



KANSAS LEGISLATIVE  
**DIVISION** *of*  
**POST AUDIT**

An Economic Development Incentive Evaluation Presented to the Legislative Post Audit Committee

# Evaluating the Rural Opportunity Zones Program

August 2023

Report Number: R-23-011

# Introduction

This audit satisfies requirements in K.S.A. 46-1137. The Legislative Post Audit Committee directed us to evaluate this incentive at its December 12, 2022 meeting.

## *Objectives, Scope, & Methodology*

Our audit objective was to answer the following question:

1. To what extent has the Rural Opportunity Zones program been effective at slowing or reversing rural depopulation?

To answer this question, we reviewed program data from calendar years 2011 through 2022 from the Departments of Commerce and Revenue. We used the data to estimate how many people (i.e., program participants and their family members) moved to rural opportunity zone counties because of the program. We compared that to data on county-level population change from the U.S. Census Bureau for the same time period. We also surveyed 14 program stakeholders to get their perspectives on the program.

Our scope of work did not include an evaluation of how the Departments of Commerce and Revenue administered the program. For example, we didn't verify whether participants were eligible for the program. However, we identified a few areas in which program administration might be improved as discussed more later in this report.

More specific details about the scope of our work and the methods we used are included throughout the report as appropriate.

## *Important Disclosures*

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. Overall, we believe the evidence obtained provides a reasonable basis for our findings and conclusions based on those audit objectives.

Our audit reports and podcasts are available on our website ([www.kslpa.org](http://www.kslpa.org)).

**The Rural Opportunity Zones program has done little to slow rural depopulation statewide, but stakeholders we talked to told us the program benefitted their communities in other ways.**

### **Incentive Background**

**The Rural Opportunity Zones program provides student loan repayment assistance and state income tax credits to eligible individuals who move to rural Kansas counties.**

- The Legislature created the Rural Opportunity Zones (ROZ) program in 2011. It incentivizes individuals to move to counties statute designates as rural opportunity zones (i.e., counties with populations of less than 40,000). To incentivize individuals to move to these counties, the program offers 2 benefits. Participants may receive up to \$15,000 in student loan repayment assistance over 5 years. They may also receive a 5-year 100% state income tax credit. Eligible individuals may receive 1 or both benefits.
- Since 2011, the Legislature has increased the number of counties designated as rural opportunity zones. The program originally designated 50 counties as rural opportunity zones. The populations of those counties had declined by at least 10% over the previous decade. In 2013 and 2014, the Legislature made 27 more counties rural opportunity zones. Then, in 2021, the Legislature made any county with a population of less than 40,000 a rural opportunity zone. 95 of the state's 105 counties are currently designated as rural opportunity zones.
- The Departments of Commerce and Revenue administer the ROZ program. Commerce administers the student loan repayment assistance part of the program. Revenue administers the tax credit part. The 2 agencies administer each part independently of each other.
- The program will sunset in 2026 unless the Legislature extends it. Individuals will not be able to apply for student loan repayment assistance after June 30, 2026. Anyone already receiving loan assistance will continue doing so for the rest of their 5-year benefit period. Tax year 2026 is the last year in which individuals can claim the tax credit.

**For the last several decades, rural areas have been losing population nationally, especially the Midwest.**

- U.S. Census Bureau data show that rural counties throughout the U.S. have experienced population declines in recent decades. Since 1980, over half of rural U.S. counties have lost population. Migration from rural areas to urban areas helped cause these population declines.

- Rural population declines have been most significant in the Midwest. For example, between 1980 and 2021, Kansas’s rural population declined by about 9%. Some counties experienced population declines of over 20%. By contrast, Kansas’s urban population has increased by about 50% since 1980.
- The U.S. Office of Management and Budget defines urban areas as areas with more than 50,000 people. Rural areas have fewer than 50,000 people. These definitions don't follow county boundaries. For example, a county may include both urban and rural areas. Most Kansas counties are mainly rural.

**The ROZ program’s purpose isn’t defined in statute but was likely meant to counteract the depopulation of rural Kansas.**

- State law doesn’t specify a goal or purpose for the ROZ program. However, the program was likely meant to counteract depopulation in rural Kansas counties. This is based on testimony from when the Legislature created the program. To do this, the ROZ program provides student loan repayment assistance and state income tax credits to eligible individuals who move to rural Kansas counties.
- State law also doesn’t provide benchmarks for measuring ROZ program success. For example, it’s not clear how many people it should have brought to ROZ counties. Our analysis focuses on the extent to which the program has slowed or reversed rural depopulation since there aren’t clear statutory criteria.

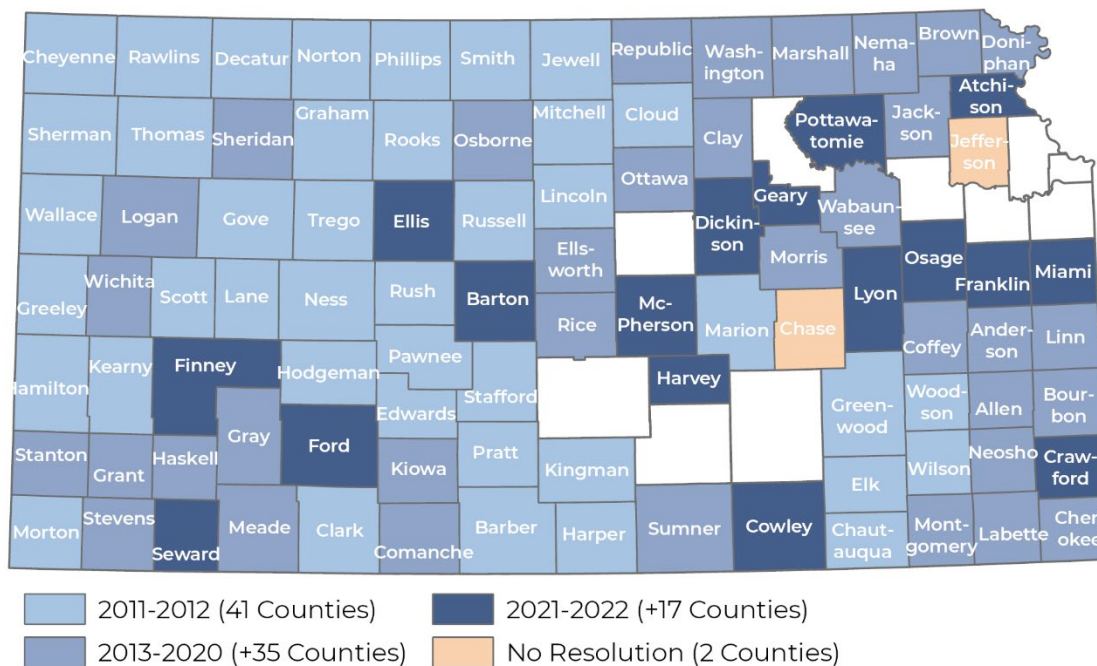
**Student Loan Benefit**

**A local sponsor must share half of the repayment costs with the state for ROZ participants to receive student loan assistance.**

