

Approved March 31, 1992  
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 March 25, 1992 in room 123-S of the Capitol.

All members were present ~~XXXX~~

Committee staff present:

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

Conferees appearing before the committee:

Tom Riederer, Kansas Industrial Developers Association  
Bernie Koch, Wichita Area Chamber of Commerce  
Ron Mittag, City of Shawnee  
Donald Goss, Olathe Area Chamber of Commerce  
Chris McKenzie, League of Kansas Municipalities  
Representative Jack Wempe  
Representative Diane Gjerstad  
Mark Burghart, Department of Revenue

Substitute for HB 2681 - Kansas enterprise zone act, tax incentives for  
businesses, nonmetropolitan regions

Tom Riederer said he supports the bill but urged that the credits be increased, that metropolitan and nonmetropolitan areas be treated equally and that the bill be simple to understand and administer (Attachment 1).

Bernie Koch testified that he favors the bill (Attachment 2). He described the incentives offered by Nebraska and Oklahoma and suggested that the credits for jobs and investments be raised to at least \$1,500.

Ron Mittag said he is in support of the legislation but urged that several changes be made (Attachment 3): apply the legislation to all cities and counties individually, eliminate distinction between metropolitan and nonmetropolitan regions, limit eligibility of retail businesses to those in communities of less than 2,000 population, set a single standard for job creation of two new positions, set a one-time credit of \$2,100 per new employee for any business including a carry-over provision, set a one-time investment credit of \$1,000 for each \$100,000 investment including a carry-over provision and allow a sales tax exemption for construction or remodeling for any new business.

Donald Goss appeared in opposition to the bill (Attachment 4). He said the enterprise zone incentives in current law provide a better competitive edge for Kansas than those in Sub. for HB 2681. Mr. Goss went on to say, however, that the bill would be more acceptable if the difference in incentives for metropolitan and nonmetropolitan areas is removed, the language prohibiting community hopping within the state is strengthened and provisions made to provide comparable benefits for rural communities in metropolitan areas to those of rural communities in nonmetropolitan areas.

Chris McKenzie testified in opposition to the bill (Attachment 5). He said that the existing law provides a fairly level playing field but Sub. for HB 2681 is biased towards nonmetropolitan areas, and he has concerns about a two-tiered system. Mr. McKenzie mentioned other concerns about the criteria for establishment of nonmetropolitan regions, language in the bill which mentions rule and regulation authority for the Secretary of Commerce to approve regional economic development plans and the lack of

CONTINUATION SHEET

MINUTES OF THE Senate COMMITTEE ON Economic Development,  
room 123-S, Statehouse, at 8:00 a.m./~~xxx~~ on March 25, 1992

grandfather provisions for cities, such as Roeland Park, who are utilizing tax increment financing through inclusion in the city's enterprise zone.

Representative Jack Wempe described the greatest need of rural areas as being jobs and noted that in metropolitan areas, creation of new jobs does not necessarily mean that the individuals filling those jobs will reside in that particular area. He added that the problems of metropolitan distressed areas are much broader than what is being addressed by this legislation. Representative Wempe noted that it is for these reasons that he opposes the amendment suggested by Representative Wisdom and would prefer to see that concept studied during the interm.

Representative Diane Gjerstad advised that the emphasis of this legislation is to value primary sector jobs more than all other types of jobs in order to build the economic base of the state. She noted that Pat Oslund, of the Institute for Public Polity and Business Research, gave testimony to the House Committee on Economic Development relating to the difficulty of combining recruitment tools with social efforts.

Chairman Kerr asked Jeff Russell (United Telecom/Sprint) if Sub. for HB 2681 would have any impact on the plans of the company to build a campus and the legislation passed last year. Mr. Russell said the bill contains the language necessary for his company to proceed.

Mark Burghart advised that his agency has no problem with the SIC code references in the bill and feels that the credit carry-forward concept is beneficial and workable. He estimates that the total cost of the incentives in the proposed legislation is probably less than the total cost of the current program. He supplied a chart showing that only 5% of the corporate taxpayers have a Kansas taxable income in excess of \$100,000 (Attachment 6). Mr. Burghart explained that, because of the 50% limitation, this means that a business must have a tax liability of \$6,500 or more before they can take full advantage of the credit. He added that it is very common for businesses to "bump" up against the 50% limit. He also reviewed a chart which compares the proposed legislation to the present law (Attachment 7) but cautioned that the figures are somewhat deceptive because of the 50% limit. Mr. Burghart advised that a company with multiple facilities files a single return and the income is apportioned among all its facilities in the state.

