGUST 31.

<u>PROCESS YEAR</u>	<u>COUNTY</u>	<u>NUMBER OF</u>		<u>AMOUNT (3)</u>
		<u>TAXPAYERS (1)</u>	<u>CREDITS (2)</u>	
1986	SEDGWICK	16	20	\$14,507
	WYANDOTTE	8	11	\$40,148
	<u>OTHER (18)</u>	<u>29</u>	<u>34</u>	<u>\$137,127</u>
1986 TOTAL	20 COUNTIES	53	65	\$191,782
1987	SEDGWICK	18	28	\$96,608
	WYANDOTTE	9	12	\$29,646
	<u>OTHER (21)</u>	<u>28</u>	<u>43</u>	<u>\$229,127</u>
1987 TOTAL	23 COUNTIES	55	83	\$355,381
1988	SEDGWICK	12	21	\$50,950
	WYANDOTTE	5	9	\$19,713
	<u>OTHER (19)</u>	<u>16</u>	<u>23</u>	<u>\$117,166</u>
1988 TO 8/31	21 COUNTIES	33	53	\$187,829
1/1/86 THROUGH 8/31/88:				
	BARTON	6	7	\$5,270
	SEDGWICK	46	69	\$162,065
	SHAWNEE	10	17	\$75,742
	WYANDOTTE	22	32	\$89,507
	<u>OTHER (33)</u>	<u>57</u>	<u>76</u>	<u>\$402,408</u>
GRAND TOTAL	37 COUNTIES	141	201	\$734,992

(1) Taxpayers were counted only once. Claimants who had more than one claim in the current year, or who had a claim in a prior year, were not duplicated in the count.

(2) Includes all credits claimed.

(3) Includes all credit amounts claimed.

EXHIBIT 2.

KANSAS DEPARTMENT OF REVENUE - PLANNING AND RESEARCH

SALES TAX REFUNDS - ENTERPRISE ZONES ONLY

K.S.A. 79-3641

TAXPAYER SUMMARY - SORTED BY PROCESS YEAR AND COUNTY
PROCESSED 8-85 THROUGH 8-88

<u>PROCESS YEAR</u>	<u>COUNTY</u>	<u>NO. OF REFUNDS</u>	<u>REFUND AMOUNT</u>
1985	OTHERS (8)	10	\$165,938
1985 TOTAL	8 COUNTIES	10	\$165,938
1986	SEDGWICK	10	\$667,920
	OTHERS (8)	11	\$261,836
1986 TOTAL	9 COUNTIES	21	\$929,756
1987	SEDGWICK	16	\$409,555
	OTHERS (13)	27	\$1,390,906
1987 TOTAL	14 COUNTIES	43	\$1,800,461
1988	SEDGWICK	9	\$486,633
	OTHERS (11)	15	\$541,287
1/88-8/88	12 COUNTIES	24	\$1,027,920
TOTAL - ALL	LEAVENWORTH	5	\$17,298
	RENO	5	\$136,781
	SALINE	8	\$558,436
	SEDGWICK	36	\$1,601,534
	WYANDOTTE	11	\$409,017
	OTHERS (12)	33	\$1,201,009
8/85-8/88	17 COUNTIES	98	\$3,924,075

NOTE: Individual counties with fewer than five taxpayers in a given year are included with "other" counties because of confidentiality restrictions.

EXHIBIT 3.

KANSAS DEPARTMENT OF REVENUE - PLANNING AND RESEARCH

EXEMPTION CERTIFICATES ISSUED - ENTERPRISE ZONES ONLY

K.S.A. 79-3606(ee)

TAXPAYER SUMMARY - SORTED BY PROCESS YEAR AND COUNTY
TOTAL FROM 1-1-87 THROUGH 8-31-88

PROCESS YEAR	COUNTY	NUMBER OF		EST. TAX (1)
		TAXPAYERS	EXEM. CERT.	
1987	CRAWFORD	5	5	\$64,450
	SALINE	14	14	\$1,606,320
	SEDGWICK	33	38	\$17,072,685
	SHAWNEE	5	5	\$425,000
	WYANDOTTE	8	8	\$1,614,500
	<u>OTHERS (28)</u>	<u>53</u>	<u>57</u>	<u>\$3,338,700</u>
	1987 TOTAL	33 COUNTIES	118	127
1988	CRAWFORD	6	6	\$63,500
	SALINE	6	6	\$669,000
	SEDGWICK	28	31	\$1,183,400
	SHAWNEE	6	6	\$175,350
	WYANDOTTE	8	8	\$439,350
	<u>OTHERS (35)</u>	<u>70</u>	<u>72</u>	<u>\$3,014,580</u>
	1988 TOTAL	40 COUNTIES	124	129
1987 & 1988 COMBINED:				
	CLAY	5	5	\$35,250
	CRAWFORD	11	11	\$127,950
	DOUGLAS	6	7	\$1,125,850
	RENO	6	6	\$126,000
	RICE	10	10	\$92,550
	SALINE	20	20	\$2,275,320
	SEDGWICK	61	69	\$18,256,085
	SHAWNEE	11	11	\$600,350
	WYANDOTTE	16	16	\$2,053,850
	<u>OTHERS (41)</u>	<u>96</u>	<u>101</u>	<u>\$4,973,630</u>
GRAND TOTAL	50 COUNTIES	242	256	\$29,666,835

NOTE: Clay, Douglas, Reno and Rice counties are not shown by year because of confidentiality restrictions (i.e. fewer than five taxpayers).

(1) Estimated tax = total project cost times estimated percent taxable times 5% tax rate (i.e. 4% state plus estimated 1 % average local).

PARK

KANSAS DEPARTMENT OF REVENUE
Office of the Secretary
Robert B. Docking State Office Building
Topeka, Kansas 66612-1588

September 25, 1988

Ann Patterson
Department of Commerce
400 S. W. 8th, 5th Floor
Topeka, Kansas 66603-3957

Dear Ann,

This is in response to your letter requesting data on economic development incentives utilized within enterprise zones. As you described the objective, the main purpose was to determine the number of claims, and the dollar amount of those claims, used by different types of businesses within enterprise zones only. From our conversations, it was decided that the three incentives to be studied were the Business and Job Development Credits, the Sales Tax Refunds and the Sales Tax Exemption Certificates. The benefits to the taxpayer for each of the types of incentives were to be tabulated by Standard Industrial Classification (S.I.C.) codes, by year processed. Because of confidentiality restrictions, any S.I.C. code total with fewer than five taxpayers had to be combined with another group.

