



GUEST LIST

DATE Jan. 28, 2003

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**Testimony**

**By Professor David L. Darling**

**Community Development Economist at Kansas State University**

**To the Kansas House Committee on Taxation**

**Chaired by**

**Representative John Edmonds**

**January 28, 2003**

**Opening remarks:** Let me introduce my self and tell my mission and job description.

**“My mission is to help groups make good decisions as they focus on the future and work to resolve community and economic development issues.”**

**“My job description is to provide leadership to K-State Research and Extension and through it, to educate and assist all who are focused on building better Kansas communities and economies.”**

**Testimony of Dr. David L. Darling. These are his professional opinions and do not reflect the views of the K-State and College of Agriculture’s administration.**

**Handouts, Pyramid and matrix, wealth index and trends on retail TAC.**

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# ECONOMIC DEVELOPMENT PYRAMID



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Present/ New Triangle  
July 2002

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# Economic Development Strategies and Resources

## Table 1

### Resources

Strategies	Human Capital	Financial Capital	Social Capital	Human Engineered Capital	Environmental and Natural Resources Capital
Retention & Expansion					
Firm Creation					
Local Linkages					
Capture Dollars					
Attraction					

**Strategies:** KSU's five basic strategies are ordered from top to bottom. Retention and expansion of existing business, industry and other employers is ranked first.

**Resources:** Five basic resources are the types of capital used by the private, public, and not-for-profit sectors as inputs in the production process.

**2000-2001 STRENGTH INDEX:**

**A MEASURE OF THE  
PROSPERITY OF KANSANS**

**CD STUDY REPORT # 208**

**MS. SANDHYARANI PATLOLLA**

**AND**

**DR. DAVID L. DARLING**

**K- STATE RESEARCH AND EXTENSION  
DEPARTMENT OF AGRICULTURAL ECONOMICS**

**APRIL 2002**



105 County Average = 0.65

Maximum Value = 2.02

Minimum = 0.32

# MAP-1

## Wealth Index

2002

David L. Darling

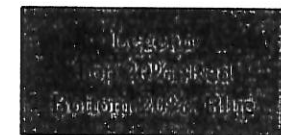
Sandhyarani .P

April 2002

Cheyenne 0.64	Rawlins 0.50	Decatur 0.6	Norton 0.56	Phillips 0.48	Smith 0.45	Jewell 0.32	Republic 0.51	Washington 0.39	Marshall 0.53	Nemaha 0.66	Brown 0.57	Doniphan 0.51		
Sherman 0.68	Thomas 0.75	Sheridan 0.63	Graham 0.46	Rooks 0.46	Osborne 0.40	Mitchell 0.72	Cloud 0.52	Clay 0.61	Riley 0.76	Pottawatomie 0.81	Jackson 0.71	Atchison 0.63		
Wallace 0.52	Logan 0.62	Gove 0.50	Trego 0.56	Ellis 0.93	Russell 0.6	Lincoln 0.51	Ottawa 0.74	Dickinson 0.72	Geary 0.52	Wabaunsee 0.83	Shawnee 0.98	Jefferson 0.94	Leavenworth 1.01	Wyandotte 0.56
Greeley 0.58	Wichita 0.58	Scott 0.79	Lane 0.52	Ness 0.49	Rush 0.51	Barton 0.60	Ellsworth 0.56	Saline 1.04	Morris 0.77	Lyon 0.85	Osage 0.85	Douglas 1.22	Franklin 0.80	Miami 2.02
Hamilton 0.52	Kearny 0.57	Finney 0.66	Gray 0.74	Hodgeman 0.53	Pawnee 0.58	Stafford 0.43	Rice 0.51	McPherson 0.94	Marion 0.67	Chase 0.60	Coffey 0.71	Anderson 0.71	Linn 0.78	
Stanton 0.54	Grant 0.68	Haskell 0.6	Ford 0.59	Edwards 0.47	Kiowa 0.51	Pratt 0.65	Reno 0.84	Harvey 0.87	Butler 0.93	Greenwood 0.52	Woodson 0.50	Allen 0.49	Bourbon 0.54	
Morton 0.56	Stevens 0.67	Seward 0.57	Meade 0.51	Clark 0.47	Comanche 0.42	Barber 0.44	Kingman 0.69	Sedgwick 0.92	Butler 0.93	Elk 0.44	Wilson 0.49	Neosho 0.55	Crawford 0.63	
							Harper 0.54	Sumner 0.69	Cowley 0.64	Chautauqua 0.36	Montgomery 0.60	Labette 0.52	Cherokee 0.55	

Data Source: Kansas Department of Revenue, Division of Property Valuation, 2001 Report

K - State Research and Extension.



