

SB 124 Opponent Testimony - Written-Only
STAR Bonds
House Committee on Commerce, Labor, and Economic Dev.
James Franko - President
March 16, 2021



Chairman Tarwater and Members of the Committee,

We appreciate this opportunity to submit testimony in opposition to SB 124, which

- Adds business office buildings and medical facilities to eligible areas for STAR Bonds
- Allows rural redevelopment projects to be financed by STAR Bonds
- Increases the capital investment floor to \$75 million in capital investment and gross annual sales
- It gives the Secretary of Commerce the ability to establish a list of pre-approved economic consultants, study parameters, and methods
- Mandates feasibility studies predict impacts on regional and statewide economies, a net return on investment, and the level of community involvement.

Our opposition to SB 124 stems from these considerations.

1. SB 124 expands eligible areas for STAR Bonds to businesses that have no direct impact on sales tax growth.
2. SB 124's allowance of pre-approved consultants and economic impact studies encourages bad public investments and a more intrusive bureaucracy.
3. SB 124's fails to outline a true cost/benefit analysis for STAR Bonds.
4. STAR Bonds failed to grow shopping of Furnishings and Leisure/Hospitality along with the National Average.
5. SB 124 shifts tax burdens while keeping the state's tax climate uncompetitive.

SB 124 expands eligible areas for STAR Bonds to businesses that have no direct impact on sales tax growth.

The original purpose of STAR Bonds is to spur development in Kansas areas to the extent the state draws in more tourists and consumers than would otherwise be possible. The metric by which STAR Bonds are deemed successful is whether they generate enough sales tax within 20 years to pay back the bond. As such, SB 124 must answer whether business offices, medical facilities or rural development projects have a primary function to grow sales tax revenues. The answer is "No."

While business offices, medical facilities, and rural projects can bring in people, it is not to spend their dollars on retail, recreation, and hospitality. Such leisure consumption is adequate. In other words, the SB 124's inclusion of businesses and hospitals must include tendentious assumptions (ex. assuming all office workers buy their coats in the same area as the STAR Bond) to make STAR Bonds viable. Under this logic, if enough causal jumps are allowed, any business setting up shop in Kansas can have their costs covered by a STAR Bond.

Policymakers and steward of taxpayer dollars should adhere to a strict reading of the STAR Bond plan. The weak relationship between businesses and medical facilities and sales tax growth means SB 124 won't raise revenues. SB 124 will lower the return on investment.

SB 124's allowance of pre-approved consultants and economic impact studies encourages bad public investments and a more intrusive bureaucracy.

It's reasonable to expect the Kansas Department of Commerce to have the final say in whether the STAR Bond project goes forward. However, SB 124 places the unelected office ahead of any STAR Bond feasibility verdict. Allowing the Secretary of Commerce to create pre-approved lists of consultants and economic impact methods is a perverse incentive and could lead to rent-seeking.

SB 124 can create perverse incentives by encouraging unelected officer holders to choose economic feasibility methods that guarantee acceptance of a STAR Bond. SB 124 obstructs the process that assesses whether taxpayer dollars are creating real economic growth. Instead, these provisions will likely turn risky private ventures into long-term taxpayer-funded burdens.

SB 124's fails to outline a true cost/benefit analysis for STAR Bonds.

Before a firm undertakes a particular investment in the private sector, the firm conducts a cost/benefit analysis to assess potential profits. This analysis entails

1. Subtracting economic costs from the potential revenue of the project
2. Comparing the results in "1" to the alternative use of the same costs.

Suppose the economic profits from the investment outweigh all other alternative uses of the same resources. In that case, the firm takes the project. The language outlined in SB 124 promotes economic impact studies, which fail to measure alternative uses of resources and ignore adverse multiplier effects.¹²

For example, a STAR Bond for retail development may increase employment from local construction firms or other retail. However, they do not consider the hypothetical spending that would have occurred. The resources for the STAR Bond stayed in the hands of taxpayers or the government. Also, the economic impact studies cannot tell us anything about whether the STAR Bond use of resources creates a higher value than resources without STAR Bonds. SB 124 risks promoting STAR Bond projects to prevent Kansas from growing as fast as the national average.