The Committee also received testimony from Donald Seifert, City of Olathe, (Attachment 8), and Joseph Steineger, City of Kansas City, (Attachment 9).

Senator Moran moved that the minutes of the March 20, 1992 meeting be approved. Senator McClure seconded the motion, and the motion carried.

The meeting adjourned at 9:00. The next meeting of the Committee will be Thursday, March 26, 1992.

Date 3/25/92

SENATE ECONOMIC DEVELOPMENT  
VISITOR SHEET

(Please sign)

Name/Company	Name/Company
BOB GRANT / KCC	
Dick Dilsaver / Coleman	<del>COLEMAN</del>
Frank Franke - KS Gov't	Consulting
Christy Young	Topeka - Greater Topeka Chamber of Com
<i>[Signature]</i>	Olathe Area Chamber of Commerce.
ALAN COBB	Kansas Assoc. for Small Business
Bernie Koch	Wichita Area Chamber
JEFF RUSSELL	UNITED TELE / SPRINT
MARK A. BURGHART	REVENUE

Testimony before the  
Senate Economic Development Committee  
by

Tom Riederer, Vice President  
Kansas Industrial Developers Association

March 25, 1992

Chairman Kerr and Committee members, my name is Tom Riederer and I am the Vice President of Kansas Industrial Developers Association. Last year we began to look at the Kansas Enterprise Zone and how it had evolved in recent years. The main criticism was that it was being used as an incentive for most communities and they were not true "Enterprise Zones", which encourage investment in blighted or distressed areas. During the summer and fall the joint committee met to discuss what should be done with Enterprise Zones and how the State of Kansas could support business development. I felt the direction the committee was moving was to simplify the process and to target basic industries. HB 2681 begins to do that, and we would like to build on that effort. KIDA discussed this bill at a recent meeting and three points were agreed upon:

- 1) The bill should be simple to understand and administer.
- 2) The Credits should be increased to current levels to maintain competitiveness with surrounding states.
- 3) The difference between metropolitan and non metropolitan is not necessary.

KIDA's position last year was that credits, currently available to businesses in the Enterprise Zones, should be available to all Kansas basic industries. That is still our position and I hope we can use this bill to develop a business incentive which will encourage job creation and investment in Kansas.

Attachment 1  
3/25/92  
Sen. Eco. Dev.

SENATE ECONOMIC DEVELOPMENT COMMITTEE  
Testimony on HB 2681

Bernie Koch  
Wichita Area Chamber of Commerce  
March 24, 1992

Mr. Chairman, members of the committee, I'm Bernie Koch with the Wichita Area Chamber of Commerce. Thank you for the opportunity to testify on House Bill 2681 this morning.

In looking at this legislation, I urge to look at enterprise zones as one piece of a larger economic development puzzle. Because we have a higher corporate tax rate than our surrounding states, and because our business property tax effective rates are so high in Kansas, we need and use other incentives to offset those negatives in attracting new and expanding industry.

Nebraska probably has the Cadillac in this area. The whole state is, in effect, an enterprise zone. A qualified business that creates two or more jobs and invests at least \$75,000 in business facilities is eligible for a \$1,500 tax credit for each new job and a \$1,000 tax credit for every \$75,000 in new or expanding business facility investment.

In Nebraska, a qualified business that creates 30 or more new jobs and invests at least \$3 million in business facilities is eligible for an employment creation income tax credit of 5 percent of the payroll of the new jobs created for seven consecutive years and a 10 percent investment tax credit on investments on depreciable property at the project for seven consecutive years.

Qualifying businesses within Missouri's enterprise zones can receive up to 100 percent abatements of taxes on improvements to real property for up to 25 years.

In Oklahoma, a credit of \$1,000 is allowed for each new full-time equivalent employee in enterprise zones or a one percent credit on corporate income tax for each \$50,000 invested in depreciable property, whichever is greater. Oklahoma has a lower corporate income tax rate, lower property taxes, and an automatic five year property tax abatement for new qualified manufacturing and research facilities.

We believe the overall objective to change the incentive program from a geographic location-based program to one based on industry type is a step in the right direction. It reflects the actual use of enterprise zone incentives in most Kansas communities.

