

MINUTES OF THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT.

The meeting was called to order by Chairman Kenny Wilk at 3:30 p.m. on March 20, 2003, in Room 522-S of the Capitol.

All members were present except: Representative Carl Krehbiel, Excused

Committee staff present: April Holman, Legislative Research  
Rena Jefferies, Revisor of Statutes  
Fulva Seufert, Secretary

Conferees appearing before the committee: J. Mark Leonard, Research Analyst, Kansas, Inc.

Others attending: See attached list

Chairman Wilk recognized Representative Loganbill who announced that it was Representative Kuether's birthday. Chairman Wilk led the committee and guests in singing Happy Birthday to Representative Annie Kuether.

The Chair next recognized Mr. J. Mark Leonard, Research Analyst, Kansas, Inc., who presented two handouts to better inform the committee about economic development in the state. These specifically concerned the contribution of small business loan guarantees to economic development. (Attachment 1)

Chairman Wilk directed the committee's attention to **SB 235 - Providing for general STAR bond authority throughout the state.**

The Chair said that Representative Burroughs had some balloons to present, and he asked Rep. Burroughs to walk through the issues in **SB 235** that his balloons addressed. (Attachment 2) After reading through all the changes the balloons addressed, Representative Burroughs made a motion that the committee accept SB 235 with the balloons. Representative Kuether seconded.

The Chair advised the committee that in discussing the balloons, they would be divided into 10 parts with each part being decided informally on a voice vote.

The first balloon was identified as Part A which is found on page 2, line 32 and page 5, line 7, which added public building, government building or school.

Representative Kuether made a substitute motion to strike public building on page 2, line 32 and on page 5, line 7. Representative Carlin seconded. Motion carried.

Chairman Wilk called the committee's attention to Part B which was page 3, line 5 which added, "And the effect, if any, the redevelopment or special bond project will have on any outstanding special obligation bonds as authorized pursuant to subsection (a)(1)(D) of K.S.A. 12-1774, and amendments thereto." On a voice vote, this was approved.

The Chair directed the committee's attention to Part C, page 3, line 17, which allows a major multi sport athletic facility to be included. After discussion and a voice vote, this was approved.

The Chair next announced discussion of Part D, page 5, which has to do with sole discretion if a project may cause a default on a present bond project. The voice vote carried.

The Chair called for discussion of Part E, page 5, line 30, which changed 30 years to 25 years. A voice vote was taken, and Part E carried.

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT at 3:30 p.m. on March 20, 2003 in Room 522-S of the Capitol.

Part F was next discussed which is on page 7, line 10. After discussion, Representative Burroughs withdrew this change.

Part G was next which is on page 7, line 11. Subsection (h) addresses the appeals process and the committee discussed if two years was long enough to start on a project.

Representative Wilk made a substitute motion to strike pursuant to subsection (c) of this section and to then add a definition of commence. Representative Carlin seconded. Motion passed.

Renae Jefferies, Revisor, offered this definition of "commence." To "commence work" means to physically break ground or evidence of reasonable forward movement on the project. She also added she had made a determination that she agreed with Representative Loganbill on Part A that "casino, government building or school" are not eligible areas," but rather projects and should not be there. This will need to be addressed later.

Part H, subsection (i) provides for a sunset provision of July 1, 2006. Representative Novascone made a substitute motion on subsection (i) to change the sunset to July 1, 2007. Representative Hill seconded. Motion passed.

Part I, page 7, line 31, concerns a feasibility study. On voice vote, the committee passed this balloon.

Part J, page 8, (single page provided) (Attachment 3) which was originally written as a portion or all, and through the experience with **HB 2208**, should include no less than 90% of the local sales tax collected shall be pledged for such project. On a voice vote, the committee passed this change.

The Chairman announced that due to the length of the meeting, the **ERO 30** would not be discussed today, but would be discussed at the next meeting, Tuesday, March 25, 2003, so if anyone was present specifically for **ERO 30**, he or she could feel free to leave.

The Chairman called the committee's attention back on the balloon to Part K which adds new section 7 which addresses the multi sports complex. This lowers the threshold from one million to fifty million. (Attachment 4) The committee on a voice vote passed this balloon.

Representative Huntington made a substitute motion to scratch the language on page 2 of the bill, line 32 plus the amendment and to put a period after the word "secretary." Representative Carlin seconded. Motion carried.

Representative Kuether made a motion to approve the minutes of the March 18, 2003, meeting. Representative Carlin seconded. Motion passed.

Representative O'Malley said that on behalf of the committee, he thanked Representative Burroughs for all his work on **SB 235**.

Chairman Wilk announced that the Committee would continue to work **SB 235** on Tuesday, March 25, 2003, and would also discuss **ERO 30**.

The meeting adjourned at 5:30 p.m.

HOUSE ECONOMIC DEVELOPMENT COMMITTEE

THURSDAY, MARCH 20, 2003

NAME	REPRESENTING
Diane Costello	Olathe Chamber of Commerce
LARRY R BAEK	LKM
Mark Leonard	Kansas, Inc.
Matthew Goddard	HCBA
Erik Sartorius	City of Overland Park
John Hill	Horn Land Firm
Steve Kelly	KDOCH
Steve Weatherford	KDFA
Ryan Ringman	W.B. Damon P.A.
John Tjebk	Beijing
Dunstan Campbell	Intenc Damon
<del>Stanley</del> Stanley Sherard	Lenexa Chamber
Don Seifert	City of Olathe
DENNY KOCH	CABELA'S
John Federman	Federman Community
Mike Huttles	Wichita Economic Dev. Partners



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**To:** House Economic Development Committee

**From:** J. Mark Leonard, Research Analyst 

**Re:** Several other items from Bradshaw, 2002

**Date:** 20 March 2003

Some additional items from the Bradshaw paper, which accompanies this list for your interest.

1. The vast majority of job increases due to a loan from the California State Loan Guarantee Program (SGLP) were added during the first year of a loan. This results because the loans often result in investments in capital infrastructure that lead to hiring more people. There may be further hiring beyond the first year, but this hiring is primarily due to the benefits accrued from the initial investment rather than the investment itself.
2. Job retention is difficult to analyze as some jobs may have been retained by the firms by other means if they had not received loan guarantees. However, sample firms were asked how many jobs they would likely lose if the SGLP had not been available to them. Respondents reported an estimated loss of 14.5%. Firms which paid off their loans (graduated) reported a 9% employment loss without the loan, while firms with active loans reported an expected job loss of 20% without the loan. Small firms (with fewer than 20 employees) attributed the SGLP with helping to retain 16% of their employment, where large firms reported a 9% retention. It should be noted, though, that these figures are purely subjective based on perceptions since the survey respondents had all received loan guarantees. However, the framework of the survey does show that between 10% and 20% of jobs may have been lost without the SGLP.
3. Firms in all sectors received loan guarantees. All sectors experienced job gains, except the finance, insurance, and real estate (FIRE) sector. The FIRE sector's experience is likely due to the fact that capital investments in these firms should increase the overall labor productivity of workers in these firms. As a result, fewer workers may be needed to do even an increase in work. In fact, this also occurred in a number of firms in other sectors. The agriculture sector had the highest increase in workers resulting from the SGLP, at 118.2%. Care should be taken in translating that experience to Kansas, however, as most of this gain was to specialized fruit farms, organic farms, and the intermediate producers, such as packaging and distribution firms, connected to them. The overall increase in employment reported by SGLP recipients was 40.4%.
4. A relatively small number of firms ("gazelles") were responsible for much of the job growth. This fits with other studies that find this result. Hundreds of firms contributed just a few jobs, while some firms reduced employment.
5. The SGLP is a relatively inexpensive economic development tool, and has resulted in tax revenues to the state beyond the expense to California. In addition, local tax revenues have been increased as a result of the program. The cost estimate for the SGLP is approximately \$3,000 per job. As a comparison, the federal government spends between \$13,000 and \$19,000 per job for its various job creation activities. The state of South Carolina spent \$68,000 per job for the BMW assembly plant alone, while the Mercedes Benz plant in Alabama reportedly cost that state between \$150,000 and \$200,000 per job.

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House Economic Development  
3-20-03  
Attachment 1



# The Contribution of Small Business Loan Guarantees to Economic Development

**Ted K. Bradshaw**  
University of California–Davis

*Analysis of the outcome of economic development programs is essential for improved public policy. This study reports on the California State Loan Guarantee Program, which guaranteed small business bank loans to carefully selected firms that could not otherwise obtain credit. The study tracked the actual change in employment at 1,166 firms that received 1,515 loan guarantees from 1990 to 1996 during the depths of the California recession. The study found that employment increased in firms receiving loan guarantees by 40% among all firms and 27% among nonagricultural firms. The program also increased state tax revenues by \$25.5 million, well in excess of the \$13 million the state spent on the program. Firms receiving loan guarantees had a default rate of only 2%.*

State programs that help small businesses access credit are important economic development tools (Bates, 1984; Bingham, Hill, & White, 1990; Bradshaw, 1998; Bradshaw & Blakely, 1999; Dewar, 1992; Howland & Miller, 1990; Matz & Ledebur, 1986). Increased and timely access to capital was the most consistent and pronounced of the recommendations of at least 12 state and regional economic development studies in California, and 15 of the top 60 recommendations adopted at the 1995 White House Conference on Small Business identified capital as a top priority (Koehler & Moller, 1998). However, explicit evaluations of public programs that aim to increase small business access to credit are sporadic and inadequate, typically using limited evaluation methodologies (Bartik, 1990, 1994; Dewar & Hagenlocker, 1996; Giloth, 1992). The purpose of this study is to assess public benefit in terms of jobs and economic activity directly attributable to small business loan guarantees made by the California State Loan Guarantee Program (SLGP), which has been operating since 1968. The program's goal is to assist businesses that *nearly* qualify for bank loans so they can obtain credit and expand employment and economic activity in the state, especially in disadvantaged areas.

