Approved: February 20, 1996
Date

MINUTES OF THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT.

The meeting was called to order by Chairperson Barbara P. Allen at 3:30 p.m. on February 7, 1996 in Room 423-S of the Capitol.

All members were present except: Rep. Toplikar - excused
Rep. King - excused

Committee staff present: Lynne Holt, Legislative Research Department
Bob Nugent, Revisor of Statutes
Nancy Kirkwood, Committee Secretary

Conferees appearing before the committee: Lynne Holt, Legislative Research Department
Mikel Miller, Kansas, Inc.

Others attending: See attached list

Lynne Holt, Legislative Research Department, gave a background of the enterprise zone act and how it was involved (Attachment 1).

Mikel Miller, Kansas, Inc., compiled a data base of Kansas businesses issued sales tax exemption certificates between fiscal years 1992 through 1995. She presented the analysis of this data, concentrating on fiscal year 1995 and the results of a survey of businesses that were issued certificates during fiscal year 1993 (Attachment 2).

The meeting adjourned at 5:00 p.m.

The next meeting is scheduled for February 8, 1996.

HOUSE ECONOMIC DEVELOPMENT COMMITTEE
GUEST LIST

DATE: Wednesday, Feb 7, 1996

NAME	REPRESENTING

MEMORANDUM

Kansas Legislative Research Department

300 S.W. 10th Avenue
Room 545-N -- Statehouse
Topeka, Kansas 66612-1504
Telephone (913) 296-3181 FAX (913) 296-3824

February 7, 1996

To: House Committee on Economic Development

From: Lynne Holt, Principal Analyst

Re: Background on Kansas Enterprise Zone Act

H.B. 2687 would amend the Kansas Enterprise Zone Act to: (1) redefine the types of businesses that would be eligible for the tax benefits associated with the program; and (2) provide for the transfer of investment tax credits to other taxpayers under two specified conditions. Prior to addressing the provisions of the bill in greater detail, I would like to present some information on the background of the Kansas Enterprise Zone Act.

Kansas Enterprise Zone Act -- Original Program

The original Kansas Enterprise Zone Act was enacted in 1982 and further amended in 1983 and 1986. As stated in K.S.A. 12-17,108 (repealed in 1992), the intent of the 1982 Act was to:

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

The 1982 Act required a county or city seeking enterprise zone designation to submit to the Secretary of Commerce and Housing (formerly Economic Development) both a resolution requesting that such area be approved as a zone and an enterprise zone plan. Zone designations were subject to approval or disapproval by the Secretary. Approval of any resolution was effective for no more than five years. Certain criteria related to population, widespread poverty, unemployment, and general distress were specified as preconditions for cities and counties to meet in order to receive the Secretary's approval.

Prior to 1992, the Kansas Enterprise Zone Act did not include type of firm as a precondition for receipt of tax benefits associated with enterprise zones. Instead, eligibility was linked to a firm's location within an enterprise zone, so designated by the Secretary. Three types of incentives were available to qualified businesses located within enterprise zones -- job expansion and investment credits; sales tax exemptions and refunds; and preferential treatment with respect to state programs, funds, and services.

Economic Development
February 7, 1996
Attachment 1

Job Expansion and Investment Credits

A qualified firm located within an enterprise zone was able to claim job expansion and investment credits, which included:

1. income tax credits of $350 for each new employee residing in Kansas or $500 for each new employee whose employment entitled the employer to a federal targeted jobs tax credit in the same taxable year; and

2. $350 for each $100,000 of qualifying facility investment.

Job expansion and investment credits were authorized at lower levels of $100 each for qualified businesses located outside enterprise zones. Regardless of the level authorized, credits were not supposed to exceed 50 percent of the tax attributable to the investment.

Expanding or new businesses were authorized to use the tax credit for up to ten years and were required to add for the first taxable year in which the credit was claimed two employees to the number engaged or retained in employment at the business facility during the previous taxable year.

The statutes were explicit with respect to the definition of "facility," which a taxpayer must establish or expand as a precondition for qualifying for income tax credit under the Job Expansion and Investment Credit Act.

The lower level of tax credit ($100) for job expansion and investment was retained with the passage of the 1992 law for those entities not eligible for more enhanced tax incentives. (See explanation for the 1992 Act below.)

Sales Tax Exemptions

In addition to income tax credits, an eligible taxpayer was able to receive a sales tax exemption (which superseded a sales tax refund effective January 1, 1987). This exemption applied to "all sales of tangible personal property or services purchased for the purpose of and in conjunction with constructing, reconstructing, enlarging, or remodeling a qualified business facility located within an enterprise zone." The sales tax exemption also applied to the sale and installation of machinery and equipment purchased for installation in such facility. Eligibility for benefits under the Job Expansion and Investment Credit Act was a prerequisite for the sales tax exemption on construction and remodeling until 1992 when other criteria were adopted. After January 1, 1989, the sales tax exemption on machinery and equipment applied to manufacturing, assemblage, processing, finishing, storage, warehousing, and distribution facilities regardless of location. Prior to that date, eligibility for benefits under the Job Expansion and Investment Credit Act was likewise a precondition for such exemption.

Preferential Treatment

The Secretary of Commerce and Housing and other state agencies were required to give preference to enterprise zones and businesses and local incentive projects located within these zones in the provision of programs, funds, and services. Another statutorily provided incentive was a waiver or modification of rules and regulations of state agencies. The statute authorizing preferential treatment was repealed in 1992.

Kansas Enterprise Zone Act -- 1992 Amendments

Several reasons prompted the Legislature to adopt changes to the Kansas Enterprise Zone Act. As identified in an interim report of the Joint Committee on Economic Development to the 1992 Legislature, major changes were needed because:

1. the existing Enterprise Zone Act provided state incentives to businesses which had expanded or located in zones and were, in many cases, unaware of the availability of such incentives;

2. there was little commitment exacted from local units of government to complement state tax benefits;

3. state tax benefits were provided to all types of businesses whether or not such businesses actually contributed to the long-term economic growth and prosperity of a community or region;

4. the original Enterprise Zone program set forth criteria for zone designation based on factors related to poverty, unemployment, and economic distress but had generally been used as a recruitment tool, which raised the question of actual program intent.

As previously noted, the Kansas Enterprise Zone Act was significantly reconfigured in 1992. In contrast to the earlier program, this program links tax benefits to the type of business meeting certain qualifications. Under the 1992 Act, enterprise zones were eliminated. The title of the Act was nonetheless retained for marketing and recruitment purposes. Tax benefits are available to qualified businesses throughout the state and, at an enhanced level for job credits, to qualified businesses located in nonmetropolitan regions of the state. A nonmetropolitan region may be comprised of one or more nonmetropolitan counties (excluding Douglas, Johnson, Leavenworth, Sedgwick, Shawnee, and Wyandotte counties.)

Sales Tax Exemption

Under the 1992 Act, a business could be eligible for the sales tax exemption (described above) if that business is a manufacturing business with at least two additional employees; any other type of business (except retail) with at least five additional employees; and a retail business (with at least two additional employees) which locates or expands in cities having a population of 2,500 or less. If a nonretail business relocates from one city or county to another city or county within the state, approval of the Department of Commerce and Housing is a precondition for the sales tax exemption. Approval is not required for relocation within the same city.

Nonmetropolitan Regions

The 1992 Act required the Kansas Department of Commerce and Housing to establish a Nonmetropolitan Regional Business Program, which involves the development of criteria for the establishment of nonmetropolitan regions. At a minimum, a nonmetropolitan region must be comprised of one or more counties (and not subcounty units); cities with populations of 2,000 or more within such county must consent to participation in the region. The local governing body seeking designation must submit to the Department of Commerce and Housing an application and a resolution requesting approval of the proposed nonmetropolitan region. To qualify for such designation, a county or counties must:

1. file with the Secretary of Commerce and Housing a statement that a regional economic development organization has been established which has business representation throughout the region;

2. adopt a regional strategic plan which has been filed with and reviewed by the Secretary of Commerce and Housing; and

3. demonstrate a commitment to offering regional incentives, as specified in statute.

The 1992 Act included various reporting requirements and authorized the Secretary of Commerce and Housing to adopt rules and regulations to implement the Nonmetropolitan Regional Business Program.

Job and Investment Tax Credits

The 1992 Act provided that manufacturing businesses with the net addition of two or more full-time employees and all other businesses (except retail) with the net addition of five or more full-time employees may be eligible for job and investment tax credits under the following scenarios:

1. Within nonmetropolitan regions, the job credit for any eligible business (except retail) is a one-time credit of $2,500 per qualified employee that may be carried forward until the total amount is used; the investment credit is a one-time credit of $1,000 per investment of $100,000 subject to a ceiling of 50 percent on the taxpayer's state taxable income for the taxable year for which such credit will be allowed and may be carried forward until the total amount is used.

2. For all other parts of the state, the job credit for any eligible business (except retail) is a one-time credit of $1,500 per qualified employee that may be carried forward until the total amount is used; the terms governing the investment credit are the same as those applied to the investment credit in the first scenario.

3. For all parts of the state (nonmetropolitan regions included), retail businesses, as well as other businesses, which might not be eligible under the first two scenarios because they fail to meet the criteria for five or more additional employees, might qualify for the job and investment credits under the 1982 Act -- the credit would be equal to $100 per qualified employee (there must be a minimum of two additional employees) and may be carried forward for up to nine more years, and $100 per investment of $100,000, subject to terms similar to investment credits in the two above scenarios. However, the treatment of credits for businesses with multiple facilities is different under this scenario than under the two scenarios described above.

Finally, the 1992 Act provided that areas designated by cities as enterprise zones prior to July 1, 1992, may include redevelopment districts.

Kansas Enterprise Zone Act -- 1994 Amendments

The 1994 amendments amended the Act to include corporate headquarters in the definition of "nonmanufacturing business," thus making such facility eligible for tax incentives if such facility "facilitates the creation of at least 20 new full-time positions." Another amendment both clarified and expanded the definition of "retail business," to specifically include financial institutions, insurance agencies, and providers of personal services (barber shops, photo studios, funeral parlors, etc.). (Clarification was needed in that many questions were raised by businesses and the Department of Revenue about legislative intent with respect to business eligibility under the definitions of "nonmanufacturing" and "retail" in the 1992 Act.) Finally, the 1994 amendments permitted facilities to qualify for the sales tax exemption under the Kansas Enterprise Zone Act when the property is leased for a period of five years or more to a business which would be eligible for the exemption if it had constructed, reconstructed, remodeled, or enlarged the facility itself.

Repeal of Sales Tax on Labor Used in Original Construction

The 1995 Legislature enacted S.B. 14, which repealed the 2.5 percent sales tax on original construction labor services and on utilities consumed in the production or manufacture of tangible personal property. This exemption does not apply to tangible personal property, nor does it apply to labor associated with remodeling activities. The effect of this repeal is to potentially reduce the use of the sales tax exemption associated with the Kansas Enterprise Zone Act since some of the attraction with that particular exemption originally included original construction labor services.

1996 House Bill No. 2687

Under the 1992 Act, businesses had to be manufacturing or nonmanufacturing to be eligible for sales tax exemptions and job and investment tax credits. The definition of "manufacturing" is tied to SIC codes specified in statute and the definition of "nonmanufacturing" is defined as "any commercial enterprise other than a manufacturing business or a retail business." Also included are corporate headquarters, even if engaged in retail, which facilitate the creation of at least 20 new full-time jobs. H.B. 2687 would amend the definition of "business" to "Kansas basic enterprise," as used in the SKILL statutes (K.S.A. 74-50,103). (See Attachment I for the definition.) To qualify for the sales tax exemption or job and investment tax credit, all businesses considered Kansas basic enterprises would be held to the same job creation standards of a net of two additional jobs as are manufacturing businesses under existing law. (The higher standard of creation of five new jobs, which applies under existing law to nonmanufacturing businesses, would be deleted.)