The detailed results of this study are attached as TABLES 1, 2 and 3 but the following narrative should provide some useful insights.

The number of credits, refunds and exemption certificates processed during the processing periods studied may be summarized as follows:

NUMBER OF CREDITS AND CLAIMS ISSUED (1)			
<u>MAJOR S.I.C. GROUP</u>	<u>BUS.&JOB DEV.</u>	<u>S/T REFUNDS</u>	<u>S/T EX. CERT.</u>
MANUFACTURING	106	53	155
RETAIL TRADE	30	25	43
SERVICE	27	13	24
OTHER	38	7	34
TOTAL	201	98	256

(1) PROCESS PERIODS- B&JD:CAL.YRS.1986,1987 &1988 THRU AUG.31.
REFUNDS: AUG.,1985 THRU AUG.,1988.
EX. CERT.: JAN., 1987 THRU AUG.,1988.

As shown in the footnote above, the process periods included in this study are different for each of three types of incentives. This was not done to confuse the issue but rather to obtain an adequate and representative number of observations from which the "mix" of types of businesses could be determined. Although exemption certificates have only been in existence since January, 1987, they clearly are the most used incentive in enterprise zones. The big three "users" of each of the incentives are Manufacturing, Retail Trade and Service--- in that order.

To make the data more comparable, the following table shows the preceding numbers, by S.I.C. group, as a percent of the total for each incentive:

<u>PERCENT OF CREDITS AND CLAIMS ISSUED (1)</u>			
<u>MAJOR S.I.C. GROUP</u>	<u>BUS.&JOB DEV.</u>	<u>S/T REFUNDS</u>	<u>S/T EX. CERT.</u>
MANUFACTURING	52.74%	54.08%	60.55%
RETAIL TRADE	14.93%	25.51%	16.80%
SERVICE	13.43%	13.27%	9.38%
OTHER	<u>18.91%</u>	<u>7.14%</u>	<u>13.28%</u>
TOTAL	100.00%	100.00%	100.00%

(1) See page 1.

More than 50 percent of the Business and Job Development credits and the Sales Tax Refunds were used by Manufacturing firms. More than 60 percent of the Sales Tax Exemption Certificates were issued to Manufacturing firms. Retail Trade was second in the use of each of these incentives, followed by firms in the Service sector.

Even more important than the number of credits, refunds or exemption certificates issued is the dollar benefit realized by the types of firms. The following table shows the fiscal impact, by type of business, for the process periods shown in the footnote on page 1:

<u>DOLLAR AMOUNT OF CREDITS AND CLAIMS ISSUED(1)</u>			
<u>(IN \$1,000'S)</u>			
<u>MAJOR S.I.C. GROUP</u>	<u>BUS.&JOB DEV.</u>	<u>S/T REFUNDS</u>	<u>S/T EX. CERT.</u>
MANUFACTURING	\$453	\$2,396	\$26,840
RETAIL TRADE	\$21	\$150	\$493
SERVICE	\$63	\$403	\$1,098
OTHER	<u>\$198</u>	<u>\$975</u>	<u>\$1,200</u>
TOTAL	\$735	\$3,924	\$29,631

(1) See page 1.

Although the processing periods differ in length, it is obvious that the Sales Tax Exemption certificates, which have been issued only since January 1 1987, dwarfs the other two incentives. The estimated tax being exempted, \$29.6 million, is almost eight times as large as the second largest benefit, Sales Tax Refunds, which went back to August, 1985. As with the number of claims, Manufacturing firms received the greatest dollar benefit of all three types of incentives; however, Retail Trade, which was second in number of claims, drops to third in dollar benefits. The Service sector was second in dollar benefits from each of the three incentives.

Perhaps the most revealing comparison of benefits is contained in the following table which shows the benefits received by each major S.I.C. group as a percent of the total dollar benefits for each of the three incentives:

<u>PERCENT OF AMOUNT OF CREDITS AND CLAIMS ISSUED (1)</u>			
<u>MAJOR S.I.C. GROUP</u>	<u>BUS.&JOB DEV.</u>	<u>S/T REFUNDS</u>	<u>S/T EX. CERT.</u>
MANUFACTURING	61.63%	61.06%	90.58%
RETAIL TRADE	2.86%	3.82%	1.66%
SERVICE	8.57%	10.27%	3.71%
OTHER	26.94%	24.85%	4.05%
TOTAL	100.00%	100.00%	100.00%

(1) See page 1.

Manufacturing firms have received about 61 percent of the benefits claimed under both Business and Job Development Credits and Sales Tax Refunds and about 91 percent of the benefits under the Sales Tax Exemption Certificates issued. The only other single sector receiving more than 10 percent of the benefits was the Service sector which received 10.27 percent of the total benefits from Sales tax Refunds.

It is interesting to observe the differences between the percentage of claims and the percentage of dollar benefits. For example, Retail Trade, which had about 15 percent of the Business and Job Development Credits, had less than 3 percent of those dollar benefits. An even greater contrast is seen in Sales Tax Exemption Certificates where Retail Trade had about 17 percent of the claims but less than 2 percent of the benefits. This paradox is explained by the wide differences in the dollar amount of each claim; both within an economic sector and, especially, between sectors. This is shown best by the average amount per claim in the table below:


AVERAGE AMOUNT PER CLAIM (1)			
<u>MAJOR S.I.C. GROUP</u>	<u>BUS.&JOB DEV.</u>	<u>S/T REFUNDS</u>	<u>S/T EX. CERT.</u>
MANUFACTURING	\$4,275	\$45,200	\$173,160
RETAIL TRADE	\$692	\$6,012	\$11,472
SERVICE	\$2,342	\$31,003	\$45,754
OTHER	\$5,207	\$139,302	\$35,314
TOTAL	\$3,657	\$40,042	\$115,749

(1) See page 1.