Our economic development people tell me they are pleased that 2681 contains the sales tax exemption for new construction of basic industries.

Attachment 2  
3/25/92  
Sen. Eco. Dev.

We also have no problem with enhanced credits for non-metropolitan areas as defined by the bill.

The current enterprise zone law allows a \$350 credit for ten years for new jobs created and a similar credit for each \$100,000 of new investment. That's \$3,500 over ten years for each job and \$3,500 over ten years for each \$100,000 of new investment.

This bill will, in effect reduce that.

We believe that the present value of a 10-year credit could be reduced from that \$3,500 in both scenarios, but reducing the credits to \$1,000 may be a little too drastic when you look at what our competition offers. We would suggest that the credit for jobs and investment be at least \$1,500. That makes us look a little better to companies shopping for expansion sites.

Thank you for the opportunity to testify. I'll attempt to answer questions.

Testimony Presented to the  
Senate Committee on Economic Development  
Senator David Kerr, Chairman

RE: Substitute House Bill No. 2681

*Presented by*  
*Ron Mittag, Director*  
*Planning & Economic Development*  
*City of Shawnee*  
*March 25, 1992*

A great deal of time and effort has been expended over the past year in reviewing the existing enterprise zone program. Confusion has developed with the existing program in terms of knowledge of the incentives available, complexity in administration, and difficulty in reporting the benefits accrued from the program.

The City of Shawnee supports the concept of Substitute House Bill No. 2681 in that it simplifies the existing complex enterprise zone legislation, and increases the effectiveness of the program by making it easier for communities to participate.

We would suggest that a few modifications to this bill would enhance the improvements already made. We believe the foundation is laid for an easy to understand, easy to administer State of Kansas Business Development Program.

Specifically, we suggest the following modifications to this bill:

1. **Method of Designation.** Simply have this legislation apply to all cities and counties individually.
2. **Metropolitan and Non-Metropolitan Regions.** This distinction is unnecessary. Allow any city or county that so chooses to participate in the program. Avoid the complexity and confusion of requiring all cities within a county and the county to jointly participate before any within the non-metropolitan county may participate.
3. **Retail Business Eligibility.** Only allow retail businesses to qualify for exemptions or credits in communities of less than 2,000 population. Generally, retail businesses should not require any incentives. They will survive because the market exists for them. Our smaller communities, however, do need some incentives since they have a smaller market with which to support the retailer.

*Attachment 3*  
*3/25/92*  
*Sen. Eco. Dev.*

4. **Job Creation Requirements.** Set one standard for all businesses. Avoid the confusion and complexity of having different requirements for various classifications of businesses. The point is to create new jobs and develop our communities. Require a net of two (2) new positions be created before any business can qualify for exemptions or credits.
5. **Job Creation Tax Credits.** Establish one benefit for any business in any community, with the retail restriction already noted. Establish a job creation tax credit of \$2,100 per new employee as a one-time credit with a carry-over provision. \$2,100 approximates the present value of the existing benefit. The carry-over provision would enhance this benefit since in the first year of operation many businesses would not have a sufficient tax liability to benefit from this feature.
6. **Investment Tax Credit.** Establish one benefit for any business in any community, with the retail restriction already noted. Establish an investment tax credit of \$1,000 for each \$100,000 invested as a one-time credit with a carry-over provision. The carry-over provision enhances the value of this benefit.
7. **Sales Tax Exemption.** Allow a sales tax exemption on goods and services involved in the construction of any new business facility or remodeling of an existing facility for any new business, with the retail restriction already noted, in any community.

We believe with these modifications to Substitute House Bill No. 2681, all Kansas communities would qualify for and benefit from a State of Kansas Business Development Program. Thank you for your consideration.





CHAMBER  
OF COMMERCE

**TO:** Members of the Senate Economic Development Committee

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

**RE:** House Bill 2861 Kansas enterprise zone act, tax incentives for businesses, nonmetropolitan regions.

Senator Kerr, members of the Senate Economic Development Committee, thank you for allowing me the time to present our opinions on House Bill 2681. I have now been a resident of Kansas for almost two years. During this short tenure I have appeared before this committee an equal number of times to discuss enterprise zones in Kansas.