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105 County Average = 2.43  
 Maximum Value = 4.75  
 Minimum = 1.76

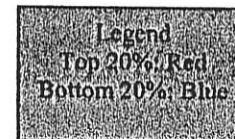
### MAP-4 Strength Index 2002

David L. Darling  
 Sandhyarani .P  
 April 2002

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Cheyenne 2.35	Rawlins 2.33	Decatur 2.32	Norton 2.49	Phillips 2.39	Smith 2.22	Jewell 2.04	Republic 2.27	Washington 2.09	Marshall 2.51	Nemaha 2.46	Brown 2.32	Doniphan 2.14		
Sherman 2.81	Thomas 2.76	Sheridan 2.54	Graham 2.21	Rooks 2.24	Osborne 2.16	Mitchell 2.64	Cloud 2.15	Clay 2.54	Riley 2.68	Pottawatomie 2.79	Jackson 3.00	Atchison 2.36		
Wallace 2.30	Logan 2.35	Gove 2.41	Trego 2.34	Ellis 2.97	Russell 2.27	Lincoln 2.03	Ottawa 2.49	Dickinson 2.53	Geary 2.22	Wabaunsee 2.71	Shawnee 3.00	Jefferson 2.73	Leavenworth 2.81	Wyandotte 2.17
Greeley 2.64	Wichita 2.21	Scott 2.77	Lane 2.38	Ness 2.49	Rush 2.26	Barton 2.39	Rice 2.09	McPherson 2.90	Marion 2.36	Chase 2.49	Lyon 2.47	Osage 2.71	Douglas 3.10	Johnson 4.75
Hamilton 2.35	Kearny 2.15	Finney 2.24	Gray 2.61	Hodgeman 2.28	Pawnee 2.49	Stafford 2.25	Reno 2.68	Harvey 2.87	Butler 2.94	Greenwood 2.05	Coffey 2.38	Franklin 2.56	Miami 3.24	Linn 2.06
Stanton 2.46	Grant 2.32	Haskell 2.48	Ford 2.29	Edwards 2.18	Kiowa 2.34	Pratt 2.43	Kingman 2.35	Sedgwick 2.93	Butler 2.94	Woodson 1.93	Anderson 2.30	Franklin 2.56	Miami 3.24	Linn 2.06
Morton 2.33	Stevens 2.49	Seward 2.26	Meade 2.24	Clark 2.33	Comanche 2.18	Barber 2.01	Harper 2.20	Sumner 2.67	Cowley 2.32	Elk 1.94	Wilson 2.21	Neosho 2.27	Crawford 2.34	Cherokee 2.05
										Chautauqua 1.76	Montgomery 2.32	Labette 2.23		

Data Source: The Governor's Economic and Demographic Report 2000-2001  
 K - State Research and Extension.



**An Analysis of Gains and Losses of Customer Base from 1980-2000**  
**(Longitudinal Study of Retail Trade Over 21 Years for Kansas Counties)**