Overall, for the periods studied, the type of incentive with the largest average amount per claim are Sales Tax Exemption Certificates with an average of \$115,749 per claim. Within this incentive, Manufacturing had the largest average with \$173,160 per claim. The second largest incentive was Sales tax Refunds with an overall average of \$40,042 per claim. Within this incentive, the "Other" group, which contains Construction, Transportation and Wholesale (as shown in attached TABLE 2.), had the largest average with \$139,302 per claim.

There is a considerable amount of additional detail by S.I.C. code within each group in attached TABLES 1, 2 and 3.

Please let me know if you desire any further information or explanation.


 John Parks
 Senior Revenue Analyst
 Planning and Research

JP:jp

Attachments

cc Senator Wint Winter Jr.
 Representative Rochelle Chronister
 Ed C. Rolfs
 Dan Walstrom
 Mark Burghart
 Lynne Holt, Legislative Research

TABLE 1.

KANSAS DEPARTMENT OF REVENUE- PLANNING AND RESEARCH

TOTAL BUSINESS AND JOB DEVELOPMENT CREDITS - ENTERPRISE ZONES ONLY

(K.S.A. 79- 32,153)

TOTAL CREDITS PROCESSED : CALENDAR YEARS 1986,1987 AND 1988 THRU AUG. 31.

SUMMARIZED BY STANDARD INDUSTRIAL CLASSIFICATION (S.I.C.) CODE

MAJOR S.I.C. GROUP	NUMBER	% OF TOTAL	CREDIT AMT.	% OF TOTAL	AVG. CREDIT
MINING AND CONSTRUCTION					
Mining, bldg. & spec. contrs.	9	4.48%	\$98,899	13.46%	\$10,989
Total	9	4.48%	\$98,899	13.46%	\$10,989
MANUFACTURING					
Food and kindred products	11	5.47%	\$42,287	5.75%	\$3,844
Printing, publ. & allied ind.	12	5.97%	\$66,492	9.05%	\$5,541
Chemicals & allied products	9	4.48%	\$16,412	2.23%	\$1,824
Rubber & misc. plastic prod.	10	4.98%	\$47,739	6.50%	\$4,774
Fabricated metal products	7	3.48%	\$18,673	2.54%	\$2,668
Machinery, except electrical	18	8.96%	\$105,852	14.40%	\$5,881
Elect. mach., eqpt. & supp.	6	2.99%	\$15,684	2.13%	\$2,614
Transportation equipment	16	7.96%	\$111,623	15.19%	\$6,976
Other-Apparel,lumber,furn., paper,prim.metals,misc.	17	8.46%	\$28,392	3.86%	\$1,670
Total	106	52.74%	\$453,154	61.65%	\$4,275
TRANS.,COMM., & OTHER UTILITIES					
Motor freight transp.,ware- housing, & transp. services	18	8.96%	\$82,777	11.26%	\$4,599
Total	18	8.96%	\$82,777	11.26%	\$4,599
WHOLESALE TRADE					
Durable and nondurable goods	11	5.47%	\$16,175	2.20%	\$1,470
Total	11	5.47%	\$16,175	2.20%	\$1,470
RETAIL TRADE					
Auto dealers & gas serv.stations	6	2.99%	\$3,400	0.46%	\$567
Apparel & accessory stores	9	4.48%	\$2,846	0.39%	\$316
Eating & drinking places	5	2.49%	\$1,009	0.14%	\$202
Other-bldg.mat.,gen.merch., food stores&misc. retail	10	4.98%	\$13,508	1.84%	\$1,351
Total	30	14.93%	\$20,763	2.82%	\$692
SERVICES					
Business services	16	7.96%	\$54,187	7.37%	\$3,387
Other-hotels,auto & misc. repair, social & misc. serv. & finance, banking & real estate	11	5.47%	\$9,037	1.23%	\$822
Total	27	13.43%	\$63,224	8.60%	\$2,342
TOTAL ENTERPRISE ZONE CREDITS	201	100.00%	\$734,992	100.00%	\$3,657

J.P. 9/20/88 11:15 AM

1-26

TABLE 2.

KANSAS DEPARTMENT OF REVENUE - PLANNING AND RESEARCH

SALES TAX REFUNDS PAID - ENTERPRISE ZONES ONLY

(K.S.A. 79-3641 : REPEALED 7-1-86, EFFECTIVE 1-1-87)

TOTAL REFUNDS ISSUED : AUG.85 THRU AUG.88

SUMMARIZED BY STANDARD INDUSTRIAL CLASSIFICATION (S.I.C.) CODE

<u>MAJOR S.I.C. GROUPS</u>	<u>NUMBER</u>	<u>% OF TOTAL</u>	<u>REFUND AMT.</u>	<u>% OF TOTAL</u>	<u>AVG./REFUND</u>
MANUFACTURING					
Food, apparel, lumber & paper	9	9.18%	\$213,583	5.44%	\$23,731
Printing, publ. & allied ind.	16	16.33%	\$1,074,602	27.38%	\$67,163
Chemicals, petr.refin. & rubber	7	7.14%	\$237,638	6.06%	\$33,948
Fabricated metal products	5	5.10%	\$42,762	1.09%	\$8,552
Machinery, except electrical	10	10.20%	\$331,026	8.44%	\$33,103
Elect. mach., trans. eqpt. & misc.	6	6.12%	\$495,995	12.64%	\$82,666
Total	53	54.08%	\$2,395,606	61.05%	\$45,200
RETAIL TRADE					
Food stores	6	6.12%	\$27,147	0.69%	\$4,525
Eating and drinking places	10	10.20%	\$70,720	1.80%	\$7,072
Auto dlrs., gas stns. & furniture	9	9.18%	\$52,444	1.34%	\$5,827
Total	25	25.51%	\$150,311	3.83%	\$6,012
SERVICES					
Hotels & other lodging places	8	8.16%	\$358,430	9.13%	\$44,804
Health, legal & misc. services	5	5.10%	\$44,615	1.14%	\$8,923
Total	13	13.27%	\$403,045	10.27%	\$31,003
OTHER: CONSTR., TRAN. & WHOLESALE					
	7	7.14%	\$975,113	24.85%	\$139,302
ENTERPRISE ZONES TOTAL	98	100.00%	\$3,924,075	100.00%	\$40,042

NOTE: There were also 18 additional refund requests being audited before payment, as of Sept. 1, 1988.