## SMALL BUSINESSES AND LOAN GUARANTEE PROGRAMS

Banks try to keep their losses on small business loans to a half percent or less, so they resist making any but the most secure loans to small businesses. It is useful to think of small business lending as a progression, like a pyramid, in which businesses are ranked by their qualifications for loans. At the bottom are the thousands of small businesses that are just starting, have virtually no collateral, have previous credit problems, or have dubious business plans and either low or no profit. For these many firms seeking loans, banks find the risk too high regardless of how high an interest rate they

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AUTHOR'S NOTE: This research was performed under contract to the California Trade and Commerce Agency. All findings are those of the researcher and not the agency. Courtney Norris and Rebecca Stark assisted with data collection and research.

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*Ted K. Bradshaw is an associate professor at the University of California–Davis, where he teaches community development theory and economic development. His recent research on economic development policy issues has been published in the Journal of the American Planning Association, Economic Development Quarterly, Rural Sociology, and the Journal of the Community Development Society.*

might charge, and business owners must use their limited personal assets and personal credit lines for needed financing. At the top of the pyramid are small businesses that are well-established, are profitable, have collateral, and may even be growing rapidly. Banks routinely make loans to these businesses. Between these two layers is a thin layer of firms making the transition to being fully bankable. These businesses have stability and promise but lack some of the critical qualifications that would enable banks to make loans to them with an acceptable level of risk. In particular, they may have gaps in their qualifications, such as being in business only 2 or 3 years, having minor credit blemishes, lacking collateral except for the personal assets of the owner, experiencing wildly fluctuating periods of profitability and loss, or presenting a limited business plan.

Loan guarantees are tools designed explicitly to assist firms transitioning to bankability (for discussions of credit options, see Matz & Ledebur, 1986; Walker, 1990). Typically, the guaranteeing agency works with the banks to reduce the risk in offering loans to firms denied credit. If the business defaults, the bank is repaid by the guaranteeing agency, which then collects and liquidates any collateral linked to the loan. The concept of a loan guarantee is not to subsidize the business by covering some of its costs but to enable the business to obtain a loan when it would otherwise be unable to do so at any cost. (Banks most often charge full market rates for guaranteed loans instead of reduced rates.)

Banks do not embrace loan guarantees because they add an administrative layer to the application in a part of their market in which high volume and low processing costs enable them to make money. Banks report that they spend nearly as much employee time on a \$30,000 small business loan as on a \$1 million loan to a larger business. Thus, small business loan guarantees counter a bank's interest in simplifying the credit decision process. One reason banks participate in the program is the anticipation that the firm might become a regular customer in the future.

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### **The California State Loan Guarantee Program**

The SLGP has been in operation since 1968 under the California Small Business Development Corporation Law. The program was funded by grants from the legislature that established a trust fund to secure bank loans or lines of credit for small businesses that could not otherwise qualify for a loan. The trust fund totaled \$32.7 million in February 1997. This amount may be leveraged to guarantee loans on more than a dollar-to-dollar basis because it is unlikely that all loans will fail at the same time.<sup>1</sup> The SLGP recently increased its leverage up to 4:1, which provides the program enough capacity to guarantee about \$130 million in bank loans to small businesses at any one time. The trust fund "revolves" as firms "graduate" by paying off their outstanding loans, allowing new loans to be guaranteed. From 1990 to 1996, the program guaranteed \$65 million in loans to firms that graduated; and in 1996, more than \$75 million in loans were active. In total, the program enabled more than 1,100 small businesses to obtain \$140 million in capital from 1991 to 1996.

The program provides a guarantee of up to 90% of the loan amount, with the guaranteed portion not exceeding \$350,000. On average, about 75% of the loan amount is guaranteed. Because loans are not fully guaranteed, banks still assume the full risk for the part of the loan not backed by the program, which assures that banks will not make loans to very risky businesses. Microloans of up to \$25,000 can be fully guaranteed. The term of the guarantee may extend up to 7 years, with the average being 3 years. Interest rates are negotiated between the borrower and the bank lender but tend to be average market rate. The borrower pays a guarantee fee of up to 2% of the amount guaranteed, plus a \$250 documentation fee. These fees also assure that participation is limited to businesses that truly need the guarantee.

The loan guarantee program is administered by the California Trade and Commerce Agency through eight nonprofit small business financial development corporations located in rural and urban areas of the state. These corporations, which have six additional branch offices, usually handle a variety of other business finance programs in addition to the SLGP. The corporations primarily work with local banks to serve customers whose loan applications have been rejected; the corporation staff evaluates each application and presents it to their internal loan committee for approval. The bank provides funding after the guarantee is approved.

The number of guaranteed loans provided through the SLGP has increased steadily over the last decade. Data analyzed in this study include 642 loans that have been paid off by 442 "graduated" firms and 873 loans to 724 firms that are currently active. The level of activity involving guaranteed loans has increased recently; in 1998, more than 800 new loans were guaranteed, but data on these loans were not available at the conclusion of this study.

During the period of this study, 108 loans went into default (out of 1,623), which means that about 6.6% had trouble.<sup>3</sup> However, these defaults led to an after-recovery loss charged against the guarantee that averaged only 1.99% of the total amount guaranteed. In comparison, banks expect default rates of around 0.5% on small business loans, which indicates that the guarantee program is reaching riskier businesses. The SLGP has slightly better success than the Small Business Administration (SBA) 7(a) guaranteed loan program, which from fiscal years 1989 to 1999 purchased back 8.6% of the 284,000 loans it guaranteed (\$57.6 billion) and ultimately could not obtain repayment on 5.5% of the loans guaranteed. After sale of collateral, the SBA ended up writing off 2.64% of the dollars loaned, or \$1.5 billion.<sup>3</sup> Some of the loss was covered by a 2% fee that the banks pay the SBA.

## THE STUDY

This study evaluates the changes in employment and economic activity due to loan guarantees by comparing firms receiving loans before and after they got the capital. Although not perfect, before-and-after data are superior to retrospective reports from business owners for evaluation studies (for evaluation methodology issues, see Accordino, 1994; Bartik & Bingham, 1997; Feller & Anderson, 1994; Giloth, 1992; Marlin, 1990; Storey, 1990; Willis, 1985). The change measured is attributed to the loan, which is considered a necessary (though not sufficient) condition for business growth during this period of time. From an evaluation perspective, it is impossible to follow a traditional experimental design in which small business firms receiving loan guarantees from a state program are compared to firms that do not have loan guarantees. There are no directly comparable groups that could be evaluated.<sup>4</sup>

It is incumbent on an analysis of this type of program to be conservative because there is no control. Several assumptions were made in the analysis that biased the tests against finding program success. The analysis was limited to employment change reported while the firm had an active loan. I did not try to estimate additional employment or sales after the loans were repaid. I also took the most conservative approach to resolving an inconsistency in how some of the corporations reported part-time employment. All initial employment was calculated on the basis of total number of employees—not full-time equivalents—even though subsequent follow-up employment reports were requested to be full-time equivalent, but this was not consistently done.<sup>5</sup> I did not include job retention as a program benefit, even though I know that without the loan, some jobs would have been lost. Similarly, I did not claim benefits from economic or employment multipliers.

The study recognizes that businesses receiving loans have the primary objective of being profitable and repaying their loan; job creation, tax payments, and community benefits are secondary. The question simply is whether, in the aggregate, businesses that receive loans actually contribute public benefits to the state that would not be achieved without access to credit.

### Data

Data for this study were obtained from information provided to the California Trade and Commerce Agency by the eight financial development corporations that administer the loan guarantee program. The database includes two different sets of data. First, the Trade and Commerce Agency database includes initial preloan information for each loan guarantee, such as the size and type, and descriptive information about the firm such as its initial employment, industry classification, location, and the owner's gender, ethnicity, and disability status. The second set of data includes annual information on the firm's employment, payroll, sales, and sales tax paid. These data are from the annual Economic Benefit Reports (EBR) the corporations collected from firms with active loan

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**TABLE 1**  
**Growth of Employment in Firms Receiving Loan Guarantees**

	<i>Active and Graduated Firms</i>	<i>No Data Firms<sup>a</sup></i>	<i>Total</i>
Baseline employment	11,405	6,679	18,084
Current or ending employment	16,038	NA	NA
Growth in employment, current or ending	4,633	2,370	7,003
Average rate of growth	40.6%	35.5%	38.7%

a. Firms that did not provide economic benefits information. Growth estimate based on assumption of same rate of growth as firms that provided economic benefits information, calculated separately by financial development corporations and for graduated or active loans.

guarantees. The initial data on the firm provide benchmark data on the number of employees, but data on payroll, sales, or sales tax paid were not collected before the loan was made.

Because some firms received multiple loan guarantees, the 1,515 loans made by the corporations from 1990 to 1996 went to only 1,166 different firms. I combined the information on the impact of the many loans that different firms received to avoid double counting. The data set includes initial employment in all 1,166 firms, but annual EBR data are available for only 759 firms because the corporations were unable to obtain this information from some firms in spite of repeated mail and telephone follow-up efforts. When firms were eliminated that were not required to submit an EBR because they had their loans for less than 1 year, data were available for 74.5% of the 1,019 firms for which data could be expected.

To overcome some of these data difficulties, a random sample of firms was selected for follow-up study. I selected 300 firms using a stratified sampling framework to select equal numbers of firms with paid-off loans (graduated) and those with active loans, as well as firms with 10 or fewer employees and those with 11 or more. A brief questionnaire was administered during the spring of 1998 to clarify actual job growth, uses of the loan, reasons for obtaining a guarantee, and satisfaction with the program. Data were collected using a combination of initial mailings from their local corporations and intensive bilingual phone and fax follow-up from the University of California-Davis. Overall, the survey achieved a 59% response from firms with adequate contact information.

