

MINUTES OF THE SENATE COMMITTEE ON COMMERCE.

The meeting was called to order by Chairperson Senator Karin Brownlee at 8:45 a.m. on April 04, 2001 in Room 123-S of the Capitol.

All members were present except:

Committee staff present:

April Holman, Legislative Research Department  
Bob Nugent, Revisor of Statutes  
Lea Gerard, Secretary

Conferees appearing before the committee:

Others attending:

See attached sheet.

Information showing funding streams for employment and training programs in State agencies was provided to Committee members from Barb Reavis, Workforce Development Coordinator (Attachment 1).

**Hearings on HB 2573:**

Doug Wood, Chairman Board of County Commissioners of Johnson County testified in support of **HB 2573** (Attachment 2). The Johnson County Board initiated the passage of **HB 2573** that would extend the deadline contained in KSA 74-8922 for obtaining Redevelopment Plan approval for a period of 12 months, from July 1, 2001 to July 1, 2002. The extension of time is requested by the board to obtain an independent financial analysis for the project feasibility. The issues surrounding the redevelopment of the Sunflower Army Ammunition Plant are very important for the citizens of the County and State, and the proposal of the Oz Entertainment Company for that redevelopment is very complex.

Committee questions and discussion followed regarding the Oz Project creditability and the price tag jump from \$760 million dollars to around \$860 million dollars. The Chairperson asked Doug Wood for his perspective regarding the increase of \$100 million dollars. Doug Wood explained that comprehensively he could not give why the increase but part of that was in direct response to requirements that Johnson County placed upon the Oz company. Johnson County had identified during the review areas that need to be addressed. It is a combination of items that is embodied in a pre-development agreement that has been tailored and fashioned for Johnson County. The Chairperson also asked why the commission did not do a feasibility study as considered in September, 1999.

Patrick Reavey, City Attorney for the City of DeSoto, Kansas spoke in behalf of Steve Prudden the Mayor of DeSoto in support of **HB 2573** (Attachment 3). Currently the city is operating the water treatment plant at Sunflower. The City of DeSoto provides water to all of the tenants at Sunflower, the Army as well as Alliant Tech, the contractor who is currently performing remediation at the plant. DeSoto has recently seen a lot of growth with new businesses and the city is faced with a water shortage problem. Under the Oz project, the City of DeSoto is slated to receive the water treatment plant and the city views this as an opportunity to address the water shortage as well as provide needed water to surrounding communities. Oz has agreed that if their project goes through they would purchase all of their water from the City of DeSoto.

Marge Morse, Executive Director for both the DeSoto Chamber of Commerce and DeSoto Economic Development Council testified in support of **HB 2573** (Attachment 4). The Chamber of Commerce and the Economic Development Council recognize the tremendous impact the Oz project can have on the local economy. Tourism dollars generated could provide much needed property tax relief for a district which currently has the highest school tax in the county.

Gayla Frazier, Plant Manager for Alliant Techsystems Inc. testified in support of **HB 2573** (Attachment 5). The Oz project is the best and fastest way to achieve environmental clean-up of the Sunflower plant, currently estimated at \$40 to \$50 million. The Oz Entertainment Company has agreed to transfer over 3000 acres around the plan boundary for the Johnson County Parks system, providing a buffer between neighboring properties and the resort boundary. The project would also include building a facility that would be a center of technical excellence for commercial and military digital arts and science.

Tom Stutz, former Army Installation Manager at the Sunflower Army Ammunition Plant testified in support of **HB 2573 (Attachment 6)**.

Michael Cain, Law student at the University of Kansas, Lawrence, Kansas testified in support of **HB 2573 (Attachment 7)**. As a student at KU, he became interested in the project as a way to supplement his own legal education by studying the project and the various issues concerning it. Mr. Cain has long been interested in pursuing a career in the entertainment and digital media industries and saw an opportunity for exposure to the entertainment/digital media industries, as well as the jobs and internships these industries provide. Many students that graduate from KU have left the state because jobs in their chosen fields have not been available or simply not existed.

Jon Steward, Overland Park Chamber of Commerce presented written testimony in support of **HB 2573 (Attachment 8)**.