House Economic Development Committee
January 27, 1992

Testimony of Bernie Koch
Wichita Area Chamber of Commerce
House Bill 2681

Representative Gjerstad, members of the committee, I'm Bernie Koch with the Wichita Area Chamber of Commerce appearing on House Bill 2681.

I will be making general comments on the importance of the Enterprise Zone law in Kansas, rather than speaking specifically to the bill.

We primarily compete for new business with Missouri, Oklahoma, Nebraska, and sometimes Colorado. We have the highest property taxes and among the highest corporate income taxes in the region. Until we get those two issues addressed positively, we must maintain every incentive we have as an attraction for new job creating investments in our state - in both metropolitan and non-metropolitan areas.

Enterprise Zone legislation should not be considered in a vacuum. We must take into consideration the total tax burden for business, both existing and potential new business.

Our effective property tax rate in the City of Wichita is 4.4 percent on commercial and industrial real property. In Oklahoma, a major competitor, it's .9 percent. Oklahoma's corporate tax rate is 6 percent, while our top rate in Kansas is 6.75 percent. Any diminishing of the enterprise zone benefits in Kansas will diminish our ability to compete.

Attached to this testimony is part of the January 1991 Directory of State Incentives published by Area Development Magazine. It is the part dealing with incentives and business taxes in Oklahoma. This will enable you to compare our own structure with that of a major competitor.

We have no objection to the creation of special incentives for small communities which have a special set of problems. To do this by simply designating six counties as metropolitan and all others as non-metropolitan ignores the fact that there are all size communities located within both metropolitan and non-metropolitan counties.

*Eco-Devo
Attach #2
01-28-92*

For example, Cheney, in western Sedgwick County, is a small farm community. It certainly cannot be called a metropolitan area, yet for the purposes of this bill it is considered metropolitan. Tax benefits under this bill available to business would be less than those for cities like Hutchinson and Salina, which are considered non-metropolitan in this bill.

To summarize, these are the things we would like to see the state maintain or initiate:

- Tax credits for the creation of new jobs, large enough to be competitive with nearby states, which will help offset our high corporate income tax rates (compared to surrounding states) and high property taxes.
- Investment tax credits for new investments which create new jobs.
- Sales tax exemptions for construction of new facilities which are job creating.
- The ability to target certain areas of the city which have special economic development considerations. A few of those areas in Wichita include:
 1. Downtown, where the City, County, and State have agreed to spend over \$100 million in the next few years in an effort to attract private investment.
 2. A section in the minority community along 21st Street leading to Wichita State University which the City has voted to target for revitalization.
 3. A section of north central Wichita which has environmental problems (super fund area).

Although I am not prepared today to make specific recommendations as to how the proposed House bill 2681 should be revised to meet these objectives, we will be glad to work with you in any way you desire.

Thank you for the opportunity to submit testimony.

to out-of-state retailers. Sales of
 vehicle nonresidents are also
 exempt from and use taxation. Agricul-
 tural products and merchandise stored
 in the state in interstate commerce are
 also exempt.

Pollution control equipment:

Certified pollution control equipment is not considered corporate assets for corporate income tax. It is exempt from property taxation and is also exempt from sales and use taxes.

Industrial machinery and equipment:

Manufacturing machinery and equipment, machinery for packaging, handling and transportation equipment, and ships in commerce are exempt from the sales and use tax.

An exemption for industrial machinery and equipment is provided for tools, dies, molds and other machinery used directly in the manufacture of property that is used or consumed in the production of other property, which is then used in the production of a final product for sale (a use-on-use exemption).

Industrial fuels and raw materials:

Packaging, water, steam, and natural gas, and certain motor vehicle fuels used in manufacturing are exempt from sales and use taxes.

Energy and fuel conservation measures:

Energy conversion facilities, thermal efficiency facilities, and solid waste energy conversion facilities are exempt from sales and use taxes and property tax. Such facilities are not considered assets in determining value of property owned for net income tax.

OHIO STATE CONTACT:

Director
 Ohio Department of Development
 P.O. Box 1001
 Columbus, OH 43266-0101
 (614) 466-3379

Oklahoma

DIRECT FINANCIAL INCENTIVES

Industrial development bonds:

Local governments are authorized to establish trusts and authorities to issue industrial development bonds for manufacturing projects and pollution control facilities to stimulate economic development. Interest rates are negotiated between the purchaser of the bonds and the user of the facility being financed. Bond terms are up to 30 years.

Direct state loans:

The Oklahoma Industrial Finance Authority issues bonds and makes loans to local industrial authorities. They in turn make loans to manufacturing and processing firms, recreation facilities, agricultural processing and mine resource processing firms, and industrial parks. The loans can

apply to 66 2/3 percent of the cost of land and buildings on a secured first mortgage and 33 1/3 percent on a second mortgage. The maximum loan amounts are \$2 million (first mortgage position) and \$1 million (second mortgage position).

Customized Industrial training:

The Oklahoma State Department of Vocational and Technical Education's Training for Industry Program (TIP) provides free employee training to meet the needs of new firms locating in the state or firms expanding their operations. The program pays costs associated with such training.

Both pre-employment and on-the-job training is available. Training can take

place in company facility, vocational school, community college, or leased facility. There is no commitment by the company to hire trainees, nor are trainees required to accept job offers after completion of training.