### **JOB CREATION FROM THE CALIFORNIA LOAN GUARANTEE PROGRAM**

The 759 firms for which EBR data are available employed 11,405 people at the time the loans were initiated; at the time they paid off their loan or at the time of their most recent report, these same firms employed 16,038, for a gain of 4,633 jobs, or 40.6%. These data are shown in Table 1. On average, the firms initially had 15 employees each; by the end of the study period, these same firms employed about 21 people, an average increase of 6 employees per firm.

Examples of employment increases include All Star Telecom in Sacramento, which is a telecommunications engineering, installation, and construction firm. It received guarantees on two loans totaling \$200,000 between 1993 and 1995, when the company won awards for being the fastest-growing firm in the area. Employment increased from 10 to 85, and revenues increased tenfold to more than \$7 million a year. Working for such major telecommunications giants as AT&T, All Star Telecom continued to expand; by 1998, it had 100 employees, generated revenues of \$12 million, and paid wages well above regional and industry averages.

Another example is Sonoma County health food grocer Food for Thought, which expanded from 10 to 40 employees when it moved to a new location with the assistance of a loan guarantee. Now it has multiple stores in several counties. In Southern California, a steel fabricator used the loan guarantee program to obtain a line of credit that allowed it to bid on larger projects than it previously was able to contemplate. The temporary cash provided by the line of credit allowed the firm to win major contracts for construction steel at shopping malls and entertainment complexes. Employment increased from 28 to 39 because of the expansion made possible by the guaranteed line of credit.

On the other hand, the financial development corporation in San Diego showed a loss of 104 jobs distributed between the graduate and active firms. These losses came during a time when the Southern California economy was particularly hard hit by cuts in defense spending. Interestingly, a number of lost jobs were traced to a few medical temporary agencies; there is evidence that initial employment figures were inflated by including the number of workers they placed, whereas subsequent numbers included only the agencies' own employees.<sup>6</sup> In another case, a jewelry company with a loan guarantee expanded so much that it decided to subcontract for production. Business increased even though its employment declined because the subcontractor's employment increased.

### The First Year

**The vast majority of jobs were added the first year after the firm received a loan.**

The EBR reports allowed for identifying the proportion of employment reported each year that the firm had a loan guarantee, to the extent that data were available. The results show that the vast majority of jobs were added the first year after the firm received a loan. This is to be expected because the investment is often in machinery, operating capital, or other resources that lead to hiring more people. The investment may lead to additional employment over time as the benefits of the initial investment are realized in increased business and profits are reinvested. The data for employment change show that 3,186 jobs were gained in the first year, compared with 4,633 by the end of the study period. The first-year jobs, thus, account for 68% of the total gain.

### Job Retention

Many evaluations of economic development programs treat all the baseline preloan jobs as retained simply because the jobs continued after the program assisted a firm. Economic development programs cannot take credit for retaining all of the jobs in firms that they assist because a lack of assistance usually does not lead to closure. Without loans, most small businesses would have survived by postponing growth or downsizing, thus retaining many jobs.

Job retention was not included as a primary benefit of the loan program because direct data were not available. This has an effect of underestimating the total impact of the loan program. However, the follow-up survey helps to clarify the role of the loan guarantees in job retention. Sample firms were asked how many workers would have lost their jobs were it not for the loan guarantee. Respondents reported an estimated 14.5% employment loss. Graduated firms reported expected base employment losses of 9% without the loan; firms with active loans reported that 20% of base employment would have been lost. The smallest firms (those with fewer than 20 employees) credited the loan guarantee with helping to retain 16% of employment, whereas larger firms retained 9%. Several firms indicated that, without the loan guarantee, they would have had to close completely. Although these retention figures are subjective evaluations based on the perceptions of owners, they provide a framework to show that, without the loan guarantee, between 10% and 20% of the employment base might have lost their jobs but did not.

### Industry of Firms Receiving Loans

What types of firms received loans and generated jobs? The clear interpretation of the data is that the firms with loan guarantees represent a broad range of California small businesses in need of credit. The data show that virtually every type of small business in nearly all industries used the loan guarantee program. Loans were made to companies ranging in skill level from high-technology computer firms to those requiring virtually no special skills.

Table 2 shows initial employment by industry and the increase in employment attributable to the loans. Some of the most significant employment growth was in small businesses in the agricultural industry, both in farm work and agricultural processing. Almost 2,000 of the jobs gained during the study period came from agriculture, which was in keeping with the emphasis several development corporations placed on serving value-added agricultural production and processing endeavors. These agricultural jobs were in the Monterey-Salinas area, one of the nation's most highly

TABLE 2

**Average Growth in Employment in Firms Receiving SLGP Loan Guarantees, by Industry**

	<i>Initial Employment</i>	<i>Employment Growth</i>	<i>Growth Rate (%)</i>
Agriculture	1,698	1,996	118.2
Construction and mining	1,240	604	48.7
Manufacturing	2,462	307	12.5
Wholesale trade	978	205	20.1
Retail trade	1,390	420	30.2
Transportation, utilities, and communications	287	160	55.7
Finance, insurance, and real estate	134	-11	-8.2
Services	3,088	873	28.3
Total	11,277	4,554	40.4

NOTE: Firms employing 128 workers were not classifiable by industry; they generated 79 new jobs.

specialized farming areas. The involved firms supplied organic fruits and vegetables, artichokes, broccoli, strawberries, and lettuce (especially prewashed salad packs). Workers included a wide range of agricultural specialists as well as field laborers. Table 2 also shows that small businesses added a significant number of jobs in construction, retail trade, transportation, utilities and communications, and services. Construction firms grew by 49% and retail trade by 30%. Although loan programs might be expected to concentrate on firms employing low-skill workers, the data show that guarantees to firms in professional services grew at a 40% rate, whereas small businesses in the service industry increased employment by 28%. In contrast, finance, insurance, and real estate showed a net loss of 11 jobs based on an initial employment of 134 workers.

### **The Few Firms That Are Growing or Declining Very Rapidly**

A relatively small number of firms account for much of the job growth, whereas hundreds of firms contributed just a few jobs to total employment growth. Twelve firms grew by 100 or more jobs; in total, these firms accounted for 2,879 of the jobs gained for which I have information. The fact that a few firms account for much of the growth is consistent with other findings about small business growth. David Birch (1987) found that the highest proportion of growth came from selected firms that he called "gazelles." Also, several firms lost large numbers of employees as their businesses faltered, although only 2 firms lost 100 or more employees. The gains were widely distributed among 370 firms, which increased by 7,654 jobs (an average of 20 per firm), whereas the losses were distributed among 297 firms, which lost 1,919 jobs (an average of 6.5 per firm). The remaining 92 firms did not change.

The loss of jobs by some companies is not unreasonable for the loan program. Interviews with businesses receiving loans provide evidence that when a firm expands, it does not necessarily lead to greater employment. For example, one cabinet-making firm got a loan to use a new labor-saving technological process that was essential for it to remain competitive. Without the loan, the company would have had to go out of business, but with the loan, it retained 5 employees and remained viable, even though 3 employees were laid off.

### **PAYROLL, SALES, AND SALES TAX IMPACTS**

Investing in the SLGP generated revenues for the state in a number of ways, providing a significant economic development benefit. The size of these revenues is not exact because data must be estimated to gauge some of the impacts. For example, although aggregate payroll is known, it is not known how this payroll was distributed among individual employees and how much of the payroll went to newly hired workers. Also, the profitability of the small businesses is not disclosed due to the confidential nature of these data. Nonetheless, some reasonable assumptions can be made about the revenue that the state could expect to gain from businesses such as those that received loan guarantees. The SLGP generated jobs and sales that contributed sales tax, business tax,

**A relatively small number of firms account for much of the job growth, whereas hundreds of firms contributed just a few jobs to total employment growth.**



**TABLE 3**  
**Revenues and Costs Related to the Loan Guarantee Program (in thousands of dollars)**

	<i>State</i>	<i>Local</i>	<i>Total</i>
<i>Tax receipts</i>			
Sales tax on capital expenditures due to loan	2,500	1,450	3,950
Sales tax on increased retail sales by firms	12,500	7,500	20,000
Tax on business profits	5,500	—	5,500
Personal income tax on payroll	3,600	—	3,600
Unemployment and payroll tax	1,400	—	1,400
<b>Total</b>	<b>25,500</b>	<b>8,950</b>	<b>34,450</b>
<i>Costs</i>			
Program administration	13,000		
Loan losses	3,700		
Foregone interest on trust fund	5,500		
<b>Total</b>	<b>22,200</b>		<b>22,200</b>

personal income tax on payroll, and other payroll taxes.<sup>7</sup> These estimated tax revenues<sup>8</sup> are summarized in Table 3.

First, loan money gets spent for taxable goods. The loan program guaranteed \$193 million in loans between 1990 and 1996 that led to equipment, supply, and other taxable purchases as well as many nontaxable services and materials. Interviews with firms and loan officers helped to estimate that about a quarter of the loan funds, \$50 million, was spent on taxable purchases, which generated \$2.5 million in state sales tax revenues (5% tax rate) and \$1.45 million in local sales tax (2.9% tax rate).

Second, firms selling items to retail customers (many businesses in addition to retail stores) also generate sales tax on their increased sales volumes. Based on data reported on the EBR, total sales to customers by firms receiving loan guarantees generated approximately \$80 million in sales taxes. To be conservative, I estimated that only 25% of the tax receipts, about \$20 million, was due to growth attributable to loans because retail firms grew more slowly than the average for firms getting loan guarantees. Of that amount, \$12.5 million went to the state and \$7.5 million went to local governments. Tax on multiplier-induced sales is not included in these estimates. Although some of this tax would have been collected by existing retail stores even without SLGP-induced growth, at minimum, consumer preferences were met.