- A participant must have a local sponsor to receive student loan repayments. A local sponsor can be a county, city, employer, or foundation like a local economic development foundation.
- K.S.A. 74-50,223 requires ROZ counties to adopt resolutions to take part in the ROZ program. A resolution requires a county to share 50% of the student loan repayment assistance costs with the state for 5 years.
  - In its resolution, a county declares how much money it will allocate each year to help pay student loan costs. That determines how many ROZ participants it can sponsor.
  - If there are more people who want to participate than the county can afford, some will have to wait until more local funds are available to participate.
- If a ROZ county does not pass a resolution, then no individual who moves to that county can participate in the student loan part of ROZ.

- However, Commerce allows ROZ counties to pass a “\$0 resolution.” This type of resolution doesn’t require the county to share program costs with the state. Instead, it allows other entities in the county that want to sponsor a ROZ participant, like cities and private employers, to share 50% of program costs with the state. We refer to any entity that has agreed to share student loan repayment assistance costs with the state as a “sponsor.” Commerce has approved 9 cities, 5 foundations, and 147 employers to sponsor participants.
- As **Figure 1** shows, 93 of the 95 counties designated as rural opportunity zones adopted a ROZ resolution in or before 2023. The only 2 counties that haven’t adopted a resolution are Chase and Jefferson counties. That means individuals that move to Chase or Jefferson County cannot receive student loan assistance reimbursements as part of ROZ. However, these participants may be eligible to receive ROZ income tax credits.

Figure 1. All but 2 of the state's 95 ROZ-eligible counties have submitted a resolution (a).



(a) Counties in white are not ROZ-eligible.

Source: LPA analysis of program data provided by the Department of Commerce (unaudited).

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**ROZ participants may receive up to a total of \$15,000 in student loan repayment assistance over 5 years.**

- An individual who moves to a ROZ county can apply to Commerce for student loan repayment assistance. Successful applicants may receive annual

reimbursements on student loan payments of up to \$3,000 for 5 years. For Commerce to approve an application, an individual must meet the following criteria:

- The individual must move to a ROZ county after it adopted a resolution. An individual can move to a ROZ county from out-of-state or from another Kansas county, including another ROZ county. However, an individual cannot move within a single ROZ county and qualify for the program.
- The individual must have earned at least an associate's degree before moving to the ROZ county.
- The individual must have outstanding student loan debt. An individual's annual reimbursement will be the lesser of \$3,000 or their outstanding student loan debt divided by 5.
- If an individual meets the above criteria, then Commerce approves them to participate in the program. Otherwise, Commerce denies the individual's application.
- Commerce requires program participants to stay in compliance with the program. Commerce told us they require participants to prove they made student loan payments each year they receive a reimbursement. Commerce also told us they require participants to annually attest to living in the ROZ county they applied for. State law requires Commerce to disqualify participants who leave the ROZ counties they applied for.
  - Commerce makes an exception for individuals sponsored by private employers. If their employer sponsor agrees to it, an individual can move to another ROZ county and continue receiving reimbursements.

**Some counties don't have enough money to sponsor everyone who's applied for student loan repayment through the ROZ program.**

- A participant must have a sponsor to receive student loan repayments. However, counties don't have unlimited funds to sponsor ROZ participants. Sometimes that means ROZ counties don't have funding to sponsor everyone who moves to the county and meets the program eligibility criteria.
- Commerce places an individual on a county's waitlist if funding isn't available to cover their reimbursement costs. Individuals will stay on a waitlist until funding becomes available. Individuals are generally moved off county and city waitlists on a first-come-first-serve basis.
- For example, a ROZ participant who has \$15,000 in student debt would be able to get an annual \$3,000 reimbursement. Half (\$1,500) would come from the state and half would come from the county (or another local sponsor). If the ROZ county has \$1,500 in funding available, then the individual begins receiving

reimbursements. If the county doesn't have funding available, (e.g., because funds have already been allocated to other participants), then the individual can't begin receiving reimbursements. Instead, they're placed on the county's waitlist.

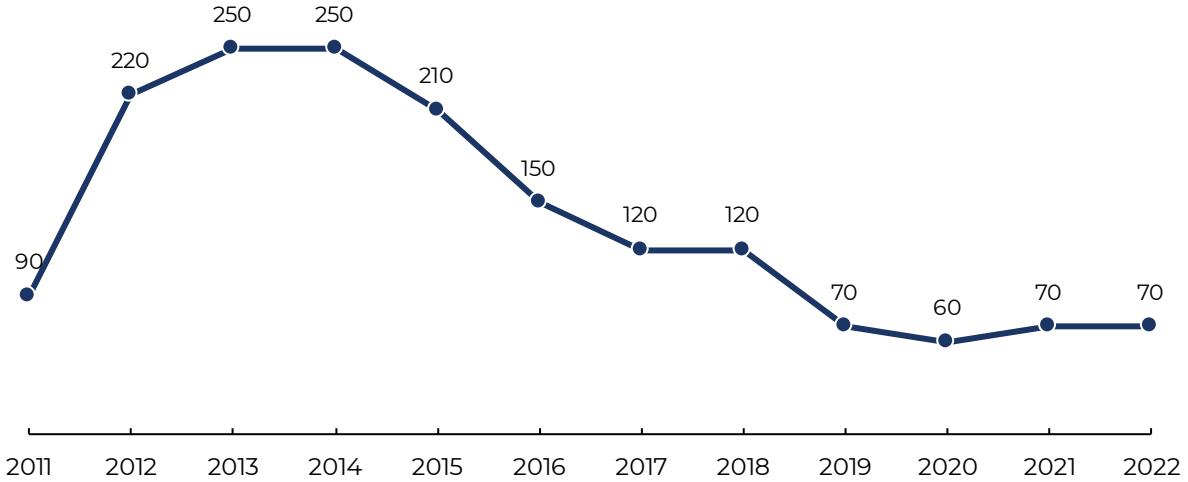
- However, employer and foundation sponsors don't have waitlists. That's because Commerce allows private entities like employers to choose a specific person they want to sponsor.

