



Madam Chair and Members of the Committee,

We appreciate this opportunity to testify against SB 347, which will give hundreds of millions to qualifying businesses. There is no fiscal note at this time but the subsidies for a \$3 billion investment could easily exceed \$600 million as calculated below.

Our estimates are based on a \$3 billion investment by a qualifying company and \$500 million total investment by qualifying suppliers:

The qualifying company would collect \$535 million:

- \$450 million in investment tax credit @15% rate
- \$60 million in payroll reimbursement (10% of \$60 million payroll for 10 years)
- \$25 million reimbursement for training and education

Estimated Subsidy for a \$3 Billion Investment by Qualifying Company	
Description	Amount
Qualifying Company	
Investment tax credit @ 15%	\$450,000,000
Reimburse 10% of payroll for 10 years; 1,000 jobs @60,000	60,000,000
Reimburse training and education (5 yrs @ \$5M)	25,000,000
Foreign trade zone property tax exemption	unknown
Sales tax exemption for construction costs	unknown
	\$535,000,000
Qualifying Supplier	
Investment tax credit @ 15% of \$500 million	\$ 75,000,000
Rebate 65% state withhold tax for 10 years (\$25M payroll)	812,500
Reimburse training and education (5 yrs @ \$5M)	25,000,000
Foreign trade zone property tax exemption	unknown
Sales tax exemption for construction costs	unknown
	\$100,812,500
Estimated subsidy for one project	\$635,812,500

Qualifying suppliers would collect \$101 million:

- \$75 million investment tax credit @ 15%
- \$812,500 rebate on employees’ state withholding tax (assume 5% withholding)
- \$25 million reimbursement for training and education

The qualifying company and qualifying suppliers would also receive generous property tax abatements and a sales tax exemption on construction costs.

These are just the costs associated with SB 347. Other subsidies may also be negotiated with other entities like cities, counties, utility companies, and transportation agencies. And many of those costs could be passed on to other businesses and individuals.

We oppose SB 347 for many reasons, including the following.

Unfair to other businesses – Subsidies benefit the recipient but they create hardships for other businesses. A subsidized business can offer better prices and pay higher wages, which creates gives it an unfair advantage.

Subsidies are part of the reason Kansas has the highest effective tax rates on mature businesses – The Tax Foundation says subsidies “keep tax costs for mature firms much higher than they would be if the tax burden were distributed more equitably.”¹

Harder for Kansas companies to hire employees – many of the people who are hired by the qualifying company and suppliers in SB 347 will be enticed away from existing Kansas companies. Businesses are struggling to find employees now, and SB 347 will only make that situation worse.

If subsidies worked, Kansas wouldn't be in its fifth straight year of economic stagnation – cities, counties, and the state have provided tremendous amounts of subsidies for many years. Yet Kansas trails the nation on job creation and GDP, and the gaps are getting worse.

A study of the state's PEAK program (Promoting Employment Across Kansas) by Nathan Jensen at Washington University in St. Louis found that PEAK recipients were no more likely to create jobs than non-PEAK recipients.ⁱⁱ

Dr. Arthur Hall, Executive Director of the Brandmeyer Center for Applied Economics at the University of Kansas, reached a similar conclusion in a study of STAR bond projects in Wichita.ⁱⁱⁱ New jobs in the STAR bond areas mostly resulted from a shift in economic activity to a different part of the city.

The Commerce Department cannot substantiate claims of business investment in Kansas – The Kansas Department of Commerce announced that there had been \$2 billion in new capital investment in 2020 and credited themselves for more than 8,100 jobs created. Our media outlet, *The Sentinel*, sent Open Records requests to the Commerce Department, seeking documentation to support those claims. Commerce responded that their claims were based on “pledges” from recipients of taxpayer money. We sent another request asking for the methodology used to determine jobs saved or created, along with any policy documents setting such a formula. The response was that no such documents existed.^{iv}

SB 347 gives Commerce far too much discretion and provides little protection for taxpayers – after two years of overbearance by government officials in their handling of the COVID situation, Kansans need a lot more protection and a lot less discretion from government.

We stand in opposition to SB 347 and we encourage the committee to not recommend it.

ⁱ “Location Matters 2021: The State Tax Costs of Doing Business,” Tax Foundation, May 2021. <https://files.taxfoundation.org/20210504162527/Location-Matters-2021-The-State-Tax-Costs-of-Doing-Business.pdf>

ⁱⁱ Nathan Jensen, “Evaluating Firm-Specific Location Incentives: An Application to the Kansas PEAK Program”, Washington University in St. Louis, May 2014. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2431320

ⁱⁱⁱ Arthur Hall, “Perspectives on Economic Development Incentives and Economic Growth in Wichita,” Kansas Policy Institute, September 10, 2020. <https://kansaspolicy.org/perspectives-on-economic-development-incentives-and-economic-growth-in-wichita/>

^{iv} Patrick Richardson, “Commerce can't – or won't – substantiate “jobs created” claim,” *The Sentinel*, February 4, 2021. <https://sentinelksmo.org/commerce-cant-or-wont-substantiate-jobs-created-claim/>