Jerry Cook, President Overland Park Convention & Visitors Bureau presented written testimony in support of **HB 2573 (Attachment 9)**.

John Anderson, Jr., Attorney, testified in opposition to **HB 2573 (Attachment 10)** stating an examination of Part Five of the project financing from the County Counselor's office fails to show any information regarding the financial ability of the promoters of the Oz Project to make any contribution to the cost or improvement of the Sunflower area. The Oz promoters depend upon development incentives through public financing sources such as Star Bonds which are sales tax revenue bonds and Tax Incentive Financing of \$38,999,000. Oz also anticipates grant money and hopes to receive Federal and State grants in the millions of dollars.

Ken Davis, Mayor City of Countryside, Kansas testified in opposition to **HB 2573 (Attachment 11)**. In addition to the City of Countryside, he also represents five other northeast Johnson county cities, including Fairway, Mission Woods, Roeland Park, Westwood, and Westwood Hills. The State of Kansas needs to consider other alternatives for the disposition of this Federal territory. The level of contamination and estimated cost for remediation is expected to exceed the \$45 million in surety bonds negotiated in the consent order. In addition, annual funding for additional clean-up is dependent upon Oz having enough money left from operations after paying debt service, taxes and other expenses.

C. Edward Peterson, Office of the Mayor, Fairway, Kansas presented written testimony in opposition of **HB 2573 (Attachment 12)**.

Warren P. Koeller, Lenexa business owner presented written testimony in opposition to **HB 2573 (Attachment 13)**.

Patricia S. Ireland, Psychotherapist, Overland Park, Kansas presented written testimony in opposition to **HB 2573 (Attachment 14)**.

Greg L. Wilson, Businessman in Johnson County and the State of Kansas, presented written testimony in opposition to **HB 2573 (Attachment 15)**.

There being no further conferees to appear before the Committee, Chairperson Brownlee closed the public hearings on **HB 2573**.

Chairperson Brownlee addressed the committee members stating it was two years ago she began voting against Oz after careful research. There is a lot of concern about Oz paying back their debts, and the House version does include that they pay back money to Wyandotte County. It has been suggested to add wording that Oz would pay back KDFFA attorney fees. I would hope they do that whether it is in statute or not. In the past two years, I have heard from a tremendous number of citizens that do not support the Oz project and I feel to go forward with this is to ignore the representative form of government that we have. With that, we will not work this bill.

Meeting adjourned at 9:30 a.m.

Next meeting scheduled April 06, 2001 at 8:30 a.m.

SENATE COMMERCE COMMITTEE

GUEST LIST

DATE: APRIL 04, 2001

NAME	REPRESENTING
Ken Davis	City of Countryside
WARREN KOELLER	JOINT TAXPAYERS
Tom Stutz	Resident of Lawrence Ks
Gayla Frazier	Employees of Alliant Techsystems
Mary Morse	De Soto Chamber & Economic Develop.
Michael Cain	Resident / Student - Lawrence KS
Donald Parks	MAYOR OF DE SOTO, STEVE PRUDDEN
Jerry Cook	Overland Park Convention Visitors Bureau
John Anderson Jr	myself. - tax payers.
Bruce Dimmitt	Independent
James Williams	KIFA
Kelly Kustala	City of Overland Park
Ed O'Malley	OP Chamber of Commerce
Erik Santorius	K.C. Regional Assn. of Realtors
Pat Dulced	Self Alotk, Concess
Sherry Brown	KDOCEH
Brend Burke	OZ Entertainment
Wang Wood	SoC BOCC

# KANSAS WORKFORCE INVESTMENT PARTNERSHIP (KWIP) COUNCIL



Bill Graves, Governor

Gary Sherrer, Lt. Governor

Ken Bell, KWIP Chair

TO: Senator Karin Brownlee

FROM: Barb Reavis *for*

DATE: March 28, 2001

SUBJECT: Funding Streams for Employment  
and Training Programs in State Agencies

This has been an interesting project to undertake. I hope the questions raised in the Senate Commerce Committee about the spreadsheet KWIP offered are resolved by this correspondence. After we met I visited with Legislative Research and contacted the agencies. I'm pleased to report that we have gathered responses about any differences greater than ten percent between our collected figures and those offered by Legislative Research last year.