Third, the firms receiving loans were also able to generate some profit, which would be subject to business taxes. The amount of profit is, of course, not available, but I was able to estimate that a proportion of sales was taxable profits by using approaches developed by Sheffrin and Dresch (1995). Based on data provided by the firms and extrapolated to firms lacking data, sales by all businesses receiving loan guarantees were about \$4 billion, of which an estimated \$1.6 billion was growth associated with the loan guarantee. A common small-business rule of thumb used in projecting revenue for state governments is that taxable profits are 5% of sales. These profits were taxed at the 9% rate for corporate taxes (\$800 minimum for corporations). Thus, while having an active loan, businesses paid an estimated \$5.5 million in additional business taxes based on the growth associated with receiving a loan.

Finally, the firms receiving SLGP guarantees increased their employment by 7,000 employees. (This estimate includes expected growth in businesses for which no EBR was available.) The increased employment is expected to increase payroll (based on payroll data for the 4,600 employees for whom data were available) in the neighborhood of at least \$375 million more than what it would have been without the loan program. Although much of this income might be earned by low-income employees, an estimated 25% of the increased payroll would be subject to state income tax, which would average 4% at the low bracket. Thus, employees whose payroll came from the SLGP-stimulated increase in employment conservatively paid at least \$3.6 million in state income tax on their earnings. In addition, employers must pay employment taxes of 3.4% on the first \$7,000 of employee earnings, which produced \$1.4 million for the state.<sup>9</sup>

In total, Table 3 shows that the firms receiving loan guarantees from 1990 to 1996 are estimated to have contributed (or will be expected to contribute while they have an outstanding loan) \$25.5 million in tax directly to the state and \$9 million in local sales tax.<sup>10</sup> The tax payments may be compared to what the state spent on the program during this period, which was \$13 million in support of the program, plus interest on the \$32 million trust fund (\$9.2 million) that covered loan losses (\$3.7 million). Annual tax revenues were nearly double annual appropriations, and interest on the trust fund exceeded losses (\$9.2 million interest was earned while losses totaled only \$3.7 million, with the difference being spent by the corporations for operations). If one takes into account local revenues, the SLGP produced half again as much as it cost, although that never was an SLGP goal.

The fact that estimated revenues exceeded expenditures needs to be put in the context of other economic development programs. On a per-job basis, the state's annual expenditure from 1990 to 1996 of about \$13 million plus interest on the trust fund generated an estimated 7,000 new jobs at an average cost to the state of about \$3,000 per job.<sup>11</sup> In comparison, the rural Urban Development Action Grant (UDAG) program spent \$5,546 per job, whereas other federal job creation activities cost upward of \$13,000 to \$19,000 per job (Howland & Miller, 1990). In a study of Small Cities Economic Development-subsidized loans in Minnesota, Dewar and Hagenlocker (1996) estimated that the program cost from \$3,000 to \$10,000 per job. Expensive incentive programs such as the BMW assembly plant in South Carolina cost \$68,000 per job, and the Mercedes Benz plant recruited by Alabama in 1993 reportedly cost the state \$150,000 to \$200,000 in incentives for every job (see Schweke, Rist, & Dabson, 1994).

**If one takes into account local revenues, the SLGP produced half again as much as it cost, although that never was an SLGP goal.**

## DISCUSSION

The SLGP was a catalyst, along with market forces and other public programs, to encourage job growth and ultimately generate revenues for the state. However, this analysis needs to address key questions, such as how much job growth could be expected without the program and the role of economic development programs in the overall state economy.

As noted earlier, loan guarantee recipients cannot be fairly compared with other small businesses because of the unique needs and circumstances leading the businesses in this study to seek and receive a loan guarantee. However, a range of data can be used to compare job growth among firms that received loan guarantees with growth in other small businesses during the recession years. The most comparable data are for small business employment from a 1997 California Labor Market Information Division study of growth and decline in employment from 1991 to 1995. During that period, California lost a total of 1,704,027 jobs, for a decline of 16.7%. Small businesses with fewer than 20 employees lost 220,000 jobs, or about 11%. The gain in employment (40% overall and 27% in nonagricultural firms) by SLGP firms stands in sharp contrast to the high rate of job loss throughout the economy during this recession period. By these standards, the gain in employment by the SLGP firms stands out as a clear success.

However, the California Labor Market Information Division data provide an opportunity for a more stringent comparison. Of all of the small and large firms that survived the recession years (70.8%), total employment actually increased by 200,000 jobs from 1991 to 1995 to somewhat compensate for larger employment decline due to firms that closed. Among survivors, huge employment losses at the largest firms were more than made up by gains in surviving small firms. Those small businesses that survived with fewer than 10 employees (67.4%) grew by 360,000 employees, whereas large surviving firms with more than 1,000 employees (87.5%)<sup>12</sup> lost almost as many—320,000. Midsize firms with 10 to 249 employees gained 188,000 employees, whereas firms with 250 to 999 employees lost 28,000 employees. Thus, during this period, a large group of surviving small businesses gained jobs while surviving large firms lost them.

Using unpublished data, I compared employment changes in all surviving small businesses statewide with the surviving SLGP firms, based on industry and size of firm. The results of this comparison (see Table 4) show that the firms receiving guaranteed loans actually grew faster over this period than surviving firms of the same size. Considering the firms for which data are available, nonagricultural SLGP firms<sup>13</sup> gained 2,625 employees following their loan guarantee. If

TABLE 4  
**Employment Growth for Firms Receiving Loan Guarantees Versus  
 Growth for All Small Business Survivors in California, 1991-1995**

<i>Initial Number of Employees</i>	<i>Statewide Growth Rate for All Survivors (%)</i>	<i>Expected SLGP Growth in Employment<sup>a</sup></i>	<i>Actual Growth for SLGP Firms</i>	<i>Rate of Growth for Nonagricultural SLGP Firms (%)</i>
0-9	40.0	761	1,456	76.6
10-19	7.5	151	484	24.1
20-49	6.8	206	810	26.6
50-99	5.5	101	65	3.5
100-249	2.7	27	-190	-19.3
Total	<sup>b</sup>	1,246	2,625	26.8

SOURCE: Milat (2000).

a. Calculated based on statewide growth rate for surviving firms multiplied by initial employment in firms receiving SLGP loan guarantees by initial size of firm.

b. All firms grew 2.4%, including firms with initial employment of 250 and more. No SLGP firms had initial employment of more than 250.

these firms grew at the same rate as surviving firms in the same-size class, they would have gained only 1,246 employees; thus, the SLGP firms gained more than twice as many jobs as expected if they grew at the same rate as did small business survivors statewide.<sup>14</sup> However, SLGP growth was higher in establishments with fewer than 10 employees, which actually grew 76.6%, generating nearly double the jobs that would have been realized if these smallest firms grew at the rate of similar survivor firms in the statewide data (40%). In the largest small-firm category of more than 100 employees, the SLGP firms lost employees (instead of the very small gain that would have been expected by state growth rates).

In sum, a conservative evaluation of the SLGP shows that firms receiving loan guarantees expanded employment and paid taxes while maintaining a default rate of less than 2%. These findings need to be kept in perspective. During the period of the study, California was in a deep recession that saw 1.7 million jobs lost, and small businesses were losing employment at an overall rate of 10% to 20% through business closure or failure. A few "special" businesses could not get credit without a loan guarantee, but with an SLGP guaranteed loan, their employment grew at a rate of 27% for nonagricultural firms and 40% for all firms. In addition, survey results show that these firms were able to retain between 10% and 20% of their initial employees who might have been laid off without the loan. The loan program cost the state about \$3,000 per job, but the firms generated tax revenues in excess of state expenditures. Firms getting loan guarantees generated more than double the number of jobs generated by comparable firms statewide that survived the deep recession of the early 1990s. These findings provide multiple confirmation of the importance of loan guarantees as a cost-effective tool supporting small business expansion and retention.

## NOTES

1. The ability to guarantee more loans with limited funds is the attraction of guarantee programs compared to direct lending.

2. The firms that defaulted are not included in calculating economic benefit because the positive economic impact of these firms is small, whereas the firm's demise should not be attributed to having received a loan guarantee. The cost of the default is considered, however.

3. Data provided by Small Business Administration, San Francisco office, March 15, 2000.

4. Firms receiving guarantees cannot be compared to firms not considering or needing loans at all, nor can they be compared to firms receiving bank loans without needing a guarantee. Thus, one cannot find a directly equivalent set of firms that are just missing the SLGP guarantee. The only feasible comparative framework is the universe of small businesses. To be as conservative as possible, this study compared employment growth by SLGP firms to only those firms that survived the intense shakeout of the California recession between 1991 and 1996.

5. In a sense, this raised the bar for estimating impacts: In total, it meant that 42 fewer firms showed employment gains and 8 more showed employment loss. The starting employment was 1,656 jobs greater than if part-time and seasonal jobs were converted to full-time equivalents.



6. I did not edit any of the original data for firms with questionable losses or gains because it was impossible to systematically verify all the data and any other strategy would be arbitrary.

7. Firms that did not submit EBR reports were included in the analysis by assigning them employment growth estimates based on growth of initial employment calculated by whether their loan was active and by the rate of growth of the corporation that handled their guarantee. Then the most recent data on sales and tax paid were extrapolated to reflect growth proportional to increase in employment. Although sales and payroll may not track employment directly, corporation presidents said that, on average, these numbers would not be far off.

8. The lack of data on revenues to government associated with business expansion calls for further study; these data are not intended to be used in any precise way. They do illustrate the types of benefits programs that can be expected to provide government in return for economic development programs, however.

9. It is also likely that many of the workers with jobs stimulated by the SLGP stopped receiving unemployment benefits. The savings on state unemployment payments are not included in these public benefit estimates.

