



# Legislative Post Audit Performance Audit Report Highlights

Highlights

Economic Development: Determining Which Economic Development Tools are Most Important and Effective in Promoting Job Creation and Economic Growth in Kansas, Part 2

## Report Highlights

February 2014 • R-14-003

### **Summary of Legislator Concerns**

*Legislators have expressed interest in knowing which Kansas economic development programs and incentives are most helpful to Kansas businesses.*

### **Background Information**

*The Department of Commerce, the Kansas Bioscience Authority, and the Department of Revenue administer the state's main economic development programs.*

*In this audit, we compared Kansas' major programs to those offered in five states: Indiana, Missouri, North Carolina, Oklahoma, and Texas. Officials at the Department of Commerce and the Kansas Bioscience Authority identified those states as states which compete most directly with Kansas.*

*We also attempted to survey about 90 stakeholders about their perspectives on the usefulness of Kansas' programs. Overall, 28 stakeholders participated in the survey. Of those, 15 were business officials. The 13 other respondents represented local chambers of commerce or councils, site consultants, or university professors.*

### **QUESTION 1: Does Kansas Have the Appropriate Programs and Incentives to Enhance Economic Development in the State?**

- Studies suggest many economic development initiatives are difficult to evaluate or have not been successful, yet states must offer them to remain competitive.
  - Academic reviews and professional evaluations regarding the effectiveness of economic development initiatives often have mixed results.
  - Several studies we reviewed cited the need for states to offer economic incentives to remain competitive.
  - Many stakeholders we talked with agreed that economic development incentives help keep Kansas competitive.
- In general, Kansas has the same types of economic development programs as other states we reviewed.
  - Our review focused on Kansas' six major incentives that are designed to grow and retain jobs, as well as increase capital investment through a variety of funding mechanisms.
  - Other states' major programs intend to achieve the same primary outcomes as Kansas' programs.
  - Although other states' programs intend to accomplish similar goals, Kansas structures three of its main programs differently—the Job Creation Program Fund (JCF), High Performance Incentive Program (HPIP), and Direct Equity Investment Program.
  - Of the programs we reviewed, other states had five programs that Kansas does not offer, but Kansas officials thought the absence of only one program—an enterprise zone program in Texas—put the state at any kind of a competitive disadvantage.
  - Finally, other states have a number of bioscience-related programs that Kansas also has, but no longer promotes due to reduced funding.
- Kansas' economic development programs generally provide the incentives that stakeholders indicated are useful.
  - Most stakeholders thought Kansas' economic development programs were as strong, or stronger than, the programs in other states.
  - Stakeholders thought the best way to enhance economic development in Kansas is to help existing companies create more jobs.
  - Stakeholders also indicated programs that give businesses a predictable amount of cash relatively quickly work best.

- Business officials and other respondents disagreed about how lowered income tax rates would affect economic development in Kansas.
  - Business officials we surveyed were more optimistic than other respondents about the potential economic benefits of the recent income tax policy changes.
  - Business officials were also more optimistic about the effect the new tax changes would have on other economic development programs.
  - Finally, a number of stakeholders expressed concerns and uncertainty as to whether the new tax policy would be successful in the long run.
- Stakeholders offered a number of suggestions for improving Kansas' existing economic development programs.
  - Many stakeholders indicated employee training and workforce development are critical and need more support through economic development initiatives.
  - Stakeholders suggested separating the sales tax exemption from the HPIP program and making it a stand-alone initiative.
  - Stakeholders offered suggestions for making the tax credit portion of the HPIP program more useful to companies.
  - Stakeholders suggested the state should allocate more money to its cash closing fund, JCF.
  - Stakeholders offered several other ideas to help improve how the state's economic development initiatives are administered.

## SUMMARY OF RECOMMENDATIONS

- This report contains no recommendations.

## AGENCY RESPONSE

- Department of Commerce and Kansas Bioscience Authority officials agreed with the report's findings.

### HOW DO I REQUEST AN AUDIT?

By law, individual legislators, legislative committees, or the Governor may request an audit, but any audit work conducted by the division must be directed by the Legislative Post Audit Committee. Any legislator who would like to request an audit should contact the division directly at (785) 296-3792.

*Businesses receive economic development incentives in many forms. They include grants, loans, income tax credits, sales or property tax exemptions, and allowing companies to retain employee withholding taxes.*

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