

Testimony of Robert North, Chief Counsel, Kansas Department of Commerce In Support of Senate Bill No. 463

Senate Ways and Means Committee

10:30 a.m., Friday, March 16, 2012

548-S, The Statehouse

Madam Chairman and members of the Committee, on behalf of Commerce Secretary Pat George and the Kansas Department of Commerce, I would like to express my support for the reauthorization of the Kansas Sales Tax Revenue (STAR) Bonds Act through July 1, 2017.

STAR Bonds provide Kansas municipalities the opportunity to issue bonds to finance the development of major commercial, entertainment and tourism areas and use the sales tax revenue generated by the development to pay off the bonds.

The state has authorized the use of STAR Bonds for seven projects across the state. Those include the Kansas Speedway, Village West, and Livestrong Stadium (all in Wyandotte County); the Salt Museum (Hutchinson); Heartland Park Topeka, Wichita Water Walk; and the Flint Hills Discovery Center (Manhattan).

In addition to the projects mentioned above, there are three additional projects that have been approved for STAR Bonds use: Schlitterbahn Vacation Village in Wyandotte County; Mission Gateway in Mission; and the Prairiefire Museum in Overland Park. These projects, however, have not actually issued bonds. There also are additional projects in various stages of seeking approval to use STAR Bonds.

All these projects could be in jeopardy if reauthorization is not extended past June 30, 2012. These projects have the potential to create hundreds of millions of capital investment and thousands of jobs. Furthermore, uncertainty associated with the potential sunset of STAR Bonds also may create obstacles for projects that have been approved but for which STAR Bonds have yet to be issued.

As you know, STAR Bonds were first considered by the Legislature during the 1997 and 1998 sessions. As the state's experience with STAR Bonds has evolved over the years, the law has been amended several times to provide greater oversight and accountability. In 2005 and 2007, the Legislature passed significant amendments to the law. These changes included:

- Requiring more detailed feasibility, visitation and similar economic impact studies for STAR Bond projects.
- Requiring the Commerce Secretary to approve, in advance, payments for certain project costs.
- Prohibiting STAR Bonds from being used for real estate commissions, local salaries, lobbying costs and bond origination fees.

- Requiring each city to obtain an annual, independent certified public accountant audit of STAR Bond expenditures.
- Requiring each city using STAR Bonds to file with the Secretary an annual report detailing expenditures of bond proceeds and that the report then be filed with the Governor and Legislature.
- A prohibition on using STAR Bond proceeds for personal property.
- A requirement that no more than 50 percent of a project could be paid with STAR Bonds, making the state a minority partner in all future projects.
- Separating the STAR Bonds law from tax increment financing (TIF) law.
- Clarifying that only the incremental gain in sales and other tax revenues could be used to fund projects.
- Adding museums to the list of eligible projects/costs.
- Adding further oversight in the project approval process.

Other key issues regarding STAR Bonds have arisen in the past. Two of those issues – eminent domain and whether STAR Bonds are “full faith and credit” bonds – have been clearly resolved by the Legislature. Kansas law now prohibits the taking of private property for economic development purposes unless expressly authorized by the Legislature. In addition, STAR Bonds, as a general rule, shall not be general obligations of the city or county.

I firmly believe that STAR Bonds have provided significant benefits to the state and local communities across Kansas. This tool has been remarkably effective in Kansas and has directly led to development of several major destination attractions, mentioned previously, that have had a huge impact on the state’s economy. Collectively these projects have generated approximately \$2 billion in capital investment, 10,000 direct and 20,000 indirect and induced jobs in Kansas. The program has been successful from that perspective, and the projects previously identified are bringing an estimated 10-12 million new visitors annually to Kansas. The STAR Bond program is widely considered to be a model for other states.

As I stated before, the primary objective of STAR Bonds is to develop entertainment and tourism attractions in order to bring new visitors and new sales tax dollars to the state. Kansas has a rigorous project evaluation process, and the Commerce Secretary has the discretion to fully screen projects and insure the state’s interests are being protected. Along with the Legislature’s changes over the years, all but one of the projects mentioned has exceeded revenue projections and will be able to retire their STAR Bonds before the end of the bond term.

It’s important to note that previous changes to the law have clarified that only incremental growth in sales tax revenue within a STAR Bond Project District may be used for a project. This policy insures the state is not expending existing revenues to fund these projects but rather is making an investment to grow the tax base and bring in billions of new revenues every year.

I believe it is critical that the Legislature reauthorize STAR Bonds to continue to give the state a strong “economic tool box” with which to grow the state’s economy and create jobs. I ask for the Committee’s support of SB 463.

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