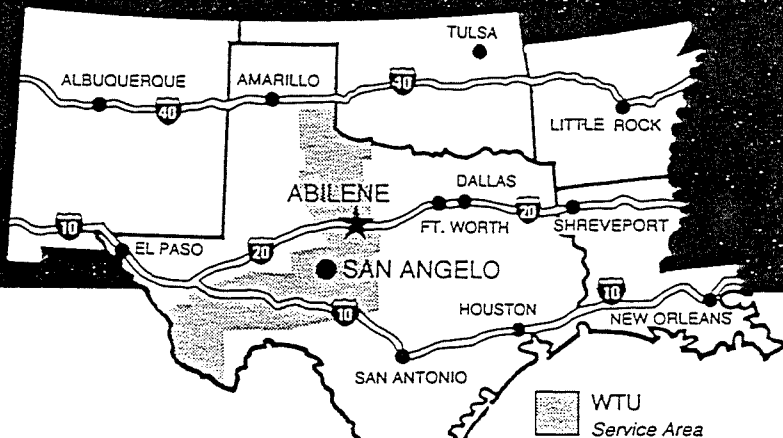
The Oklahoma Center for Science and Technology is authorized to provide grants, loans, and investments in technology-related businesses.

A statewide Bid Assistance Network helps companies compete for federal government contracts.

Other financing programs:

The Oklahoma Development Finance Authority is a new statewide bond finance

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2-3

program authorized to issue up to \$100 million in general obligation bonds for credit enhancement assistance new and expanding industry.

The Oklahoma Capital Investment Board is empowered to create more than \$100 million in privately-owned and managed venture capital.

Through Community Development Block Grants-Economic Development Funding, approximately \$7 million is available for grants to Oklahoma communities for economic development in form of loans to expanding and emerging companies.

BASIC BUSINESS TAXES

Corporate income tax:

A 6 percent corporate income tax is imposed on the net taxable incomes of corporations doing business in the state or attributable to state sources.

Sales and use taxes:

A 4.5 percent sales tax is levied on the sale, rental or lease of tangible personal property, and on certain services and admissions. Items sold for resale are not taxed. Businesses are allowed a deduction of 2.5 percent of the tax due for collecting the tax and record-keeping.

A 4.5 percent use tax is imposed on tangible personal property purchased or brought into the state for storage, use or consumption that is not subject to the sales tax. Items exempt from sales taxation are also exempt from use tax. Cities may levy a 1 percent to 4 percent local sales tax.

Property tax:

The state levies no property tax. Both real and personal property, not specifically exempted, are subject to local property taxation. There is no tax on intangible property.

Property is assessed in the taxing districts where located. Assessments do not exceed 35 percent of fair cash value. The actual tax rate is the aggregate of all levies of all local taxing authorities.

Job creation tax credit:

Through the investment/new jobs tax credit, for manufacturing or processing establishments, a credit of 1 percent on corporate income tax is allowed for investment in qualified depreciable property placed in service before 1995 for each \$50,000 of investment, or a credit of \$500 is allowed for each new full-time equivalent employee, whichever is greater. In enterprise zones the credit is doubled.

Property tax abatement:

Ad valorem tax exemptions apply to new qualified manufacturing facilities, research facilities, and expanding existing facilities for five years in the amount equal to the increase in ad valorem taxes attributable to the expansion.

New sales tax credits:

New or expanding industries (including service industries) that create 100 jobs or more can qualify for a sales and use tax refund on a purchase of \$2.0 million of data processing, computer, telecommunications, and similar equipment.

Goods in transit:

Property sold by manufacturers for transportation out of state and tangible goods to be delivered outside the United States are exempt from sales and use taxation. All goods traveling in interstate commerce that remain in Oklahoma less than nine months and are destined for out-of-state delivery are exempt from property taxation.

Industrial machinery and equipment:

Exemptions from the sales and use taxes are provided for machinery and equipment for new and existing manufacturing or process plants, machinery and equipment used in nonintoxicating beverage manufacturing facilities, and motor vehicles and accessories already subject to an excise tax.

Tangible personal property of commercial railroads and airlines is exempt from use tax.

Machinery and equipment used in oil and gas production, upon which a gross production tax is paid, and motor vehicles after payment of yearly registration fees, are exempt from local property taxation.

Industrial fuels and raw materials:

Manufacturers consuming natural gas can claim a corporate income tax credit at the rate of 3 mills per 1,000 cubic feet of gas consumed, after the first 25,000 cubic feet of gas is used.

Property consumed in manufacturing and component parts; aircraft engine fuel and certain petroleum and natural gas; certain gasoline or motor fuel; and certain containers are exempt from sales and use taxes.

Energy and fuel conservation measures:

Until 1990, a corporate income tax credit, equal to 30 percent of the cost of equipment, construction, and installation, is provided for solar energy systems that are installed on nonresidential property.

An exemption from sales and use taxation is provided for ethyl alcohol mixed with motor fuel that is subject to the motor fuel tax.

Venture capital tax credit:

A 20 percent tax credit is provided for investments in qualified venture capital companies. Venture capital companies must raise a minimum of \$5 million and invest at least 55 percent of their funds in Oklahoma businesses.

Technology transfer tax credit:

Oklahoma corporations that assist small businesses with technology-transfer projects are entitled to special income tax exemptions. Small businesses are entitled to tax exemptions on royalties.

OKLAHOMA STATE CONTACT:

Oklahoma Department of Commerce
6601 Broadway Extension
P.O. Box 26980
Oklahoma City, OK 73126-0980
(405) 843-9770 or (800) 879-6552

DIRECT FINANCIAL INCENTIVES

Industrial development bonds:

The Oregon Economic Development Commission approves tax-exempt industrial development bonds to new and expanding manufacturing businesses. Proceeds can be used to purchase land, construct buildings, purchase existing buildings, purchase new and used equipment, and expand existing plants. Terms are up to 30 years.

Oregon's 23 port districts also issue industrial development bonds to finance companies locating in their areas. Many such districts have made industrial parks available to financed facilities.

The City of Portland also issues industrial development bonds.

Composite bonds:

The Oregon Economic Development Commission also issues tax-exempt pooled composite development bonds to provide loans to smaller new and expanding manufacturing businesses. Loans must be used primarily to purchase land, construct new buildings, acquire machinery and equipment, and purchase existing facilities. Maximum term of the bond is 30 years.