**Between 2012 and 2022, about 1,670 individuals participated in the student loan part of ROZ and received about \$13.3 million in repayment assistance.**

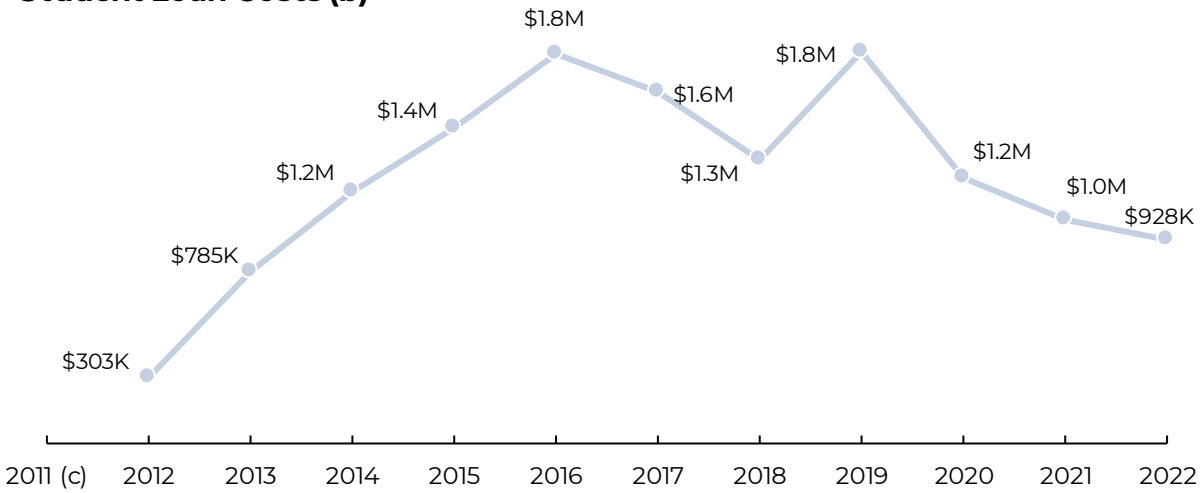
- We reviewed Commerce data to determine how many individuals participated in the student loan part of ROZ. We reviewed data from between when the program started through calendar year 2022. 2022 is the most recent year for which complete data was available.
- We counted any individuals whose applications Commerce approved as program participants. Some individuals we counted as participants didn't receive any student loan reimbursements. That's because those individuals were on waitlists. It was important to count these individuals because they met program criteria and may have moved to a ROZ county because of the program.
- At the time of our review, about 1,670 individuals had participated in the student loan part of ROZ. Those individuals fell into the following categories:
  - About 600 (36%) had completed the program. These individuals received all 5 years of student loan repayment reimbursements the program allows.
  - About 560 (34%) had withdrawn or been disqualified from the program after receiving at least 1 reimbursement. An individual might withdraw or be disqualified because they moved out of the ROZ county they applied for. They also may not have had additional student loan payments to claim reimbursement for.
  - About 260 (16%) are currently participating in the program. These individuals were currently receiving annual reimbursements as of the end of 2022.
  - About 160 (10%) withdrew from the program before they received any funding. Most appeared to have waited more than a year before withdrawing. We assumed these individuals were on a waitlist and withdrew because they hadn't received funding.
  - About 90 (5%) are currently on a waitlist.

Figure 2. The number of student loan participants has declined over time.

**Student Loan Participants (by application year) (a)**



**Student Loan Costs (b)**



(a) Participant counts do not sum to 1,670 due to rounding. Participant counts include all individuals approved to participate, including individuals who were on a waitlist or who had withdrawn from the program before receiving funding.

(b) Student loan costs include state costs and local sponsor costs.

(c) The program didn't begin paying out benefits until 2012.

Source: LPA analysis of ROZ program data provided by the Department of Commerce (audited).



- **Figure 2** shows how the number of participants and the cost of the student loan part of the ROZ program has changed over time. As the figure shows, the number of student loan participants has decreased significantly since the early years of the program even as the number of ROZ counties has grown. Commerce officials said this could be because ROZ was promoted most in its early years. Commerce officials also told us the program was set to sunset in 2021. Commerce officials told us they halted marketing of the program in anticipation of the sunset. Commerce officials told us the looming sunset and the COVID-19 pandemic caused fewer people to apply in 2020 and 2021.
- State and local sponsors spent about \$13.3 million on participants' reimbursements since the start of the program. The state paid about \$6.7 million in reimbursements to participants whereas sponsors spent a total of about \$6.6 million. The state spent a little more than sponsors because of miscommunication between Commerce and county sponsors. As the figure also shows, the cost of the ROZ program to state and local sponsors has dropped in the most recent couple of years as the number of participants has dropped.
- **Appendix B** shows student loan participants' states of origin, industries, and education levels.

### **Income Tax Credit Benefit**

**Someone who relocates to a ROZ county from out-of-state may receive a 100% state income tax credit for up to 5 years.**

- K.S.A. 79-32,267 allows eligible individuals who move to a ROZ county from out-of-state a credit against their state income tax. The credit is equal to 100% of an eligible individual's state income tax, less other credits. An individual can claim the credit for 5 consecutive years. For an individual to get this tax credit, they must meet the following criteria:
  - The individual must have lived outside of Kansas for at least 5 years before moving to a ROZ county.
  - The individual must have earned less than \$10,000 in Kansas-source income in each of the 5 years they were living outside of Kansas.
  - The individual must have lived in the ROZ county for the full year (i.e., January 1 through December 31) in which they claim the credit.
  - The individual must have filed their income tax return timely. The individual must also not be delinquent on any Kansas tax return or tax payments.
- Counties do not have to adopt a resolution for individuals to claim the ROZ tax credit. Tax credit participants do not need to have a local sponsor. Any eligible residents of a ROZ county can claim the credit.

- Unless the Legislature extends the sunset year, individuals can only claim the tax credit through tax year 2026.