House Bill 2681 is noble in its attempt to create an incentive package for rural Kansas communities and the House as well as this body should be congratulated for what you are trying to do. I would suggest, however, that there may be more appropriate alternatives to eliminating "enterprise zones." As written, House Bill 2681 creates a rural-urban split in incentive benefits. It would appear the bill is suggesting growth will occur in the counties designated as metropolitan regardless of the incentive package available. There are specific points regarding this issue that my organization feels you should consider in your deliberations because we would argue metropolitan areas compete with an entirely different audience.

Unlike many counties in Kansas, Johnson County's primary competition is with Missouri, a mere 15 miles east of our community. The incentives suggested in House Bill 2681 provides a one time credit of \$1,000 for each new employee. That credit can be carried over up to ten years if the company does not use it during the beginning years of business. Missouri provides a \$400 credit for each new employee for a ten year period which allows for four times the amount suggested in House Bill 2681. Kansas current mechanism of \$350 per new employee at least keeps us competitive.

Missouri also provides a \$400 credit for each \$100,000 in new investment in business facilities. The conclusion reached by business looking at Kansas and Missouri, should the values of the enterprise zone become a final part of the decision making process, is that Missouri will provide a better return on their investment.

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

Attachment 4  
3/25/92  
Sen. Eco. Dev.

Business and industry in Olathe, like many other metropolitan communities, receive numerous unsolicited recruitment letters. Letters that are aimed at luring businesses away from Olathe to smaller communities. It is not the metro communities doing the recruitment as a gentlemen's agreement not to recruit from community to community prevails. Recruitment of our business and industry comes from Missouri and the communities now located in what House Bill 2681 designates as nonmetropolitan counties.

We would argue that operating the enterprise zone incentives package in the manner described by House Bill 2681 will add to the recruitment efforts already taking place. We would suggest that equalizing the incentives between the metro and nonmetro designations will help eliminate the need for business and industry to consider community hopping. Short of this, we feel the bill does not adequately prevent community hopping by businesses already located in Kansas. New Section 2, paragraph (2) needs to stipulate that movement between Kansas communities prohibits the use of enterprise zone benefits by that company. Luring businesses away from the metropolitan communities to nonmetropolitan areas does nothing but shift dollars already being received in Kansas.

We are also concerned that rural communities in the metropolitan designated counties have been placed at a disadvantage because they are in those counties. In Johnson County you have DeSoto, Gardner, Stanley, Spring Hill and others who will be put in a disparate position to the communities in Miami County and others designated as nonmetropolitan.

There are several parts of House Bill 2681 that are worthwhile. We agree that removal of the designated geographic location of enterprise zone benefits makes sense. Generally we agree that retail incentives for enterprise zones ought to be in the nonmetropolitan counties. At some point, however, the issue of the Urban Core will need to be addressed so that urban communities can competitively address removing blight from under utilized, or abandoned downtown areas.

In summary, we would suggest to you that the current enterprise zone statute addresses the needs of rural and metropolitan Kansas equitably. With minor modifications the current statute can continue to serve Kansas communities effectively and efficiently.

House Bill 2681, in its current form, will further emphasize a rural-urban disparity that our county has worked hard to try and reduce. If the current enterprise zone statute cannot prevail we strongly urge you to consider amending House Bill 2681 to remove the incentive split between metropolitan and non-metropolitan counties. We encourage you to strengthen the language prohibiting community hopping from one Kansas community to another. And, we recommend that you make provisions for the rural communities in metropolitan counties to receive comparable benefits to those of their neighboring nonmetropolitan counties.



**THE LEAGUE  
OF KANSAS  
MUNICIPALITIES**

**Municipal  
Legislative  
Testimony**

AN INSTRUMENTALITY OF KANSAS CITIES 112 W. 7TH TOPEKA, KS 66603 (913) 354-9565 FAX (913) 354-4186

**TO: Senate Committee on Economic Development**  
**FROM: Chris McKenzie, Executive Director**  
**DATE: March 24, 1992**  
**RE: Sub. HB 2681**

I appreciate the opportunity to appear today in opposition to Sub. HB 2681. This position is taken after review of this legislation by the Legislative Committee of the League of Kansas Municipalities.

In a very significant way Sub. HB 2681 represents the final stage in the swing of the pendulum of state policy along the metropolitan-nonmetropolitan continuum. When the Kansas Enterprise Zone Act was approved by the 1982 legislature it had a decidedly large city flavor, requiring that enterprise zones include distressed areas with populations of at least 4,000 in a metropolitan city and 2,500 in population otherwise. This large city bias was eliminated by the 1983 legislature when it extended the benefits of enterprise zones to businesses statewide by eliminating the minimum population requirements of the 1982 law.

