



MEMORANDUM

Legislative Post Audit

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To: 2025 Special Committee on Commerce
From: Kristen Rottinghaus, Deputy Legislative Post Auditor
Date: October 27, 2025
Subject: Economic Development Incentive Evaluations

I am here today to go over a few recent audits of the state's economic development programs to highlight some common issues and themes. I'll then discuss potential suggestions for the legislature to consider regarding evaluating the success of the state's incentives.

Findings from Recent LPA Evaluations

2021 STAR Bonds

Audit questions:

1. Do current STAR bond attractions satisfy the Department of Commerce's tourism-related goals?
2. How long will it take the state to break even on tax revenue it gave up supporting 3 selected STAR bond attractions?

Results:

STAR bonds allow local governments to use future sales tax revenue to help pay for development or redevelopment projects. As of November 2020, about \$873 million in mostly state sales tax revenue has gone toward retiring \$1.1 billion in STAR bonds. We used a tourism analysis and a break-even analysis to estimate Sales Tax and Revenue (STAR) bonds' economic and fiscal impact to the state. Tourism is a key component of the STAR bonds program. The Department of Commerce would like each attraction to draw 20% of visitors from outside Kansas and 30% of visitors from at least 100 miles away. Only 3 of the 16 STAR bond attractions we reviewed met those goals in one or both years we reviewed. We also estimated that it will take the state decades to recoup the sales tax revenue it gave up in the 3 STAR bond districts we reviewed (Hutchinson Underground Salt Museum, Overland Park Prairiefire, and Wichita Sports Forum) based on revenues from out-of-state visitors. We estimate it might take the state 43-118 years after bond repayment to break even on the Underground Salt Museum, 13-71 years to break even on Prairiefire, and 5-49 years to break even on the Sports Forum.

Conclusion:

The STAR bonds financing program is a major economic development tool for Kansas and has provided more than \$1 billion in financing for development and redevelopment projects

since it began. And although STAR bond projects likely benefit their local communities (e.g. through job creation and local tourism), most don't draw a lot of out-of-state tourists to Kansas. That significantly limits their ability to generate new revenues for the state. Local tourist attractions clearly have value, but legislators will have to consider the extent to which they're willing to have the state finance these projects through STAR bonds.

Recommendations:

1. The Department of Commerce should use STAR bond districts' visitation data to evaluate whether the STAR bonds financing program is meeting its goals and shape future decisions about whether to approve proposed attractions.
2. The Kansas Legislature should consider amending statute to clarify the STAR bonds financing program's goals. This might include specific benchmarks for program success. Or it might include broadening its purpose to support using it for primarily local amenities.

2022 IRB Property Tax Exemptions

Audit question:

1. What are the economic and fiscal impacts of selected industrial revenue bond exemptions (IRBXs)?

Results and Conclusion:

Cities and counties that use industrial revenue bonds to finance the development of business facilities can also grant those businesses property tax exemptions (IRBXs) for up to 10 years. IRBXs are the focus of this report. During a 15-year period (2005-2020), we estimate about 640 IRBXs may have reduced statewide property tax revenues by roughly \$100 million each year. We used economic modeling to estimate the economic and fiscal impacts of 8 IRBXs from two perspectives—overall economic activity and specific tax revenues. Based on the model, we estimate that most of the IRBXs we reviewed will generate positive overall returns but none will offset their costs through higher tax revenues. For example, we estimate 7 of the 8 IRBXs will produce economic activity that exceeds their exemption amounts. But none of the 8 IRBXs will generate enough tax revenue to offset their exemption amounts.

Recommendation:

1. The Kansas Legislature should consider amending statute to clarify IRBXs' goals. This might include specific benchmarks for success.

2023 Major Commerce Incentive Programs

Audit question:

1. Do the Department of Commerce's major economic development incentive programs generate returns on investment that equal or exceed their costs?

Results and Conclusion:

The Department of Commerce has 5 major incentive programs that it uses to incent economic development in Kansas. These programs are the High Performance Incentive Program (HPIP), Job Creation Fund (JCF), Kansas Industrial Training (KIT), Kansas Industrial Retraining (KIR), and Promoting Employment Across Kansas (PEAK). As part of this audit, we used a research-based model to estimate the economic impacts, tax effects, and total return on investment for 28 projects that we selected.

Based on those projects, we estimated all 5 programs appeared to generate economic impacts that are greater than their costs. This includes direct and secondary economic impacts like job creation, increased worker spending, and population growth. However, we estimated none of the programs covered their own costs to the state through higher tax revenues.

We did not issue any recommendations in this audit.