David L. Darling  
 April 2001

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Cheyenne -0.93	Rawlins -0.95	Decatur -0.95	Norton -0.86	Phillips -0.9	Smith -0.96	Jewell -0.89	Republic -0.94	Washington -0.92	Marshall -0.81	Nemaha -0.67	Brown -0.87	Doniphan -0.75		
Sherman -0.78	Thomas -0.20	Sheridan -0.86	Graham -0.94	Rooks -0.89	Osborne -0.84	Mitchell -0.89	Cloud -0.76	Clay -0.79	Riley 0.51	Pottawatomie 0.90	Jackson 0.87	Atchison -0.82		
Wallace -0.82	Logan -0.95	Gove -0.74	Trego -0.89	Ellis -0.33	Russell -0.90	Lincoln -0.92	Ottawa -0.90	Dickinson -0.22	Gearry -0.69	Wabaunsee -0.80	Shawnee 0.81	Jefferson -0.58	Leavenworth 0.69	Wyandotte -0.93
Greeley -0.91	Wichita -0.77	Scott -0.84	Lane -0.97	Ness -0.89	Rush -0.92	Barton -0.86	Ellsworth 0.78	Saline -0.22	Morris -0.05	Chase -0.82	Lyon -0.55	Douglas 0.95	Franklin 0.83	Miami 0.38
Hamilton -0.56	Kearny -0.83	Finney 0.23	Gray -0.73	Hodgeman 0.14	Pawnee -0.94	Stafford -0.85	Rice -0.94	McPherson 0.28	Marion -0.92	Harvey 0.55	Coffey 0.19	Anderson -0.67	Linn -0.34	Johnson 0.99
Stanton -0.90	Grant 0.07	Haskell -0.89	Ford -0.67	Edwards -0.98	Kiowa -0.98	Pratt -0.82	Reno -0.44	Kingman -0.93	Butler -0.16	Sedgwick 0.87	Greenwood -0.94	Woodson -0.90	Allen -0.66	Bourbon -0.96
Morton -0.87	Stevens -0.90	Seward -0.31	Meade -0.92	Clark -0.95	Comanche -0.96	Barber -0.83	Harper -0.90	Sumner -0.90	Cowley -0.95	Elk -0.66	Wilson -0.93	Neosho -0.73	Crawford 0.53	Cherokee -0.85
										Chautauqua -0.90	Montgomery -0.92	Labette -0.93		

**Data Source: K-State Research and Extension, Department of Agricultural Economics**

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**Estimated Sales Tax for Farm Expenses**

	Cash Operating Expenses						Sales Tax* 6.34%	Est. Sales Tax	
	1997	1998	1999	2000	2001	1997-2001 Average		2001	1997-2001 Average
Feed Purchased	29,970	22,841	23,497	22,721	24,204	24,647	6.34%	1,534	1,562
Fertilizer-Lime	18,440	16,807	16,856	18,590	21,849	18,508	6.34%	1,385	1,173
Machinery Repairs	17,866	17,201	17,827	16,739	18,149	17,556	6.34%	1,150	1,113
Herbicide-Insecticide	13,374	13,297	13,115	13,752	14,661	13,640	6.34%	929	864
Seed-Other Crop Expense	10,471	10,988	12,098	13,034	14,525	12,223	6.34%	921	775
Gas-Fuel-Oil	8,821	7,196	7,765	10,316	10,622	8,944	6.34%	673	567
Machine Hire	9,671	9,381	10,020	9,962	10,470	9,901	6.34%	664	627
Utilities	3,469	3,399	3,449	3,678	4,066	3,612	6.34%	258	229
Irrigation Energy	1,781	1,925	1,680	3,744	3,466	2,519	6.34%	220	160
Vet-Med-Drugs	3,158	2,770	3,202	3,187	3,282	3,120	6.34%	208	198
Livestock Marketing-Breeding	2,561	2,202	2,616	2,635	2,827	2,568	6.34%	179	163
Organization Fees, Publications	2,303	2,323	2,522	2,341	2,428	2,383	6.34%	154	151
Building Repairs	1,620	1,492	1,373	1,576	1,606	1,533	6.34%	102	97
Irrigation Repairs	954	981	863	1,013	1,055	973	6.34%	67	62
Dairy Expense	927	797	836	870	838	854	6.34%	53	54
Auto Expense	764	779	726	782	812	773	6.34%	51	49
Conservation	386	343	420	427	426	400	6.34%	27	25
Interest Paid	15,573	16,217	16,905	17,202	18,056	16,791		-	-
Cash Farm Rent	11,944	12,161	12,999	13,427	13,868	12,880		-	-
Hired Labor	9,486	9,191	10,106	10,018	10,305	9,821		-	-
General Farm Insurance	2,973	3,171	3,446	3,595	3,809	3,399		-	-
Crop Insurance	3,386	3,128	2,909	3,248	3,603	3,255		-	-
Real Estate Taxes	2,733	2,638	2,743	3,088	3,236	2,888		-	-
Crop Storage-Marketing	900	1,175	932	1,153	1,202	1,072		-	-
Personal Property Tax	679	694	738	760	943	763		-	-
<b>Total</b>	<b>174,210</b>	<b>163,097</b>	<b>169,643</b>	<b>177,858</b>	<b>190,308</b>	<b>175,023</b>		<b>8,574</b>	<b>7,868</b>