The 1983 amendments created a level playing field by allowing the use of enterprise zones by any size city or county. The 1983 amendments also restricted the area of a city, that could be included in an enterprise zone (to 25% of the city's land area and 25% of the city's population). Additional amendments in 1986, 1988 and 1989 dealt mainly with the mechanics of the law, requiring cities and counties to submit annual reports to the Secretary of Commerce on local incentives.

In its current form Sub. HB 2681 will reinstate a bias in the laws governing state tax incentives for business investments--a nonmetropolitan bias that time--for the current level playing field that has been in effect since 1983. The first evidence of this bias is contained in paragraph (c) of New Sec. 3 on page 3 of the bill. The sales tax exemption authorized in that section applies only to retail businesses creating two or more jobs in cities of 2,000 population or less. Such an exemption is needed in these cities, but retail businesses in the central business districts of cities over 2,000 in population also were hit hard by classification and reappraisal and deserve similar consideration. Similarly the enhanced sales tax exemption available to service businesses in enterprise zones should be retained--whether in metro or nonmetro areas.

The next instance in which the proposed nonmetropolitan bias is evidence is New Section 8 (pages 4-6) in which a significantly enhanced job and investment tax credit is made available in nonmetropolitan areas (\$2,000 per new employee) compared to metropolitan areas (\$1,000 per new employee). While even the credit offered in the metropolitan areas is significantly greater than the \$350-\$500 credit offered in enterprise zones today, the legislation discriminates by offering better investment tax credits in nonmetropolitan areas.

**President: Bob Knight, Mayor, Wichita \* Vice President: Joseph E. Steineger, Jr., Mayor, Kansas City \* Past President: Frances J. Garcia, Commissioner, Hutchinson \* Directors: \* Donald L. Anderson, Mayor, Lindsborg \* Michael A. Conduff, City Manager, Manhattan \* Ed Ellert, Mayor, Overland Park \* Harry L. Felker, Mayor, Topeka \* Idella Frickey, Mayor, Oberlin \* William J. Goering, City Clerk/Administrator, McPherson \* Ralph T. Goodnight, Mayor, Lakin \* Jesse Jackson, Commissioner, Chanute \* Stan Martin, City Attorney, Abilene \* Mark Mingenback, Councilmember, Great Bend \* John Nalbandian, Commissioner, Lawrence \* Mary E. Reed, City Clerk/Director of Finance, Parsons \* Executive Director: Christopher K. McKenzie**

*Attachment 5  
3/25/92  
Sen. Eco. Dev.*

The League respectfully suggests that the implementation of any legislation which is predicated on a metropolitan or nonmetropolitan area bias should be avoided. A general increase in the level of economic development tax incentives is desirable, but it may not be desirable if it results in eliminating the enhanced sales tax exemption available under current law to retail and service businesses in existing enterprise zones in metropolitan counties that typically are in central business districts.

In addition to the above, the League has questions or concerns about the following portions of the bill:

(1) The criteria in paragraph (a) of New Section 4 (page 3, lines 18:31) for the establishment of nonmetropolitan regions appearing confusing. While it is clear under (a)(2) that any city with a population of 2,000 or more may veto the creation of a nonmetropolitan region in the county in which it is located, it is unclear under (a)(3) whether any city (or township or other area) within a county may block the participation by another city in a nonmetropolitan region not including all of the home county. The wording of (a)(3) "...if the whole county does not agree to the inclusion of such county in the region" is particularly ambiguous;

(2) If the Senate agrees with the amendments of the House Committee of the Whole to remove the authority of the Secretary of Commerce to approve regional economic development organizations and strategies, the rule and regulation authority granted under New Section 7 (page 4, lines 31:35) seems unnecessary; and

(3) The amendments to the tax increment financing law in Sections 11 and 12 (pages 6-10) will work a real hardship on certain cities that have found it useful to qualify such areas for tax increment (e.g. Roeland Park) financing through inclusion in the city's enterprise zone rather than having to designate it as a blighted area. At a minimum, properties in existing enterprise zones should be grandfathered in by removing Section 11 from the bill and amending the stricken language in Section 12 (page 7, lines 17:19) to read as follows: "or was designated prior to July 1, 1992 as an enterprise zone pursuant to K.S.A. 12-17,110 prior to its repeal."

