



AFP-KS Testimony: Senate Bill 124

Chairman Tarwater and Members of the Committee,

Thank you for the opportunity to speak today. My name is Elizabeth Patton and I am the State Director of Americans for Prosperity Kansas. As one of the largest grassroots organizations in the nation, Americans for Prosperity (AFP) is dedicated to bringing people together to change our government and public policies for the better.

Through broad-based grassroots outreach, AFP is driving long-term solutions to the country's biggest problems. AFP activists engage friends and neighbors on key issues and encourage them to take an active role in building a culture of mutual benefit, where individuals succeed by helping one another. AFP recruits and unites activists in 35 states behind a common goal of creating an economy that works for all.

Economic development programs create an unfair advantage for privileged businesses, which unfairly costs other businesses and their workers, and imposes the costs on taxpayers.

Unfortunately, Senate Bill 124 would extend and even expand the STAR Bonds program to subsidize projects under the guise of economic development.

The STAR Bonds program allows Kansas cities and counties to issue special bonds to cover the costs of projects. A variety of projects are eligible for these subsidies, including historic theatres, tourism areas, motorsports and auto racetracks, river walks, athletic complexes, and other entertainment areas. Tax increment revenue from local and state sales taxes in excess of revenue collected in the year prior to the establishment of the STAR bond project district can be used to pay off the principle and interest of the bonds.

Economic development programs, such as the STAR Bonds program, are problematic for many reasons.

These kinds of targeted subsidy programs have a corrupting effect on democratic institutions, incentivizing unproductive behaviors by politicians and businesses, and eroding public faith that the system is fair. Politicians and bureaucrats pick winners and losers, rather than consumers and free enterprise.

Economic development subsidies can also pass additional costs onto the residents of the state. An analysis of tax increment financing in Wisconsin concluded that "whenever new development takes place in a [tax increment district], that community will experience either higher taxes or reduced services."<sup>1</sup>

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<sup>1</sup> "Analysis: Tax Increment Financing in Wisconsin," Maclver Institute, March 29, 2019

Economic development programs are often ineffective. Studies have shown that factors such as the presence of a skilled workforce, affordable cost structures, and connection to markets are more important to businesses making location decisions than government subsidies.<sup>2</sup> In fact a recent study found, “subsidies have little to no effect on where companies choose to invest.”<sup>3</sup>

There is little evidence that STAR Bonds are effective at accomplishing their stated objectives. The number one criteria the Secretary of Commerce is supposed to take into consideration when evaluating proposed projects is annual visitation, including the requirements that a significant portion of visitors be from out-of-state and from more than 100 miles away from the area.<sup>4</sup> But we do not know if projects are meeting these requirements. In the most recent STAR Bond Annual Report from 2018 prepared by the Secretary of Commerce, only a single project reported actual visitor data. Every other project either reported no visitor data or insufficient data to determine if visitors came from out of state.<sup>5</sup> Before extending the STAR Bonds program, lawmakers and the public should demand robust accountability and transparency for existing STAR Bond projects.

Under current law, the STAR Bonds program would expire this year. S.B. 124 would extend the program through 2025.

S.B. 124 would also expand the scope of the STAR Bonds program in a number of ways that are concerning. The bill would add “major business facilities” and “major medical facilities” to the list of eligible types of projects eligible for development subsidies. The bill would also provide for preferential treatment for subsidies directed to rural redevelopment projects.

The bill does include one minor reform that would be better than current law: For new projects established after July 1, 2021, the bill would cap the portion of state sales tax increment revenue that can be pledged to paying STAR Bonds at 90 percent. A better reform, however, would be to completely eliminate state sales tax funding for STAR Bonds.

Ultimately, S.B. 124 would extend and expand corporate welfare at the expense of Kansans.

With these concerns in mind, I respectfully ask you to oppose S.B. 124 and allow the STAR Bonds program to expire. Instead of corporate welfare, the legislature should be focusing on advancing policies that will expand opportunity for all, such as tax reform, red tape reduction, expanding educational opportunity, and removing excessive occupational licensing barriers. We can make Kansas competitive without putting taxpayers on the hook.

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<sup>2</sup> Michael Farren and Anne Philpot, “With Amazon HQ2, the Losers Are the Winners: Why Economic Development Subsidies Hurt More than They Help,” Mercatus Center, November, 2018

<sup>3</sup> Matthew Mitchell, Michael D. Farren, Olivia Gonzalez, Jeremy Horpedahl, “The Economics of a Targeted Economic Development Subsidy,” Mercatus Center, November 21, 2019

<sup>4</sup> Kansas Department of Commerce, “Guidance to STAR Bond Applicants”.

<sup>5</sup> David C. Toland, Acting Secretary of Commerce, Kansas Department of Commerce, “STAR Bond Annual Report – 2018”, January 31, 2019.