**Between 2012 and 2022, about 1,700 individuals applied for the ROZ tax credit and received about \$13.8 million in income tax credits.**

- We reviewed Revenue tax data to determine how many individuals claimed the ROZ tax credit between 2012 and 2022. 2012 was the first tax year in which individuals could claim the credit. We cut off our analysis in 2022 because that's the most recent year for which data was available.
- Between 2012 and 2022, about 1,720 individuals applied for the ROZ tax credit.
  - Only about 270 (16%) claimed the credit for 5 years, the maximum allowed.
  - About 700 (41%) claimed the credit between 2 and 4 years.
  - About 550 (32%) claimed the credit for only 1 year.
  - Finally, about 200 individuals (12%) applied for the ROZ tax credit but were denied because they didn't meet program criteria. We counted these individuals as program participants anyway. That was because these individuals may have moved to a ROZ county because they thought they would be eligible for the tax credit, even if they weren't allowed to claim it.
- **Figure 3** shows how the number of ROZ tax credit claimants and costs have changed over time. As the figure shows, the number of claimants grew in the first few years and has remained stable around 400 or more claimants since 2016. The number of 2022 claimants appears low because KDOR hadn't fully processed 2022 tax returns at the time of our analysis.
- These numbers are estimates. We may be understating how many people claimed the tax credit. That's because married couples in which both parties qualify for the tax credit can file their taxes jointly. In these cases, only the primary taxpayer is in the tax data. Based on the data Revenue keeps, we couldn't tell how many individuals represented married couples.
- Further, some ROZ tax credit claimants also claimed other tax credits. That influenced the amount of ROZ tax credits those claimants received. Factors like these make it hard to say exactly how many individuals participated in the tax credit part of ROZ.
- It's unclear why some taxpayers claimed the ROZ tax credit for only 1 or a few years. There are a few possible explanations.
  - Some individuals may have started claiming the credit in a recent year and will continue to claim it in future years.

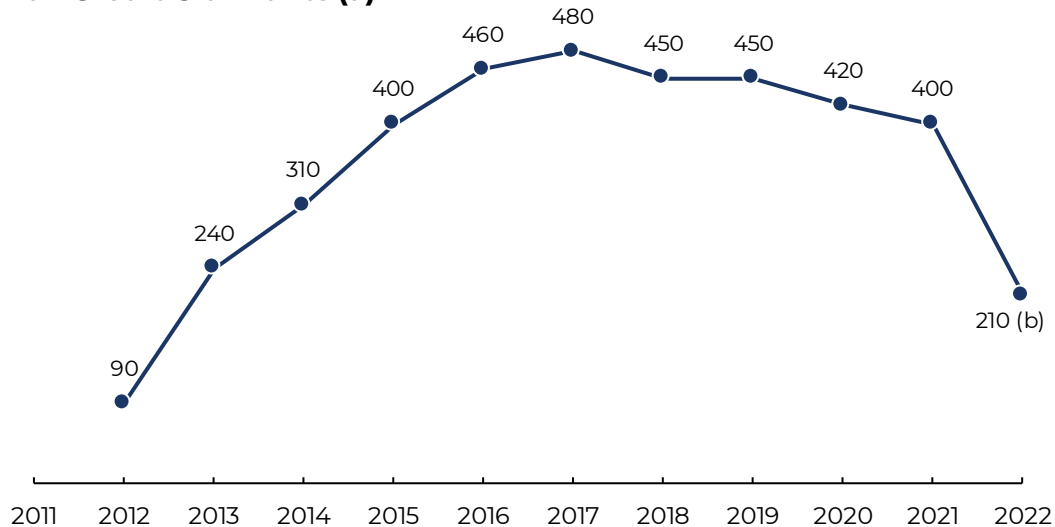
- Some individuals may have failed to file their taxes timely. This would have made them ineligible to claim the tax credit in those years.
- Tax preparation software could prevent someone from claiming the credit. Revenue officials told us some major tax software providers (e.g., H&R Block and TurboTax) don't support claiming the ROZ tax credit. However, Revenue offers a free online tax filing service. Revenue officials told us taxpayers can use this service to claim the ROZ tax credit.
- Some individuals may have moved out of a ROZ county before claiming the credit in 5 years.
- Participants claimed about \$13.8 million in ROZ income tax credits from 2012-2022. This cost is borne entirely by the state. It is not a cost to local governments or employers like the student loan part of the program. As **Figure 3** shows, the state awarded about \$1.3 million to \$1.8 million in ROZ income tax credits each year since 2015.

**About 150 individuals may have participated in both parts of ROZ, but this is an estimate due to data limitations.**

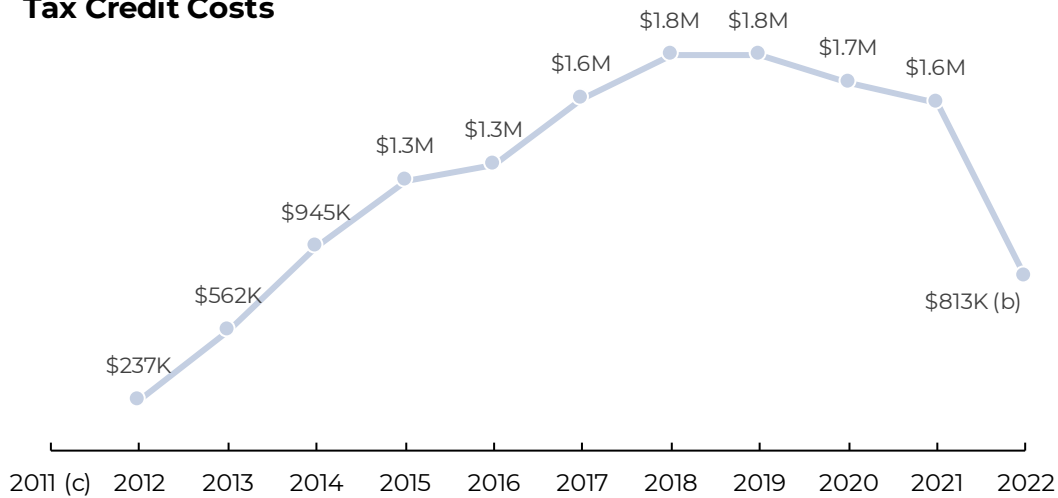
- As previously mentioned, Commerce and Revenue administer the ROZ program. Commerce administers the student loan part of ROZ. Revenue administers the tax credit. The 2 agencies administer their parts independently from the other.
- Commerce and Revenue should be able to say how many individuals participated in both the student loan reimbursement and tax credit benefits of ROZ. Being able to do so is a fundamental part of understanding the program. It's also relevant to overseeing and evaluating the program.
- Commerce and Revenue didn't have a way to match participants between the student loan and tax credit parts of ROZ. This was because Commerce and Revenue don't maintain the same kinds of data for ROZ participants. For example, Commerce doesn't collect participants' Social Security numbers. This means there's no unique ID we could use to match participants between the program's 2 parts.
- To estimate how many individuals may have participated in both parts of ROZ, we compared the names of the individuals that participated in each part. We identified about 150 individuals who likely participated in both parts of the program since it started. This approach had some drawbacks. For example, some individuals didn't report a middle initial or name to both Commerce and Revenue. It's possible we missed some individuals who participated in both parts of the program. We also may have incorrectly determined 2 people with the same name were the same person.

