



Chairman Tarwater and Members of the Committee,

We appreciate this opportunity to submit testimony in opposition of HB 2529, 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
- 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 HB 2529 stems from these considerations.

1. HB 2529 expands eligible areas for STAR Bonds to businesses that have no direct impact on sales tax growth.
2. HB 2529's allowance of pre-approved consultants and economic impact studies encourages bad public investments and a more intrusive bureaucracy.
3. HB 2529'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 the National Average
5. HB 2529 shifts tax burdens while keeping the state's tax climate uncompetitive

HB 2529 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 HB 2529 must answer whether the inclusion of business offices, medical facilities or rural development projects has 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 effectual. In other words, the HB 2529's inclusion of businesses and hospitals will only make STAR Bonds viable if you make tendentious assumptions (ex. assuming all office workers will buy their coats in the same area as the STAR Bond). 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 relative tax relationship between businesses and medical facilities and sales tax growth means HB 2529 doesn't raise sales tax revenues on par with the increased use of STAR Bonds, thereby lowering the return on investment.

HB 2529's allowance of pre-approved consultants and economic impact studies encourages bad public investments and a more intrusive bureaucracy.

While it is reasonable to expect the Kansas Department of Commerce to have the final say in whether the STAR Bond project goes forward, HB 2529 works to place the unelected office ahead of the verdicts of any feasibility study of STAR Bonds. Allowing the Secretary of Commerce, the ability to create pre-approved lists of consultants and economic impact methods is a perverse incentive and could lead to rent-seeking.

HB 2529 can create perverse incentives by encouraging unelected officer holders to choose economic feasibility methods that guarantee acceptance of a STAR Bond. HB 2529 obstructs the process that assesses whether taxpayer dollars are creating genuine economic growth. Instead, these provisions will likely turn risky private ventures into a long-term taxpayer-funded burdens.

HB 2529's fails to outline a true cost/benefit analysis for STAR Bonds.

In the private sector, before a firm undertakes a particular investment, 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.

If the economic profits from the investment outweigh all other alternative uses of the same resources, then the firm takes the project. The language outlined in HB 2529 is the promotion of economic impact studies, which fail to measure alternative uses of resources and ignore adverse multiplier effects.¹²

As an example, a STAR Bond for retail development may garner an increase in employment from local construction firms or other retail. However, they do not consider the hypothetical spending that would have occurred had that 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 the use of resources without STAR Bonds. HB 2529 risks promoting STAR Bond projects that will prevent Kansas from growing as fast as the national average.

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>

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

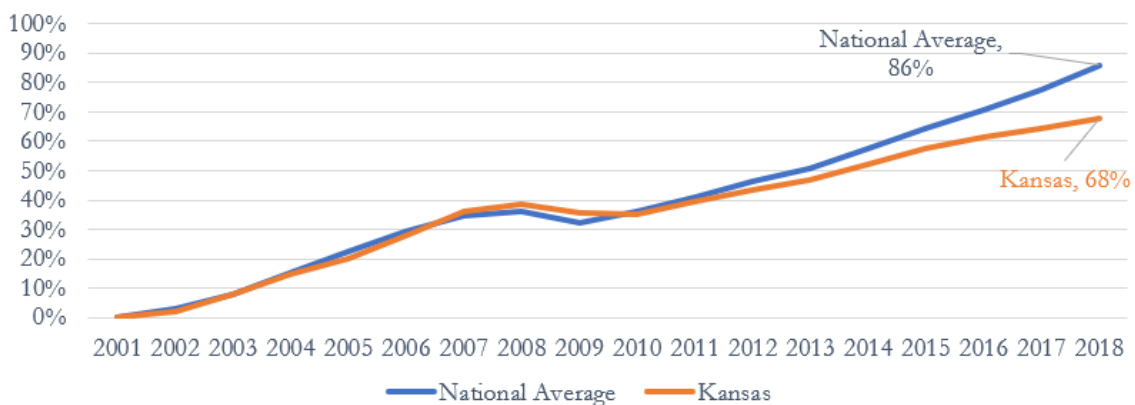
Data from the U.S. Bureau of Economic Analysis detail selected total personal consumption expenditures for Kansas and the national average.³ The following consumption categories were selected

- Furnishings and Durable Household Equipment
- 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. The goal of STAR Bonds 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, consumption activity in Kansas is roughly twenty percentage points lower than the national average. HB 2529 allows Kansas government to issue STAR Bond more easily, despite it having no discernible effect on recreational shopping.

KS STAR Bonds Failed to Grow Kansas Purchases of Furnishings, Leisure, and Hospitality Along the National Average



Source: U.S. Bureau of Economic Analysis

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

HB 2529 shifts tax burdens while keeping the state's tax climate uncompetitive

HB 2529'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.

HB 2529's extension will also work to discriminate against small businesses and start-ups. STAR Bonds are offered to large firms that have enormous development costs, and 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 more small and new firms that enter a market competing for an economic profit, the more goods and services are affordable, and the more satisfied consumers are in the marketplace. HB 2529 risks slowing the Kansas economy as small and new businesses are put at an unfair advantage against older and larger firms that have more resources and political clout.

Finally, HB 2529 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 the repayment of STAR Bonds.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%.** HB 2529 impedes the state and localities from providing taxpayer relief.

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

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

⁶ U.S. Bureau of Economic Analysis

⁷ U.S. Bureau of Economic Analysis

⁸ U.S. Bureau of Economic Analysis

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

Had Kansas grown at the national average, the state would have roughly 160,000 more jobs, and 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. HB 2529 threatens that potential by diverting taxpayer resources to an investment that has little track record of growing the economy.

For these reasons, we encourage the Committee to reject HB 2529 and thank the members for their consideration.

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>