The definition of "retail," which was further amended in 1994, would be tied to SIC codes in H.B. 2687. Those codes include: wholesale trade for durable and nondurable goods; building, hardware, and garden supplies; general merchandise stores; food stores; automotive dealers and gas stations; apparel and accessories; home furnishings and furniture; eating and drinking places; and miscellaneous trade. The bill provides that the customer base of these retail businesses be composed primarily of Kansas residents although the bill does not specify how that information is to be derived.

A policy change proposed in the bill is that the Secretary of Commerce and Housing, and not the Secretary of Revenue, would make the determination as to whether a qualified commercial enterprise participating in the High Performance Incentives Program is entitled to the sales tax exemption associated with the Kansas Enterprise Zone Act. (The reference to tax credits provided under the Kansas Enterprise Zone Act in Section 2 (e) appears to apply to Section 3 only.)

In Section 3, the bill authorizes a commercial enterprise that has no Kansas income tax liability, such as a lending institution or an insurance company (which pays privilege taxes) or a nonprofit organization, and meets the definition of "business" to transfer to a taxpayer any credits the commercial enterprise would have earned had it been subject to the Kansas income tax. As with the commercial enterprise participating in the High Performance Incentives Program, the eligibility of the commercial enterprise seeking to transfer the credits would be determined by the Secretary of Commerce and Housing. It appears that the commercial enterprise seeking to transfer the credits would have to have a net addition of two employees.

Finally, the bill allows the Secretary of Commerce and Housing to approve job and investment tax credit transfers in excess of 50 percent of a taxpayer's income tax liability for the taxable year in which the credit is first claimed. The taxpayer to whom the credit is transferred must have income tax liability. The bill requires as a precondition for such transfer that an agreement be entered between the Secretary and the taxpayer seeking to transfer the credits. Such agreement must promise to create at least 100 new full-time jobs. The transfer may be authorized only upon the taxpayer's demonstration that the terms of the agreement have been met.

Policy Questions Regarding House Bill No. 2687

1. What is the scope of the proposed changes in terms of benefits to be realized and cost to the state in terms of increased use of the sales tax exemption and job and investment tax credits?

2. To what extent will the state be subsidizing the transferrer of the tax credits in the proposed language in Section 3 (a) and (e)? To what extent will the state be subsidizing the recipient of the transferred credits? (Presumably, the recipient will pay for the credits which will be of greater value to such recipient than would otherwise be realized under that recipient's tax liability, or there would be little reason for the recipient to enter into such a transaction.) Moreover, should the recipient be held to some standard of job creation as is the transferrer of the credit?

3. What are the implications of the proposed policy change to give the Secretary of Commerce and Housing approval authority over eligibility of taxpayers in certain portions of the bill to receive tax benefits associated with the Kansas Enterprise Zone Act?

4. How will the Secretary of Commerce and Housing implement oversight of the transfers of credit? In particular, what method would be used to determine the hypothetical income tax liability of a commercial enterprise that has no such liability?

grant committee shall present an annual report of activities under this act to the joint committee on economic development.

History: L. 1990, ch. 298, § 6; July 1.

Attorney General's Opinions:

Community strategic planning grant commission; agreement with Fort Hays State University, Kansas State University and the University of Kansas. 90-125.

74-5098. Authorized uses of grant proceeds; limitations. City-county economic development organizations can use planning grant proceeds for the acquisition of technical assistance for strategy development activities, identification of specific projects, and other related services from the educational institutions mentioned in subsection (c) of K.S.A. 74-5097 or other economic development service providers. City-county economic development organizations can use action grants for hiring of technical assistance, implementation, evaluation and reassessment of strategies, purchasing of equipment and other services, and economic development activities undertaken by public-private partnerships as authorized for cities and for counties pursuant to law. Action grants shall not be used for the purchase or lease of land or the purchase, lease or construction of buildings or payment of salaries and benefits for permanent employees of any public or quasi-public agency.

History: L. 1990, ch. 298, § 7; July 1.

Attorney General's Opinions:

Community strategic planning grant commission; agreement with Fort Hays State University, Kansas State University and the University of Kansas. 90-125.

74-5099. Cooperative undertakings by city-county economic development organizations. Any two or more such city-county economic development organizations, located in nonmetropolitan counties, may jointly and cooperatively undertake the development and implementation of an economic development strategies plan for such multi-county region.

History: L. 1990, ch. 298, § 8; July 1.

74-50,100. Authority to award grants terminated. No planning grants or action grants shall be awarded under this act on or after July 1, 1993.

History: L. 1990, ch. 298, § 9; July 1.

74-50,101. Evaluation of plans by Kansas, Inc.; report to governor and legislature. Two years after the last grant is awarded under this act, Kansas, Inc., shall evaluate each economic development strategic plan developed and determine the degree that such plan has been implemented and report such evaluations and determinations to the governor and the legislature.

History: L. 1990, ch. 298, § 10; July 1.

STATE OF KANSAS INVESTMENTS IN LIFELONG LEARNING (SKILL)

Cross References to Related Sections:

State industrial training and retraining programs, see 74-5065 et seq.

74-50,102. State of Kansas investments in lifelong learning act; short title. The provisions of K.S.A. 74-50,102 through 74-50,112 and amendments thereto shall be known and may be cited as the state of Kansas investments in lifelong learning act or SKILL act.

History: L. 1991, ch. 284, § 1; July 1.

74-50,103. Same; definitions. As used in the SKILL act:

(a) "Act" means the state of Kansas investments in lifelong learning act or the SKILL act.

(b) "Agreement" means the agreement between an employer and an educational institution concerning a project.

(c) "Bond" means a public purpose bond issued for new jobs training projects by the Kansas development finance authority.

(d) "Date of commencement of the project" means the date of the agreement.

(e) "Educational institution" means a community college, as defined by K.S.A. 71-701 and amendments thereto, an area vocational school or area vocational-technical school, as defined by K.S.A. 72-4412 and amendments thereto, a university, as defined by K.S.A. 72-6501 and amendments thereto, or a state educational institution, as defined by K.S.A. 76-711 and amendments thereto.

(f) "Employee" means a person employed in a new job.

(g) "Employer" means a Kansas basic enterprise providing new jobs in conjunction with a project.

(h) "Kansas basic enterprise" means any enterprise:

(1) Which is located or principally based in Kansas; and

(2) which can provide demonstrable evidence that:

(A) It is primarily engaged in any one or more of the Kansas basic industries; or

(B) it is primarily engaged in the development or production of goods or the provision of services for out-of-state sale; or

(C) it is primarily engaged in the production of goods or the provision of services which will attract out-of-state buyers or consumers into the state; or

(D) it is primarily engaged in the production of raw materials, ingredients, or components for other enterprises which export the majority of their products from the state; or

(E) it is a national or regional enterprise which is primarily engaged in interstate commerce or an affiliated management company of such an enterprise; or

(F) it is primarily engaged in the production of goods or the provision of services which will supplant goods or services which would be imported into the state; or

(G) it is the corporate or regional headquarters of a multistate enterprise which is primarily engaged in out-of-state industrial activities.

(i) "Kansas basic industry" means:

(1) Agriculture;

(2) mining;

(3) manufacturing;

(4) interstate transportation;

(5) wholesale trade which is primarily multistate in activity or which has a major import supplanting effect within the state;

(6) financial services which are provided primarily for interstate or international transactions;

(7) business services which are provided primarily in out-of-state markets;

(8) research and development of new products, processes, or technologies; or

(9) tourism activities which are primarily engaged in for the purpose of attracting out-of-state tourists.

(j) "Primarily engaged" means engagement in an activity by an enterprise to the extent that not less than 51% of the gross income of the enterprise is derived from such engagement.

(k) "New job" means a job in a new or expanding Kansas basic enterprise not including jobs of recalled workers, or existing jobs that are vacant or other jobs that formerly existed in the Kansas basic enterprise in Kansas.

(l) "SKILL program" or "program" means the project or projects established by educational institutions to provide education and training of workers for new jobs for a new or expanding Kansas basic enterprise.

(m) "Program costs" means all necessary and incidental costs of providing program services, except that program costs shall not include: (1) Any wages paid to persons receiving education or training under a project, (2) any costs for purchase or lease of training equipment that exceed 50% of total program costs for the project, and (3) any costs for administrative expenses of educational institutions that exceed 10% of total program costs for the project.

(n) "Program services" means:

(1) New jobs training, including training development costs, except that the actual training period for any new job shall not exceed 36 months from the date the job is first filled by an employee;

(2) adult basic education and job-related instruction;

(3) vocational and skill-assessment services and testing;

(4) training equipment for education institutions;

(5) material and supplies;

(6) administrative expenses of educational institutions for new jobs training programs;

(7) subcontracted services with other educational institutions, private colleges or universities or other federal, state or local agencies; and

(8) contracted or professional service.

(o) "SKILL project" or "project" means a training arrangement which is the subject of an agreement entered into between the educational institution and an employer to provide program services.

History: L. 1991, ch. 284, § 2; July 1.

74-50,104. Same; administration of act; powers and duties of secretary of commerce; rules and regulations, standards and priorities for projects; limit on project costs. (a) The secretary of commerce shall administer the provisions of this act and the SKILL program established thereunder. The secretary of commerce shall encourage Kansas basic enterprises with similar training needs to cooperate in establishing SKILL projects. The secretary of commerce shall coordinate the SKILL program with other job training programs administered by the department of commerce. The secretary of commerce shall provide opportunities for coordination and cooperation of SKILL projects with other job training activities in Kansas.

(b) The secretary of commerce shall adopt rules and regulations (1) prescribing review standards and priorities for approval of proposed agreements under this act, including appropriate incentives for cooperation among

1-8

Annual Report

Kansas Enterprise Zone Sales Tax Exemptions Fiscal Year 1995

Presented to:

The Kansas Legislature

Prepared by:

Mikel Miller
Kansas, Inc.

January, 1996

Economic Development
Febeuary 7, 1996
Attachment 2

Created by the 1986 Legislature, Kansas, Inc. is an independent, objective, and non-partisan organization that builds consensus and acts collectively on state economic goals.

Kansas, Inc. is governed by a 15-member, predominately private sector, Board of Directors that is co-chaired by the Governor. The other members, as mandated by the enacting legislation, include four members of the Legislature, a representative from the Board of Regents, the Secretary of Commerce & Housing, a representative from labor, and seven members from the private sector representing key Kansas industrial sectors. Private members are appointed by the Governor and confirmed by the Kansas Senate.

The executive and legislative branches of state government and the private sector in Kansas all share the responsibility for Kansas, Inc.'s agenda. This joint commitment is illustrated by our financing: two-thirds of the annual budget of Kansas, Inc. comes from the state government and one-third is raised from the business community.

Kansas, Inc.'s mission is to build a strong, diversified economy that promotes new and existing industries. To attain that goal, we undertake three primary activities: 1) planning and policy research to formulate and update a statewide economic development strategy; 2) recommending program and public policy initiatives; and 3) conducting oversight and evaluation of strategy implementation.

Since 1987, Kansas, Inc. research reports have covered such diverse topics as: aviation, value-added agriculture, business taxation, interstate banking, oil and gas, business financing, workforce training, rural development, and education. Through analysis and open dialogue, Kansas, Inc. identifies policy options and builds the consensus essential for concerted action on vital economic issues.

One of the major responsibilities of Kansas, Inc. is to evaluate Kansas economic development programs and activities. The overall purpose of this report is to assess the effectiveness of sales tax exemptions granted under the Kansas Enterprise Zone Act. The statutory authority and mandate to provide this annual report is found in K.S.A. 74-8017.

Kansas, Inc. depends on the financial support of leading Kansas companies, associations, and others concerned with the economic development of the State of Kansas. We extend our gratitude to our current private sector investors and invite additional support and participation from the business community. For more information about the activities, research, and publications of Kansas, Inc., or to find out how you can get involved in our success, please call or write.