Figure 3. The number of tax credit participants has remained relatively stable.

**Tax Credit Claimants (a)**



**Tax Credit Costs**



- (a) This figure includes the total number of times the ROZ tax credit was claimed each year. This figure doesn't represent the total number of unique individual claimants. That's because claimants can claim the ROZ tax credit for up to 5 years. So, some claimants are counted in multiple years. By contrast, each student loan participant is counted only once in Figure 2.
- (b) Data for 2022 is incomplete. At the time of our audit, Revenue was still processing returns for tax year 2022.
- (c) 2012 was the first tax year in which individuals could claim the tax credit.

Source: LPA analysis of ROZ program data provided by the Department of Revenue (audited).

## **Program Evaluation Results**

### **Counties lost about 29,400 residents total in the years in which they participated in ROZ.**

- We used data from the U.S. Census Bureau to determine how many individuals left each ROZ county. Our base year for each county was the year in which each county first adopted a ROZ resolution. We compared how much each county's population changed between then and 2022.
- ROZ counties lost about 29,400 residents total in the years between their adoption of ROZ resolutions and 2022.
- The Census Bureau data was based on estimates. It therefore has some uncertainty (i.e.,  $\pm 3\%$ ) in it. This data was the best available for us to use. But the data should not be viewed as absolute indicators of how much the populations of Kansas ROZ counties changed.

### **Due to a lack of detailed data, we used a high-level estimation process to determine ROZ's impact on rural population declines.**

- Detailed information relevant to estimating ROZ's impacts on rural population declines wasn't readily available. For example, Commerce and Revenue couldn't clearly identify individuals who participated in both parts of ROZ. Commerce also doesn't collect information for all participants such as how many family members each participant had and whether they stayed in a ROZ county after completing the program. Revenue collects that information through tax returns, but can only feasibly provide it for participants in the tax credit part of the ROZ program.
- Because of that, we developed high-level estimates to determine what impact ROZ may have had on rural population declines.
- We began our analysis by determining the total number of people who participated in some aspect of ROZ from its start in 2012 through 2022. This includes student loan participants and tax credit participants. We based our analysis on the Commerce and Revenue data discussed earlier.
- Then, we estimated how many people may have moved with a ROZ participant to a ROZ county. We used data from Commerce's own surveys of student loan participants. On average, respondents said they were part of a 3-member family. That means the average participant represents 3 people moving to a ROZ county, not just 1.
  - Commerce surveyed student loan participants in 2019 and 2021. The individuals who received the surveys were current participants at the time of the survey (i.e., those who received the 2019 survey received a reimbursement in 2019). Commerce's survey didn't include people who only participated in the ROZ tax credit program because Commerce doesn't administer that part

of the program. We generalized the results from Commerce's survey to all program participants because it's the best information we had.

- As part of the surveys, Commerce asked participants about their relationship statuses. Commerce also asked participants how many children they had living with them. We used this data to estimate participants' household sizes.
- Finally, we used data from Commerce's surveys to estimate how often ROZ caused participants to move to their ROZ counties. Based on Commerce's surveys of participants, we estimate ROZ caused between 14% and 29% of participants to move to a ROZ county.
  - In their surveys, Commerce asked participants whether they would have moved to their ROZ counties if the ROZ program hadn't been offered. Commerce also asked participants whether they also claimed the ROZ tax credit. Only 14% of student loan participants (who didn't claim the tax credit) said they would not have moved. And only 29% of respondents who said they also claimed the tax credit alongside student loan reimbursements said they would not have moved. That is, most respondents said they would have moved to their ROZ county, even if the ROZ program hadn't been available to them.

### **These estimates may overestimate program effects.**

- Our estimates don't account for the net population change in Kansas. The student loan part of ROZ sometimes moves people between ROZ counties instead of attracting new people to Kansas. This doesn't help increase Kansas's statewide rural population. For example, about 660 student loan participants (40% of all student loan participants) moved between counties that had become ROZ-eligible by 2021.
- Our estimates assume all ROZ participants stayed in ROZ counties after beginning participation in the program. However, not all ROZ participants stay in the ROZ counties they moved to. We assumed participants stayed because we didn't have clear data showing what each participant did after they stopped participating in ROZ.
  - About 560 (34%) student loan participants withdrew or were disqualified from the program. Some of these individuals were disqualified because they moved out of the ROZ county they applied for. But we can't say exactly how many left their ROZ counties. Some may have stayed. Others may have moved to another ROZ county even though they wouldn't have been eligible for further student loan reimbursements.
  - A small sample indicates many tax credit participants may leave Kansas after claiming the ROZ tax credit. We reviewed tax data for a random sample of 26 individuals who participated only in the tax credit part of ROZ. As of 2022, 18 of those 26 individuals (69%) either moved to another state (17) or a Kansas

county that isn't ROZ eligible (1). Only 8 individuals still appeared to be living in a ROZ county. Our sample isn't projectable because it wasn't drawn from the population of all tax credit participants. But it suggests many tax credit participants may leave Kansas after taking advantage of the tax credit.

- Finally, our estimates may double count some program participants. The program data we used didn't show whether each participant was married and, if they were, whether their spouse was also a ROZ participant. Our estimates assume each participant represented a unique household (i.e., that participants weren't married to each other) and brought 2 family members with them to a ROZ county. This means we counted some married participants (e.g., tax credit claimants who were married but filed taxes separately) as 2 households totaling 6 people instead of a single 3-person household.

