

AUDIT PROPOSAL

Evaluating Selected Economic Development Incentive Programs (FY 2021-2023)

SOURCE

This audit proposal is intended to satisfy requirements in K.S.A. 46-1137.

BACKGROUND

It is important to evaluate the state's economic development incentives so legislators can make evidence-based policy decisions. State and local governments offer a variety of economic development incentives to try to help the local economy. These incentives create new jobs or keep existing jobs in the state. They can be cash subsidies, tax credits, or tax exemptions. In Kansas, the Department of Commerce, the Department of Revenue, and the Insurance Department administer most state economic development incentives.

The 2019 Legislature passed K.S.A. 46-1137 to better evaluate and oversee economic development incentives. The law directs our office to conduct systematic and comprehensive evaluations of the incentives the Legislative Post Audit Committee (LPAC) selects. The evaluations should describe the incentive, review current research on its effectiveness, and estimate its economic and fiscal impact. State law requires that we conduct the evaluations on a three-year cycle.

The LPAC economic development subcommittee recommended we evaluate the following incentives during the FY 2021 – 2023 cycle:

- High Performance Incentive Program (HPIP)
- Industrial Revenue Bonds (IRB)
- Job Creation Program Fund (JCF)
- Kansas Angel Investor Tax Credit
- Kansas Industrial Retraining Program (KIR)
- Kansas Industrial Training Program (KIT)
- Owners Promoting Employment Across Kansas Tax Credit
- Promoting Employment Across Kansas Program (PEAK)
- Sales Tax Revenue Bonds (STAR Bonds)
- All newly created incentives as required by K.S.A. 46-1137

AUDIT OBJECTIVES AND TENTATIVE METHODOLOGY

The audit objective listed below represents the question we would answer through our audit work. The proposed steps below the objective convey at a high level the work we would do. Our methodology is subject to change as we learn more about the audit issues.

Objective 1: What are the selected economic development incentives' estimated economic and fiscal impacts? Our tentative methodology would include the following:

- Talk to economic development staff and review program documents to describe the incentives. This would include their history and goals.

- Review academic literature and talk to experts and other states' staff to summarize current research on the incentives' effectiveness. This would include a list of similar programs in other states.
- Review existing research and work with experts as needed to estimate the incentives' economic and fiscal impacts. This could include determining whether the incentives changed business behavior or were administered according to state law. It could also include estimating an incentive's return on investment.
- Collect state and local economic development staff opinions about our evaluation results.

ESTIMATED RESOURCES

We estimate these evaluations will require a team of **3 auditors**, plus external consultants as needed.