Key Findings

- In FY 1995, sales tax exemptions were granted to companies for a total of $703 million in investment, a 25 percent increase in total investment over FY 1994.
- Seventy-six percent (76%) of the $703 million in exempt investment was made by companies in the manufacturing sector.
- Changes to the state's Enterprise Zone Act made in 1992 and 1994 had the desired effect of shifting sales tax exemptions to the manufacturing sector, and away from retail and service sector firms.
- The majority (62%) of investment exempted from sales tax was made in the Northeast region of the state.
- In 1995, both the Northeast and the Southwest regions experienced the most exempted investment, both in proportion to their populations and number of business establishments.
- Rural communities are the major beneficiaries of sales tax exemptions in FY 1995, with 69 percent of the exempted investment being made in non-metropolitan areas of the state.
- Three-fourths (75%) of the business surveyed said the sales tax exemptions contributed significantly or somewhat to their decision to locate or expand in Kansas.
- When asked for the three most important reasons for their decision to locate or expand in Kansas, 60 percent of the businesses gave "owner's place of residence," 43 percent indicated "attractive quality of life," and 34 percent stated "proximity to markets."
- The survey of businesses that received sales tax exemptions indicates that 75 percent of the manufacturers paid hourly wage employees between $6.00 and $10.00 per hour. Only seven percent (7%) of manufacturers provided high-wage employment with hourly wages over $12.00 per hour.
- Of both the retail and service sector businesses surveyed, 25 percent of them paid hourly wages between $10.00 and $12.00.

Introduction

In 1994, the Kansas Legislature passed H.B. 2556 which gave Kansas, Inc. the responsibility to prepare an annual report to evaluate the cost effectiveness of the state's income tax credits and sales tax exemptions granted under the Kansas Enterprise Zone Act. To make this possible, H.B. 2556 also directed the Department of Revenue to provide copies of all approved sales tax exemption certificates to Kansas, Inc.

Thanks to the cooperation of the Kansas Department of Revenue, Kansas, Inc. has compiled a data base of Kansas businesses issued sales tax exemption certificates between fiscal years 1992 through 1995. This report is an analysis of this data, concentrating the most attention on fiscal year 1995 and the results of a survey of businesses that were issued certificates during fiscal year 1993.

Recent History of Sales Tax Exemption as it Applies to the Kansas Enterprise Zone Act

1982: The Kansas Legislature established the Kansas Enterprise Zone Act, providing a city the ability to designate a portion of its area as an enterprise zone. Businesses which located within the zone would receive a sales tax refund on property and services associated with a project which accomplished the construction, expansion, or rehabilitation of a business facility. In addition, job creation and investment tax credits were provided if a project created at least two net new jobs.

1986: Counties were given the authority to establish county enterprise zones.

1988: Sales tax on machinery and equipment used in manufacturing was made exempt. Prior to this, manufacturers had to be located in designated enterprise zones to receive this exemption. Kansas had been the only state in the region with this tax.

1992: The Legislature enacted a new Kansas Enterprise Zone Act, which reconfigured the original program established pursuant to KSA 12-17,107 et seq. Enterprise zones established in the earlier program were eliminated and enterprise zone incentives were extended statewide with enhanced levels of benefits in certain rural areas. In contrast to the earlier program, the revamped enterprise zone laws linked eligibility for tax incentives to the type of business and their ability to meet certain job creation qualifications.

1994: The Enterprise Zone Act was amended again to add a definition of "corporate headquarters" and to clarify the existing definitions of "non-manufacturing business" and "retail business." This amendment was proposed by Kansas Inc. to correct misinterpretations of the law which had resulted in the denial of enterprise zone benefits to many companies. The amendment also permitted contractors to receive a sales tax exemption certificate when constructing, reconstructing, remodeling, or enlarging a facility leased for a period of five years or more to a business which would be eligible for the exemption if it had constructed, reconstructed, remodeled, or enlarged the facility itself.

1995: The Legislature repealed the 2.5% sales tax, imposed in 1992, on labor used in original construction. This law became effective April 15, 1995.

1995 Sales Tax Exemption Activity

When a business applies for a sales tax exemption certificate for investment in a new project, it must provide the Department of Revenue with an estimate of the total amount of investment that will be made in the project. This investment may be in connection with original construction of a new facility; remodeling of, or reconstruction of, an existing facility; an addition to an existing facility; or the purchase of additional machinery and equipment.

The estimated investment reported on sales tax exemption certificate applications approved in FY 1995, was the highest ever, totalling over $703 million. Figure 1 shows the amount of investment granted sales tax exemption over the past four fiscal years. Figure 2 illustrates the distribution of exempted investment among the industrial sectors. The vast majority of investment eligible for sales tax exemption was made in the manufacturing sector of the economy. This distribution is in keeping with the state's basic industries theory of economic development.

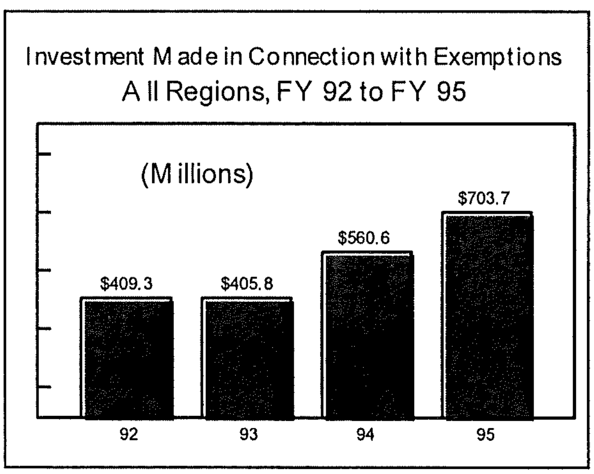

Figure 1

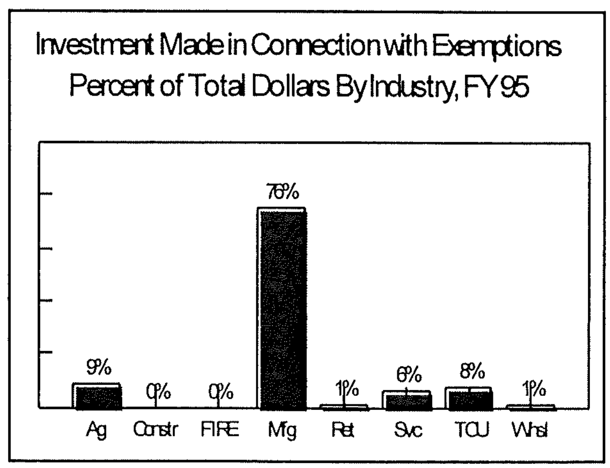

Figure 2

2-6

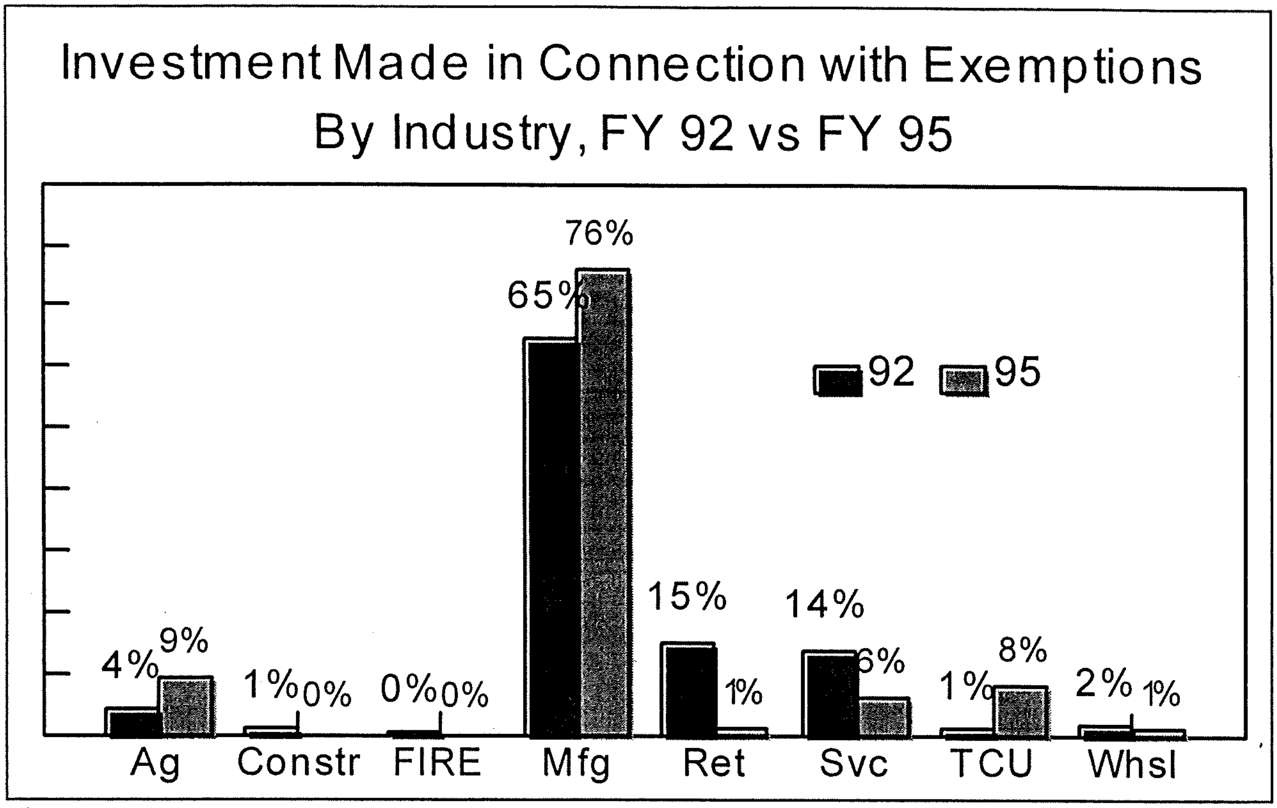

Figure 3

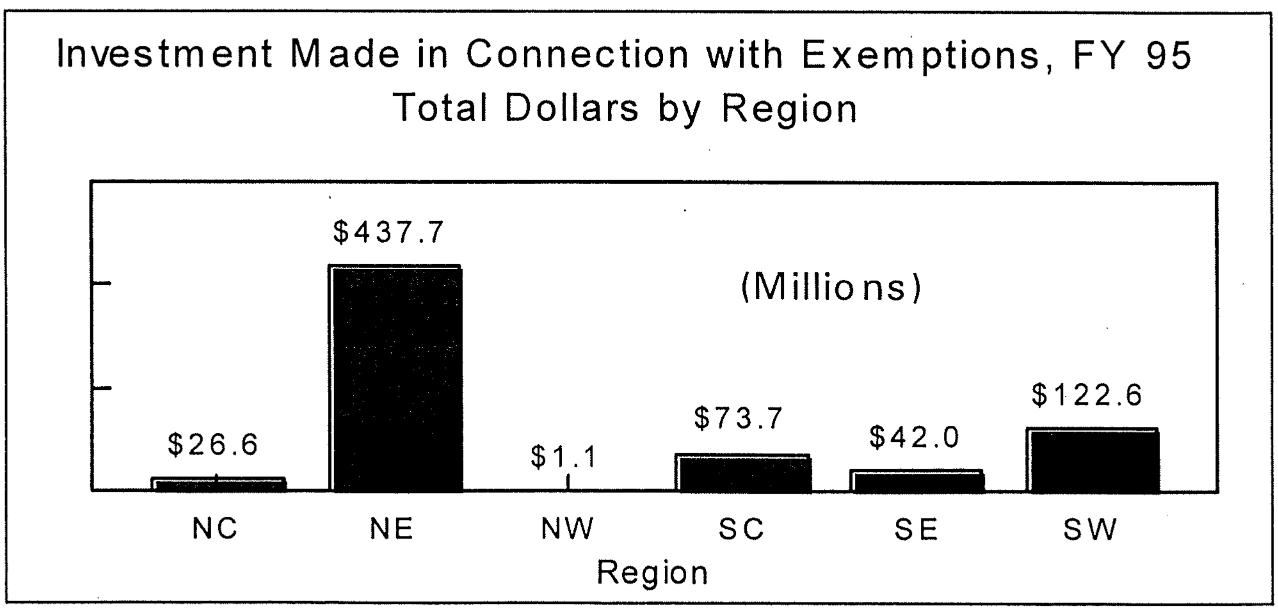

Figure 4

2-7

As presented in Figure 3, changes to the state's Enterprise Zone Act in 1992 and 1994 have had the desired effect on the industrial makeup of businesses being granted sales tax exemptions. Only retail businesses in communities of less than 2,500 were eligible for exemptions after the 1992 amendments became effective. Additional amendments during the 1994 Legislative session prohibited businesses in the finance, insurance, and real estate (FIRE) sector from receiving sales tax exemptions and imposed strict requirements limiting the eligibility of service firms.

