



Chair Alley, and Members of the Committee,

On behalf of the Americans for Prosperity Kansas Chapter, we appreciate this opportunity to submit testimony in opposition to extending the expiration date of the STAR Bonds Financing Act to July 1, 2030, allowing continued use of STAR Bonds for redevelopment projects in Kansas. We hold the following positions on the SB 197. We hold the following positions on the STAR BOND bill.

1. STAR Bond needs reform to be successful.
2. STAR Bonds shift tax burdens to the most vulnerable Kansans across the state, making it harder to make the state's tax climate uncompetitive.
3. SB 197 is a failure of transparency and comprehensive public consideration.
4. STAR Bonds have coincided with Kansas falling farther behind the National Average than before STAR Bonds
5. STAR Bonds fail to address the lack of an accurate cost/benefit analysis

**STAR Bond program needs reform to be successful.**

For the STAR Bond program to succeed, significant reforms in transparency, economic goals, claw backs, property rights protection, and local government finances must be implemented. Here are our recommendations for needed reforms.

*Increasing STAR Bond Transparency to Kansans*

- All documents used to consider STAR Bond approval must be available on the Kansas Department of Commerce website within 30 days of the governing municipality's approval.
- The Kansas Department of Commerce shall display the amount of sales tax forgone to the municipality from a pending and approved STAR Bond project on its website. It shall be termed "Sales Tax Revenue Forgone" and presented in dollars and estimated municipality sales tax reduction.
- All entities within a STAR Bond must report to the Secretary of Commerce visitor's zip codes quarterly. The Secretary must then publish quarterly visitor data within 30 days of the start of the subsequent quarter.
- Municipalities must notify residents of a STAR Bond approval, the amount of increment revenue collected, and "Sales Tax Revenue Forgone," presented in terms of dollars and estimated municipality sales tax reduction.

*Narrows STAR Bonds to Out-of-State Tourism/Economic Investment and Strengthens Clawbacks*

- The governing municipality cannot approve STAR Bonds if their visitor expectation plan shows that 50% or more visitors reside in Kansas.

- Entities in a STAR Bond that fail to have over 50% visitors from out of state are then liable for 100% of the payments towards the STAR bonds issued to finance the project.

*Protecting Property Rights and Financing of Essential Local/State/Federal Government Services*

- The Secretary can only approve additional STAR Bonds not exceeding 25% of the project's total costs.
- Only 50% of the tax increment revenue shall go toward the repayment of special obligation bonds and STAR bonds.
- Disallows any state SGF or federal revenues to be used to pay off a STAR Bond.
- Eliminates the authority for the state and municipality to use eminent domain to build a STAR Bond district.
- STAR Bond increment revenue cannot be used for any additional STAR Bond.

**STAR Bonds shift tax burdens to the most vulnerable Kansans across the state while making it harder to make the state's tax climate uncompetitive.**

The STAR Bond project prolongs an unfair environment for Kansas businesses. A STAR Bond lowers the development cost for a few businesses by raising the costs for others. Every company in Kansas 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.

STAR Bonds 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 well-being 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. STAR Bonds risk slowing the Kansas economy as small and new businesses are unfair to older and larger firms with more resources and political clout.

Finally, STAR Bonds hinder the possibility of broad-based tax reduction. According to the 2023 STAR Bond Annual report, Kansas diverted ~\$80 million in state sales tax revenues to STAR Bonds' repayment.<sup>1</sup> **If Kansas never issued STAR Bonds in the first place, the Kansas sales tax rate today could be as low as 6.3%. If Kansas never issued STAR Bonds in the first place, local sales tax rates in Topeka, Wichita, Johnson County, Wyandotte County, Goddard, Garden City, Salina, Manhattan, Dodge City, and other cities would be 1 to 2 percentage points lower.** STAR Bonds impede the state and localities from providing taxpayer relief.

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<sup>1</sup> Kansas Department of Commerce, *STAR BOND ANNUAL REPORT – 2023*, <https://www.kansascommerce.gov/wp-content/uploads/2024/02/2023-YE-STAR-Bonds-Annual-Report-FINAL.pdf>

## STAR Bonds have coincided with Kansas falling farther behind the National Average than before STAR Bonds

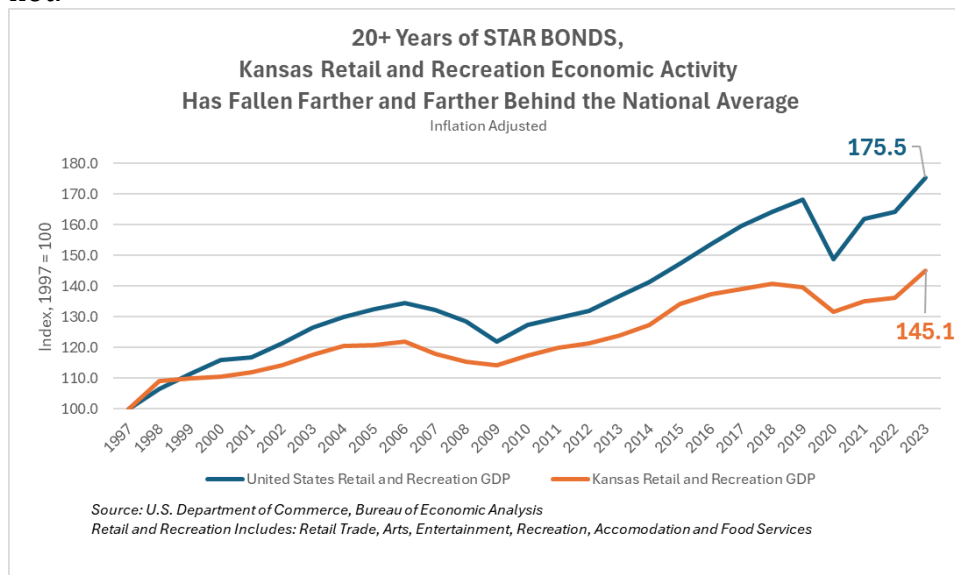
Data from the U.S. Bureau of Economic Analysis details the selected gross domestic product, adjusted for Kansas's inflation and the national average.<sup>2</sup> We selected these economic activity categories.