### **ROZ appeared to have little overall impact on slowing rural population declines across the state.**

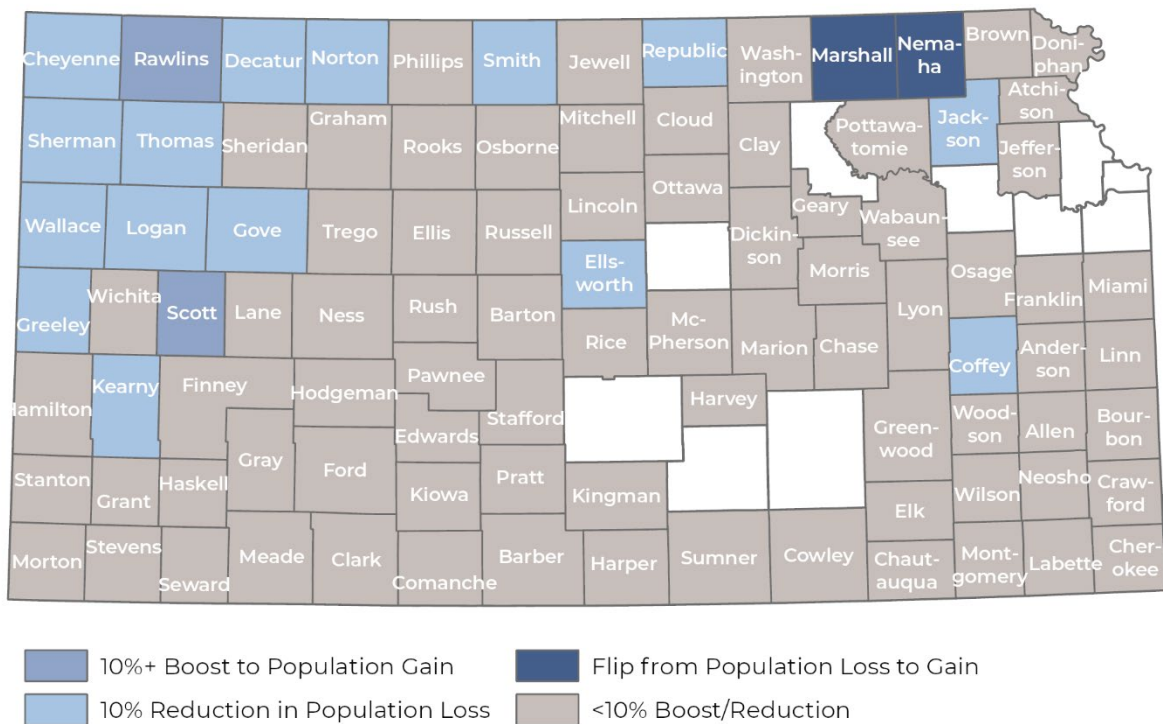
- We estimate the ROZ program directly caused about 1,430 individuals (this includes both participants and their family members) to move to a ROZ county between 2012 and 2022. Based on the Commerce surveys, we estimate the other individuals would have moved to a ROZ county even if they hadn't participated in ROZ. Other factors, such as job opportunities or wanting to be closer to family, likely motivated these individuals' moves to a ROZ county.
- On a statewide basis, those 1,430 individuals offset about 5% of the individuals who left ROZ counties for various reasons while those counties were participating in ROZ.
- This means without the program, ROZ counties' populations would have declined by about 30,800 instead of 29,400. This doesn't represent a significant reduction in the rate at which ROZ counties are depopulating.
- If ROZ caused all participants to move to a ROZ county (about 9,750 individuals total, counting both participants and their family members) that would offset about 25% of those counties' population losses. But based on participants' survey responses, ROZ didn't cause all participants to move to a ROZ county.

### **However, ROZ may have benefitted some individual counties more than others.**

- As **Figure 4** shows, ROZ may have had significant effects in 19 counties by either slowing or reversing their population losses or adding to their population gains. Over the 11-year period we reviewed:
  - ROZ may have caused 2 counties to gain population instead of losing it. For example, Nemaha County gained about 20 people between 2013 (when the county adopted a ROZ resolution) and 2022. Without ROZ, the county may have lost about 15 people in that same period.

- ROZ may have decreased 15 counties' population losses by 10% or more. These counties' population losses were all too big for ROZ to reverse, but without ROZ their population losses may have been even larger. For example, Thomas County lost about 55 people between 2011 and 2022. Without ROZ, the county may have lost about 120 people.
- ROZ may have increased 2 counties' population gains by 10% or more. These counties would have gained population regardless of ROZ, but without ROZ their population gains may have been smaller. For example, Rawlins County gained about 20 people between 2011 and 2022. Without ROZ, the county may have gained about 10 people.
- The estimated effects of the ROZ program in the remaining 76 counties were very small. ROZ likely didn't have a meaningful effect on those counties' population losses or gains.

Figure 4. The ROZ program had the greatest impact on population change in the northwestern part of the state.



Source: LPA analysis of program data provided by the Departments of Commerce and Revenue and population data from the U.S. Census Bureau (audited).

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- The ROZ program likely isn't the sole factor that contributed to counties' population changes. Our analysis doesn't isolate ROZ's effects from other possible



effects. Other variables, such as availability of jobs, may have played an influential role in the extent to which ROZ counties gained or lost population.

**ROZ stakeholders we surveyed told us the program is one of few targeted to rural Kansas and can help recruit employees or develop stronger communities.**

- We held phone surveys with 14 stakeholders to get their perspectives on the ROZ program. We spoke with counties, cities, private employers, and foundations involved with the ROZ program. Most respondents were sponsors. Because of this, their comments mostly relate to the student loan part of ROZ.
- 5 respondents told us ROZ helped them with employee recruitment. For example, 1 respondent told us ROZ helped attract teachers, hospital workers, and attorneys to their county. Another respondent told us ROZ helped attract government administrators and police officers.
- 5 respondents told us ROZ was one of few tools rural counties had to address workforce and population issues. 1 respondent characterized ROZ as one of the few tools rural Kansas has in “an empty toolbox.”
- 2 respondents told us ROZ helped with community development. 1 respondent said ROZ helped attract young people to their county. They said this gave the county the opportunity to show young people their county was a good place to live. The other respondent said ROZ helped get teachers who worked in their county to live in the county. They said teachers who live in the county in which they work are more invested in their community.