10. These figures do not include indirect tax payments due to multipliers.

11. The program guaranteed \$140 million in private bank lending, which averages to about \$20,000 per job.

12. Firm survival rates from the California Labor Market Information Division (1997, Table 5).

13. Comparative data on agricultural firms were not available.

14. This analysis was also done by firm size and industry, with similar results. Due to space limitations, these data are not reported in this article.

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1 [As Amended by Senate Committee of the Whole]

2  
3 As Amended by Senate Committee

4 Session of 2003

5  
6 **SENATE BILL No. 235**

7  
8 By Committee on Commerce

9  
10 2-14

11  
12 AN ACT concerning tax increment financing and sales tax revenue  
13 bonds; relating to redevelopment of certain property located through-  
14 out the state; amending K.S.A. 12-1770a and 12-1774 and K.S.A. 2002  
15 Supp. 79-3620 and repealing the existing sections. and 74-8936

16  
17 *Be it enacted by the Legislature of the State of Kansas:*

18 Section 1. K.S.A. 12-1770a is hereby amended to read as follows: 12-  
19 1770a. As used in this act, unless the context clearly shows otherwise:

20 (a) "Auto race track facility" means: (1) An auto race track facility and  
21 facilities directly related and necessary to the operation of an auto race  
22 track facility, including, but not limited to, grandstands, suites and viewing  
23 areas, concessions, souvenir facilities, catering facilities, visitor and retail  
24 centers, signage and temporary hospitality facilities, but excluding (2) ho-  
25 tels, motels, restaurants and retail facilities, not directly related to or nec-  
26 essary to the operation of such facility.

27 (b) "Base year assessed valuation" means the assessed valuation of all  
28 real property within the boundaries of a redevelopment district on the  
29 date the redevelopment district was established.

30 (c) "Blighted area" means an area which:

31 (1) Because of the presence of a majority of the following factors,  
32 substantially impairs or arrests the development and growth of the mu-  
33 nicipality or constitutes an economic or social liability or is a menace to  
34 the public health, safety, morals or welfare in its present condition and  
35 use:

- 36 (A) A substantial number of deteriorated or deteriorating structures;  
37 (B) predominance of defective or inadequate street layout;  
38 (C) unsanitary or unsafe conditions;  
39 (D) deterioration of site improvements;  
40 (E) tax or special assessment delinquency exceeding the fair market  
41 value of the real property;  
42 (F) defective or unusual conditions of title including but not limited  
43 to cloudy or defective titles, multiple or unknown ownership interests to

House Economic Development  
3-20-03  
Attachment 2

2

1 the property;

2 (G) improper subdivision or obsolete platting or land uses;

3 (H) the existence of conditions which endanger life or property by  
4 fire or other causes; or

5 (I) conditions which create economic obsolescence; or

6 (2) has been identified by any state or federal environmental agency  
7 as being environmentally contaminated to an extent that requires a re-  
8 medial investigation; feasibility study and remediation or other similar  
9 state or federal action; or

10 (3) previously was found by resolution of the governing body to be a  
11 slum or a blighted area under K.S.A. 17-4742 *et seq.*, and amendments  
12 thereto.

13 (d) "Conservation area" means any improved area comprising 15%  
14 or less of the land area within the corporate limits of a city in which 50%  
15 or more of the structures in the area have an age of 35 years or more,  
16 which area is not yet blighted, but may become a blighted area due to  
17 the existence of a combination of two or more of the following factors:

18 (1) Dilapidation, obsolescence or deterioration of the structures;

19 (2) illegal use of individual structures;

20 (3) the presence of structures below minimum code standards;

21 (4) building abandonment;

22 (5) excessive vacancies;

23 (6) overcrowding of structures and community facilities; or

24 (7) inadequate utilities and infrastructure.

25 (e) "De minimus" means an amount less than 15% of the land area  
26 within a redevelopment district.

27 (f) "Developer" means any person, firm, corporation, partnership or  
28 limited liability company, other than a city.

29 (g) "Eligible area" means a blighted area, conservation area, enter-  
30 prise zone, historic theater ~~or~~, major tourism area *or a major commer-*  
31 *cial entertainment and tourism area as determined by the secretary,*  
32 *but "eligible area" shall not include a gambling casino.*

public building, government building or school

33 (h) "Enterprise zone" means an area within a city that was designated  
34 as an enterprise zone prior to July 1, 1992, pursuant to K.S.A. 12-17,107  
35 through 12-17,113, and amendments thereto, prior to its repeal and the  
36 conservation, development or redevelopment of the area is necessary to  
37 promote the general and economic welfare of such city.

38 (i) "Environmental increment" means the increment determined  
39 pursuant to subsection (b) of K.S.A. 12-1771a, and amendments thereto.

40 (j) "Environmentally contaminated area" means an area of land hav-  
41 ing contaminated groundwater or soil which is deemed environmentally  
42 contaminated by the department of health and environment or the United  
43 States environmental protection agency.

1 (k) "Feasibility study" means a study which shows whether a rede-  
2 velopment or special bond project's benefits and tax increment revenue  
3 and other available revenues under K.S.A. 12-1774 (a)(1), and amend-  
4 ments thereto, are expected to exceed or be sufficient to pay for the  
5 redevelopment or special bond project costs.

6 (l) "Historic theater" means a building constructed prior to 1940  
7 which was constructed for the purpose of staging entertainment, includ-  
8 ing motion pictures, vaudeville shows or operas, that is operated by a  
9 nonprofit corporation and is designated by the state historic preservation  
10 officer as eligible to be on the Kansas register of historic places or is a  
11 member of the Kansas historic theatre association.

12 (m) "Historic theater sales tax increment" means the amount of state  
13 and local sales tax revenue imposed pursuant to K.S.A. 12-187 et seq., 79-  
14 3601 et seq. and 79-3701 et seq., and amendments thereto, collected from  
15 taxpayers doing business within the historic theater that is in excess of  
16 the amount of such taxes collected prior to the designation of the building  
17 as a historic theater for purposes of this act.

18 (n) "Major tourism area" means an area for which the secretary has  
19 made a finding the capital improvements costing not less than  
20 \$100,000,000 will be built in the state to construct an auto race track  
21 facility.

22 (o) "Real property taxes" means all taxes levied on an ad valorem basis  
23 upon land and improvements thereon.

24 (p) "Redevelopment project area" or "project area" means an area  
25 designated by a city within a redevelopment district.

26 (q) "Redevelopment project costs" means those costs necessary to  
27 implement a redevelopment plan, including, but not limited to costs in-  
28 curred for:

- 29 (1) Acquisition of property within the redevelopment project area;
- 30 (2) payment of relocation assistance;
- 31 (3) site preparation including utility relocations;
- 32 (4) sanitary and storm sewers and lift stations;
- 33 (5) drainage conduits, channels and levees;
- 34 (6) street grading, paving, graveling, macadamizing, curbing, gutter-  
35 ing and surfacing;
- 36 (7) street light fixtures, connection and facilities;
- 37 (8) underground gas, water, heating and electrical services and con-  
38 nections located within the public right-of-way;
- 39 (9) sidewalks and pedestrian underpasses or overpasses;
- 40 (10) drives and driveway approaches located within the public right-  
41 of-way;
- 42 (11) water mains and extensions;
- 43 (12) plazas and arcades;

and the effect, if any, the redevelopment or special bond project will have on  
any outstanding special obligation bonds as authorized pursuant to subsection  
(a)(1)(D) of K.S.A. 12-1774, and amendments thereto

(n) "Major commercial entertainment and tourism area" shall include,  
but not be limited to, a major multi-sport athletic complex.

(o) "Major multi-sport athletic complex" means an athletic complex  
that is utilized for the training of athletes, the practice of athletic teams, the  
playing of athletic games or the hosting of events. Such project may include  
playing fields, parking lots and other development that may or may not be  
contiguous. Such complex shall meet the requirements set out in subsection  
(a)(4) of K.S.A. 74-8936, and amendments thereto, regarding retail space.

Reletter subsections accordingly



1 (13) parking facilities;

2 (14) landscaping and plantings, fountains, shelters, benches, sculp-  
3 tures, lighting, decorations and similar amenities; and

4 (15) all related expenses to redevelop and finance the redevelopment  
5 project.

6 Redevelopment project costs shall not include costs incurred in con-  
7 nection with the construction of buildings or other structures to be owned  
8 by or leased to a developer, however, the "redevelopment project costs"  
9 shall include costs incurred in connection with the construction of build-  
10 ings or other structures to be owned or leased to a developer which in-  
11 cludes an auto race track facility or is in a redevelopment district including  
12 some or all of the land and buildings comprising a state mental institution  
13 closed pursuant to section 2 of chapter 219 of the 1995 Session Laws of  
14 Kansas.

15 (r) "Redevelopment district" means the specific area declared to be  
16 an eligible area in which the city may develop one or more redevelopment  
17 projects.

18 (s) "Redevelopment district plan" or "district plan" means the pre-  
19 liminary plan that identifies all of the proposed redevelopment project  
20 areas and identifies in a general manner all of the buildings, facilities and  
21 improvements in each that are proposed to be constructed or improved  
22 in each redevelopment project area.

23 (t) "Redevelopment project" means the approved project to imple-  
24 ment a project plan for the development of the established redevelop-  
25 ment district.

26 (u) "Redevelopment project plan" or "project plan" means the plan  
27 adopted by a municipality for the development of a redevelopment pro-  
28 ject or projects which conforms with K.S.A. 12-1772, and amendments  
29 thereto, in a redevelopment district.

30 (v) "Secretary" means the secretary of commerce and housing.

31 (w) "Substantial change" means, as applicable, a change wherein the  
32 proposed plan or plans differ substantially from the intended purpose for  
33 which the district plan or project plan was approved.