Regional distribution of exempted investment in FY 1995 is represented in Figure 4. The majority of exempted investment (62%) took place in the Northeast region of the state. The second largest amount of exempted investment took place in the Southwest (17%), followed by the South Central (10%), and Southeast (6%) regions.

Additional analysis was conducted to determine whether this distribution among regions was equitable with regard to the percentage of population and the percentage of establishments each region contains. Figures 5 and 6 compared the percentage (or share) of exempted investment made in each region to that region's share of the state's population and business establishments. A region for which the dark bar is higher than the lighter bar, received more than its "share" of exempted investment based on its population or number of establishments.

In 1995, the Northeast and the Southwest regions experienced the most exempted investment in proportion to their populations and number of establishments. In the Northeast region, investment much higher than usual in the manufacturing sector coupled with higher than normal investment in both the service sector and the transporation, communications, and utilities (TCU) sector caused this effect. In the Southwest, it was significant investment in both the agricultural and manufacturing sectors that led to a higher than expected proportion of investment.

Beginning in FY 1992, the North Central and South Central regions had three consecutive years where both received more than their share of exempt investment based on their populations and numbers of establishments. In the North Central region, the cause was a surge in investment in the non-farm agriculture sector in FY 1992, and increased investment in the manufacturing sector was the cause in FY 1993. In FY 1994 investments in both the manufacturing sector and retail sectors in the North Central region caused this effect. The South Central region saw strong growth in the manufacturing, retail, and service sectors between FY 1992 and FY 1993, and a large surge in manufacturing during FY 1994. Like the North Central and South Central regions of the state, manufacturing growth also surged in the Southeast region in FY 1992 and FY 1993. In contrast, the Northeast and Southwest regions experienced this kind of accelerated growth only in FY 1995. See Figures 1A through 8A and 9A through 14A in the Appendix for further illustration.

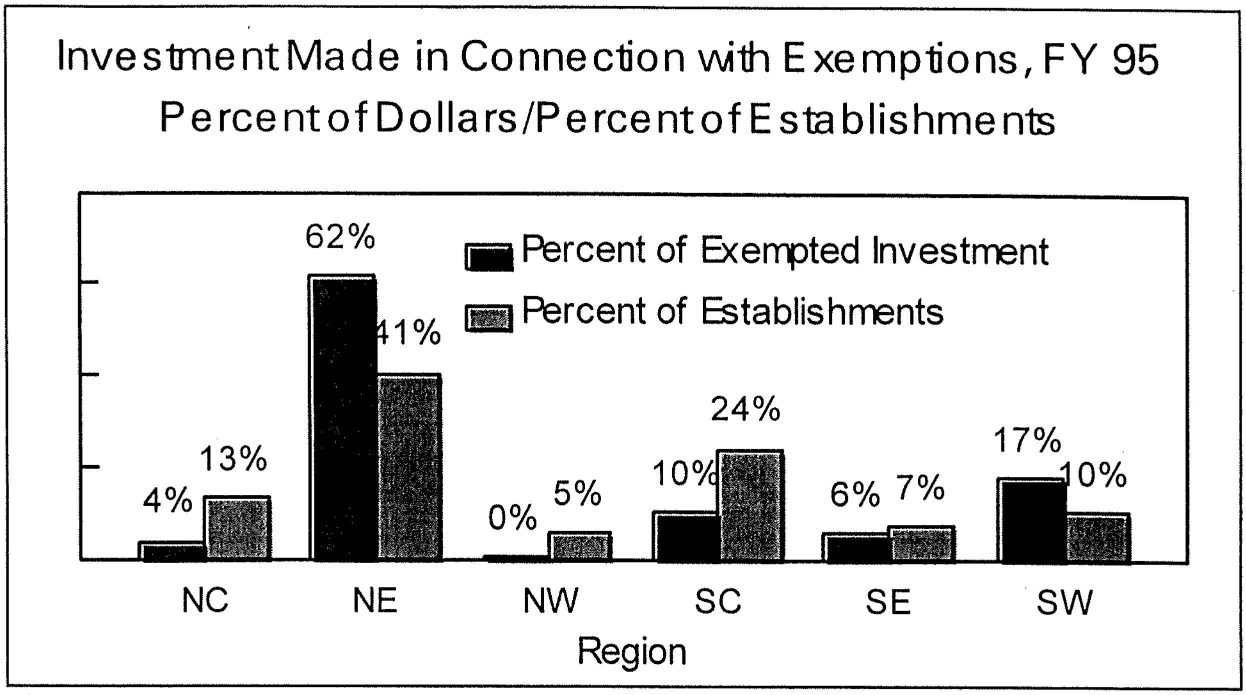

Figure 5

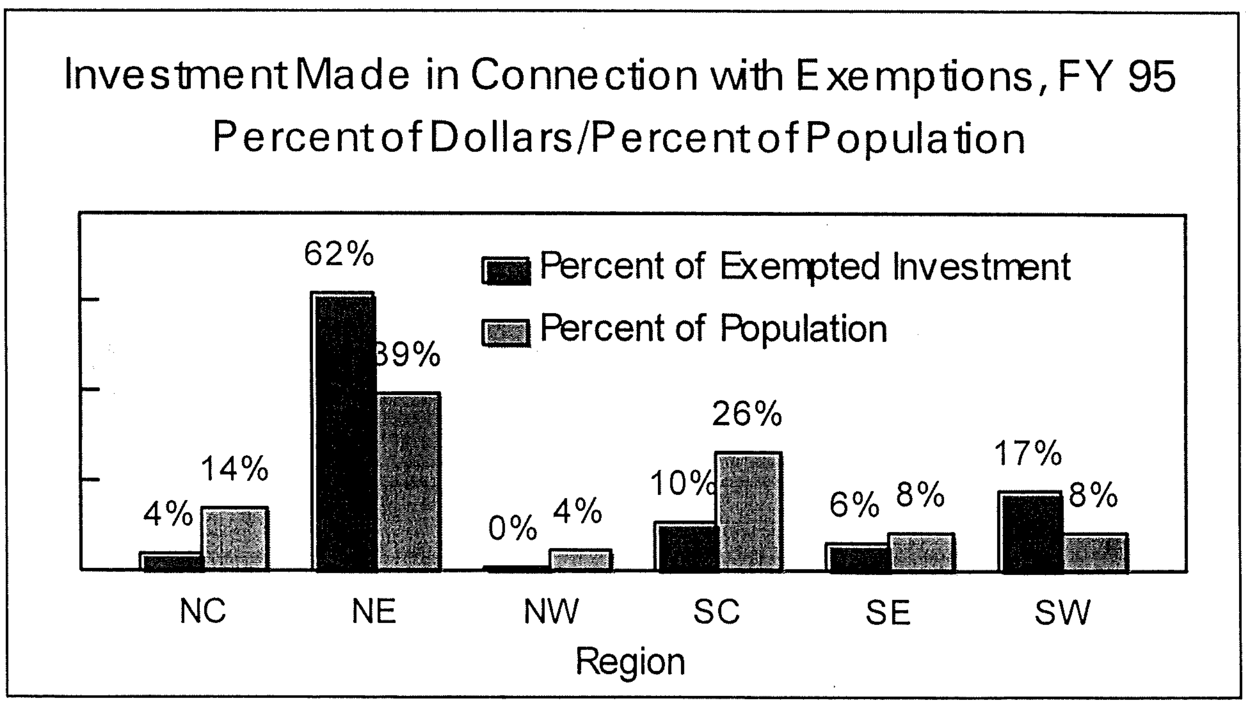

Figure 6

2-9

Exempt investment in non-metropolitan counties was higher than in metropolitan counties in FY 1995 for the first time since FY 1992. Investment in non-metropolitan counties of the state was 69% of the total exempt investment in FY 1995. This increase can be traced to large investments in the non-farm agriculture sector in the Southwest, increased investment in manufacturing in non-metropolitan counties, and one significant investment in the transportation sector in a rural county in the Northeast. These increases are not attributable to legislative changes in the Enterprise Zone Act, but rather represent increased investment in these industries in the state.

The nine counties in Kansas designated as metropolitan counties are: Wyandotte, Johnson, Sedgwick, Shawnee, Leavenworth, Butler, Douglas, Harvey, and Miami Counties.

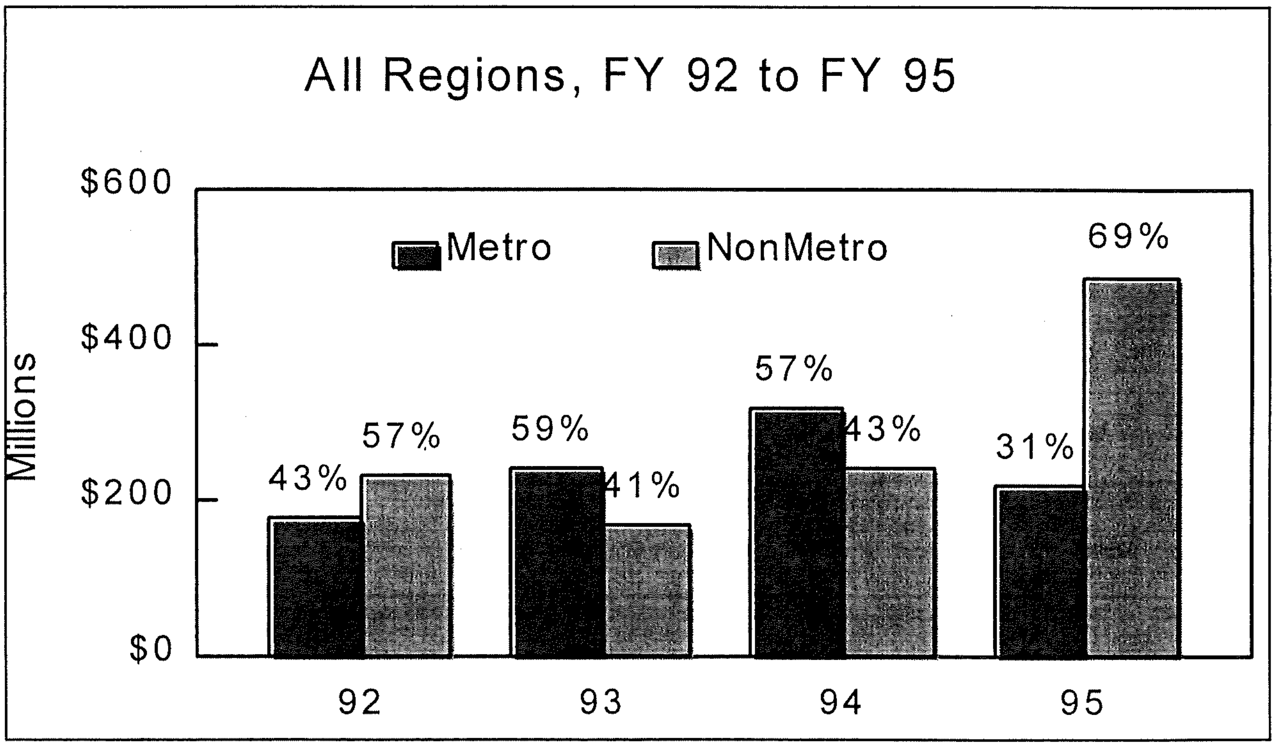

Figure 7

Survey Results

In March 1995, Kansas, Inc. conducted a survey of companies that were issued sales tax exemption certificates during fiscal year 1993. This time period was chosen to ensure that respondents would have completed the project for which the exemption certificate was issued. Surveys were sent only to those firms whose exemption certificates were issued after the 1992 enterprise zone amendments were in effect. A

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total of 243 surveys were mailed and 104 completed and usable surveys were returned, for a response rate of 43%. A copy of the survey is attached.

