

MINUTES OF THE HOUSE TAXATION COMMITTEE

The meeting was called to order by Vice Chair Richard Carlson at 9:00 A.M. on February 22, 2008 in Room 519-S of the Capitol.

All members were present except: Representative Wilk, Hayzlett, Davis and Dillmore

Committee staff present:

Chris Courtwright, Legislative Research Department
Gordon Self, Office of Revisor of Statutes
Ryan Hoffman, Legislative Research Department
Richard Cram, Department of Revenue
Rose Marie Glatt, Committee Secretary

Conferees appearing before the committee:

Joseph L. Lawhon, Principal Auditor, Legislative Division of Post Audit

Others attending:

See attached list.

Joseph Lawhon, Legislative Division of Post Audit, briefed the Committee on the post audit: *Performance Audit Report - Economic Development: Determining the Amounts the State Has Spent on Economic Development Programs and the Economic Impacts on Kansas Counties*, Part 1 (Copy on file in Legislative Division of Post Audit).

The post audit covers three questions, two of which are covered in this report.

Question 1: How Much State, Federal, and Local Money Has Been Spent on Economic Development Programs During the Past Five Years?

Key points:

1. A 2007 report by Kansas, Inc. showed that Kansas' spending for economic development generally falls in the middle when compared to five neighboring states.
2. Establishment of a definition of economic development and set limits on the data collected. Economic development is activities whose primary purpose is to stimulate the Kansas economy, expand or maintain employment opportunities within the State, or encourage the establishment and growth of commerce and industry in the State. Data was collected from five State agencies: Kansas Department Of Commerce; (KDOC); Kansas Technology Enterprise Corporation, (KTEC); Kansas, Inc.; Kansas Bioscience Authority and the Kansas Small Business Development.
3. The estimated cost of economic development in Kansas for the past five years has been at least \$1.5 billion.
4. Of the \$630 million State agencies reported spending, most was Federal money, and most was spent by Kansas Department of Commerce.
5. Of the estimated \$860 million of forgone revenue, most has been local property tax revenues related to industrial revenue bond exemptions.
6. More than half of the government-funded economic development financial assistance between 2003 and 2007 has occurred in three urban counties.
7. State and local governments will incur additional costs of about \$404 million in future years because of the repeal of the business and machinery property tax.

Conclusion: The cost of economic development that we were able to measure is more than \$1.5 billion over the past five years. That includes both spending and forgone revenues at the State and local level. However, we know this figure is understated - we weren't able to systematically capture

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local spending, and data limitations prevented us from making a more complete analysis. In addition to any ongoing economic development spending we've already identified, State and local government could incur an estimated \$404 million in additional costs in the next five years because of a recent repeal of the business and machinery property tax.

Representative Rardin requested that the report and spreadsheets be sent electronically to the Committee.

Question 2: What Have Past Audits and Studies Shown About the Effectiveness of Economic Development Programs?

Key Points:

1. Economic development assistance can take various forms.
2. There are a number of problems in trying to assess the effectiveness of economic development programs and activities.
3. Most studies of traditional economic development incentives suggest these incentives don't have a significant impact on economic growth.
4. The literature also suggests that economic development incentives must be offered to remain competitive with other states.
5. Kansas, Inc. recently released a strategic plan for guiding Kansas' economic development.

Conclusion: Governments have used economic development incentives for a number of years to help spur economic growth and create jobs. Determining if those incentives are effective is a question that has been asked over and over again. Many factors, including lack of reliable data, have hampered researchers' ability to concretely answered the question. The majority of research concludes there is a lack of demonstrated impact from the typical types of economic development assistance, and that incentives aren't cost-effective. However, in order for a state to remain competitive, it must continue to offer assistance.

Part II of the report, which will be released at an later date (Early May) and will answer the third question: **What results can be seen from State spending for economic development in Kansas?**

Committee discussions followed:

1. Value of report due to lack of complete data.
2. There are no conclusions regarding the success of programs, using either Cash Incentives or Tax Credit Programs.
3. If the infrastructure is not up to date, the success of the economic development incentives depends on specific projects.
4. Parameters of data collection varies and is difficult to obtain.
5. There will not be specific programs they deem successful or unsuccessful in Part II of the report.

The meeting was adjourned at 10:10 a.m. The next meeting is February 25, 2008.