STAR Bonds failed to grow shopping of Furnishings and Leisure/Hospitality along with the National Average

Data from the U.S. Bureau of Economic Analysis detail selected total personal consumption expenditures for Kansas and the national average.³ We selected these consumption categories.

- Furnishings and Durable Household Equipment

¹ David Tuerck, Ryan Murphy, and Paul Bachman, *Peer Review of "The Economic Utility Portfolio and Rate Impact of clean energy Development in North Carolina*,

<https://www.johnlocke.org/app/uploads/2016/06/RTIPeerReview20130401A.pdf>

² Frederic Bastiat, *What Is Seen and What is Not Seen*, <https://admin.fee.org/files/doclib/bastiat0601.pdf>

³ U.S. Bureau of Economic Analysis,

https://apps.bea.gov/iTable/iTable.cfm?reqid=70&step=30&isuri=1&major_area=0&area=00000,20000&year=-1&tableid=524&category=6524&area_type=0&year_end=-1&classification=naics&state=0&statistic=5.6.9.10.18.19&yearbegin=-1&unit_of_measure=levels

- Recreational Goods and Vehicles
- Food and beverages purchased for off-premises consumption
- Clothing and Footwear
- Recreation Services
- Food Services and Accommodations.

These industries serve as the economic base for STAR Bonds. STAR Bonds' goal is to promote tourism and visitor spending to retail and entertainment outlets in Kansas. Under such a charge, for STAR Bonds to be considered successful, they should, at the very least, maintain retail and recreational spending on par with the national average. Because Star Bonds are an economic development tool replicated in only one other state, Kansas should have an advantage. It does not.

While STAR Bonds have proliferated over the years, consumption in "tourist" economic sectors in Kansas has moved in the opposite direction. In the most recent year available, Kansas's consumption activity is roughly twenty percentage points lower than the national average. SB 124 allows the Kansas government to issue STAR Bond more easily, despite its no discernible effect on recreational shopping.

SB 124 shifts tax burdens while keeping the state's tax climate uncompetitive

SB 124's extension of the STAR Bond sunset also prolongs an unfair environment for Kansas businesses. A STAR Bond lowers the cost of development for a few businesses by raising the costs for others. Every company in Kansas that is not in a STAR Bond effectively subsidizes its competition. Not only do Kansas businesses subsidize the development costs of their competition, but they also forfeit an advantage in recruiting employees, land, and capital.

SB 124's extension will also work to discriminate against small businesses and startups. Officials offer STAR Bonds to large firms with enormous development costs. So newly created companies are left out of the running for funds. Startups and small firms play an integral role in the economic wellbeing of Kansans. The smaller and newer the firms that enter a market competing for an economic profit are, the cheaper the available goods and services. SB 124 risks slowing the Kansas economy as small and new businesses are unfair against older and larger firms with more resources and political clout.

Finally, SB 124 hinders the possibility of broad-based tax reduction. According to the 2018 STAR Bond Annual report, Kansas diverted ~\$30 million in sales tax revenues to STAR Bonds' repayment.⁴ This means, if Kansas had saved two to three years of sales tax revenues instead of issuing STAR Bonds, then the state would have the funds to make the food sales tax credit refundable.⁵ **If Kansas never issued STAR Bonds in the first place, Kansas sales tax rate today could be as low as 5%.** SB 124 impedes the state and localities from providing taxpayer relief.

⁴ Kansas Department of Commerce, *STAR BOND ANNUAL REPORT – 2018*, <http://kanview.ks.gov/EcoDev/Documents/2018%20STAR%20Bonds%20Annual%20Report.pdf>

⁵ Kansas Division of the Budget, *Revised Fiscal Note for HB 2302*, http://www.kslegislature.org/li/b2019_20/measures/documents/fisc_note_hb2302_00_0000.pdf

Having so many tax increases and relatively high rates encourages companies and people to leave and discourage others from moving to Kansas. That's especially important because Kansas has been falling farther behind the nation in private-sector job growth and GDP growth. In fact, in 2019 alone, Kansas has been on the wrong side of growing alongside its peers.