Thank you very much.

Kansas Department of Revenue

Corporate Income Tax Liability  
Returns Processed in 1990

Attachment 6  
3/25/92  
Sen. Eco. Dev.

	Corporate Tax Returns		Tax Liability	
	Returns	Percent of Total	Current Law	Percent of Total
No Taxable Income	20,022	59.6%	\$0	0.0%
\$0 - \$25,000	8,219	24.5%	\$2,775,066	2.3%
\$25,000 - \$50,000	2,036	6.1%	\$3,834,025	3.1%
\$50,000 - \$100,000	1,658	4.9%	\$6,809,912	5.5%
\$100,000 - Over	1,646	4.9%	\$109,371,419	89.1%
Corporations with Liability	13,559	40.4%	\$122,790,421	100.0%
Grand Total	33,581	100.0%		

Attachment 7  
3/25/92  
Sen. Eco. Dev.

**EXHIBIT I**

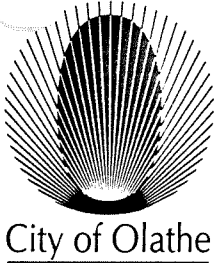
**BUSINESS AND JOB DEVELOPMENT CREDITS - EMPLOYEES ONLY**

**COMPARISON OF TAXPAYER BENEFITS BETWEEN ENTERPRISE ZONES AND SUB. FOR H.B. 2681**

ASSUMPTIONS : 10 NEW EMPLOYEES FOR 10 YEARS AND 6% INTEREST COMPOUNDED ANNUALLY

LINE NO.	YEAR NO.	PRESENT ENTERPRISE ZONE POLICY		SUBSTITUTE FOR H.B. 2681 - as amended by House Committee (1)			
		ANNUAL CREDIT	CUMULATIVE CREDIT AMOUNT PLUS INTEREST	IN NONMETROPOLITAN REGION		IN OTHER COUNTIES	
				ANNUAL CREDIT	CUMULATIVE CREDIT AMOUNT PLUS INTEREST	ANNUAL CREDIT	CUMULATIVE CREDIT AMOUNT PLUS INTEREST
1	1	\$3,500	\$3,710	\$20,000	\$21,200	\$10,000	\$10,600
2	2	\$3,500	\$7,643	\$0	\$22,472	\$0	\$11,236
3	3	\$3,500	\$11,811	\$0	\$23,820	\$0	\$11,910
4	4	\$3,500	\$16,230	\$0	\$25,250	\$0	\$12,625
5	5	\$3,500	\$20,914	\$0	\$26,765	\$0	\$13,382
6	6	\$3,500	\$25,878	\$0	\$28,370	\$0	\$14,185
7	7	\$3,500	\$31,141	\$0	\$30,073	\$0	\$15,036
8	8	\$3,500	\$36,720	\$0	\$31,877	\$0	\$15,938
9	9	\$3,500	\$42,633	\$0	\$33,790	\$0	\$16,895
10	10	\$3,500	<b>\$48,901</b>	\$0	<b>\$35,817</b>	\$0	<b>\$17,908</b>
11	TOTAL	\$35,000		\$20,000		\$10,000	
<b>AMOUNT OF REDUCTION:</b>				<b>\$15,000</b>	<b>\$13,084</b>	<b>\$25,000</b>	<b>\$30,993</b>
<b>PERCENT REDUCTION:</b>				<b>42.9%</b>	<b>26.8%</b>	<b>71.4%</b>	<b>63.4%</b>

(1) FOR "MANUFACTURING" BUSINESSES WITH 2 ADDITIONAL EMPLOYEES OR MORE AND "OTHER" BUSINESSES WITH 5 OR MORE ADDITIONAL EMPLOYEES.



①

**TO:** Members of the Senate Economic Development Committee

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

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

**DATE:** March 25, 1992

On behalf of the city of Olathe, thank you for the opportunity to appear today concerning HB 2681. Since our governing body opposes major structural changes to the enterprise zone program, I appear in opposition to the bill although this substitute is improved over the introduced version, and far better than SB 29 considered by the Committee last year.

For several years, we have observed that some members of the legislature and others are concerned about the direction of the enterprise zone program. Some say 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. Now, this bill 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.

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 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.