**The stakeholders we surveyed shared several ideas about how to improve the program.**

- While many stakeholders supported the ROZ program, they also identified things they said would make the program more useful or produce bigger benefits.
- 8 respondents wanted to see better communication from the state about the program.
  - 5 respondents told us Commerce needed to communicate better with sponsors. This included providing education about how the program works. This would help counteract confusion about how the program works. A few of the stakeholders we surveyed didn’t understand how the program works. For example, 1 respondent told us their county thought the student loan part of ROZ was only for people from out-of-state. That misunderstanding made the county reluctant to participate in the program.
  - 4 respondents (including 1 of the 5 above) told us they wanted the state to better promote the program.
- 5 respondents suggested expanding the program.

- 3 respondents suggested the program could offer benefits beyond student loans. These respondents suggested benefits to offset things like childcare, housing, or moving costs. 1 respondent said the focus on student loans penalizes those who paid off or did not take out loans.
- 3 respondents (including 1 of the 3 above) suggested opening the program to people with professional certifications. Some individuals may not have a degree or student loan debt. But they may have some other certification (e.g., a commercial driver's license) they took on debt to get. These individuals may be valuable to rural communities. For example, 1 respondent said their area needed employees with professional certifications. The program has been of limited benefit for that area because it didn't need people with degrees as much.
- 5 respondents suggested restricting the program.
  - 2 respondents suggested restrictions on program participants. For example, 1 respondent said participants should have to work in the ROZ county they live in. That respondent said many ROZ participants that live in their county commute to work outside the county. This doesn't help the county's local workforce.
  - 3 respondents wanted to restrict the program to fewer counties. 1 respondent said the 2021 expansion of the program gave larger counties an even greater advantage over smaller counties. The 2021 expansion made any county with less than 40,000 people a ROZ county. The other respondent told us the program should be restricted to counties that are willing to sponsor (i.e., fund) participants. That is, counties shouldn't be allowed to pass \$0 resolutions.

**The ROZ program may have other benefits.**

- This report focuses on evaluating whether ROZ achieved its goal of reducing or reversing rural depopulation. That's because this goal is unique to the ROZ program and is what sets it apart from other state incentives.
- ROZ may benefit counties in other ways. For example, it may increase local quality of life factors or have other economic effects.
  - It's possible ROZ may provide services to rural Kansas that are currently lacking. For example, some rural communities have a shortage of doctors or teachers. If ROZ incents those positions to move and work in those counties, it may increase the quality of life in those areas. However, this is difficult to measure and would require a robust, lengthy study.
  - It's also possible ROZ may have beneficial economic effects. We didn't estimate economic effects or return on investment because the ROZ program doesn't focus on high-wage job creation or capital investment the way other

economic development incentives do (e.g., Promoting Employment Across Kansas or High Performance Incentive Program). Commerce also doesn't collect comprehensive data about ROZ participants' jobs and incomes since that's not the primary goal of the program.

## **Other Findings**

### **A few aspects of the ROZ program may not be operating as the Legislature intended.**

- State law doesn't say whether entities like cities or employers can be program sponsors. State law talks only about counties participating in the student loan part of ROZ. According to Commerce, counties' home rule authority under K.S.A. 19-101 allows counties to partner with entities like cities and employers to pay student loan costs. Allowing entities other than counties to sponsor participants may be beneficial. That's because it may increase the number of individuals the ROZ program can support. Entities other than counties sharing costs with the state is not prohibited in state law.
- However, Commerce allows employers and foundations to choose who they sponsor. In some cases, this has led to situations where someone sponsors him or herself or where family members sponsor other family members. This likely isn't a common arrangement, but it may not be what the Legislature intended.
  - For example, we were told about one foundation that uses donations to sponsor ROZ participants that donors choose. This has resulted in a few donors sponsoring family members or themselves through the foundation. This means some participants leveraged a state match on student loan payments they would have made anyway. Donating to the foundation also may allow the donors to claim a tax deduction.
  - One business owner appeared to have used their business to sponsor themselves. This means the business owner used their business to help pay for their own student loan reimbursements. This meant the business owner leveraged a state match on student loan payments they would have made anyway.
- Regardless of who the sponsor is, their participation in the program may still lead to other benefits for the participants and local communities. For example, participants may eventually open businesses or buy houses, which may provide their communities with additional services or job opportunities.
- State law doesn't envision waitlists. Some individuals spend a long time on a waitlist for student loan repayment assistance. For example, there's 1 individual who's currently participating in the program who first applied to the program in 2012. That individual didn't get their first ROZ student loan reimbursement until 2020—8 years after they first applied to the program. As **Figure 5** shows, at the

time of our review, about 75 individuals had applied to the program before 2022 and were still on a waitlist. 25 of these individuals had been on a waitlist since 2012 to 2015.

Figure 5. Some student loan participants spend a long time on a waitlist and many don't complete the program.

Application Year	# Student Loan Participants	# on Waitlist (as of 2023)	# Completed Program (as of 2023)	% Completed Program
2011	90	0	55	61%
2012	220	5	105	48%
2013	250	5	140	56%
2014	250	10	110	44%
2015	210	5	85	40%
2016	150	5	55	37%
2017	120	10	35	29%
2018	120	20	15	13%
2019	70	5	1 (a)	1%
2020	60	5	0	0%
2021	70	5	0	0%
2022	70	15	0	0%
Total	1,670 (b)	90	600	36%

(a) All participant numbers are rounded except for this one.

(b) Participant counts do not sum to 1,670 due to rounding.

Source: LPA analysis of Department of Commerce data (audited).

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- State law doesn't include criteria for metrics like program completion or how many new people the program aims to bring to Kansas.
  - Many student loan participants don't complete the program. As the figure also shows, no more than about 60% of program participants from any year complete the program. Recent applicants can't have completed the program because they're still receiving reimbursements. But for participants from years 2011 through 2017, only about 45% completed the program.
  - The program is sometimes moving people around rural Kansas rather than moving new people to rural Kansas. As we previously discussed, some program participants moved from one ROZ county to another ROZ county. This isn't against program rules and it may also be beneficial if it keeps people in Kansas when they would have otherwise left the state. However, shifting

people from 1 ROZ county to another doesn't help increase Kansas's overall rural population.