The majority (73%) of respondents were manufacturers. Seventy-seven percent (77%) employ 99 or fewer employees. Sixty-eight percent (68%) had been involved in the expansion of an existing Kansas firm when they applied for their exemption certificate. Fourteen percent (14%) were start-up companies, another 14% were relocations of existing Kansas firms, and approximately 6% were new firms to Kansas. A complete description of the 104 respondents is contained in the Appendix (Tables 1A through 4A) to this report.

Respondents were asked:

- ***What were the three (3) most important reasons for your firm's decision to locate or expand in Kansas?***

Responses:

Table 1.
Reasons for Locating or Expanding in Kansas n=104

	Firms	Percentage
Owner's place of residence	62	60%
Quality of life more attractive than other locations	45	43%
Proximity to markets	35	34%
State and/or local incentives	31	30%
Cost of labor less expensive	23	22%
Good transportation/freight facilities	19	18%
Other*	18	17%
Well-trained/skilled labor force	16	15%
Availability of public financing tools	11	10%
Aggressive recruitment efforts	4	4%
Availability of educational/technical facilities	3	3%
Competitive tax structure	2	2%

*The majority of responses given under the "Other" category were tied to the firm's already being located in Kansas and the need to expand that particular facility.

Sixty percent (60%) gave "owner's place of residence" as one of the three most important reasons for their firm locating or expanding in Kansas. For those who ranked their responses, 46% gave this as the number one reason for locating or expanding here. The second most often given response was "Quality of life more attractive than other locations" with 43% giving this as one of the the most important reasons their operation was in Kansas. This answer was given in conjunction with Kansas being the owner's place of residence in 32 of the 45 times it was given. The

2-11

third most frequently given response was "proximity to markets" with 33% ranking this as one of the three reasons their operation was in Kansas. These three answers lead one to the conclusion that a substantial part of the sample population is located in Kansas because they saw a need within their own community or within the state and established their businesses to fill that need.

Of the six (6) respondents who said they were new to Kansas, the most often given reasons for locating here were:

Table 2.
Reasons for Locating or Expanding in Kansas (Firms New to Kansas) n=6

	Firms	Percentage
State and/or local tax incentives	3	50%
Availability of public financing	3	50%
Aggressive recruitment efforts	2	33%
Quality of life more attractive than other locations	2	33%
Other	2	33%
Well-trained/skilled labor force	1	17%
Cost of labor less expensive	1	17%
Good transportation/freight facilities	1	17%

Respondents were asked:

- ***To what extent was receiving a sales tax exemption for this project a factor in your company's decision to locate or expand in Kansas?***

Responses:

Table 3.
Extent to Which Sales Tax Exemption Contributed to Decision to Locate/Expand in Kansas n=102

	Contributed Significantly	Contributed Somewhat	Contributed A Little	Did Not Contribute
Start-up	53%	20%	13%	13%
Expansion of an Existing KS Firm	24%	50%	9%	15%
Relocation of an Existing KS Firm	27%	40%	20%	13%
New to Kansas	50%	50%	0%	0%
Total	30%	45%	11%	14%

Overall, a full 75% of those responding said the exemption incentive contributed significantly or somewhat to their decision to locate or expand in Kansas. Of the six (6) firms that were new to Kansas, all said the exemption either contributed significantly or somewhat to their decision to locate here.

Respondents were asked:

- ***If the sales tax exemption had not been available to your company, what would have been the effect on this project?***

Responses:

Table 4.
Effect on Project had Sales Tax Exemption Not Been Available n=104

	Firms	Percentage
Proceeded with the project about as planned	48	46%
Proceeded on a smaller scale	38	37%
Cancelled the project	5	5%
Taken the project to another state	7	7%
Other	2	2%
No response	4	4%

Of the 31 companies that said the sales tax exemption "contributed significantly" to their decision to locate or expand in Kansas, 29% of those said they would have "proceeded with the project about as planned" had the exemption not been available. However, 35.5% said they would have "proceeded on a smaller scale," and the other 35.5% said they would have either "cancelled the project" or would have "taken the project to another state."

Of the six (6) companies that were new to Kansas, three (3) most likely would have "proceeded with the project as planned," one (1) said they would have "proceeded on a smaller scale," and two (2) said they would have "taken the project to another state."

Further analysis was conducted excluding those who had previously stated that one of their reasons for locating in Kansas was that Kansas was their home. Of those 43 companies, ten (10), or 23% said they would have "cancelled the project" or would have "taken the project to another state." These ten (10) companies alone represent 300 new jobs in the manufacturing, transportation, and wholesale industries and $51.7 million in new investment that would have been lost had this exemption not been available. Those 300 new jobs were equal to 10% of all the new jobs created by all 104 respondents.

Respondents were asked:

- ***What is the average wage paid to non-salaried employees at your facility?***

Responses:

Table 5.
Average Per-Hour Wage Paid to Respondents' Non-Salaried Employees
By Industrial Sector n=101

	< $6.00	$6.01-$8.00	$8.01-$10.00	$10.01-$12.00	>$12.00
FIRE	0%	50%	50%	0%	0%
Manufacturing	3%	32%	43%	16%	7%
Retail	38%	38%	0%	25%	0%
Service	50%	25%	0%	25%	0%
TCU	0%	29%	14%	29%	29%
Wholesale	0%	57%	14%	29%	0%
Total	7%	34%	34%	19%	7%

Respondents from the transportation, communication, and utilities (TCU) sector paid the highest wages with 58% of respondents' non-salaried employees being paid in the upper two levels. No jobs in the finance, insurance, and real estate (FIRE), TCU, wholesale sectors payed less than $6.00 per hour. The largest group of manufacturers (43%) paid wages between $8.01 and $10.00. It was interesting to note that 25% of the retail and service companies paid average wages between $10.01 and $12.00.

Further analysis of the responses confirmed that, at least as it applies to this sample, higher wages were paid in the metropolitan counties of the state than in the non-metropolitan counties within the same industries. (No companies from the service sector of the FIRE sector were located in metropolitan counties so this conclusion cannot be applied to that sector.)

Table 6.
Average Per-Hour Wage Paid to Non-Salaried Employees in Metro Counties
By Industry n=38

	< $6.00	$6.01-$8.00	$8.01-$10.00	$10.01-$12.00	>$12.00
FIRE	NA	NA	NA	NA	NA
Manufacturing	0%	14%	38%	35%	14%
Retail	0%	100%	0%	0%	0%
Service	NA	NA	NA	NA	NA
TCU	0%	0%	25%	25%	50%
Wholesale	0%	50%	0%	50%	0%
Total	0%	18%	32%	34%	16%

Table 7.
Average Per-Hour Wage Paid to Non-Salaried Employees in Non-Metro Counties By Industry n=63

	< $6.00	$6.01-$8.00	$8.01-$10.00	$10.01-$12.00	>$12.00
FIRE	0%	50%	50%	0%	0%
Manufacturing	5%	43%	46%	5%	2%
Retail	43%	295	0%	29%	0%
Service	50%	25%	0%	25%	0%
TCU	0%	67%	0%	33%	0%
Wholesale	0%	67%	33%	0%	0%
Total					