*Attachment 8  
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Senate Economic Development Committee  
March 25, 1992

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. 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. We believe these numbers indicate a genuine local commitment to a program that is intended to be a state and local partnership.

Through the substitute bill, the House Committee has addressed our earlier concern about reducing the types of businesses eligible for tax incentives to a narrow list of SIC codes. Our principal concern at this time is the reduction in value of the tax incentives for new jobs and investment. We also question the purpose of the geographical bias proposed in the bill. As a border community, we believe these provisions will place us even more at a competitive disadvantage with Missouri.

Olathe would prefer to see the enterprise zone program remain as is. However, if this bill moves forward, we would urge the Committee to restore the tax incentives for eligible businesses to something closer to the level in the current enterprise zone program. The enterprise zone has been a vital tool in our community's economic development efforts. We hope you will preserve its usefulness.

rc

3/25/92  
8-2





Executive Chamber  
One McDowell Plaza

## City of Kansas City, Kansas

Joseph E. Steineger Jr., Mayor



Kansas City, Kansas 66101  
Phone (913) 573-5010

March 25, 1992

The Honorable Dave Kerr  
Members of the Senate Economic Development Committee  
Capitol Building, Room 123-S  
Topeka, KS 66612

Chairman Kerr and Members of the Senate Economic Development Committee:

I am writing in regard to Substitute for House Bill No. 2681 which addresses enterprise zones in Kansas. This bill does take a positive step for Kansas in providing incentives to attract business to our state, and it does make Kansas more competitive with our surrounding states, thus its impact should be good for our economy. However, there is a part of enterprise zone legislation, which was addressed by your committee last year, that is not included in this bill. I am referring to enterprise zone legislation which provides development incentives for those areas or communities which have high unemployment rates, high poverty levels among its citizens, and decreasing populations.

I feel that it is important for our state to develop a form of enhanced incentives for truly distressed areas in the state. Under existing legislation, enterprise zones were never actually given a real chance to work because they were widespread and the incentives were somewhat watered down. I would like to suggest that the following issues be studied concerning enterprise zones in our state:

1) There should be genuine distressed criteria for enterprise zones, thus limiting the number of zones in the state. For example, utilizing the current policy to determine distressed areas would be appropriate; however, instead of using just one of three factors to provide eligibility, I would recommend requiring all three factors before developing an enterprise zone. The factors I am referring to are as follows:

(a) The average rate of unemployment in the area for the most recent eighteen-month period for which data is available is at least one and one-half times the average state rate of unemployment for such eighteen-month period; (b) At least 70% of the residents living in the area have incomes below 80% of the median income of the residents of the area as determined under section 119(b) of the housing and community development act of 1974, and; (c) The population in the area must have decreased by 10% or more for any ten-year period commencing after 1970.

Attachment 9  
3/25/92  
Sen. Eco. Dev.

Chairman Kerr and Members of the  
Senate Economic Development Committee  
March 25, 1992  
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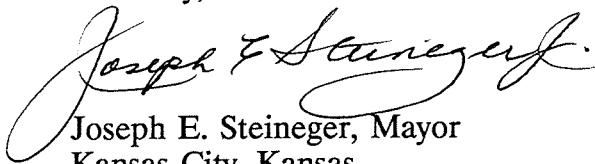
2) There should be substantial incentives in enterprise zones. (Realize that the tax impact would be limited because the number of zones would be much more limited than they are today.)

3) Incentives should include sales tax exemptions (not state-wide), substantial income tax credit for hiring from within the enterprise zone, K-bucks financing for qualified businesses within the zone, and infrastructure grants to cities for leverage of new business.

I realize the issues I have brought up for enterprise zones differentiate substantially from House Bill 2681, and you may feel that this is not the appropriate tool for such legislation. Although, when you speak of enterprise zones you must realistically consider what the intent of the enterprise zone concept is, and realize what guidelines our state must follow if our local enterprise zones are to have a chance in qualifying for proposed federal enterprise zones.

If you do not feel that House Bill 2681 can be used to discuss such legislation, I urge that you please hold an interim study to discuss the need and benefits of our state having real enterprise zones. Thank you for your consideration on this important matter, and I or my staff would be happy to discuss this matter further should you have any questions or concerns.

Sincerely,



Joseph E. Steineger, Mayor  
Kansas City, Kansas

cc: Senator Jack Steineger  
Senator John Strict, Jr.  
Senator Bernard Kanan

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