While verifying the figures, I discovered that one presented by KWIP needed adjustment. You will see that corrected figure on Line 24 for Offender Programs and the explanation is included on the Addendum. Because of that change, attached is a revised spreadsheet and new totals in Columns B and C. The total amount of funding that flows through Kansas government agencies for employment and training in 2001 is now stated as \$116,357,239.

The addendum consists of explanations provided by the agencies. They were all pleased to respond and help solve the mysteries for us all. As you will see, most of the differences lie within interpretations of the request, budget timing or fiscal year timing. If you have further questions, let me know.

CC: Senate Commerce Committee Members

**Kansas Workforce Investment Partnership (KWIP) Council**  
**Funding Streams for Employment and Training in State Agencies**  
(revised 3/28/2001)

	A	B	C	D	E	F	G
1	Program Name	KWIP Research 2001			Legislative Research 2000		Funding source
2		2000	2001		2000	2001	
3	<b>Department of Human Resources</b>						
4	Alien Labor Certification-KDHR	206,498	158,000		80,809	82,500	US DOL
5	Registered Apprenticeship Program-KDHR	90,137	84,326		85,704	86,938	SGF
6	Disabled Veterans Outreach-KDHR	620,457	620,000		633,000	646,000	US DOL
7	Job Service-KDHR	6,000,000	6,500,000		6,612,331	6,612,062	US DOL
8	Job Training Partnership Act-KDHR	15,200,000	discontinued		14,620,575	discontinued	US DOL
9	Workforce Investment Act-KDHR	121,736	12,647,817		0	12,647,817	US DOL
10	Kansas Occupational Info Coord. Comm.-KDHR	142,923	0		113,906	0	US DOL
11	Local Veterans Employment-KDHR	994,049	1,000,000		983,000	1,003,000	US DOL
12	Neighbor. Improve.and Youth Employ.-KDHR	102,181	100,000		150,000	100,000	SGF
13	NAFTA Transitional Adjustment-KDHR	141,718	150,000		125,000	125,000	US DOL
14	Older Kansas Employment Program-KDHR	243,437	230,358		256,561	257,881	SGF
15	Senior Community Services Employment-KDHR	984,133	1,039,000		900,067	900,000	US DOL
16	Trade Adjustment Assistance-KDHR	582,492	900,000		172,155	175,000	US DOL
17	Migrant & Seasonal Farmworker Programs			grants to non-state			US DOL
18	Wheat Harvest Program-KDHR	60,000	60,000		57,200	57,200	Penalty Fund
19	Work Opportunity Tax Credit-KDHR	102,043	145,000		121,092	123,500	US DOL
20	Welfare to Work-KDHR	4,500,000	4,500,000				US DOL
21	<b>Department Total</b>	<b>30,091,804</b>	<b>28,134,501</b>		<b>24,911,400</b>	<b>22,816,898</b>	
22							
23	<b>Department of Corrections</b>						
24	Offender Programs-KDOC	3,218,820	4,518,820		4,435,544	3,212,728	SGF & USDOE
25	<b>Department Total</b>	<b>3,218,820</b>	<b>4,518,820</b>		<b>4,435,544</b>	<b>3,212,728</b>	
26							
27	<b>Department of Commerce and Housing</b>						
28	IMPACT-KDOCH	7,100,000	11,000,000		11,000,000	4,000,000	KDFA
29	Kansas Industrial Training-KDOCH	1,800,000	1,800,000		1,800,000	1,650,000	EDIF
30	Kansas Industrial Retraining-KDOCH	1,800,000	1,800,000		1,800,000	1,650,000	EDIF
31	Training Equipment Grants-KDOCH	277,500	277,500		300,000	277,500	EDIF
32	Community Service Block Grant*	300,000		grants to non-state	3,826,280	3,828,204	US HHS
33	<b>Department Total</b>	<b>11,277,500</b>	<b>14,877,500</b>		<b>18,726,280</b>	<b>11,405,704</b>	
34							
35	<b>Department of Social and Rehabilitation Services</b>						
36	KansasWorks-SRS	6,933,696	8,261,530		216,300,000	214,100,000	US HHS
37	Vocational Rehabilitation-SRS	18,651,549	16,100,000		18,180,205	18,747,402	US DOE/DRS
38	Food Stamps Employment & Training-SRS	22,040	25,920				USDA
39	<b>Department Total</b>	<b>25,607,285</b>	<b>24,387,450</b>		<b>234,480,205</b>	<b>232,847,402</b>	
40							
41							