2-15

APPENDIX

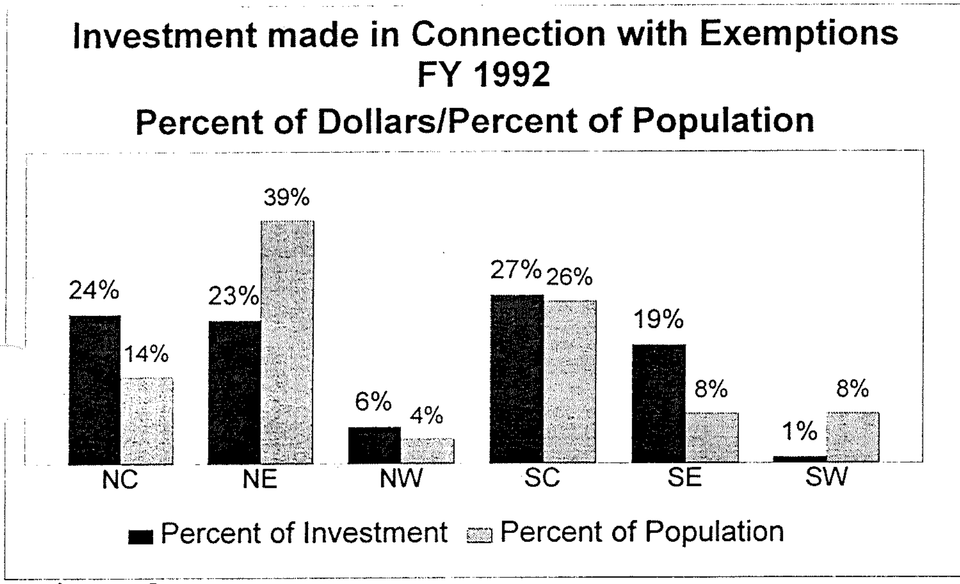

Figure 1A

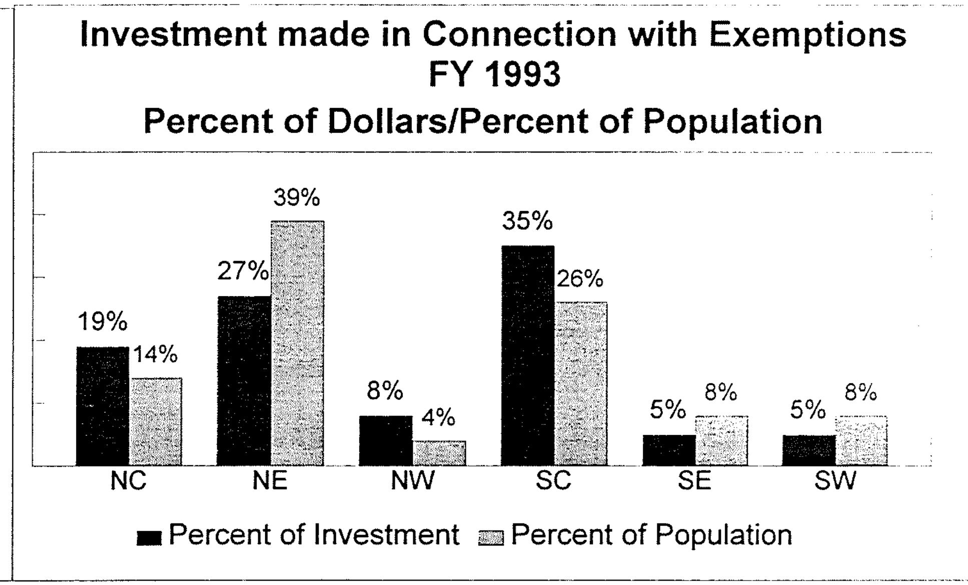

Figure 2A

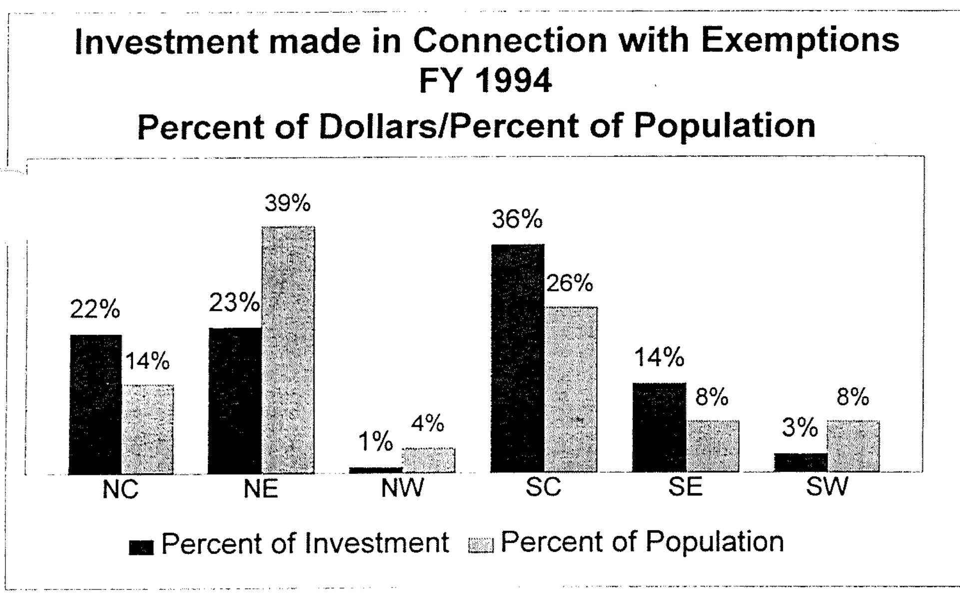

Figure 3A

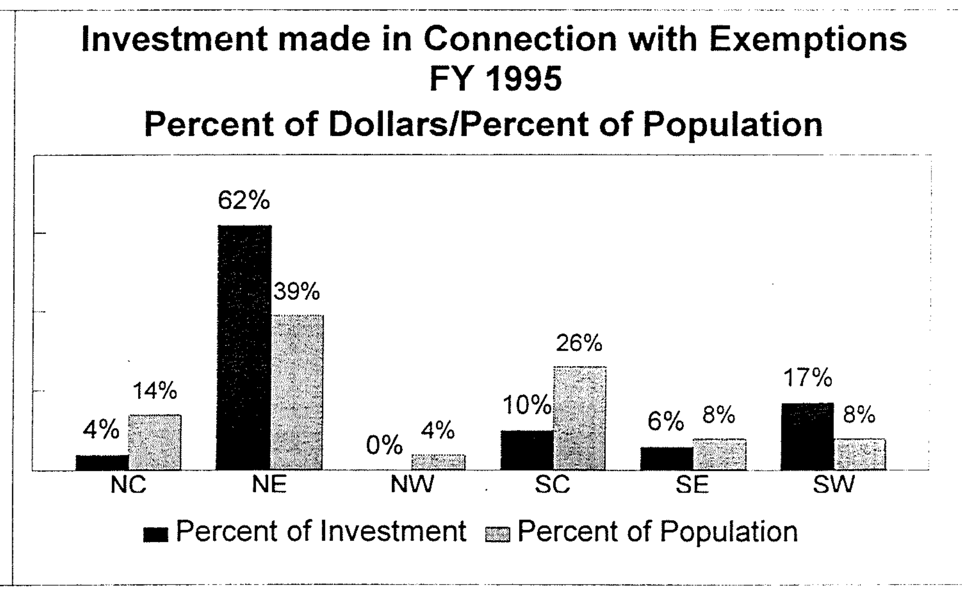

Figure 4A

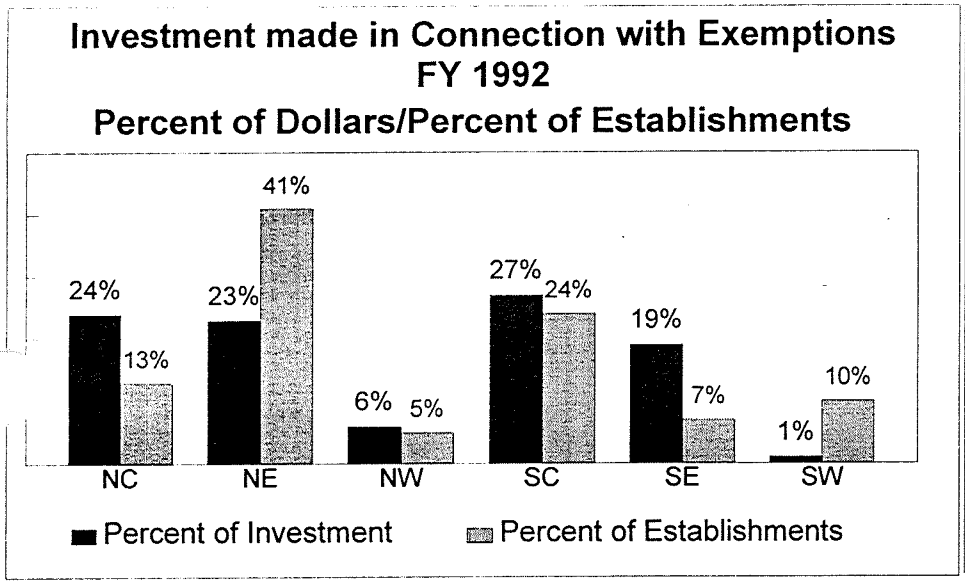

Figure 5A

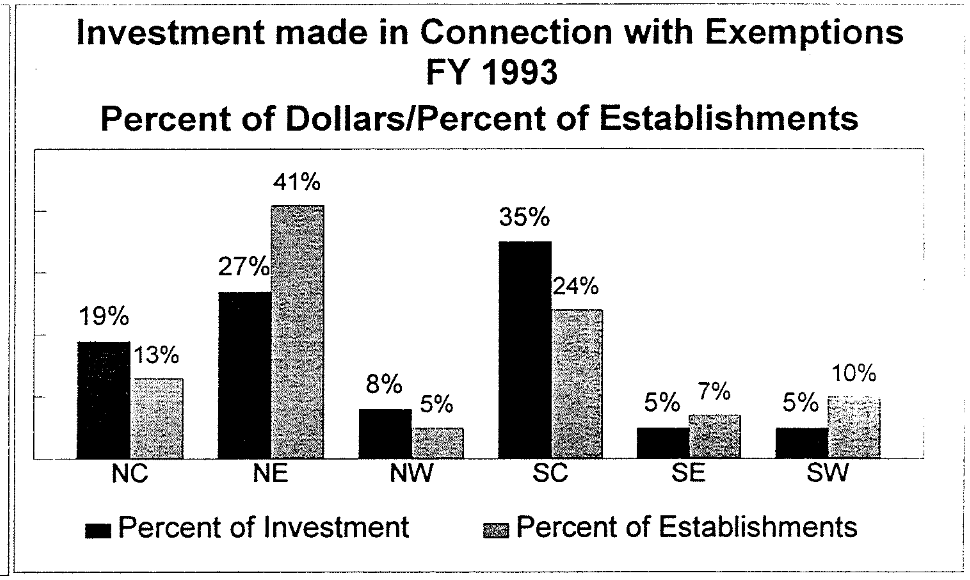

Figure 6A

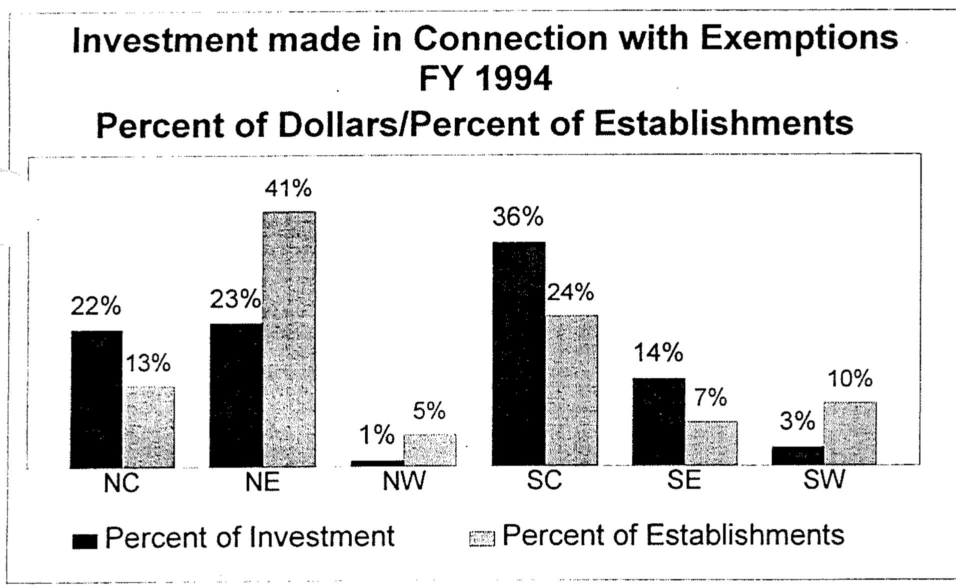

Figure 7A

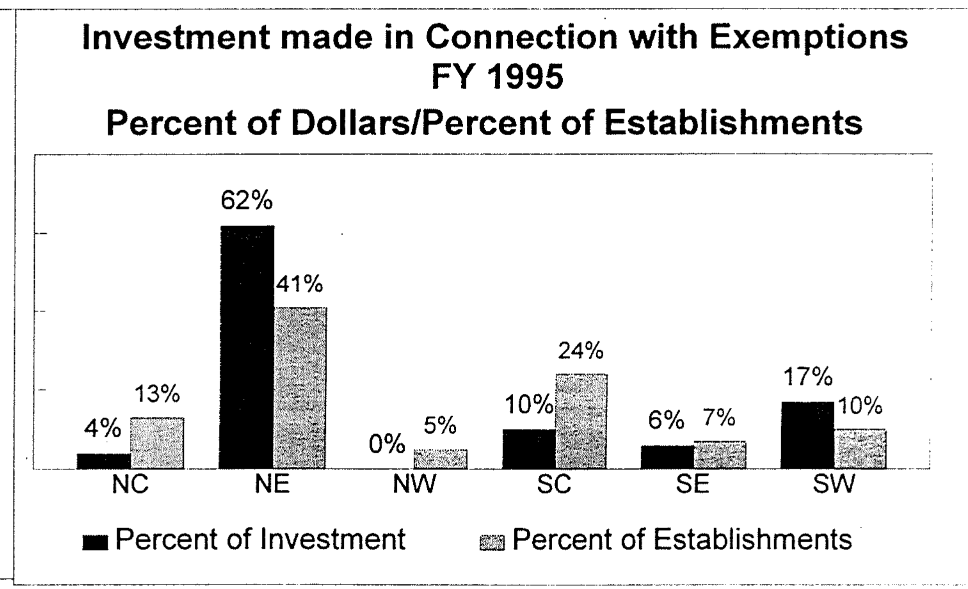

Figure 8A

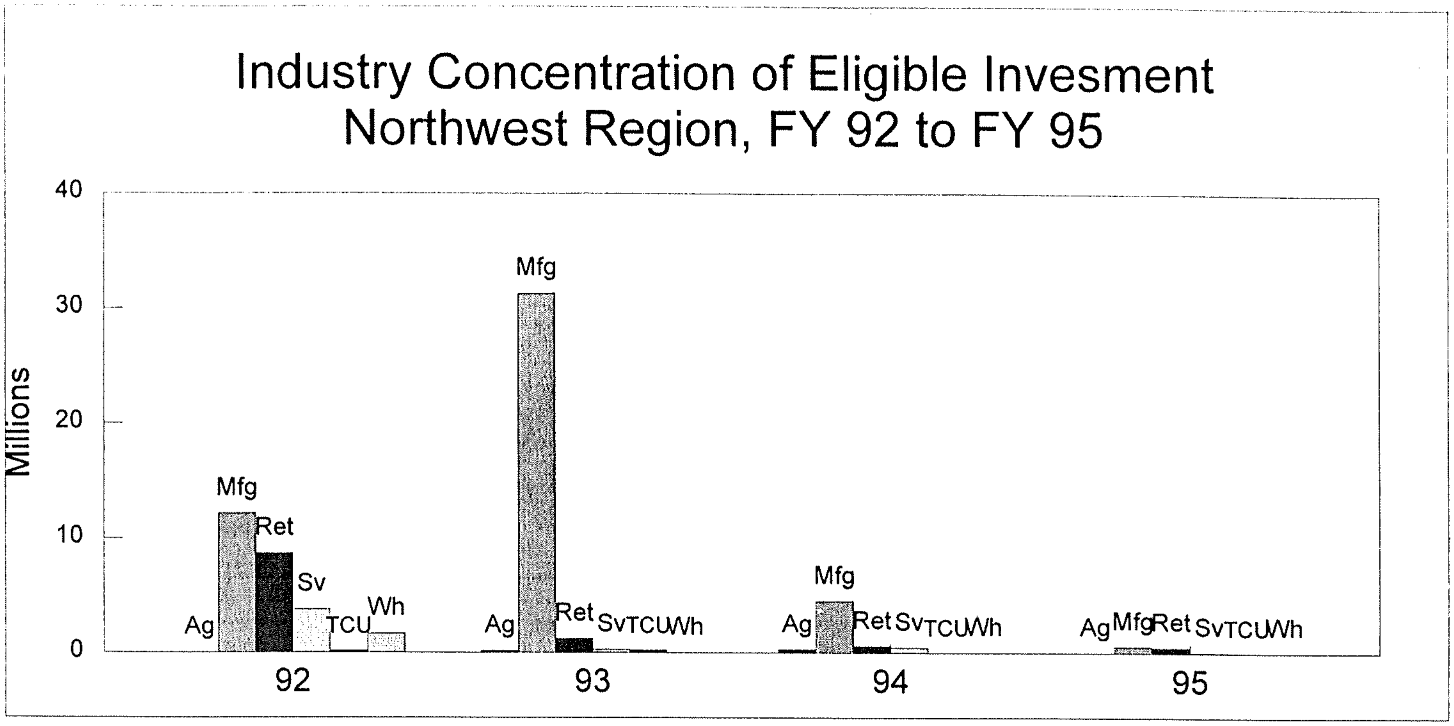

Figure 9A

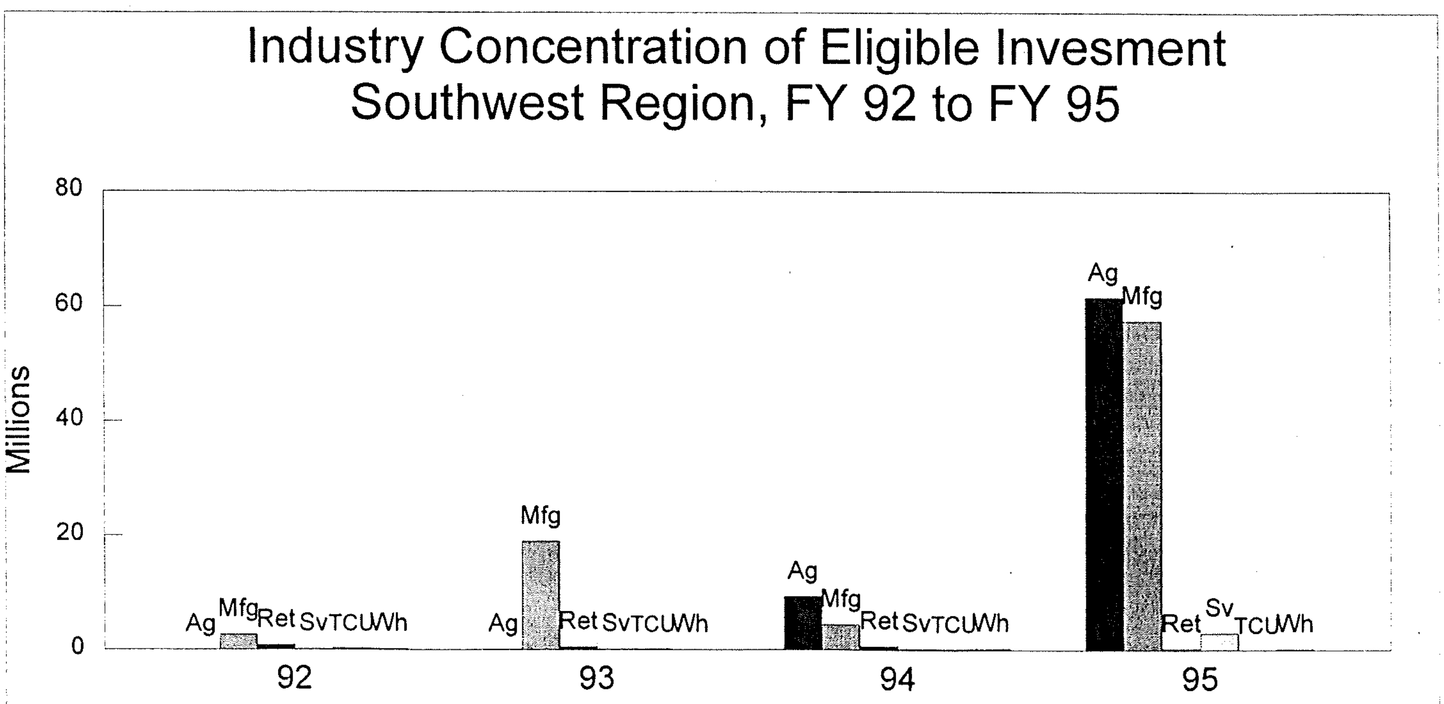

Figure 10A

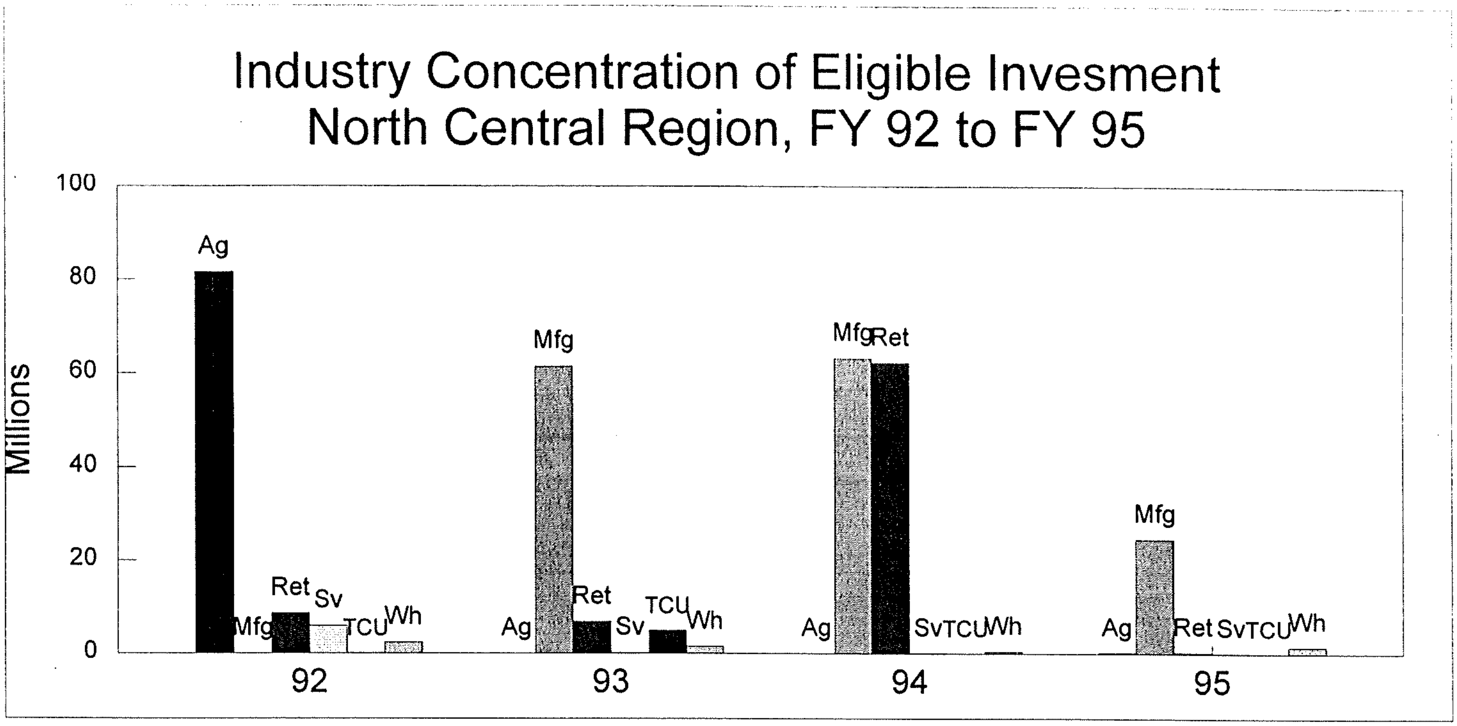

Figure 11A

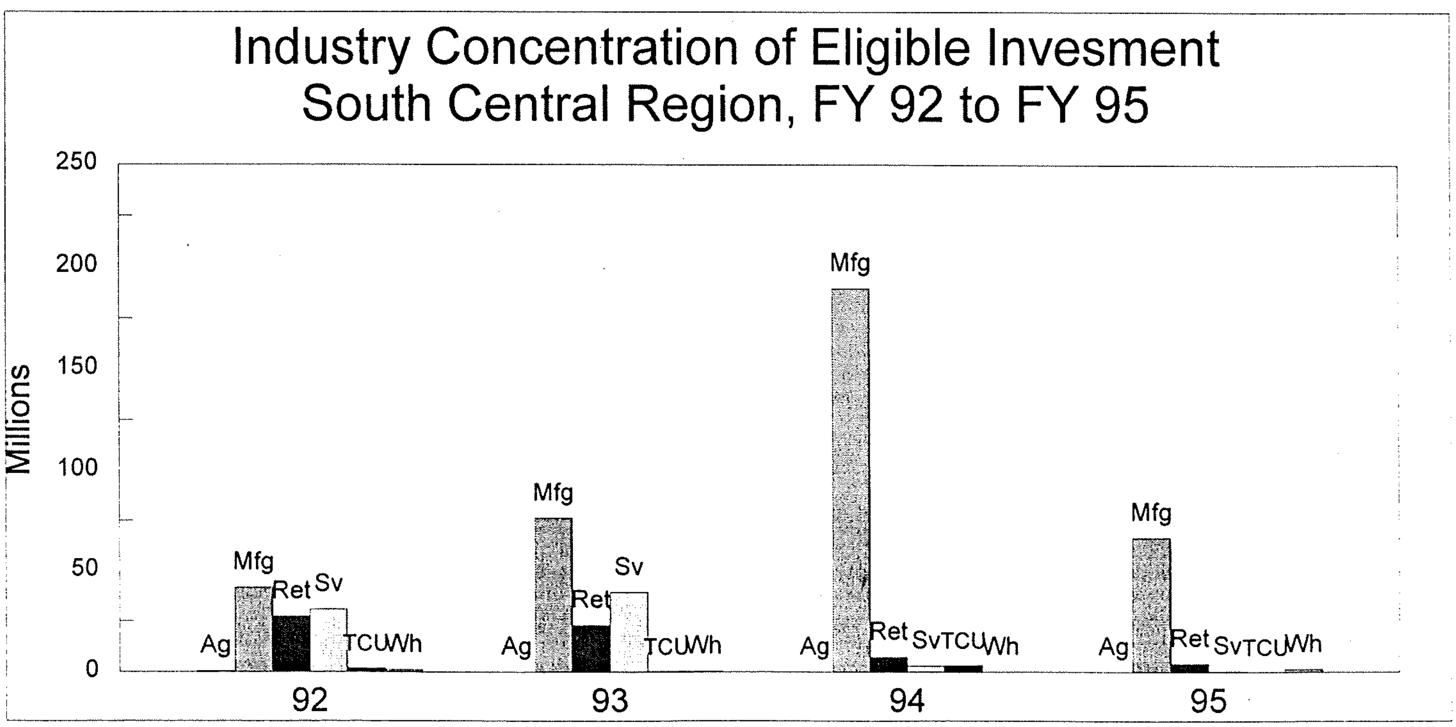

Figure 12A

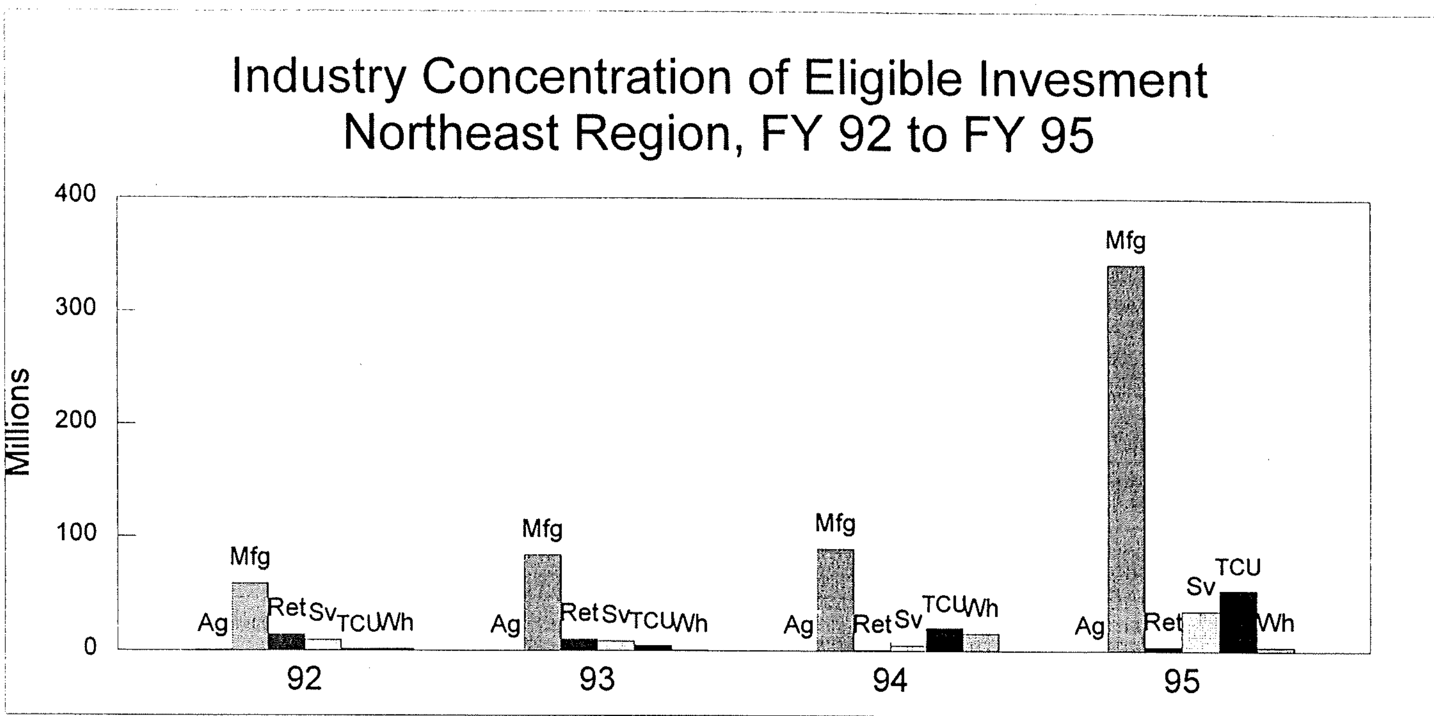

Figure 13A

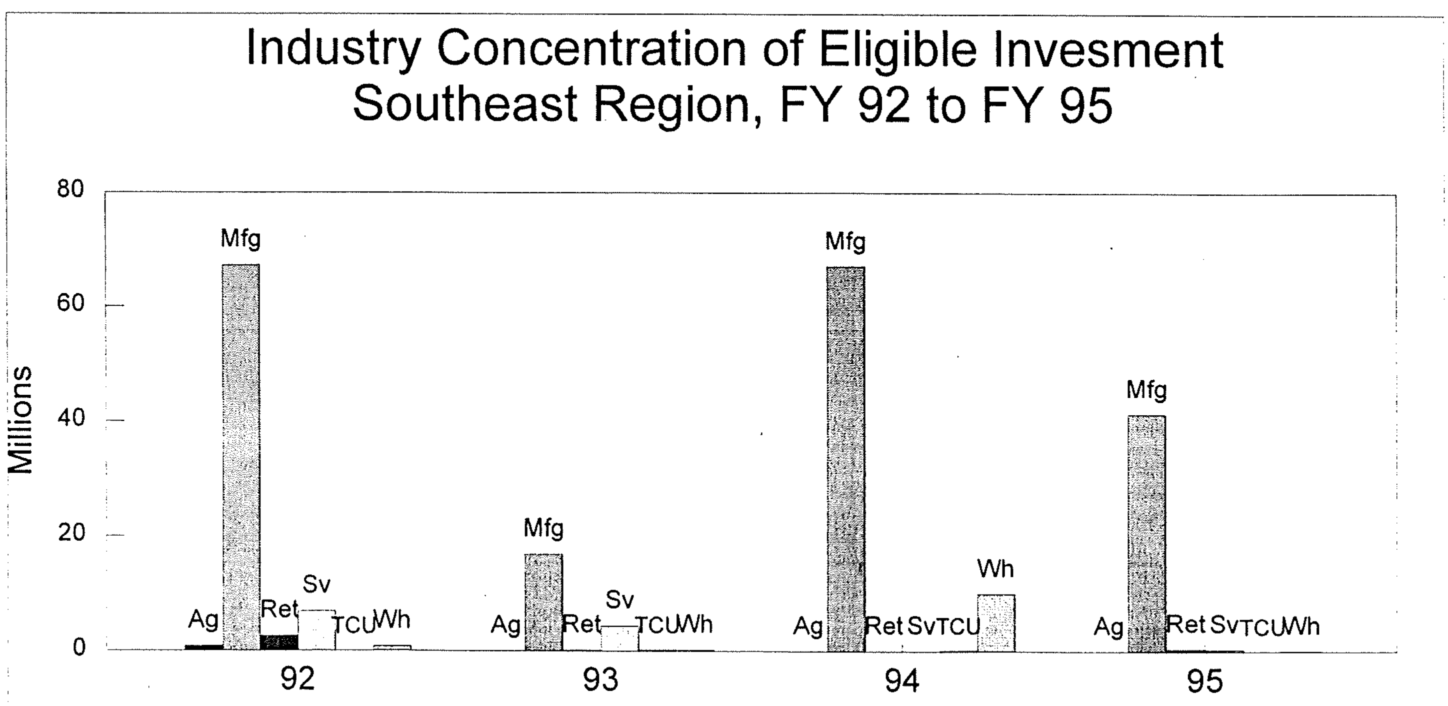

Figure 14A

Sales Tax Exemption Cert. ____ . . ____

Name of person completing survey: ______________________________

Telephone Number: (______) ____________________

The following six (6) questions pertain only to the project for which the Sales Tax Exemption Certificate was used.

Q1. Which best characterizes the project for which the Sales Tax Exemption Certificate was used?

a._____ start-up of a new firm
b._____ expansion of an existing Kansas firm
c._____ relocation of an existing Kansas firm
d._____ expansion of out-of-state firm
e._____ relocation of an out-of-state firm

Q2. What were the three (3) most important reasons for your firm's decision to locate or expand in Kansas? ***(Please rank reasons with 1 being most important.)***

a._____Aggressive recruitment efforts
b._____State and/or Local Tax Incentives
c._____Availability of public financing tools (Please specify: ____________________)
d._____Well-trained/skilled labor force
e._____Cost of labor less expensive
f._____Proximity to markets
g._____Owners' place of residence
h._____Good transportation/freight facilities
i._____Availability of educational/technical facilities
j._____Competitive tax structure