2023 ROZ

Audit question:

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

Results:

The Rural Opportunity Zones (ROZ) program incents individuals to move to rural Kansas counties. Currently, 95 of the state's 105 counties qualify as rural opportunity zones. The program incents individuals to move by providing up to 2 benefits: up to \$15,000 in student loan repayment assistance over 5 years and, for individuals who relocate from out-of-state, a 100% state income tax credit for up to 5 years. As part of this audit, we used program data to estimate how often the ROZ program incented program participants to move to rural counties. We also used data from the U.S. Census Bureau to help estimate to extent to which the ROZ program counteracted rural depopulation. Based on our estimates, the ROZ program had limited effects on rural depopulation on a statewide basis. However, the program may have slowed or reversed population losses or added to population gains in 19 counties. Finally, during this work we noted data issues related to the Departments of Commerce and Revenue not having a way to match participants between the student loan and tax credit parts of ROZ.

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 it 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.

Recommendations:

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.

2024 Alternative Fuel & Community Service Tax Credits

Audit questions:

1. How and why has the use of the alternative fuel tax credit changed over time?
2. How many projects has the Department of Commerce awarded community service tax credits to in recent years, and how did they make those decisions?

Results:

The alternative fuel tax credit has rarely been used since 2007 because of statutory changes that limited its usefulness. The incentive provides credits to corporations for 40% of the incremental cost of alternative fuel vehicles or 40% of fueling stations' installation cost. Over the years, the credit eliminated both electricity as an eligible fuel and individuals as eligible recipients. Taxpayers have claimed the credit 612 total times for \$2.2 million since 1996, but fewer than 5 total corporations have claimed it since 2014.

Commerce awarded \$8.2 million in community service tax credits during 2023 and 2024 but didn't fully document their selection decisions. The credit provides credits to individuals, corporations, banks, and insurance companies for donating to certain community service projects. Since 1994, Commerce has awarded \$130 million in total credits to support 811 projects. Since 2010, 10,523 total donors to selected projects have received \$48 million in

credits. We reviewed Commerce's selection process in two years, 2023 and 2024, by reviewing 6 proposed projects. Commerce followed its process for scoring applications but didn't document its eligibility checks for the 6 proposed projects we reviewed. Further, we couldn't review how Commerce decided which of the 6 proposed projects to award credits because it didn't document these decisions.

Conclusion:

The alternative fuel tax credit has been used very rarely in recent years. In fact, fewer than 5 total taxpayers have claimed the credit in the last 10 years. This raises questions as to the usefulness of having this credit in its current form and tracking its use. On the other hand, the community service tax credit is a popular program with more demand than the credit can meet. Credits are awarded to community service projects through a discretionary process with about a 50% award rate in recent years. Much of the Department of Commerce's decision-making process is not documented. As such, no one can determine how projects were selected and whether these decisions were objective, which limits public transparency.

Recommendation:

1. The Department of Commerce should clearly and completely document how it determines the basic eligibility of proposed projects as well as how it determines the final list of projects to award community service tax credits.

2024 Commerce Transparency Database (Limited Scope)

Audit question:

1. Does the Department of Commerce's economic development transparency database meet the requirements in state law?

Results and Conclusion:

The Department of Commerce's transparency database does not contain some required economic development programs and is missing certain program and recipient-level information. In 2019, state law mandated the creation of an online "transparency database" for the purpose of providing the public with information about economic development programs and recipients. The law also requires the transparency database to have certain functional features. We reviewed the database to determine whether it contained the required incentive programs and program-level elements like the program's purpose, history, applications, total incentives, and return on investment. At the time of our review, 13 of 60 incentive programs we expected to find were missing from the transparency database. The transparency database also lacked about half of the 11 statutorily required program-level pieces of information for 5 incentive programs we reviewed.

Recommendations:

1. The Legislature should consider amending K.S.A. 74-50,227(b) to clarify what elements of required economic incentive program information should be included in the transparency database itself, and what elements would be acceptable to be available outside of the database, via links to other sources of information.
2. The Department of Commerce should ensure that the transparency database contains all statutorily required programs and information. If there is any information that cannot be measured or included, the department should include an explanation on the database for why that information does not appear.

2025 HPIP & Affordable Housing Tax Credits (Limited Scope)

Audit question:

1. What is the total amount of High Performance Incentive Program (HPIP) and Kansas Affordable Housing Tax Credit (KAHTC) tax credits the state awarded and businesses used in the last 5 years?

Results and Conclusion:

HPIP allows qualifying businesses to earn state income tax credits based on their expenditures on employee training and education and on qualifying capital investments. We couldn't report how much HPIP credit businesses earned and used in recent years because of reliability issues with the Kansas Department of Revenue's (KDOR's) HPIP data. We identified inconsistencies in the data that KDOR officials told us they were trying to resolve.

KAHTC is a state income tax credit that matches the federal low-income housing tax credit. Both credits help subsidize the creation of affordable rental housing. The Kansas Housing Resources Corporation administers both credits. Since 2023, when the KAHTC was first allowed, the House Resources Corporation has awarded rental housing development projects about \$73 million in KAHTC credits. It may award an additional \$34 million in tax credits by the time the KAHTC ends in 2028. At the time of our audit, no taxpayers had used the KAHTC to reduce their income tax liabilities. However, they will likely begin doing so soon. Over the next approximately 15 years, taxpayers' use of KAHTC credit awards may result in the state forgoing about \$1 billion in income tax revenues.

