



Chairman Tarwater and Members of the Committee:

Please accept this written proponent testimony on HB 2821, which would create a regulatory sandbox program through the Kansas Attorney General.

With 70,969 restrictions containing 3.2 million words, the 2019 Kansas Administrative Regulations would take the average person 180 hours to read.¹ This is on top of over 1 million federal regulations and various other local regulations such as zoning laws. Every regulation equals a cost of compliance for businesses. Small businesses spend \$83,000 on average complying with state and federal regulations.²

A regulatory sandbox is a method by which entrepreneurs can operate their businesses well within the oversight of the government but without being burdened by regulations that may not even apply to them. The fewer operating costs from regulation, the more businesses will be able to towards new products, employees, or expanding in their area to the betterment of the local economy.

Similarly, sandboxes are a way to discover if regulations created previously are impeding the growth of new businesses or technology. In the early 2010s, Google built a gigabit-capable fiber network in the Kansas City, Kansas area more than capable of offering traditional phone services, yet chose not to because of outdated state and federal telephone regulations that made competition with traditional regional providers difficult.³

All the while, the sandboxes as outlined in HB 2821 would be conducted with oversight, with the relief office evaluating the potential harm of waiving a regulation and having a right to deny entrance to the program. Applicants will have to take measures to “protect consumers from potential harm” as part of their plan outlined in the program.

Ordinary workers encounter regulations daily that make joining an industry more difficult. Licensing requirements on education, English proficiency, or amount of time as a resident could disqualify well-experienced, but economically disadvantaged, workers from competing with others.⁴ A regulatory sandbox through HB 2821 could resolve this problem in two ways. For one, aspiring entrepreneurs could participate directly in the sandbox and avoid the stifling regulations altogether. The sandbox could also be a signal to regulators and lawmakers that Kansas could operate without a certain regulation which can then be formally taken out of the books.

¹ Mercatus Center, *Cutting Red Tape in Kansas: A Menu of Options*,

<https://www.mercatus.org/publications/regulation/cutting-red-tape-kansas-menu-options>

² Robb Mandelbaum, “The \$83,000 Question: How Much Do Regulations Really Cost Small Businesses?”, *Forbes*, January 24th, 2017, <https://www.forbes.com/sites/robbmandelbaum/2017/01/24/the-83000-question-how-much-do-regulations-really-cost-small-business/?sh=7eb382821b25>

³ Alyson Raletz, “Google considers but drops plans to include phone service, too”, *Kansas City Business Journal*, December 4th, 2012, <https://www.bizjournals.com/kansascity/blog/2012/12/google-considers-drops-phone-service.html>

⁴ Savannah Herald, *Occupational Hazards: Does licensure disproportionately affect low-income workers and entrepreneurs?*, <https://www.savannahnow.com/story/news/2020/04/08/occupational-hazards-does-licensure-disproportionately-affect-low-income-workers-and-entrepreneurs/1389082007/>

Participants in regulatory sandboxes have seen verified economic success. Participants in the United Kingdom’s fintech sandbox got to market 40% faster than non-participants, with 80% of the sandbox’s participants staying in business.⁵ Those firms in the sandbox acquired 15% more private capital after joining than firms who did not, with the probability of raising capital increasing by 50%.⁶ On average, countries that introduced regulatory sandboxes saw their total venture capital investment amounts increased by 37.7%, with the average investment in size growing by 86.4%.⁷

Because of their business- and user-friendly policies, sandboxes also attract businesses. For instance, in 2019, Wyoming began a fintech sandbox to promote industries such as digital banking and consumer credit. Two years later, Wyoming has become a central player in America’s digital asset market, with the first cryptocurrency bank nationwide charter filed there in September 2020.⁸

Occupations with state-specific licensing exam procedures saw 36% less interstate migration when compared to occupations with no state-specific requirements.⁹ Creating a sandbox that would, for instance, waive certain licensing requirements could allow workers to start their dream businesses without having to spend thousands of dollars and hours on a traditional license.

While a Right to Start Bill such as Missouri’s has helpful provisions such as banning permit fees and loan transparency that help entrepreneurs, much of the legislation is moving welfare from large corporations to new businesses. This is still a policy of picking winners and losers, which is less effective than policies that help all businesses equally. Whereas in a regulatory sandbox, businesses that participate all have the same barriers lifted.

Sandboxes have been a tried and tested method to promote economic growth – the type of which Kansas needs to stay competitive with other states. Private-sector job growth in Kansas was ranked #44 nationwide between 1998 and 2022.¹⁰ Kansas had the worst record in 2023 among bordering states on domestic migration, as more U.S. residents moved out than in.

Thank you for the opportunity to give testimony and I’d be happy to answer any questions.

⁵ James Madison Institute, Expanding Regulatory Sandboxes to Fast-Track Innovation, https://www.jamesmadison.org/wp-content/uploads/2021/01/Regulatory_Sandbox_1.27.21.pdf

⁶ BIS, Inside the Regulatory Sandbox: Effects on FinTech Funding, <https://www.bis.org/publ/work901.htm>

⁷ Jayoung James Goo and Joo-Yeun Hoo, The Impact of the Regulatory Sandbox on the Fintech Industry, with a Discussion on the Relation between Regulatory Sandboxes and Open Innovation, Journal of Open Innovation: Technology, Market, and Complexity, 18 June 2020.

⁸ Wyoming Business Report, Wyoming’s Culture Attracts Digital Currencies to State, https://www.wyomingnews.com/wyomingbusinessreport/current_edition/wyoming-s-culture-attracts-digital-currencies-to-state/article_88e77992-5fcf-5543-9570-6981482c8947.html

⁹ National Bureau of Economic Research, Is Occupational Licensing a Barrier to Interstate Migration?, <https://www.nber.org/papers/w24107>

¹⁰ Kansas Policy Institute, 2023 Green Book, March 3rd, 2023, <https://kansaspolicy.org/2023-green-book/>