### **No other states have programs like ROZ.**

- We didn't identify any other states that operated programs like ROZ. We looked for statewide programs that incented individuals to move to rural areas. We didn't find any. However, we learned about some local programs that incent individuals to move to certain areas. For example:
  - An Alabaman economic development organization runs a program to attract individuals to northwest Alabama. Eligible participants can receive \$10,000 to move to northwest Alabama.
  - The City of Middle River, Minnesota offers a free 100 x 300-foot lot and building permit to individuals who move to the city and build a house.
- We also didn't identify any literature about the effectiveness of programs like ROZ. Commerce published an evaluation it completed of the ROZ program in 2020. In its evaluation, Commerce concluded the ROZ program had not been effective at reversing or slowing rural depopulation in Kansas.

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## **Conclusion**

ROZ started as a program targeted to 50 counties with decreasing populations. The original intent appeared to be to counteract this depopulation. However, ROZ has expanded over time to 95 of the state's 105 counties, essentially making it a statewide program. Participants in the student loan part of the program can and often do move from one ROZ county to another. When this happens, it doesn't bring new residents to Kansas, but may keep Kansans from leaving the state. However, it's not doing that in large enough numbers to offset the number of people leaving Kansas. Participants in the tax credit part of the program must move to Kansas from another state, which results in new Kansas residents to counteract depopulation. It's up to policymakers to decide if these outcomes are in line with their expectations of the program.

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## **Recommendations**

If the Legislature extends the ROZ program's sunset:

1. The Legislature should consider amending statute to clarify the ROZ program's goals. This might include specific benchmarks for program success.

2. The Legislature should consider amending statute to say whether cities, employers, and foundations should be allowed to serve as ROZ sponsors in addition to counties. The Legislature should also consider clarifying how non-county sponsorships should work to avoid potential conflicts of interest.
  3. Commerce and Revenue should develop a way to identify individuals participating in both parts of the ROZ program to enhance the quality of future program evaluations.
    - Department of Commerce Response: Commerce will further collaborate with the Department of Revenue to align our data collection efforts to better understand the number of beneficiaries.
    - Department of Revenue Response: The Department of Revenue has received the audit, Evaluating the Rural Opportunity Zone Program. The Department of Revenue will work with the Department of Commerce to develop a way to identify individuals participating in both the student loan repayment assistance program and the income tax credit.
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## Agency Response

On August 2, 2023 we provided the draft audit report to the Departments of Commerce and Revenue. The Department of Commerce's response is below. The Department of Revenue did not provide a written response to the audit, but responded to our recommendation as shown above. Agency officials generally agreed with our findings and conclusions.

### **Department of Commerce Response**

Dear Ms. Clarke:

The Department of Commerce (Commerce) has reviewed the Performance Audit Report titled, "Evaluating the Rural Opportunity Zones Program." The audit objective was to evaluate if the ROZ program effectively slowed rural depopulation. In general, we do not disagree with the statements in the report written by the Legislative Post Audit team. We believe that further clarification on the benchmarks, goals, and the intent of the program could increase its impact. New strategies need to be implemented to help rural communities prosper across the state, and Commerce stands ready to work with the legislature on potential solutions. Additionally, specific clarification regarding sponsorships would allow Commerce to better align the program with the legislature's intent.

As we work with the legislature to find ways to improve the program overall, Commerce will further collaborate with the Department of Revenue to align our data collection efforts to better understand the number of beneficiaries. Additionally, Commerce will continue to conduct outreach to local communities to

reduce waiting list times and the overall number of applicants on the waiting list, as well as continue marketing to increase the utilization of the program in all 95 eligible counties.

We understand each of the report's findings and do not disagree that this program needs further review, clarification, and updates to serve rural Kansas communities more effectively. We appreciate LPA's evaluation of ROZ and look forward to working with the legislature and local communities to improve the program.

Sincerely,

David C. Toland  
Lt. Governor/Secretary

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## **Appendix A – Cited References**

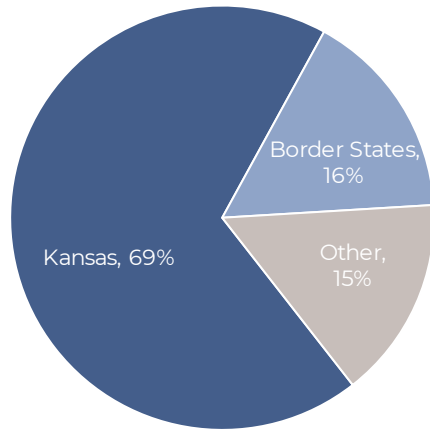
This appendix lists the major publications we relied on for this report.

1. County Population Totals: 2010-2020. (October, 2021). *United States Census Bureau*.
  2. County Population Totals and Components of Change: 2020-2022. (June 2023). *United States Census Bureau*.
  3. Kansas Rural Opportunity Zones: Program Evaluation and Recommendations. (August, 2020). *Kansas Department of Commerce*.
  4. Population Change for Counties in the United States: 2000 to 2010. (September, 2011). *United States Census Bureau*.
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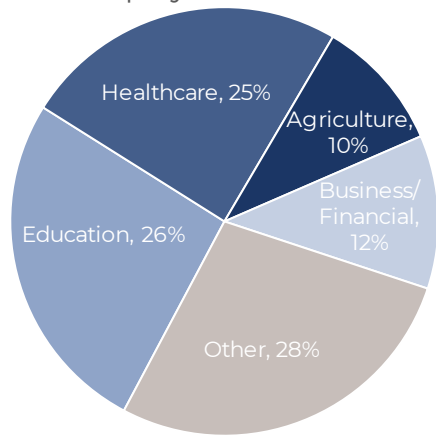
## **Appendix B – Student Loan Participant Demographics**

This appendix includes information about student loan participants' states of origin, industries, and education levels.

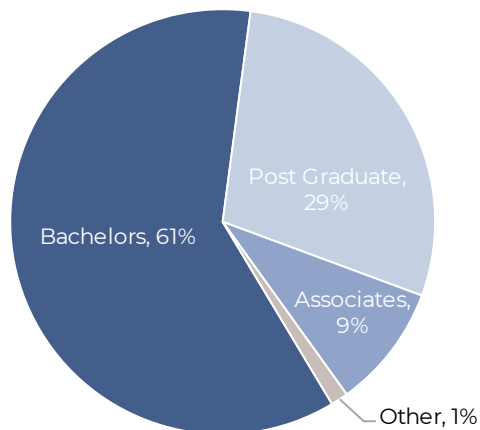
### Origin of Participants



### Employment Sector



### Education Level



Source: LPA analysis of ROZ program data provided by the Department of Commerce (audited).