Capital Expenses									
Farm Machinery & Equipment	30,428	26,124	22,197	24,173	25,077	25,600	6.34%	1,589	1,622
Buildings	3,138	3,663	2,598	3,382	2,499	3,056	6.34%	158	194
<b>Total</b>	<b>33,566</b>	<b>29,787</b>	<b>24,795</b>	<b>27,555</b>	<b>27,576</b>	<b>28,656</b>		<b>1,748</b>	<b>1,816</b>

## Dr. Darling's professional opinions and recommendations:

- As a general rule, tax revenues should be raised from a tax on wealth, income, and consumption in equal proportions.
- As a general rule, tax policy should be used to fund priority programs that are designated as important by the citizens of Kansas and their representatives such as education, public safety, infrastructure, regulatory activities, and social programs for the needy.
- An important use of State funds is to enhance the business environment but not to enrich favored business enterprises by providing special tax treatment such as tax holidays on real and personal property.
- Corporations, cooperatives, and other forms of businesses are citizens of Kansas with designated rights and responsibilities and should pay their fair share of taxes.
- Reform the laws that allow too much money to be packaged into state and local incentive programs to attract outside investors.
- I recommend that a review of the cost and effectiveness of tax incentives be undertaken. This study should test the hypothesis that the current system has an internal rate of return of 15 percent. Venture capitalists expect a 20 percent return.
- Sales tax is a tax on the consumption of a product by the final consumer and should never be levied on business purchases used in the production process. \*See impact on farmers.
- Review tax policy from the perspective of low density areas of the State that do not have dominant trade and job centers. Does the local sales tax option work for non-metropolitan counties? What has been the trend for the last 20 plus years? Do property taxes (a tax on wealth) work well for non-metropolitan counties? What has been the trend?
- Finally, disconnect the Kansas tax policy and structure from the federal one.

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**Is Kansas Cost-Competitive?**

**Taxes and Costs of Doing Business**

1/28/03 Kansas Assembly Taxation  
Committee - PRI, KU 1

presented to the  
**Kansas Assembly  
Committee on Taxation**  
January 28, 2003

presented by  
**David Burress**  
Center for Economic and Business Analysis  
Policy Research Institute  
University of Kansas

1/28/03 Kansas Assembly Taxation  
Committee - PRI, KU 2

House Taxation  
Attachment 2  
Date 1-28

**The business tax and cost study**

- Researchers:  
David Burress  
Pat Oslund  
Luke Middleton
- Funding: Kansas, Inc.
- Report: *Business Taxes and Costs in Kansas and Nearby States: 2001 Update*, Policy Research Institute Report No. 265, November 2001

1/28/03 Kansas Assembly Taxation  
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**TOPICS**

- Key tax rates and costs, 6 states
- Kansas business tax incentives
- Cost of business comparisons, 6 states
- Conclusions and recommendations

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## Where do firms locate and invest?

- Some firms are attached to a location by owner's preferences.
- "Footloose" firms invest where they can maximize profits.
- Other things held equal, maximizing profits means minimizing total costs.
  - No one tax or cost matters, only the total.

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## Major state-level business taxes

- corporate income taxes
- property taxes
  - commercial real estate
  - business equipment and machinery
- labor taxes
  - unemployment insurance
  - workers comp.
- sales taxes
  - capital expenditures
  - business inputs
- Federal offset

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## Tax burden factors

- Tax liability = (tax rate) x (tax base) - incentives
- Tax base = quantity x local price - exemptions
- Kansas is generally in the middle of nearby states
  - Most Kansas tax rates are in the middle
  - Kansas property tax rates are high
  - Property taxes on new investment are offset by aggressive local tax abatements
  - Kansas tax base definitions are competitive
  - Kansas tax base market prices are typical
  - Kansas incentives are competitive

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## Tax base issues

- Proration formulas for multi-state corporate income
- Exempting machinery and equipment
  - Property tax
  - Sales tax
- Sales tax on intermediate products
- Depreciation of machinery and equipment

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### Tax rates (%)