34 (x) "Tax increment" means that amount of real property taxes col-  
35 lected from real property located within the redevelopment district that  
36 is in excess of the amount of real property taxes which is collected from  
37 the base year assessed valuation.

38 (y) "Taxing subdivision" means the county, city, unified school district  
39 and any other taxing subdivision levying real property taxes, the territory  
40 or jurisdiction of which includes any currently existing or subsequently  
41 created redevelopment district.

42 (z) "Special bond project" means a project with at least a \$50,000,000  
43 capital investment and \$50,000,000 in projected gross annual sales reve-

1 ~~nues or for nonmetropolitan~~ [areas outside of metropolitan] statis-  
 2 ~~tical areas, as defined by the United States department of commerce~~  
 3 ~~or its successor agency~~ [federal office of management and budget  
 4 as of June 30, 1999], the secretary finds the project meets the  
 5 requirements of subsection (g) and would be of regional or state-  
 6 wide importance, but a "special bond project" shall not include a  
 7 project for a gambling casino.

[ public building, government building or school

8 [(aa) "Marketing study" means a study conducted to examine  
 9 the impact of the redevelopment or special bond project upon sim-  
 10 ilar businesses in the projected market area.

11 [(bb) "Projected market area" means any area within the state  
 12 in which the redevelopment or special bond project is projected to  
 13 have a substantial fiscal or market impact upon businesses in such  
 14 area.]

15 New Sec. 2. (a) The governing body of a city may establish one or  
 16 more special bond projects in any area within such city. The special bond  
 17 projects shall be eligible for financing by special obligation bonds payable  
 18 from revenues described by subsection (a)(1)(D) of K.S.A. 12-1774, and  
 19 amendments thereto. Each special bond project shall first be approved  
 20 by the secretary. A special bond project shall not be granted to any busi-  
 21 ness that proposes to relocate its business from another area of the state  
 22 into such city, for the purpose of consideration for a special bond project  
 23 and shall not receive any of the benefits provided by K.S.A. 12-1770 *et*  
 24 *seq.*, and amendments thereto.

(b) A special bond project shall not be granted if granting such project  
 would cause a default in the payment of any outstanding special obligation  
 bonds as authorized pursuant to subsection (a)(1)(D) of K.S.A. 12-1774, and  
 amendments thereto.

25 [(b) The maximum maturity of special obligation bonds payable pri-  
 26 marily from revenues described by subsection (a)(1)(D) of K.S.A. 12-  
 27 1744, and amendments thereto, to finance special bond projects pursuant  
 28 to this section shall not exceed 20 years, unless the secretary shall find  
 29 and determine that a maturity greater than 20 years, but in no event  
 30 greater than 30 years, is necessary for the economic feasibility of any such  
 31 special bond project.

(c)

25

32 New Sec. 3. (a) Any city proposing to undertake a special bond pro-  
 33 ject established pursuant to section 2, and amendments thereto, shall  
 34 prepare a project plan in consultation with the planning commission of  
 35 the city. The project plan shall include:

36 (1) A summary of the feasibility study done as defined in K.S.A. 12-  
 37 1770a, and amendments thereto, which will be an open record;

38 [(2) a summary of the marketing study done as defined in K.S.A.  
 39 12-1770a, and amendments thereto, which will be an open record;]

40 ~~(2)~~ [(3)] a reference to the district plan established under K.S.A. 12-  
 41 1771, and amendments thereto, that identifies the project area that is set  
 42 forth in the project plan that is being considered;

43 ~~(2)~~ [(4)] a description and map of the location of the facility that is

1 the subject of the special bond project;  
2 ~~(4)~~ [(5)] the relocation assistance plan required by K.S.A. 12-1777,  
3 and amendments thereto;  
4 ~~(5)~~ [(6)] a detailed description of the buildings and facilities pro-  
5 posed to be constructed or improved; and  
6 ~~(6)~~ [(7)] any other information the governing body deems necessary  
7 to advise the public of the intent of the special bond project plan.

8 (b) *Resolution requirements.* A copy of the project plan shall be de-  
9 livered to the board of county commissioners of the county and the board  
10 of education of any school district levying taxes on property subject to the  
11 special bond project. Upon a finding by the planning commission *of the*  
12 *city* that the project plan is consistent with the intent of the comprehen-  
13 sive plan for the development of the city, the governing body of the city  
14 shall adopt a resolution stating that the city is considering the adoption  
15 of the project plan. Such resolution shall:

16 (1) Give notice that a public hearing will be held to consider the  
17 adoption of the project plan and fix the date, hour and place of such  
18 public hearing;

19 (2) describe the boundaries of the area subject to the special bond  
20 project; and

21 (3) state that the project plan, including a summary of the feasibility  
22 study, relocation assistance plan and financial guarantees of the prospec-  
23 tive developer and a description and map of the area to be developed are  
24 available for inspection during regular office hours in the office of the  
25 city clerk.

26 (c) (1) *Hearing.* The date fixed for the public hearing shall be not  
27 less than 30 nor more than 70 days following the date of the adoption of  
28 the resolution fixing the date of the hearing.

29 (2) A copy of the resolution providing for the public hearing shall be  
30 by certified mail, return receipt requested sent to the board of county  
31 commissioners of the county and the board of education of any school  
32 district levying taxes on property subject to the special bond project. The  
33 resolution shall be published once in the official city newspaper not less  
34 than one week nor more than two weeks preceding the date fixed for the  
35 public hearing. A description in sufficient detail to advise the reader of  
36 the particular proposed special bond project shall be published with the  
37 resolution.

38 (3) At the public hearing, a representative of the city shall present  
39 the city's proposed project plan. Following the presentation of the project  
40 plan, all interested persons shall be given an opportunity to be heard. The  
41 governing body for good cause shown may recess such hearing to a time  
42 and date certain, which shall be fixed in the presence of persons in at-  
43 tendance at the hearing.

1 (d) The public hearing records and feasibility study shall be subject  
2 to the open records act, K.S.A. 45-215, and amendments thereto.

3 (e) *Posthearing procedure.* Following the public hearing, the govern-  
4 ing body may adopt the project plan by ordinance passed upon a 2/3 vote.

5 (f) Any substantial changes as defined in K.S.A. 12-1770a, and  
6 amendments thereto, to the project plan as adopted shall be subject to a  
7 public hearing following publication of notice thereof at least twice in the  
8 official city newspaper.

9 (g) Any project shall be completed within 20 years from the date of  
10 the approval of the project plan.

11 Sec. 4. K.S.A. 12-1774 is hereby amended to read as follows: 12-  
12 1774. (a) (1) Any city shall have the power to issue special obligation bonds  
13 in one or more series to finance the undertaking of any redevelopment  
14 project in accordance with the provisions of this act. Such special obli-  
15 gation bonds shall be made payable, both as to principal and interest:

16 (A) From tax increments allocated to, and paid into a special fund of  
17 the city under the provisions of K.S.A. 12-1775, and amendments thereto;

18 (B) from revenues of the city derived from or held in connection with  
19 the undertaking and carrying out of any redevelopment project or projects  
20 under this act including historic theater sales tax increments and envi-  
21 ronmental increments;

22 (C) from any private sources, contributions or other financial assis-  
23 tance from the state or federal government;

24 (D) from a pledge of a portion or all of the revenue received by the  
25 city from transient guest, sales and use taxes collected pursuant to K.S.A.  
26 12-1696 *et seq.*, 79-3601 *et seq.*, 79-3701 *et seq.* and 12-187 *et seq.*, and  
27 amendments thereto, and which are collected from taxpayers doing busi-  
28 ness within that portion of the city's redevelopment district established  
29 pursuant to K.S.A. 12-1771, and amendments thereto, occupied by a re-  
30 development project if there first is a finding by the secretary of com-  
31 merce and housing that the redevelopment project will create a major  
32 tourism area for the state or if the project is the restoration of a historic  
33 theater as defined in subsection (l) of K.S.A. 12-1770a, and amendments  
34 thereto, or the project has been designated as a special bond project as  
35 defined in subsection (z) of K.S.A. 12-1770a, and amendments thereto;

36 (E) (i) from a pledge of a portion or all increased revenue received  
37 by the city from franchise fees collected from utilities and other busi-  
38 nesses using public right-of-way within the redevelopment district; (ii)  
39 from a pledge of a portion or all of the revenue received by the city from  
40 sales taxes collected pursuant to K.S.A. 12-187, and amendments thereto;  
41 or

42 (F) by any combination of these methods *except that for a project*  
43 *which has been designated as a special bond project as defined in*

, unless the secretary shall find and determine a maturity date greater than 20  
years, but no greater than 25 years

(h) Any developer of a special bond project shall commence work on  
such project within two years from the date of adoption of the project plan .  
pursuant to subsection (e) of this section. Should the developer fail to  
commence work on the special bond project within the two-year period funding  
for such project shall cease and the developer of such project shall have one  
year to appeal to the secretary for reapproval of such project and the funding for  
it. Should the project be reapproved, the two-year period for commencement  
shall apply.

(i) The provisions of this act regarding special bond projects shall  
expire on and after July 1, 2006.

based upon the feasibility study



1 subsection (z) of K.S.A. 12-1770a and amendments thereto, ~~if a por-~~  
 2 ~~tion or all of the sales taxes collected under K.S.A. 79-3601 et seq.,~~  
 3 ~~and amendments thereto, is pledged for such project then a portion~~  
 4 ~~or all of the sales taxes collected under K.S.A. 12-187 and amend-~~  
 5 ~~ments thereto shall be pledged for such project.~~

90% of the local sales tax collected shall be pledged for such project

6 The city may pledge such revenue to the repayment of such special  
 7 obligation bonds prior to, simultaneously with, or subsequent to the is-  
 8 suance of such special obligation bonds.