Recommendation:

1. KDOR should continue correcting its HPIP data to ensure its accuracy by reviewing HPIP-certified businesses' tax returns and ensuring data from the returns are captured in its tax processing system (called ATP). KDOR should report the corrected HPIP data to the Legislature. As part of correcting its data, KDOR should evaluate whether the ATP system is capable of processing HPIP data. If it's not, KDOR should consider working with the Legislature to identify ways to upgrade or replace ATP.

Effectively Evaluating Incentives

[2020 Guide to Economic Development Incentive Evaluations](#)

In 2019, the Legislature passed a law requiring LPA to systematically evaluate the state's economic development incentive programs (K.S.A. 46-1137). That statute recognizes there's a wide variety of approaches to defining and evaluating the success of incentive programs. LPA created this guide to help unpack those different approaches and other basic tenants inherent to evaluating economic development programs. It highlights that:

1. Policymakers can measure an incentive's success in many ways and can be simple or complex. For example, evaluations can measure the number of new jobs or the amount of new investment an incentive creates, or the incentive's overall ratio of benefits to costs (i.e. its return on investment, or ROI). It can look at who uses an incentive, how often, and whether an incentive benefits the intended people. Or it can use complex economic modeling to look backward at an incentive's actual effects or to look forward to forecast what an incentive's effects could be.
2. Evaluations can estimate incentives' positive and negative effects. Positive effects of incentive programs include their direct economic effects (like job creation and capital investments), secondary economic effects (like supply chain growth and increased worker spending), and increased tax revenue (like increased income, sales, and property taxes). Negative effects of incentive programs include the "but for issue" (like what portion of the positive economic effects are the direct result of the incentive compared to other factors like infrastructure considerations and quality of schools and the available workforce), opportunity costs (like what economic effects would have been generated by using the money it spends on incentives for other things like education and infrastructure), displacement effects, and increased demand for public services.
3. Policymakers should evaluate incentives from several angles. Return on investment (ROI) is only one of many ways to think about the success of an incentive. Policymakers also should consider things like how incentives fit with their policy goals.

LPA Suggestions for Better Evaluations

The following information is based on our firsthand experience evaluating tax incentives and some suggestions from the State of Washington. Washington has been regularly reviewing its tax incentives for longer than many other states and serves as an example of one way to approach this topic.

The three concepts we think would be most helpful to facilitate effectiveness evaluations are:

1. Identifying a **purpose** (or purposes) for each tax incentive.
2. Identifying specific measures or **benchmarks** that evaluations must include to determine whether each incentive is effective.

3. Identifying what **data** is needed to determine if those measures are met and requiring agencies to collect that data.

This would require the Legislature to discuss these concepts **before** it passes new tax incentive legislation. Those discussions would make the Legislature's decisions about effectiveness clear and transparent. It would be helpful to include as many of these elements as possible in statutes. For example, Washington requires that each bill enacting a new tax incentive must include what's called a tax performance statement. The statement must include the three elements highlighted here along with some additional information. It also would be useful for the Legislature to discuss and define these concepts for existing programs. However, it would need to consider the effect such definitions could have on existing agency processes or existing incentive contracts and agreements.

Additionally, the Legislature would want to consider the following issues when developing the purposes, measures, and data needed to evaluate effectiveness:

1. A single measure of effectiveness such as return-on-investment will not work for all incentives. Tax incentives vary widely and would therefore benefit from more personalized measures. For example, HPIP clearly has an economic development component, whereas a tax credit for donations to Friends of Cedar Crest Association doesn't. Further, measures would benefit from being as specific as possible. For example, specifying how much something should increase or decrease or whether return-on-investment should be measured as economic returns, tax revenue returns, or both.
2. A tax incentive's effectiveness can be measured on an individual basis (e.g., every business should grow by 10%) or across an entire industry or group of businesses (e.g., the industry should grow by 10%).
3. The Legislature may need to create certain data reporting and collection requirements if a data source doesn't exist.
4. Certain factors that are critical to determining effectiveness are also very hard to measure. For example, causality, displacement or substitution effects, and long-term direct and indirect economic effects require estimation and assumptions. The Legislature would want to consider these factors when deciding how to word effectiveness measures. It also will shape how conclusive determinations about effectiveness can be. For example, it is impossible to know if a tax incentive caused an individual or business's behavior. Accounting for causality therefore makes the answer less clear, but not accounting for causality leaves out a potentially meaningful factor.
5. It takes time for the effects of tax incentives to be realized. And the timeframe for assessing effectiveness varies by incentive. The complexity of the incentive, its target recipient, the funding mechanism, and delays associated with filing and processing tax credits all influence when measurable data can be expected. For example, HPIP includes multiple incentive types and includes a 16-year carryforward. Therefore, the timeframe for evaluating effectiveness is much different than something like the tax credit for donating to the Friends of Cedar Crest Association.