State	Corp. income (max)	Sales (state)	Sales (local, metro av.)	Work. comp (ratio to US)	Unemploy. Ins.
Year	2002	2002	2000	2001	2001
Colorado	4.63	2.9	2.9	124	0.20
Iowa	12.0/9.9	5.0	0.4	76	0.70
Kansas	7.35	5.3*	1.6	94	0.60
Missouri	6.25/5.16	4.225	2.1	109	0.40
Nebraska	7.81	5.5*	1.1	84	0.20
Oklahoma	6.00	4.5	3.2	144	0.10

\* increased in 2002

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### Effective Property Tax Rates (%) year 2000, prior to abatements

State	Commer. /Indust. Real Estate	Machinery and Equipment average for asset life:	Year 1	5 yr	10 yr
Colorado	2.17		2.41	2.35	2.61
Iowa	2.76		0.00	0.00	0.00
Kansas	2.67		2.81	2.51	2.21
Missouri	2.22		2.20	2.01	1.85
Nebraska	1.78		2.04	1.84	1.79
Oklahoma	1.05		1.25	1.22	1.36

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### Job and Investment Credits in Kansas, 2001

Program	Rate	Basis	Limits/carryover	Eligibility
<i>Income Tax Credits</i>	\$1,500 (\$2500 in nonmetro)	Per new job	\$50,000 per year for all credits 50% of tax liability Unlimited carryforward if jobs are maintained	Financial institutions and headquarters, ≥ 20 new jobs Manufacturer, ≥ 2 new jobs Non manufacturer, ≥ 5 new jobs Retail, ≥ 20 new jobs, cities < 2,500 pop.
<i>As above</i>	1%	Investment	As above	As above

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### Job and Investment Credits, continued

Program	Rate	Basis	Limits/carryover	Eligibility
<i>Job Expansion and Investment Credit</i>	\$100	Per new job per year	50% of tax liability No carryforward Annually for 10 years Not available with other investment credits	Most industries qualify Firms must add 2 jobs
	0.1%	Investment	As above	As above
<i>High Performance Incentives Program</i>	10%	Investment less \$50,000	10 year carryforward Not available with other investment credits	Industry: manufacturing, state-export-oriented service, headquarters or back office of national/multi-national Above-average wages
	10%	Training expenses	\$50,000 per year 10 year carryover less 2% of payroll Kansas Assembly Taxation Committee - PRI, KU	As above Participation in qualified training program

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### Non-tax costs

- Measured costs:
  - Wage rates
  - Energy
  - Real estate
- Costs assumed constant:
  - Cost of capital (except taxes)
  - Transport to market
  - Materials and intermediate products

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### Average Annual Wages

Ratio to US, 2000  
Adjusted for Industry Mix

Colorado	101.6
Iowa	79.4
Kansas	82.3
Missouri	88.2
Nebraska	80.8
Oklahoma	76.7
U.S.	100.0

Sources: U.S. Bureau of Economic Analysis, State Personal Income CD ROM, Tables SA07 and SA27.

Calculations by PRI

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### Modeling interstate competitiveness

- Scope: "footloose" firms of two types:
  - "new" = new investment; all incentives and abatements
  - "mature" = old investment; few incentives and abatements
- Goal: measure total cost of doing business

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### Model assumptions

- Firms are corporations
- Firms sell most of their output outside of Kansas
- Firms operate for 20 years (or more) in Kansas
- Basis for comparison: annual profit per employee
- Use present values for a 20-year period
  - 10% discount rate
- "New firms" receive all of the tax incentives for which they might be eligible
- "Mature firms" do not receive tax incentives
- Labor-capital mix is constant across states

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## "New" firms - full cost of business

Profits per Employee: Full Model Including Cost Variations  
New Firms Receiving Tax Credits and Abatements

Location	Low Wage Low Capital Intensity	High Wage High Capital Intensity	Computer Services	Administrative Back Offices	Research and Development
Colorado	\$6327	\$38160	\$6338	\$5579	\$10,334
Iowa	11,079	50,108	14,270	12,135	18,871
Kansas	10,278	47,854	13,881	11,501	18,922
Missouri	8,893	41,552	11,798	9,673	16,563
Nebraska	10,874	47,755	15,189	11,989	20,256
Oklahoma	11,671	50,206	17,118	13,797	21,866
Reg. Av. (Co, Ia, Mo, Ne, Ok)	9,769	45,556	12,942	10,635	17,578
Kansas as % of Reg. Av.	105.2%	105.0%	107.3%	108.1%	107.6%

NOTE: Under the assumptions of the full model, costs such as labor, land, and energy vary by state.  
Source: Calculated by PRI.