State grants:

The Oregon Resource and Technology Development Corporation fosters innovation in existing industry and development of new industry. Capital financing for the development of new technologies, applied research matching grants for educational institutions and private enterprise, and managerial assistance and technical referral services are available.

The Applied Research Grant Fund is available for educational institutions and private enterprises for research projects in key trade sector areas of special importance to the Oregon economy.

Direct state loans:

The Oregon Port Revolving fund provides loans to port districts for port development projects (infrastructure) or business development projects by private businesses. Projects must be located within port district boundaries. The variety of projects eligible is very broad and includes water-oriented facilities, industrial parks, airports, and commercial or industrial developments. Maximum size loan is \$500,000. Terms may not exceed 20 years.

The Oregon Business Development Fund provides loans to businesses for property acquisition, construction, acquisition of machinery and equipment, and working capital. Eligible business activities include manufacturing, processing, and tourism-related projects. Maximum loan size is 40 percent of total eligible project costs to a maximum of \$250,000. Term of the loan is up to 25 years.

The Small-Scale Energy Loan Program finances energy conservation and renew-

LEGISLATIVE TESTIMONY

Kansas Chamber of Commerce and Industry

500 Bank IV Tower One Townsite Plaza Topeka, KS 66603-3460 (913) 357-6321



A consolidation of the
Kansas State Chamber
of Commerce,
Associated Industries
of Kansas,
Kansas Retail Council

HB 2681

January 27, 1992

KANSAS CHAMBER OF COMMERCE AND INDUSTRY
Testimony Before the
House Committee on Economic Development
by
Bud Grant
Vice President and General Manager

Madam Chair and members of the Committee:

My name is Bud Grant, Vice President of the Kansas Chamber of Commerce and Industry and I appreciate the opportunity to make a few very brief comments concerning the bill before you.

The Kansas Chamber of Commerce and Industry (KCCI) is a statewide organization dedicated to the promotion of economic growth and job creation within Kansas, and to the protection and support of the private competitive enterprise system.

KCCI is comprised of more than 3,000 businesses which includes 200 local and regional chambers of commerce and trade organizations which represent over 161,000 business men and women. The organization represents both large and small employers in Kansas, with 55% of KCCI's members having less than 25 employees, and 86% having less than 100 employees. KCCI receives no government funding.

The KCCI Board of Directors establishes policies through the work of hundreds of the organization's members who make up its various committees. These policies are the guiding principles of the organization and translate into views such as those expressed here.

*Eco-Devo
Attach #3
01-28-92*

First, let me commend the Interim Committee for the time and effort spent in putting together the bill which you now have under consideration. As I'm sure you noted as you worked your way through it, it is a difficult piece of legislation and one which obviously required considerable time and effort on the part of the Interim Committee and special task force which put it together. Again, I would like to commend them.

Generally, while the specific piece of legislation which will ultimately be voted on has not been finalized, KCCI generally is supportive of the direction on which this bill is taking you. It has become obvious over the past few years that problems have arisen with the current enterprise zone statutes. The question is, should those statutes simply be fine tuned, or should a major revamp such as this bill represents be passed.

In reviewing the bill I am sure you have noted there are several basic policy decisions which the Committee must consider. First is the effort on the part of the bill to provide incentives to firms locating in the less populated areas of the state. The obvious question is, should the state be attempting to direct development. A second question, or if not a question at least in recognition of the fact that as introduced, the incentives available under the provisions of this bill are significantly less than the potential incentives available under current law. Currently, within an enterprise zone, the benefits spread over a ten year period substantially exceed the one lump sum benefit under the provisions of this bill. However, it may be to the advantage of the firm receiving the incentives to receive the payments or the credits early in the firm's existence rather than spreading it out over a ten year period to offset any lesser amounts which this bill may offer.

A third question is limiting the incentives to a specified number of SIC Codes. It has been the practice in the state of Kansas since the passage of the Job Expansion and Investment Credit Act in 1976, to put all the state's resources possible behind the goal of job creation. That was the purpose of the Job Expansion and Investment Credit Act. Upon passage of the Enterprise Zone Act, this emphasis shifted slightly toward making Kansas a more attractive location for firms from out of the state. This bill, as

introduced, limits the enhanced incentives to those SIC Codes specified in the first section, thus eliminating some types of businesses from the availability of these incentives. However, the bill also does retain the provisions of the Job Expansion and Investment Credit Act and does maintain the Legislature's original intention of encouraging job creation through incentives.

I hope Madam Chair and members of the Committee that the few questions that do remain in this legislation can be answered and that you can move forward with the program of insuring that Kansas remains attractive to business and industry.

KANSAS DEPARTMENT OF COMMERCE
Testimony on H.B. No. 2681
House Economic Development Committee
January 27-28, 1992

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The Kansas Department of Commerce is currently involved with the Kansas Enterprise Zone program on two levels of activity. First, the Department's Community Development Division administers the program, monitors the eligibility of each city and county application and assists them with the application process, and serves as a clearing house for enterprise zone information to businesses. Second, the Department's Industrial Development, Existing Industry, and Trade Development Divisions use the incentives associated with the Kansas Enterprise Zone program to encourage the creation of new jobs in the State of Kansas by new and expanding companies.

The Department's position regarding the proposed legislation under H.B. No. 2681 should be viewed from the perspective of program administration and the use of the proposed program as a business recruitment tool.

Program Administration: The proposed legislation simplifies the verification of eligibility since 1) it no longer requires cities or counties to meet specific economic distress guidelines; and 2) it no longer requires cities or counties to specify particular areas for zone designation. The program is now viewed more as a regional business development and recruitment program with the emphasis on job creation in "basic industries". KDOC's role would be one of monitoring and ensuring that certain basic criteria are fulfilled at the local and regional level. This monitoring will focus on 1) regions having a current, operative strategic plan;

*Eco-Devo
Attach. #4
01-28-92*

KANSAS DEPARTMENT OF COMMERCE
Testimony on H.B. No. 2681
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January 27-28, 1992

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2) identifying cases of "pirating" between Kansas communities; 3) maintaining a data base and coordination of information with the Department of Revenue as to current approved regions; and 4) working with the Department of Revenue to determine the program's annual fiscal impact. KDOC agrees with the proposed new approach and believes the changes will result in a more efficient, effective, and fiscally responsible program.