k._____Quality of life (such as education, housing, cost of living, etc.) more attractive than other locations

l. _____Other ____
(Please elaborate)

Q3. Please indicate the total capital expenditure your company made in the project.

$____________________

or

_____None, the project was cancelled or postponed. (Skip to Q7.)

Q4. How many additional people were hired as a direct result of the project for which the Sales Tax Exemption Certificate was issued?

_________Full Time
_________Part Time

Q5. To what extent was receiving a sales tax exemption for this project a factor in your company's decision to locate or expand in Kansas?

a._____It contributed significantly
b._____It contributed somewhat
c._____It contributed a little
d._____It did not contribute

Q6. If a sales tax exemption had not been available to your company, what would have been the effect on this project?

More than likely, our company would have:

a._____proceeded with the project about as planned
b._____proceeded on a smaller scale
c._____cancelled the project
d._____taken the project to another state
e._____Other ______________________________
(Please elaborate)

The next set of questions pertain to your overall operation, not just the project for which the Sales Tax Certificate was issued.

Q7. Is your firm part of a larger corporation?

Yes_____ No_____

If "Yes," please give parent corporation and its location.

____
____
____

Q8. How many people are employed in your local operation?

_________Full Time
_________Part Time

Please return to Kansas, Inc. using the postage-paid envelope provided, or FAX to us at (913) 296-1463.

Q9. Approximately what percentage of your product/service do you sell in each of the following categories?

a._____% Local (within an hour's drive of your facility)
b._____% State-wide in Kansas
c._____% Out-of-State but in the U.S.
d._____% Outside the U.S.

Q10. What is the average wage paid to non-salaried employees at your facility?