9 (2) Bonds issued under paragraph (1) of subsection (a) shall not be  
 10 general obligations of the city, nor in any event shall they give rise to a  
 11 charge against its general credit or taxing powers, or be payable out of  
 12 any funds or properties other than any of those set forth in paragraph (1)  
 13 of this subsection and such bonds shall so state on their face.

14 (3) Bonds issued under the provisions of paragraph (1) of this sub-  
 15 section shall be special obligations of the city and are declared to be  
 16 negotiable instruments. They shall be executed by the mayor and clerk  
 17 of the city and sealed with the corporate seal of the city. All details per-  
 18 taining to the issuance of such special obligation bonds and terms and  
 19 conditions thereof shall be determined by ordinance of the city. All special  
 20 obligation bonds issued pursuant to this act and all income or interest  
 21 therefrom shall be exempt from all state taxes except inheritance taxes.  
 22 Such special obligation bonds shall contain none of the recitals set forth  
 23 in K.S.A. 10-112, and amendments thereto. Such special obligation bonds  
 24 shall, however, contain the following recitals, viz., the authority under  
 25 which such special obligation bonds are issued, they are in conformity  
 26 with the provisions, restrictions and limitations thereof, and that such  
 27 special obligation bonds and the interest thereon are to be paid from the  
 28 money and revenue received as provided in paragraph (1) of this  
 29 subsection.

30 (b) (1) Subject to the provisions of paragraph (2) of this subsection,  
 31 any city shall have the power to issue full faith and credit tax increment  
 32 bonds to finance the undertaking of any redevelopment project in ac-  
 33 cordance with the provisions of K.S.A. 12-1770 et seq., and amendments  
 34 thereto other than a project that will create a major tourism area or result  
 35 in the renovation of an historic theater. Such full faith and credit tax  
 36 increment bonds shall be made payable, both as to principal and interest:  
 37 (A) From the revenue sources identified in paragraph (1)(A), (B), (C),  
 38 (D) and (E) of subsection (a) or by any combination of these sources; and  
 39 (B) subject to the provisions of paragraph (2) of this subsection, from a  
 40 pledge of the city's full faith and credit to use its ad valorem taxing au-  
 41 thority for repayment thereof in the event all other authorized sources of  
 42 revenue are not sufficient.

43 (2) Except as provided in paragraph (3) of this subsection, before the

1 governing body of any city proposes to issue full faith and credit tax in-  
2 crement bonds as authorized by this subsection, the feasibility study re-  
3 quired by K.S.A. 12-1772, and amendments thereto, shall demonstrate  
4 that the benefits derived from the project will exceed the cost and that  
5 the income therefrom will be sufficient to pay the costs of the project.  
6 No full faith and credit tax increment bonds shall be issued unless the  
7 governing body states in the resolution required by K.S.A. 12-1772, and  
8 amendments thereto, that it may issue such bonds to finance the proposed  
9 redevelopment project. The governing body may issue the bonds unless  
10 within 60 days following the date of the public hearing on the proposed  
11 project plan a protest petition signed by 3% of the qualified voters of the  
12 city is filed with the city clerk in accordance with the provisions of K.S.A.  
13 25-3601 *et seq.*, and amendments thereto. If a sufficient petition is filed,  
14 no full faith and credit tax increment bonds shall be issued until the  
15 issuance of the bonds is approved by a majority of the voters voting at an  
16 election thereon. Such election shall be called and held in the manner  
17 provided by the general bond law. The failure of the voters to approve  
18 the issuance of full faith and credit tax increment bonds shall not prevent  
19 the city from issuing special obligation bonds in accordance with K.S.A.  
20 12-1774, and amendments thereto. No such election shall be held in the  
21 event the board of county commissioners or the board of education de-  
22 termines, as provided in K.S.A. 12-1771, and amendments thereto, that  
23 the proposed redevelopment district will have an adverse effect on the  
24 county or school district.

25 (3) As an alternative to paragraph (2) of this subsection, any city which  
26 adopts a project plan but does not state its intent to issue full faith and  
27 credit tax increment bonds in the resolution required by K.S.A. 12-1772,  
28 and amendments thereto, and has not acquired property in the redevel-  
29 opment project area may issue full faith and credit tax increment bonds  
30 if the governing body of the city adopts a resolution stating its intent to  
31 issue the bonds and the issuance of the bonds is approved by a majority  
32 of the voters voting at an election thereon. Such election shall be called  
33 and held in the manner provided by the general bond law. The failure of  
34 the voters to approve the issuance of full faith and credit tax increment  
35 bonds shall not prevent the city from issuing special obligation bonds  
36 pursuant to paragraph (1) of subsection (a). Any project plan adopted by  
37 a city prior to the effective date of this act in accordance with K.S.A. 12-  
38 1772, and amendments thereto, shall not be invalidated by any require-  
39 ments of this act.

40 (4) During the progress of any redevelopment project in which the  
41 redevelopment project costs will be financed, in whole or in part, with  
42 the proceeds of full faith and credit tax increment bonds, the city may  
43 issue temporary notes in the manner provided in K.S.A. 10-123, and

1 amendments thereto, to pay the redevelopment project costs for the pro-  
2 ject. Such temporary notes shall not be issued and the city shall not ac-  
3 quire property in the redevelopment project area until the requirements  
4 of paragraph (2) or (3) of this subsection, whichever is applicable, have  
5 been met.

6 (5) Full faith and credit tax increment bonds issued under this sub-  
7 section shall be general obligations of the city and are declared to be  
8 negotiable instruments. They shall be issued in accordance with the gen-  
9 eral bond law. All such bonds and all income or interest therefrom shall  
10 be exempt from all state taxes except inheritance taxes. The amount of  
11 the full faith and credit tax increment bonds issued and outstanding which  
12 exceeds 3% of the assessed valuation of the city shall be within the bonded  
13 debt limit applicable to such city.

14 (6) Any city issuing special obligation bonds under the provisions of  
15 this act may refund all or part of such issue pursuant to the provisions of  
16 K.S.A. 10-116a, and amendments thereto.

17 (c) Any increment in ad valorem property taxes resulting from a re-  
18 development project in the established redevelopment district under-  
19 taken in accordance with the provisions of this act, shall be apportioned  
20 to a special fund for the payment of the redevelopment project costs,  
21 including the payment of principal and interest on any special obligation  
22 bonds or full faith and credit tax increment bonds issued to finance such  
23 project pursuant to this act and may be pledged to the payment of prin-  
24 cipal and interest on such bonds.

25 Sec. 5. K.S.A. 2002 Supp. 79-3620 is hereby amended to read as  
26 follows: 79-3620. (a) All revenue collected or received by the director of  
27 taxation from the taxes imposed by this act shall be remitted to the state  
28 treasurer in accordance with the provisions of K.S.A. 75-4215, and  
29 amendments thereto. Upon receipt of each such remittance, the state  
30 treasurer shall deposit the entire amount in the state treasury, less  
31 amounts withheld as provided in subsection (b) and amounts credited as  
32 provided in subsection (c) and (d), to the credit of the state general fund.

33 (b) A refund fund, designated as "sales tax refund fund" not to exceed  
34 \$100,000 shall be set apart and maintained by the director from sales tax  
35 collections and estimated tax collections and held by the state treasurer  
36 for prompt payment of all sales tax refunds including refunds authorized  
37 under the provisions of K.S.A. 79-3635, and amendments thereto. Such  
38 fund shall be in such amount, within the limit set by this section, as the  
39 director shall determine is necessary to meet current refunding require-  
40 ments under this act. In the event such fund as established by this section  
41 is, at any time, insufficient to provide for the payment of refunds due  
42 claimants thereof, the director shall certify the amount of additional funds  
43 required to the director of accounts and reports who shall promptly trans-

1 fer the required amount from the state general fund to the sales tax refund  
2 fund, and notify the state treasurer, who shall make proper entry in the  
3 records.

4 (c) (1) The state treasurer shall credit  $\frac{5}{100}$ s of the revenue collected  
5 or received from the tax imposed by K.S.A. 79-3603, and amendments  
6 thereto, at the rate of 4.9%, and deposited as provided in subsection (a),  
7 exclusive of amounts credited pursuant to subsection (d), in the state  
8 highway fund.

9 (2) The state treasurer shall credit  $\frac{5}{100}$  of the revenue collected or  
10 received from the tax imposed by K.S.A. 79-3603, and amendments  
11 thereto, at the rate of 5.2%, and deposited as provided in subsection (a),  
12 exclusive of amounts credited pursuant to subsection (d), in the state  
13 highway fund.

14 (3) The state treasurer shall credit  $\frac{5}{100}$  of the revenue collected or  
15 received from the tax imposed by K.S.A. 79-3603, and amendments  
16 thereto, at the rate of 5.3%, and deposited as provided in subsection (a),  
17 exclusive of amounts credited pursuant to subsection (d), in the state  
18 highway fund.

19 (4) The state treasurer shall credit  $\frac{1}{20}$  of the revenue collected and  
20 received from the tax imposed by K.S.A. 79-3603, and amendments  
21 thereto, at the rate of 5%, and deposited as provided by subsection (a),  
22 exclusive of amounts credited pursuant to subsection (d), in the state  
23 highway fund.

24 (d) The state treasurer shall credit all revenue collected or received  
25 from the tax imposed by K.S.A. 79-3603, and amendments thereto, as  
26 certified by the director, from taxpayers doing business within that por-  
27 tion of a redevelopment district occupied by a redevelopment project *or*  
28 *taxpayers doing business with such entity financed by a special bond*  
29 *project as defined in K.S.A. 12-1770a, and amendments thereto*, that was  
30 determined by the secretary of commerce and housing to be of statewide  
31 as well as local importance or will create a major tourism area for the  
32 state *or the project was designated as a special bond project* as defined  
33 in K.S.A. 12-1770a, and amendments thereto, to the city bond finance  
34 fund, which fund is hereby created. The provisions of this subsection shall  
35 expire when the total of all amounts credited hereunder and under sub-  
36 section (d) of K.S.A. 79-3710, and amendments thereto, is sufficient to  
37 retire the special obligation bonds issued for the purpose of financing all  
38 or a portion of the costs of such redevelopment *or special bond* project.

