



Chairman Tarwater and Members of the Committee,

We appreciate this opportunity to testify against SB 347, which could cause the State to appropriate more than \$1 billion from the State General Fund and create significant consequences for existing Kansas businesses. The Commerce Department may not want legislators and voters to know how much money would be provided, as there is no fiscal note at this time but the math is easy.

Commerce says the mystery company would allegedly invest \$4 billion and employ 4,000 people at a \$50,000 average salary.

In exchange, the company gets an investment credit of up to 15% on its investment over time; that’s \$600 million. If the credit is refundable as was initially proposed, that means the state writes a check to the company if the credit is more than the company’s tax liability. Commerce noted in Senate testimony that

Estimated Subsidy for a \$4 Billion Investment by Qualifying Company	
Description	Amount
Qualifying Company	
Investment tax credit @ 15%	\$ 600,000,000
Reimburse 10% of payroll for 10 years; 1,000 jobs @60,000	200,000,000
Reimburse training and education (5 yrs @ \$5M)	25,000,000
subtotal of checks that could be written	\$ 825,000,000
Foreign trade zone property tax exemption first 10 years	750,000,000
Sales tax exemption on construction (\$2B @ 9%)	180,000,000
potential total value over ten years	\$ 1,755,000,000
Qualifying Supplier	
Investment tax credit @ 15% of \$1 billion	\$ 150,000,000
Rebate 65% state withhold tax for 10 years (\$25M payroll)	812,500
Reimburse training and education (5 yrs @ \$5M)	25,000,000
subtotal of checks that could be written	\$ 175,812,500
Foreign trade zone property tax exemption first 10 years	18,750,000
Sales tax exemption for construction costs	45,000,000
potential total value over ten years	\$ 239,562,500
Estimated subsidy for one project	\$ 1,994,562,500

depreciation would likely wipe out any profit for some time, so making this credit refundable takes \$600 million out of the State General Fund.

There is also a 10% payroll reimbursement for ten years, which is another check written by the state that would cost \$200 million over ten years (4,000 jobs at \$50,000 per job is a \$200 million payroll).

Next, the mystery company would be reimbursed up to \$5 million for education and training for five years; those checks total \$25 million. Collectively, these subsidies could cause the state to write checks of up to \$825 million to one company.

If the facility is built in a foreign trade zone, it qualifies for a 50% property tax exemption in perpetuity. The value of this subsidy is more difficult to estimate without knowing where it will be located. There are only [two foreign trade zones](#) in Kansas – in the Kansas City, KS area and the Wichita area – and [speculation by Site Selection Magazine](#) says KCK’s proximity to an international airport makes that the most likely location. If the entire \$4 billion is taxable, the forever exemption could be worth about \$75 million per year.

There is also a sales tax exemption on construction costs that could be worth about \$180 million if \$2 billion is exempt at 9%. Along with the reimbursable subsidies, the property and sales tax exemptions could put the total value to the mystery company at \$1.755 billion.

SB 347 makes similar subsidies available to up to five qualifying suppliers that are worth up to \$176 million in reimbursable costs and \$64 million in property and sales tax exemptions.

The entire subsidy package in SB 347 could be just shy of \$2 billion.

We don't know if there are other state subsidies involved. Additional 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 encourage the Legislature to get a full accounting of all subsidies associated with this mystery project to gain a full understanding of the potential cost to taxpayers.

We oppose SB 347 for many reasons beyond the subsidies, 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.

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.

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

\$600 million investment credit equals the estimated corporate income tax receipts for all Kansas corporations – According to the November Consensus Revenue Estimate, the state will collect \$600 million in corporate income tax this year and \$535 million next year. Instead of giving \$1 billion for one project, imagine the economic impact of even a two-year moratorium on corporate income tax. How many jobs and investment would result from rewarding companies that have been here paying taxes for years?

Government calculations of Return on Investment are consciously overstated – Commerce hasn't disclosed its ROI calculation, but we have never seen an ROI calculation on a taxpayer subsidy that accounts for the economic activity that would otherwise occur. The economic growth from reducing corporate income tax is but one example.

No evidence of a cost-benefit analysis – Commerce has not provided a real cost-benefit analysis on the proposal. Such analysis would consider the economic advantages of alternate actions such as

reducing corporate income tax for all companies and the indirect consequences, like exacerbating the worker shortage for all other companies.

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.²

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.³ 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.⁴

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.

To that end, we suggest an amendment stipulating that the payroll reimbursement is only applicable to employees who live in Kansas. With the likelihood of locating near the Missouri border as stated earlier, it is feasible that many of employees could keep their residence in Missouri and make the short drive to Kansas. Remote workers are another possibility.

We also suggest an amendment to protect taxpayers from giving too much away – A \$1.75 billion incentive package (see table above for the qualifying company) for a \$4 billion investment has taxpayers underwriting 44% of the investment. The State of Ohio just announced a \$2.1 billion incentive package for a \$20 billion investment by Intel, which is only about 10% of the investment.⁵ Commerce says one other state is in contention, so to protect taxpayers from giving too much away, the Kansas package could be limited to the lesser of the amounts in SB 347 or, say, 110% of the package offered by the competing state.

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

¹ “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>

² “Evaluating Firm-Specific Location Incentives: An Application to the Kansas PEAK Program”, Nathan Jensen, Washington University in St. Louis, May 2014.

https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2431320

³ “Perspectives on Economic Development Incentives and Economic Growth in Wichita,” Arthur Hall, Kansas Policy Institute, September 10, 2020. <https://kansaspolicy.org/perspectives-on-economic-development-incentives-and-economic-growth-in-wichita/>

⁴ “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/>

⁵ “Ohio incentives for Intel’s Licking County chip plant will top \$2B, including \$600M onshoring grant,” Columbus Dispatch, January 28, 2022. <https://www.dispatch.com/story/business/2022/01/28/ohio-release-details-incentive-package-intel-chip-plants/9253570002/>