

Kansas House of Representatives Committee on Taxation
Testimony in Opposition to SB248
March 13, 2023
Presented by Carolyn Dunn, Stafford County Economic Development

Thank you for the opportunity to speak to you in opposition to SB 248 and to give you specific examples of the significant and detrimental unintended consequences this bill will create in my county if enacted.

As you may know, the community of St. John undertook a significant endeavor in 2016-2018 after its only grocery store closed. After careful analysis, it was determined that in order to be financially viable, a grocery store would need to have more space in order to offer a wider variety of products that today's consumers desire so they would do their primary shopping locally, and so that it would generate enough sales volume to offset business overhead in a modern economy. It involved building a new, bigger building and is located along the highway which captures incremental customers passing through. It was a heavy lift, costing \$3.8 million to construct. I am happy to say that nearly five years into the project, it is successfully performing at or above financial projections. It is providing about 40 full and part time jobs and, just as importantly, provides an essential service in a small, lower-income town. It has been highlighted in various local and national news sources as an example of a small town successfully maintaining the essential service of local grocery.

As I said, putting this together was a heavy lift. We cobbled together 14 sources of finance, including grants, donations, and \$2.3 million in loans. A major component of paying back those loans is a Tax Increment Finance district, which uses the local sales tax and property tax generated by the business to repay eligible development costs. We capture about \$35,000 from the 1% city sales tax from this grocery store alone, and that in turn is nearly a quarter of the annual loan payment obligation.

Incidentally, you may recall that the then-Mayor of St. John, a community leader, USD 350's Superintendent, and I each provided testimony to the Taxation Committee in 2017 requesting a project-based sales tax exemption for construction materials which saved about \$200,000 on the cost of construction for this grocery store. That proposal was not approved by the House or the Senate. At a local level we then proceeded to adopt an Industrial Revenue Bond not to finance the debt (a local bank provided better terms), but to capture one of the benefits of IRBs which is that it provides a project based sales tax exemption on construction materials. We paid a Wichita based law firm about \$30,000 in order to accomplish that.

I am concerned that a move to limit sales tax collection on groceries will have a disproportionate effect on rural areas. In many small towns with a limited retail base, the grocery store is often one of the largest, if not the largest retailer. While grocery may only represent 15% of retail in the general economy, in both Stafford and St. John, the towns with which I am intimately familiar with budgeting and revenue, it comprises about 40% of local sales tax revenue.

In the town of Stafford, a 1% sales tax was approved by the public in 2018 to finance a new swimming pool. They will struggle to make those bond payments without tax revenue from their grocery store.

I am further concerned that this then shifts the need to pay for certain services to the primary way that local entities general revenues – property tax. This also is disproportionately adverse to rural towns and counties, which already generally have higher mil rates than more urban counties which have more property improvements contributing to the real estate tax base.

In conclusion, because there are so many varied situations around the state and there are so many unknown consequences, I think it is ill advised for the state to negate the actions that local governments have used to improve their communities. If a local jurisdiction sees fit to remove a sales tax, it can do that.