1st Quarter of 2019⁶

- Kansas economy ranked the 46th fastest in the nation in the 1st quarter of 2019
- Kansas government ranked the 10th fastest in the nation in the 1st quarter of 2019

2nd Quarter of 2019⁷

- Kansas economy ranked the 49th fastest in the nation in the 2nd quarter of 2019
- Kansas government ranked the 15th fastest in the nation in the 2nd quarter of 2019

3rd Quarter of 2019⁸

- Kansas economy ranked the 45th fastest in the nation in the 3rd quarter of 2019
- Kansas government ranked the 11th fastest in the nation in the 3rd quarter of 2019

2019 Overall

- Kiplinger, a business new periodical, named Kansas as the 10th least tax-friendly state in 2019⁹
- Kiplinger named Kansas as the 3rd least tax-friendly state for retirees in 2019¹⁰
- Tax Foundation named Kansas as the 34th best Business Tax Climate in 2019¹¹

2020Q4

- As of December 30th, the number of Kansas businesses open decreased by 29.1% compared to January 2020¹²
- As of December 6th, total spending by consumers in Kansas decreased 4.9% compared to January 2020.¹³
- As of December 11th, total job postings decreased 3.5% compared to January 2020.¹⁴

⁶ U.S. Bureau of Economic Analysis

⁷ U.S. Bureau of Economic Analysis

⁸ U.S. Bureau of Economic Analysis

⁹ Kiplinger, *The 10 Least Tax-Friendly States in the U.S.*, <https://www.kiplinger.com/slideshow/taxes/T006-S001-10-least-tax-friendly-states-in-the-u-s-2019/index.html>

¹⁰ Kiplinger, *10 Least Tax-Friendly States for Retirees, 2019*, <https://www.kiplinger.com/slideshow/retirement/T037-S001-10-least-tax-friendly-states-for-retirees-2019/index.html>

¹¹ The Tax Foundation, *Kansas Tax Modernization: A Framework for Stable, Fair, Pro-Growth Reform*, <http://www.kansaschamber.org/wp-content/uploads/2019/12/TaxReport.pdf>

¹² Opportunity Insights, *Percent Change in Number of Small Businesses Open, 12/30/2020*, <https://tracktherecovery.org/>

¹³ Opportunity Insights, *Percent Change in All Consumer Spending, 12/06/2020*, <https://tracktherecovery.org/>

¹⁴ Opportunity Insights, *Percent Change in Job Postings, 12/11/2020*, <https://tracktherecovery.org/>

- As of the November jobs report, Kansas has recovered 63.8% of the private jobs lost during the April COVID lockdown.¹⁵

2020 Overall

- Tax Foundation named Kansas as the 35th best Business Tax Climate in 2020¹⁶
- United Van Lines reports Kansas was the 6th most departed state in 2020.¹⁷
- MoneyWise reports Kansas is the 3rd worst state for taxing retirees.¹⁸

Had Kansas grown at the national average, the state would have roughly 160,000 more jobs. The economy would have an extra \$29 billion in economic activity. Just think what that would mean for Kansas families and tourists coming to the state. SB 124 threatens that potential by diverting taxpayer resources to an investment with a little track record of growing the economy.

For these reasons, we encourage the Committee to reject SB 124 and thank the members for their consideration.

¹⁵ Kansas Department of Labor, November Labor Report, 12/18/2020, [https://klic.dol.ks.gov/admin/gsipub/htmlarea/uploads/LR%20Nov2020%20Economist%20Overview%20Report\(2\).pdf](https://klic.dol.ks.gov/admin/gsipub/htmlarea/uploads/LR%20Nov2020%20Economist%20Overview%20Report(2).pdf)

¹⁶ Tax Foundation, *2021 State Business Tax Climate Index*, 10/21/2020, <https://taxfoundation.org/2021-state-business-tax-climate-index/>

¹⁷ United Van Lines, *2020 National Migration Study*, 1/4/2021, <https://www.unitedvanlines.com/newsroom/movers-study-2020>

¹⁸ MoneyWise, *The 15 Worst States for Taxing Your Retirement*, 12/21/2020, <https://moneywise.com/a/the-15-worst-states-for-retirement-taxes>