- Retail Trade Spending Activity
- Arts Spending Activity
- Entertainment Spending Activity
- Recreation Spending Activity
- Accommodation Spending Activity
- Food Service Spending Activity

These industries serve as the economic base for STAR Bonds. STAR Bonds aims 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 by no other state, Kansas should have an advantage. It does not.

In fact, despite initially growing faster than the nation in the first few years, Kansas has fallen farther and farther behind the national average in retail and recreation economic activity. In other words, the 23 STAR BOND projects collectively did

not spur growth in the economic base faster than the average of the country. By 2023, the national average is 75% bigger in retail and recreation relative to 1997. Still, Kansas is only 45% bigger by the same metric. This is a 30-percentage point gap, and it is trending to widen. This data seems consistent with economic research studies that say Kansas STAR Bonds don't create new economic



<sup>2</sup> U.S. Bureau of Economic Analysis,

[https://apps.bea.gov/itable/?ReqID=70&step=1&\\_gl=1\\*g4z1zp\\*\\_ga\\*MTk50TEyNDA5OS4xNzE4Mzg4NzU3\\*\\_ga\\_14698JNNFT\\*MTcxODM4MTc1Ni4xLjEuMTcxODM4MTc4MS4zNS4wLjA.#eyJhcHBpZCI6NzAsInN0ZXBzIjpjbMSwyOSwyNSwzMSwyNiwyNywzMF0sImRhdGEiOltbIlRhYmxlSWQiLCI1MTIiXSxbIk1ham9yX0FyZWFiLCIwIl0sWyJTdGF0ZSI6WyJwIl1dLFsiQXIlIySI6WyJwMDAwMCI6WyJwMDAwIl1dLFsiU3RhdGlzdGljIjxibjM1Iiw1NzUjXV0sWyJvbmI0X29mX21lYXN1cmUiLCIjMZXZlbnHMjXSBiIl1lYXIlLFsiLTEiXV0sWyJZZWFiYmVnaW4iLCItMSJdLFsiWWVhcl9FbmQlLCItMSJdXX0=](https://apps.bea.gov/itable/?ReqID=70&step=1&_gl=1*g4z1zp*_ga*MTk50TEyNDA5OS4xNzE4Mzg4NzU3*_ga_14698JNNFT*MTcxODM4MTc1Ni4xLjEuMTcxODM4MTc4MS4zNS4wLjA.#eyJhcHBpZCI6NzAsInN0ZXBzIjpjbMSwyOSwyNSwzMSwyNiwyNywzMF0sImRhdGEiOltbIlRhYmxlSWQiLCI1MTIiXSxbIk1ham9yX0FyZWFiLCIwIl0sWyJTdGF0ZSI6WyJwIl1dLFsiQXIlIySI6WyJwMDAwMCI6WyJwMDAwIl1dLFsiU3RhdGlzdGljIjxibjM1Iiw1NzUjXV0sWyJvbmI0X29mX21lYXN1cmUiLCIjMZXZlbnHMjXSBiIl1lYXIlLFsiLTEiXV0sWyJZZWFiYmVnaW4iLCItMSJdLFsiWWVhcl9FbmQlLCItMSJdXX0=)

growth in the state but instead shift economic activity intra-state.

### **STAR Bonds fail to address the lack of an accurate cost/benefit analysis**

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 exact costs.

If the economic profits from the investment outweigh all other alternative uses of the same resources, the firm takes the project. STAR BOND economic impact studies fail to measure alternative uses of resources and ignore adverse multiplier effects.<sup>34</sup>

As an example, a STAR Bond for retail development may garner an increase in employment from local construction firms or other retailers. However, they do not consider the hypothetical spending that would have occurred had the resources for the STAR Bond stayed in the hands of taxpayers or the government. Also, economic impact studies cannot tell us whether using STAR bonds creates a higher value than using resources without STAR bonds.

### **STAR Bonds divert away tax-revenue-generating activity while damaging small business activity outside of the STAR Bond district.**

A Legislative Post Audit Study has found that STAR Bonds for commerce areas drain commerce and small business sales from surrounding counties not in the STAR BOND.

A 2008 audit conducted by the Legislative Post Audit found that after the opening of the Nebraska Furniture Mart in the Village West STAR Bond, a third of existing furniture stores within a 150-mile radius closed.<sup>5</sup>

While business openings and closures happen constantly in the private market, these closures happened at the government's behest, picking winners and losers. Moreover, this shows that economic activity has shifted to a STAR Bond, where no sales tax revenue is remitted to the state and local government.

STAR Bonds hurt both entrepreneurship and government finances.

We encourage the Committee to reject SB197 unless these recommendations and suggestions are adopted to increase transparency and accountability.

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<sup>3</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>4</sup> Frederic Bastiat, *What Is Seen and What is Not Seen*, <https://admin.fee.org/files/doclib/bastiat0601.pdf>

<sup>5</sup> Kansas Legislative Division of Post Audit, [http://www.kslegislature.org/postaudit/audits\\_perform/08pa06.pdf](http://www.kslegislature.org/postaudit/audits_perform/08pa06.pdf)