a._____ Less than $6.00 per hour
b._____ $6.01 to $8.00 per hour
c._____ $8.01 to $10.00 per hour
d._____ $10.01 to $12.00 per hour
e._____ Over $12.00 per hour

Kansas, Inc. is interested in your opinions on the following subjects. Please feel free to continue your discussion on another sheet.

Q11. In your experience in Kansas, are there business financing needs not currently being met by <u>your local financial institutions</u> (i.e. banks, savings & loans, etc.)? Please elaborate.

Yes_____ No_____

If "Yes," please elaborate:

____
____
____
____

Q12. In terms of your own business, what specific actions do you think the state could take to improve the business climate in Kansas?

Please elaborate:

____
____
____
____
____
____
____
____
____
____

Survey Respondents Population Description

Table 1A.
Firms by Industry and County Type

	Firms	%	Metro/Non
FIRE	2	1.9%	0/2
Manufacturing	76	73.1%	30/46
Retail	8	7.7%	1/7
Service	4	3.8%	0/4
Transp,Comm,Utils	7	6.7%	4/3
Wholesale	7	6.7%	4/3
Total	104	100%	39/65

n=104

Table 2A.
Firms by Industry and Region

	NC	NE	NW	SC	SE	SW
FIRE	0	0	0	0	1	1
Manufacturing	23	16	2	21	10	4
Retail	1	0	0	4	0	3
Service	0	0	1	1	2	0
Transp,Comm,Utils	0	4	1	1	1	0
Wholesale	2	4	0	0	1	0
Total	26	24	4	27	15	8

n=104

Table 3A.
Firms by Industry and Firm Size

	1-9	10-19	20-49	50-99	100-249	250-499	500-999	1000-1999	2000+
FIRE	1	0	0	1	0	0	0	0	0
Manufacturing	14	16	18	8	12	4	0	2	1
Retail	4	2	0	1	0	0	0	0	1
Service	1	2	1	0	0	0	0	0	0
Transp,Comm,Utils	1	1	0	2	1	1	1	0	0
Wholesale	2	0	2	2	0	1	0	0	0
Total	23	21	21	14	13	6	1	2	2

n=103 (1 missing firm size in manufacturing sector)

Table 4A.
Type of Project by Industry

	FIRE	Mfg.	Ret.	Svc.	TCU	Whsl	Total
Start-up company	0	13	2	0	0	0	15
Expansion of existing KS firm	1	49	4	4	6	4	68
Relocation of existing KS firm	1	10	2	0	0	2	15
New firm/facility to Kansas	0	4	0	0	1	1	6
	2	76	8	4	7	7	104

n=104

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The Regions of Kansas