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## "Mature" firms - full cost of business

Profits per Employee: Full Model Including Cost Variations  
Established Firms Receiving No Tax Credits or Abatements

Location	Low Wage Low Capital Intensity	High Wage High Capital Intensity	Computer Services	Administrative Back Offices	Research and Development
Colorado	\$6,213	\$37,564	\$6,221	\$5,591	\$10,290
Iowa	11,022	48,337	14,302	12,223	18,943
Kansas	9,781	45,395	13,554	11,046	18,185
Missouri	8,408	39,450	11,055	9,057	15,278
Nebraska	10,800	47,436	14,101	11,965	18,900
Oklahoma	11,363	49,667	16,214	13,122	21,044
Reg. Av. (Co, Ia, Mo, Ne, Ok)	9,561	44,491	12,378	10,392	16,891
Kansas as % of Reg. Av.	102.3%	102.0%	109.5%	106.3%	107.7%

NOTE: Under the assumptions of the full model, costs such as labor, land, and energy vary by state.  
Source: Calculated by PRI.

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## "New" firms - taxes only

Profits per Employee: Partial Model with No Cost Variations  
New Firms Receiving Tax Credits and Abatements

Location	Low Wage Low Capital Intensity	High Wage High Capital Intensity	Computer Services	Administrative Back Offices	Research and Development
Colorado	\$9,606	\$44,232	\$12,971	\$10,502	\$17,380
Iowa	10,023	48,357	12,287	10,572	16,802
Kansas	9,886	46,830	12,970	10,782	17,987
Missouri	9,754	44,494	13,237	10,762	18,205
Nebraska	9,934	45,384	13,577	10,788	18,524
Oklahoma	10,034	46,502	14,012	11,416	18,457
Reg. Av. (Co, Ia, Mo, Ne, Ok)	9,870	45,794	13,217	10,808	17,873
Kansas as % of Reg. Av.	100.2%	102.3%	98.1%	99.8%	100.6%

NOTE: Under the assumptions of the partial model, costs such as labor, land, and energy are held constant across states.  
Source: Calculated by PRI.

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## "Mature" firms - taxes only

Profits per Employee: Partial Model with No Cost Variations  
Established Firms Receiving No Tax Credits or Abatements

Location	Low Wage Low Capital Intensity	High Wage High Capital Intensity	Computer Services	Administrative Back Offices	Research and Development
Colorado	\$9,474	\$43,606	\$12,832	\$10,511	\$17,298
Iowa	9,972	46,608	12,318	10,659	16,873
Kansas	9,387	44,359	12,625	10,326	17,243
Missouri	9,273	42,448	12,453	10,182	16,903
Nebraska	9,867	45,081	12,539	10,764	17,204
Oklahoma	9,679	45,929	12,999	10,659	17,522
Reg. Av. (Co, Ia, Mo, Ne, Ok)	9,653	44,734	12,628	10,555	17,160
Kansas as % of Reg. Av.	97.2%	99.2%	100.0%	97.8%	100.5%

NOTE: Under the assumptions of the partial model, costs such as labor, land, and energy are held constant across states.  
Source: Calculated by PRI.

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## Modeling conclusions

- For most firms, Kansas is better than average for the region and nation (higher profit, lower cost)
- The most important driver is relatively low wage rates
- Kansas tax costs are about average for the region, below average for the nation
- The federal offset dampens the importance of state and local taxes

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## Many factors were not considered in the model

- Distance to markets
- Local risk capital
- Entrepreneurialism
- Industrial clusters  
(economies of scale and scope)
- Labor productivity and availability
- Public and private infrastructure
- Quality of life

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## Implications

- Kansas economic development strategy calls for “neutral” taxes, not tax-led development.
- We have achieved that goal.
- Low-cost led development is self-defeating:
  - Low wages means low income
  - Low taxes means low infrastructure and quality of life
- Colorado has highest costs in the region, yet has the fastest growth and highest income.
- We need to look harder at non-cost issues.

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## Recommendations

- Major business tax changes are not indicated
- Long-run wish list: uniform and equal assessment for property tax
- Maintain government services that support non-cost investment factors

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