5.1

13

**Kansas Workforce Investment Partnership (KWIP) Council**  
**Funding Streams for Employment and Training in State Agencies**  
(revised 3/28/2001)

	A	B	C	D	E	F	G
42							
43	<b>Department of Education</b>						
44	Kansas Transition Systems Change Project	0	0		0	0	
45	Learn & Serve and Americorps-KSDE	1,288,254	1,300,000		860,841	863,317	Corp Nat Serv
46	Tech Prep-KSDE	1,399,839	1,198,635		1,085,253	1,085,949	US DOE
47	Carl Perkins Leadership Funds*-KSDE	1,150,000	1,200,000		449,915	452,860	US DOE
48	Secondary Vocational Education-KSDE	5,100,000	5,700,000				US DOE
49	Secondary Vocational Education-KSDE	22,500,000	25,000,000				SGF
50	Postsecondary Vocational Education-KSDE	5,100,000	5,700,000				US DOE
51	<b>Department Total</b>	<b>36,538,093</b>	<b>40,098,635</b>		<b>2,396,009</b>	<b>2,402,126</b>	
52							
53	<b>Kansas Board of Regents</b>						
54	Adult Basic Education-KBOR	2,767,903	3,240,333				US DOE
55	Adult Basic Education-KBOR	1,100,000	1,100,000				SGF
56	Technical Schools-KBOR	unable to extrapolate					
57	Community Colleges-KBOR	unable to extrapolate					
58	Universities-KBOR	unable to extrapolate					
59	<b>Department Total</b>	<b>3,867,903</b>	<b>4,340,333</b>		<b>0</b>	<b>0</b>	
60							
61	<b>Total Workforce Investment Funds (all funds)</b>	<b>110,601,405</b>	<b>116,357,239</b>		<b>284,949,438</b>	<b>272,684,858</b>	
62							
63	<b>Short Term Funds Flowing Through State Agencies</b>						
64	School to Careers**-KDOCH		16,800,000	4 yr-ends 2002			
65	One Stop Implementation Grants-KDHR	2,300,000	4,800,000	ends 6-30-01			US DOL
66	Mentoring-KDHR	184,324		one year only			US DOL
67	Call Center-KDHR	140,000		one year only			US DOL
68	National Toll Free Implementation-KDHR		125,000	ends 9-30-01			US DOL
69							
70	<b>Funds Flowing to Non-State Entities</b>						
71	Welfare to Work Competitive Grant	4,300,000		3 yr grant to non-state			
72	Indian and Native American Programs			grants to non-state			US DOL
73	Job Corps	4,800,000	6,400,000	grants to non-state			US DOL
74	Farmers and Ranchers Training	747,433		2 yr grant to non-state			US DOL
75	Employment and Training within HUD			grant to non-state			US HUD
76	Boeing Project-Discretionary Grant	1,650,000		3 yr grant to non-state			US DOL
77	TriCon-Discretionary Grant	462,288		3 yr grant to non-state			US DOL
78	Youth Opportunity			comp.- no current KS			US DOL
79							
80	* only about 6-7% of total is for employment and training						
81	**contains Non-Trad Occup; Comp Based Curriculum Ctr						
82	2/15/01						

1-3

13

**Kansas Workforce Investment Partnership (KWIP) Council  
Employment and Training Programs  
Agency Explanations for Differences Greater than Ten Percent  
Legislative Research 2000 : KWIP Research 2001**

**Kansas Department of Human Resources**

**Alien Labor Certification, Line 4-** The information Legislative Research had may have been from our budget document. When the budget information is prepared the Department does not always have final allocations for all of its programs. For example, this program is a Federal Fiscal Year program and funded October through September. Final allocation levels for the current year were not received until after the budget year had actually begun. Armand Corpolongo

