

## AUDIT PROPOSAL

### Evaluating Selected Economic Development Incentive Programs (2023-2025)

#### 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 2023 – 2025 cycle because they include a sunset provision:

- Alternative Fuel Tax Credit
- ~~Aviation and Aerospace Tax Credit~~
- Community Service Tax Credit Program
- ~~Credit for Taxes Paid to Another State~~
- ~~Eisenhower Foundation Tax Credit~~
- ~~Friends of Cedar Crest Tax Credit~~
- Kansas Angel Investor Tax Credit
- Rural Opportunity Zones
- Sales Tax and Revenue Bonds
- ~~Targeted Employment Act Tax Credit~~
- ~~Technical/Community College Tax Credit~~
- All newly created incentives as required by K.S.A. 46-1137

Note: LPAC removed the incentives that are crossed out at its April 24, 2024 meeting.

#### AUDIT OBJECTIVES AND TENTATIVE METHODOLOGY

*The audit objective listed below represents the question we would answer through our evaluation. 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 selected incentives.*

**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. Our methodology for each selected incentive would depend on its characteristics and goals. This could include analyses such as determining whether the incentives changed business behavior, evaluating whether incentives were administered according to state law, or 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.