Business Recruitment and Development Tool: There are two basic incentives associated with the current and the proposed programs - **sales tax exemptions** and **income tax credits**. The current program offers both incentives to any business located in an approved zone. The proposed program limits these incentives to businesses that are defined as "basic industries", i.e. non-retail or non-local service type businesses. Retail will be eligible for credits and exemptions only if: 1) it is located in communities of 1,500 or less in population; or 2) it is located in the downtown area of a "Main Street" community. KDOC agrees with limiting the program to "basic industry" since, in most cases, retail businesses are a result of the establishment of basic industry.

The sales tax exemption applies to the purchase of material, machinery, and equipment necessary to construct, remodel, or expand a business facility. There are two differences between the current and proposed programs that will impact the fiscal note. First, the proposed program is more narrow since it primarily applies basic industry. Second, the

KANSAS DEPARTMENT OF COMMERCE
Testimony on H.B. No. 2681
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proposed program is geographically broader, since it applies to all business locations within a region, rather than just to the specific designated areas within a city or county. However, since virtually all basic industry in the state is located in presently designated enterprise zones, there should be minimal increase, if any, to fiscal impact. One exception to this is Johnson County. There are businesses which will qualify under the proposed program that are not in currently designated enterprise zones. The Department of Revenue is determining the fiscal impact of these changes. KDOC agrees with the broad geographic approach of the proposed program since it will allow the State of Kansas to be more competitive with other states, specifically the State of Missouri, on tax issues.

The other main issue for consideration on the recruitment side is income and investment tax credits available to eligible businesses. The proposed program would leave the investment tax credit the same as with the current program - \$350 per \$100,000 capital investment per year for ten years with no provision for "carry-forward". The proposed program seeks to provide greater job creation tax credits for non-metropolitan regions. KDOC's position is that as long as the metropolitan areas are able to receive the same level of job credits as under the current program, then we can support enhanced credits for non-metropolitan areas under the proposed program. KDOC suggests that the format used to define the job and investment credits be consistent, i.e. ensure that both credits have the same carry-forward provision.

KANSAS DEPARTMENT OF COMMERCE
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House Economic Development Committee
January 27-28, 1992

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One additional issue is the transition from the current program to a new program. KDOC would like to see a transition period in which companies that are eligible under the current, "old" program could elect to continue under that program. This would include companies that are presently evaluating Kansas for site location projects. This would allow the State to deliver on past commitments to these companies.

Testimony before the
House Committee on Economic Development

Concerning H.B. 2681

by
Tom Riederer
Vice President
Kansas Industrial Developers

Representative Gjerstad and members of the Committee, I am here to speak in support of H.B. 2681, which is the result of many hours of study and discussion on this difficult issue. The purpose of this Bill is to provide incentives for businesses to locate and expand in Kansas and alleviate the problems in the current Enterprise Zone Law. It is important that we continue to encourage business development and make it as easy as possible.

KIDA has supported this effort and would like to continue to work with you to finalize this proposal. The emphasis of this Bill is to encourage development and I would hope that the final version will clearly define the benefits and the benefits will be easily implemented by business.

Again, I would say that we support the effort to provide an incentive to business so that we may promote jobs and increase in tax base for the State of Kansas.

*Eco-Devo
Attach #5
01-28-92*

TESTIMONY PRESENTED TO THE
HOUSE ECONOMIC DEVELOPMENT COMMITTEE

JANUARY 26, 1992

RE: HB 2681

Chairperson Gjerstad, members of the committee, I am Alan Cobb, representing the Kansas Association for Small Business. The membership of the Kansas Association for Small Business is made up of over 125 companies in or serving manufacturing. Many of these businesses have been users of the current Enterprise Zone legislation. They have received sales tax exemptions on expansion which created jobs, and some have taken advantage of the income tax job credits. Nevertheless, the Kansas Association for Small Business supports the direction being taken by the proposed changes. The newly proposed approach stresses the kinds of business which create jobs beneficial to Kansas, rather than business location. We believe the current structure of the Enterprise Zone program is cumbersome and unfair to expanding businesses located outside enterprise zones. We wish to work closely with the committee as you try to develop a workable alternative to Enterprise Zones.

Since many of our members are in the Wichita area, there is some concern about the discrepancy between rural and urban areas in applying job creation and investment credits. This issue will be addressed at our next board meeting. It should be noted there are certain businesses most likely to locate only in urban areas. However, some subcontractors and component part manufacturers that serve the urban businesses could be located in rural areas. Thus, these rural businesses will also benefit by urban job expansion.

*Eco-Devo
Attch. #6
01-28-92*



Kansas
Association
for
Small
Business

532 No. Broadway
Wichita, KS 67214
316 267-9984

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Make A
Difference.*



CHAMBER
OF COMMERCE

TO: Members of the House Economic Development Committee

FROM: Donald R. Goss, President, Olathe Area Chamber of Commerce

SUBJECT: House Bill No. 2681, Tax Incentives for Businesses, Non-metropolitan Regions

DATE: January 27, 1992

The Olathe Area Chamber of Commerce and I appreciate the chance to appear before you today concerning House Bill 2681. We recognize the challenge you have before you to provide an equitable incentive package to both non-metropolitan and metropolitan areas of Kansas.

I have a short tenure in Kansas compared to many of those speaking to you today. In the short two years I have been in Kansas, I have appeared before the legislature twice to talk about enterprise zones. In both instances the legislation proposed would erode several border communities ability to compete with its neighboring state of Missouri. Just the fact that changes to the Enterprise Zone Statutes have been proposed over the past four years, as I understand it, causes concern.

As an economic development professional, I am concerned that we in Kansas do not have stability in the economic development incentives we offer customers. Research tells us one of the things an industry looks for in relocating or expanding is stability in government. Continuous proposals for change to Enterprise Zone benefits limits our ability to give clients a true picture of what it can expect when looking at Kansas.

