



P.O. Box 980

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February 14th, 2019

To: Chairman Hineman

From: western Kansas Rural Economic Development Alliance (wKREDA)

Re: Testimony in Support of HB 2131 (Spur Kansas Growth Act)

Dear Chairman Hineman and Members of the Committee:

Thank you for the opportunity to provide testimony in favor of HB 2131. We are calling this bill the Spur Kansas Growth Act to avoid confusion with the many other economic development programs which use the word zone. This partially reinstates the old Enterprise Zone program which was abolished in 2011. The Spur Kansas Growth Act would allow the sales tax provisions of the old Enterprise Zone legislation to be reinstated. The reinstatement of the sales tax provisions will provide an additional tool in the economic development tool box when a community is helping establish or expand businesses which will create new jobs.

HB 2131 simply strikes the language that was inserted into statute to end the Enterprise Zone Program. Enterprise Zone's previously had two parts, one of which allowed sales tax exemptions for the purpose of and in conjunction with constructing, reconstructing, enlarging or remodeling a business or retail business that meets the requirements established in K.S.A. 74-50,115, the second part of the old Enterprise Zone program provided tax credits for jobs created. This bill is not asking that the tax credits for jobs created be reinstated. This bill would only reinstate the sales tax exemption provisions. The additional details which businesses must comply with in order to receive the sales tax exemption are found in KSA 74-50, 114-115 and are outlined below. The following categories of businesses would qualify for the sales tax exemptions:

- Manufacturing businesses who can provide evidence of job expansion of at least 2 FTE and if the business is moving from another location within Kansas they must receive approval from the Secretary of Commerce in order to receive the benefit.
- Non-manufacturing businesses who can provide evidence of job expansion of at least 5 FTE and if the business is moving from another location within Kansas they must receive approval from the Secretary of Commerce in order to receive the benefit.
- Retail businesses who can provide evidence of job expansion of at least 2 FTE and which must be located in a city having a population of 2,500 or less or located outside of a city in a county with a population of 10,000 or less. Population is determined by the Division of Budget and certified by the Secretary of State.
- Any person constructing, reconstructing, remodeling or enlarging a facility with a lease with a greater than five-year term to a eligible business. The benefit is only on the costs of the improvement and there is a calculation on square feet to ensure the benefit is limited to the area being utilized by the company.
- A business who the Secretary of Commerce certifies as a qualified firm pursuant to K.S.A. 74-50,131 and is participating in training assistance by the department of commerce under the Kansas industrial training or Kansas industrial retraining program.



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The benefits of this program are that it allows communities to have a tool to provide a sales tax exemption to qualified businesses who are creating jobs. Since the programs abolishment in 2011, the only tool communities have to provide sales tax exemption are industrial revenue bonds (IRB's) or the HPIP program. IRB's are expensive and complicated which makes it very difficult for a community who does not have professional staff to pursue and the

project also usually has to be over one million dollars for an IRB to make sense. If a company participates in the HPIP program they are granted a sales tax exemption, but many projects in rural Kansas may not qualify for HPIP because of the NAICS code the project falls within and the fact that the wage paid has to be above average within the NAICS code. There are often companies who also don't want to participate in HPIP for various reasons and companies who would prefer just the sales tax exemption and not the other incentives offered through HPIP. In addition, the projects which would be benefited under this act are many times not eligible for PEAK and may not want to participate in KIT or KIR the state's other incentive programs.

This bill provides an additional tool in communities tool boxes to provide sales tax exemptions for smaller projects, projects which might not be appropriate for the other state incentive programs, or projects in which the company would prefer just the sales tax exemption and not the other tax incentives offered through other programs. While the community and state would be foregoing the initial sales tax, jobs and corresponding economic activity would be generated during the project construction or expansion, the resulting project would provide new jobs which would increase payroll taxes, new and improved buildings which are worth more would increase the counties' valuation, and the new business would increase both state and local revenue from the operation of the business well into the future.

When this policy was a tool in the economic development toolbox in the state of Kansas it was something that rural communities could benefit from and allowed some projects to move forward. While the sales tax on construction might seem like a small amount of money, the money that companies can avoid spending through the sales tax exemption was often the difference in whether the project could move forward quickly and immediately begin the hiring process to expand operations. This tool was useful and was abolished without any consultation of local economic developers about its benefit and against the recommendations of many in the economic development community. There will likely be a need for the Department of Commerce to create new rules and regulations to govern the operation and practices involving the Spur Kansas Growth Act. The current regulations are outdated, and the old actual Enterprise Zone process would no longer be needed, would now be confusing, or just would not be applicable. We stand ready to partner with the Department of Commerce, the Legislature, and any other group to strengthen the new Spur Kansas Growth Act and provide additional tools in local economic developer's tool boxes.