

Kansas Department of Commerce: STAR Bonds Overview

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STAR Bonds Overview

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

STAR Bonds are meant to be a strategic economic development tool. In order to be considered a major commercial entertainment and tourism area, a proposed project must be capable of being characterized as a statewide and regional destination. Projects should include high quality, innovative entertainment and tourism attractions, as well as contain unique features that will increase tourism, generate significant positive economic impacts and be capable of sustainable development over time.

There is a multi-step process involving the state, municipalities and developers before STAR Bonds are approved. Those general steps include, but are not limited to the following:

- A city identifying potential STAR Bond district boundaries.
- The local council setting public hearings to discuss creating the STAR Bonds district.
- The Secretary of Commerce approving the potential district.
- The local council holding public hearings and adopting ordinances to create the district.
- Feasibility studies completed and delivered to the city.
- Project planning prepared and delivered to the city.
- The local planning commission reviewing the project.
- The local council setting and holding public hearings to adopt the project plan.
- The local council adopting the project plan.
- The Secretary of Commerce approving the project plan.
- Bond documents developed.
- The Secretary of Commerce approving the terms of the STAR Bonds.
- STAR Bonds issued for the project.
- Project begins.

STAR Bonds Background

STAR Bonds were first considered by the legislature during the 1997 and 1998 sessions. STAR Bond projects include the Kansas Speedway, Village West and Sporting Park in Wyandotte County; the Salt

Museum in Hutchinson; the Water Walk and K-96 projects in Wichita; the Flint Hills Discovery Center in Manhattan; Heartland Park in Topeka; the Prairiefire Museum project in Overland Park; and the Goddard Aquatic Center project.

As the state's experience with STAR Bonds evolved, the law was amended several times to provide greater oversight and accountability. The primary focus of those changes involved restrictions on the use of STAR Bonds proceeds, as well as the general oversight of STAR Bonds by local and state governments.

The first significant amendments to the law were made by the Legislature in 2005. Those changes included more detailed feasibility, visitation and economic impact studies for projects. They also prohibited STAR Bonds from being used for certain project costs such as real estate commissions and lobbying costs, required each city to obtain an annual independent certified audit of expenditures, and required each city to file an annual report with the Department. Furthermore, changes specified that no more than 50 percent of project costs could be paid with STAR Bonds.

In 2007, additional changes separated the STAR Bonds law from tax increment financing (TIF) law and clarified that only the incremental gain in sales and other tax revenues could be used to fund projects. Increased oversight was also added to the project approval process.

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

Economic Development Impact

STAR Bonds have proven to be a remarkably effective economic development tool for Kansas and have directly led to the development of major destinations and attractions that have an enormous impact on the state's economy. Collectively, STAR Bonds projects will generate more than \$3 billion in capital investment, 10,000 direct jobs and 20,000 indirect and induced jobs in Kansas. STAR Bonds projects bring an estimated 10-12 million new visitors annually to Kansas. The Kansas program has become a model for other states.

Kansas has a rigorous project evaluation and screening process to ensure that the state's interests are being protected. Most projects have exceeded revenue projections and will be able to retire their STAR Bonds before the end of the bond term. As only incremental growth in sales tax revenue within a STAR Bond project district may be used for a project, the state is not expending existing revenues to fund these projects. Instead, STAR Bonds allow Kansas to make an investment in growing the tax base and bringing in new revenue.

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