

Chairman Tarwater and Members of the Committee,

On behalf of the Americans for Prosperity Kansas Chapter, we appreciate this opportunity to submit testimony in opposition to HB 2387. HB 2387 provides funding for STAR bond districts to replace lost food sales tax revenue and authorizes renovation and construction costs for historic theaters and amusement parks as eligible STAR bonds. We hold the following positions on HB 2387.

1. HB 2387 fails to address the lack of a true cost/benefit analysis for STAR Bonds.
2. STAR Bonds failed to grow shopping of Furnishings and Leisure/Hospitality along with the National Average.
3. HB 2387 continues to shift tax burden to the most vulnerable Kansans while keeping the state's tax climate uncompetitive.

### **HB 2387 fails to address the lack of 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. STAR Bonds economic impact studies fail to measure alternative uses of resources and ignore adverse multiplier effects.<sup>12</sup>

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. HB 2387's promotion of STAR Bonds prevent Kansas from growing as fast as the national average.

---

<sup>1</sup> 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>

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

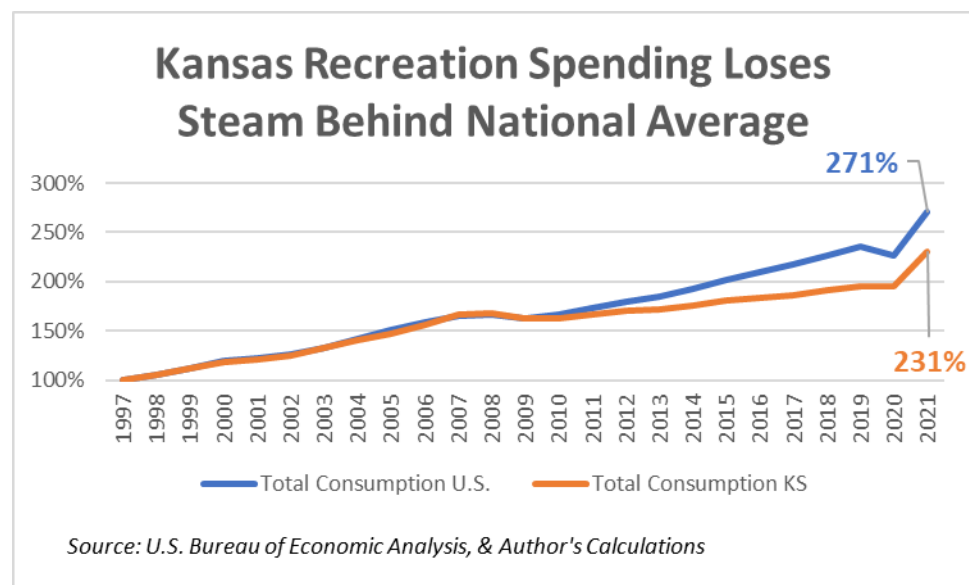
## STAR Bonds failed to grow shopping of Furnishings and Leisure/Hospitality along with the National Average

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

- 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. 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 "tourist" consumption growth activity is roughly forty percentage points



lower than the national average. HB 2387 allows the Kansas government to issue STAR Bond more easily, despite its no discernible effect on recreational shopping.

### HB 2387 shifts tax burdens while keeping the state's tax climate uncompetitive.

HB 2387's addition to the STAR Bond project 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

<sup>3</sup> 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](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)

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 2387'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. HB 2387 risks slowing the Kansas economy as small and new businesses are unfair against older and larger firms with more resources and political clout.

Finally, HB 2387 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.<sup>4</sup> **If Kansas never issued STAR Bonds in the first place, Kansas sales tax rate today could be as low as 5%.** HB 2387 impedes the state and localities from providing taxpayer relief.

For these reasons, we urge a rejection of HB 2387 in its current form.

---

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