39 New Sec. 6. Notwithstanding any other provisions of law to the con-  
40 trary, copies of all retailers' sales, use and transient guest tax returns filed  
41 with the director of the department of revenue in connection with a re-  
42 development project area or special bond project for which sales, use and  
43 transient guest tax revenues are pledged or otherwise intended to be used



1 in whole or in part for the payment of bonds issued to finance redevelop-  
 2 opment or special bond project costs in such redevelopment or special  
 3 bond project area, shall be provided by the director of the department of  
 4 revenue to the bond trustee, escrow agent or paying agent for such bonds  
 5 upon the written request of the municipality within 15 days of receipt by  
 6 the director of the department of revenue. The bond trustee, escrow  
 7 agent or paying agent shall keep such retailers' sales, use and transient  
 8 guest tax returns and the information contained therein confidential, but  
 9 may use such information for purposes of allocating and depositing such  
 10 sales, use and transient guest tax revenues in connection with the bonds  
 11 used to finance redevelopment or special bond project costs in such re-  
 12 development or special bond project area. Except as otherwise provided  
 13 herein, the sales, use and transient guest tax returns received by the bond  
 14 trustee, escrow agent or paying agent shall be subject to the provisions  
 15 of K.S.A. 79-3614, and amendments thereto.

See attachment

And renumber the remaining sections accordingly

16 Sec. 7. K.S.A. 12-1770a and 12-1774 and K.S.A. 2002 Supp. 79-3620  
 17 are hereby repealed.

, 12-1774 and 74-8936

18 Sec. 8. This act shall take effect and be in force from and after its  
 19 publication in the statute book.

Kansas register

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1 subsection (2) of K.S.A. 12-1770a and amendments thereto, ~~if~~ a por-  
2 tion or all of the sales taxes collected under K.S.A. 79-3601 et seq.,  
3 and amendments thereto, is pledged for such project then a portion  
4 or all of the sales taxes collected under K.S.A. 12-187 and amend-  
5 ments thereto shall be pledged for such project.

Not less than 90% of the local sales tax collected shall be pledged for such project

6 The city may pledge such revenue to the repayment of such special  
7 obligation bonds prior to, simultaneously with, or subsequent to the is-  
8 suance of such special obligation bonds.

9 (2) Bonds issued under paragraph (1) of subsection (a) shall not be  
10 general obligations of the city, nor in any event shall they give rise to a  
11 charge against its general credit or taxing powers, or be payable out of  
12 any funds or properties other than any of those set forth in paragraph (1)  
13 of this subsection and such bonds shall so state on their face.

14 (3) Bonds issued under the provisions of paragraph (1) of this sub-  
15 section shall be special obligations of the city and are declared to be  
16 negotiable instruments. They shall be executed by the mayor and clerk  
17 of the city and sealed with the corporate seal of the city. All details per-  
18 taining to the issuance of such special obligation bonds and terms and  
19 conditions thereof shall be determined by ordinance of the city. All special  
20 obligation bonds issued pursuant to this act and all income or interest  
21 therefrom shall be exempt from all state taxes except inheritance taxes.  
22 Such special obligation bonds shall contain none of the recitals set forth  
23 in K.S.A. 10-112, and amendments thereto. Such special obligation bonds  
24 shall, however, contain the following recitals, viz., the authority under  
25 which such special obligation bonds are issued, they are in conformity  
26 with the provisions, restrictions and limitations thereof, and that such  
27 special obligation bonds and the interest thereon are to be paid from the  
28 money and revenue received as provided in paragraph (1) of this  
29 subsection.

30 (b) (1) Subject to the provisions of paragraph (2) of this subsection,  
31 any city shall have the power to issue full faith and credit tax increment  
32 bonds to finance the undertaking of any redevelopment project in ac-  
33 cordance with the provisions of K.S.A. 12-1770 et seq., and amendments  
34 thereto other than a project that will create a major tourism area or result  
35 in the renovation of an historic theater. Such full faith and credit tax  
36 increment bonds shall be made payable, both as to principal and interest:  
37 (A) From the revenue sources identified in paragraph (1)(A), (B), (C),  
38 (D) and (E) of subsection (a) or by any combination of these sources; and  
39 (B) subject to the provisions of paragraph (2) of this subsection, from a  
40 pledge of the city's full faith and credit to use its ad valorem taxing au-  
41 thority for repayment thereof in the event all other authorized sources of  
42 revenue are not sufficient.

43 (2) Except as provided in paragraph (3) of this subsection, before the

House Economic Development  
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Attachment 3

#3

Sec. 7. K.S.A. 74-8936 is hereby amended  
, read as follows: 74-8936. (a) As used in  
this act:

(1) "Board" means the board of trustees  
of Kansas City Kansas community college;

(2) "foundation" means the Kansas  
multi-sport and recreation foundation;

(3) "increment" means that amount of  
state and local sales tax revenue imposed  
pursuant to K.S.A. 12-187 et seq. and 79-3601  
et seq., and amendments thereto, collected  
from taxpayers doing business within the  
boundaries of the project area that is in  
excess of the amount of such taxes collected  
prior to the date the resolution authorizing  
the project was adopted by the board;

(4) "project" means the construction of  
a multi-sport athletic complex and the  
improvement of facilities within the project  
area; and

(5) "project area" means the boundaries  
of the area in which the project will be  
undertaken as described by the board, but  
shall not include the boundaries of any  
redevelopment district in a major tourism  
area which includes an auto race track  
facility located in Wyandotte county as  
follows: Beginning at the intersection of  
Interstate 70 and Interstate 435; west along  
Interstate 70 to 118th Street; north along  
118th Street to State Avenue; northeasterly  
along proposed relocated State Avenue to  
110th Street; north along 110th Street to  
Parallel Parkway; east along Parallel Parkway  
to Interstate 435; South along Interstate 435  
to Interstate 70.

(b) The board or the foundation on  
behalf of the board may undertake a project.  
Such a project may be undertaken in one or  
more phases. Prior to undertaking a project,  
the board shall adopt a resolution stating  
its intent to undertake the project,

describing the nature of the proposed  
project, a detailed description of all of the  
buildings and facilities that are proposed to

. Such project may include an athletic  
complex that is utilized for the training of  
athletes, the practice of athletic teams, the  
playing of athletic games or the hosting of  
events. Such project may include playing  
fields, parking lots and other development  
that may or may not be contiguous. Retail  
space may not constitute more than 35% of the  
total project area. For purposes of  
calculating the retail percentage, all shared  
parking areas shall be considered part of the  
athletic complex. Any project that exceeds  
\$100,000,000 in total investment of all  
development phases shall not be subject to  
subsection (5) of this section

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3-20-03  
Attachment 4

be constructed or improved in the project area, describing the boundaries of the area in which the proposed project will be undertaken, giving an estimate of the cost of such project and establishing a date for completion of the project. Any addition or changes to the project which are contrary to such resolution shall be ratified by the same procedure as the original resolution of intent.

(c) If the project area identified by the resolution adopted by the board requires the project area be expanded outside of the boundaries of the college's campus, the governing body of the county in which such property is located first shall approve the boundaries of the project area after holding a public hearing. Prior to holding the public hearing, the governing body shall adopt a resolution stating that such boundaries are subject to approval. Such resolution shall: (1) Give notice that a public hearing will be held to consider the proposed boundaries and fix the date, hour and place of such public hearing; (2) describe the proposed boundaries; (3) describe a proposed project that identifies all of the proposed area and that identifies in a general manner all of the buildings and facilities that are proposed to be constructed or improved in the project area; and (4) state that the governing body will consider approving such expansion beyond the campus boundaries.

A copy of the resolution providing for the public hearing shall be delivered to the board of education of any school district levying taxes on property within the proposed project area. The resolution shall be published once in the official county newspaper not less than one week nor more than two weeks preceding the date fixed for the public hearing. If the resolution approving the boundaries of the project area is adopted by the governing body of the county, no sales tax increment collected from



taxpayers doing business within the project area, but outside the boundaries of the college campus shall be pledged pursuant to K.S.A. 74-8937 as debt service for payment of principle and interest on any bonds issued for the project until it is first subject to a county-wide election and has received the approval of a majority of the electors of the county voting thereon at an election held pursuant to the notice, publication and other election procedures prescribed by K.S.A. 12-187 and amendments thereto.

(d) Any project may be undertaken in separate development phases. Any project shall be completed on or before the final scheduled maturity of the first series of bonds issued to finance the project.

(e) Any moneys which represent the increment as defined by K.S.A. 74-8936, and amendments thereto, shall be apportioned to a special fund established by the Kansas development finance authority for the payment of the costs of the project, including the payment of principal and interest on any bonds issued to finance such project pursuant to this act and may be pledged to the payment of principal and interest on such bonds. The maximum maturity of bonds issued to finance projects pursuant to this act shall not exceed 30 years from the date of the issuance of the bonds to finance the project.

(f) Before any project is undertaken, the board shall enter into a contract with the lowest responsible bidder among nationally recognized consultants for the preparation of a comprehensive feasibility study. The study shall include:

(1) A determination of whether sufficient revenues may be pledged to pay the debt service on bonds issued to finance the project;

(2) an estimate of revenues likely to be realized through existing sources of income which may be pledged to finance such bonds;

(3) an identification of other sources

of revenue which might be necessary to be  
ledged to finance the bonds;

(4) an identification of future economic  
trends which may affect the feasibility of  
the project;

(5) an identification of opportunity  
costs created by the project; and

(6) any other considerations which may  
be relevant to determining the feasibility of  
the project.