I personally laud your efforts to provide worthwhile and workable incentives to non-metropolitan communities. I have difficulty, however, looking at House Bill 2681 and finding equity for the metropolitan areas. Cutting the benefits of metropolitan areas to one-half of its non-metropolitan counterparts will adversely impact the sites that help generate a majority of the state's wealth.

We urge you to consider no changes to the existing benefit plan, or if changes are to be made, to give economic development specialists an even stronger tool to work with, not weaker.

Many economic development concerns gave the summer interim study committee their opinion of what enterprise zones do for the state. In part, the report states:

128 S. CHESTNUT
P.O. BOX 98
OLATHE, KANSAS
6 6 0 6 1
913 • 764 • 1050

Eco-Devo
Attach.#7
01-28-92

Representative from the Kansas Chamber of Commerce and Industry, the Kansas Association for Small Business, and the Kansas Industrial Development Association responded to questions submitted to them prior to the meeting. The consensus of conferees was that the Kansas Enterprise Zone program and associated benefits have been instrumental in ensuring the competitiveness of Kansas firms with out-of-state firms.

The largest concern we have, as a border community, is our ability to be competitive with Missouri communities. The legislation you are considering will not continue to give us that competitive edge. Missouri's benefits are already more lucrative to companies exploring relocation and expansion. The proposed changes you suggest will just widen the gap between Kansas and Missouri and our ability to compete.

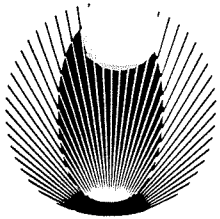
I don't believe anyone will tell you there aren't perceived abuses of Enterprise Zone benefits. Your suggestion to restrict their use to standard industrial classifications should help eliminate some of the perceived abuse. We would suggest, however, that definitions of basic industry should be kept fairly broad to insure that Kansas doesn't exclude large office users like insurance companies, United Telecom and others who want to expand or locate corporate headquarters in the state. The SIC's, as proposed, may exclude the state's ability to attract similar companies. We also need to be cognizant of existing companies like United Telecom who have requested enterprise zone benefits. If our definition of basic industry becomes narrowly focused we could also lose existing companies that have future expansion plans that incorporate enterprise zone incentives.

You have before you documents provided by Don Seifert, Assistant Director for Administrative Services of Olathe. He points out there are some 800 businesses located within the Olathe enterprise zone which covers about 5,500 acres. Many of the industries located within these zones have availed themselves of enterprise zone incentives to help with expansions. Companies that were previously leasing space have become owners of their buildings and property due to the help the enterprise zone gave them. Value added to the tax base that would not have been possible without the zones existence.

House Economic Development Committee
January 27, 1992
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We encourage you to think seriously about leaving the enterprise zone program as it now exists. If you must change it be cognizant of metropolitan communities needs to be as competitive as its non-metropolitan neighbors. What you are proposing will not do this -- it instead puts the metropolitan communities at a disadvantage.

Abuses to the program are minuscule compared to the overall increase in tax value to the communities affected by enterprise zones. In our present day economy it does not make financial sense to reduce or eliminate a program aimed at expanding the local economy.



City of Olathe

MEMORANDUM

TO: Members of the House Economic Development Committee

FROM: Donald R. Seifert, Assistant Director, Administrative Services *DRS*

SUBJECT: House Bill No. 2681; Tax Incentives for Business, Non-Metropolitan Regions

DATE: January 27, 1992

On behalf on the city of Olathe, thank you for the opportunity to appear today concerning House Bill 2681. Our governing body opposes major structural changes to the enterprise zone program, so I appear today in opposition to this bill. The Kansas enterprise zone program has been a vital tool in our community's economic development efforts, a tool we hate to see constantly under attack.

For several years, we have observed that some members of the legislature and others are concerned about the direction of the enterprise zone program. The reasons stated for this have widely varied. Some have said Kansas has too many zones, or they cost the state too much in lost revenue. Others claim that local units of government lack a meaningful financial commitment to the program. In academic circles, the program is criticized for not being targeted to basic industries. After four years of discussion and study, this bill now proposes to eliminate the enterprise zone program as we know it. It is very frustrating and difficult to deal intelligently with prospects amidst this continual uncertainty.

I would like to offer a few brief comments about Olathe's enterprise zone. We believe Olathe has used the enterprise zone program in a responsible manner. As depicted on the attached map, Olathe's enterprise zone contains approximately 5500 acres, or about 19% of the city's land area. It principally includes several developing industrial and business parks in southern Olathe, a blighted commercial corridor, the central business district, and an industrial corridor along I-35. The Olathe zone was specifically drawn to encourage development and redevelopment in desired locations in our community.

*Eco-Devo
Attach #8
01-28-92*

House Economic Development Committee
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We estimate there are approximately 800 businesses located in the zone. The city's local incentive to existing and prospective zone businesses is a targeted capital improvement program. On some occasions, the city has also offered limited property tax abatement. During the last three years, the city has committed approximately \$16 million in capital improvement project expenditures to the zone and granted partial tax abatement in the amount of approximately \$200,000 for three development projects. We believe these numbers indicate a genuine local commitment to a program that is intended to be a state and local partnership.

Since its creation, the city estimates approximately \$40 million in private investment and 800 new jobs have occurred as a result of business expansion or location within the zone. Based on our experience in working in partnership with the Chamber of Commerce, we believe enterprise zone benefits were a significant factor in the location decision of much of this investment.

By reducing the types of business eligible for tax incentives to a narrow list of SIC codes and reducing the value of those incentives, we believe House Bill 2681 will place us at more of a competitive disadvantage with our neighboring state of Missouri. We also believe the geographical bias in the bill is unhealthy and contrary to what our state needs.

We believe the vast majority of communities across the state have used the enterprise zone program as the legislature intended - "to expand and renew the local economy and improve the social and economic welfare of residents in economically distressed zone areas...." We would urge the committee to reject the abandonment of the enterprise zone concept as represented in House Bill 2681. In these tough times, we need more, not fewer tools to encourage the economic prosperity of our communities.

rc

Attachment

OLATHE ENTERPRISE ZONE

PROPOSED AMENDMENT AND RECERTIFICATION
MARCH 1991