**NAFTA Transitional Adjustment and Trade Adjustment Assistance, Lines 13 and 16-** The Trade Adjustment Act budget was significantly impacted by the approval of a petition filed on behalf of the Boeing Company in Wichita. The initial petition was denied and subsequently approved. The initial estimate on funding that was provided in our State budget did not include Boeing. This accounts for the increase in funds between the Legislative Research amount and what was presented to the KWIP. The NAFTA/TAA programs can experience major funding shifts during the Program Year. It is dependent on the number of petitions filed and approved with the Department of Labor. If a petition is approved, the Department of Labor has the discretion of awarding any amount it deems to be appropriate to cover the impacted workers. In most instances, a petition is funded incrementally, meaning the State is awarded only a portion of the funds. As additional funds are needed for the projects, the State must request additional funds be provided for each petition. This causes funding differences to occur depending on when the question was asked regarding funding. Armand Corpolongo

**Older Kansas Employment Program, Line 14-**KDHR proposed funding at the prior year's level. Due to cuts in State General funded programs, less money was available. Armand Corpolongo

**Senior Community Services Employment, Line 15-** The difference in funding in the Senior Community Service Employment (SCSEP) would appear to be the difference between the federal funds the State receives (\$899,000) and the added State and Local match that is added to the program budget (\$95,450 of Local match and \$4,444 of State match). If someone is looking at the total budget for the SCSEP program, it is \$998,932. If someone is looking at the federal funds coming to the State, it is \$900,000. It should be noted, however, the \$95,450 of local match is soft match and not actual funds that are available for expenditure. The soft match is in the time local staff spend on implementing and administering the program and is counted as a soft match in order to obtain the federal funds. Armand Corpolongo

**Work Opportunity Tax Credit, Line 19-**This is similar to the Alien Labor Certification Program. The information Legislative Research had may have been from our budget document. When the budget information is prepared the Department does not always have final allocations for all of its programs. This program is a Federal Fiscal Year program and funded October through September. Final allocation levels for the current year were not received until after the budget year had actually begun. Armand Corpolongo

### **Kansas Department of Corrections**

**Offender Programs, Line 24**-The figures provided by Legislative Research are more accurate. They reflect only the academic and pre-employment training programs. The ones provided by KWIP reflect the entire Offender Program which includes programs for sex offender treatment, substance abuse treatment, half-way house programs and mental health counseling. The accurate figures for employment and training programs for 2001 are \$3,218,820; the figure for 2000 was about \$1.3 million more. Per phone conversation with Secretary Charles Simmons

### **Kansas Department of Commerce and Housing**

**IMPACT, Line 28**-The source of the disparity in the IMPACT Program information resides with the budget the Department submitted to the Governor's Office. For fiscal year 2001, the Department projected a budget of \$4,000,000 for IMPACT. This budget represents, largely, what the Department estimated it would take to pay debt service on the various bond issuances that support the IMPACT Program.

This \$4,000,000 figure was vastly underestimated; it did not take consideration of the debt service on the most recent bond issuance (1999). Payment of debt service on the bonds is the major budget item for the Program. The figure you discovered (\$11,000,000) is my correction of that figure. The \$11,000,000 figure is based on estimated debt service during fiscal year 2001 and on past history of debt service payment. David Moore

### **Kansas Department of Social and Rehabilitation Services**

**KansasWorks, Line 36**-The difference between the \$212 million in TANF and the \$8 million was a problem of definition. The original \$212 million included the entire "Kansas Works" program. While this does sound like work programs, most of the expenditure were not dealing with any type of work skills development, but with TANF assistance payments, child care payments, eligibility determination, and other administrative costs. The \$8 million is the amount that is spent on employment related services. J. G. Scott

**Vocational Rehabilitation, Line 37**-The original \$18.7 million included the entire Vocational Rehabilitation budget. The difference between the \$18.7 million and the \$16.1 million is the removal of such things as the Kansas Commission for the Deaf and Hard of Hearing that provides services such as certifying sign language interpreters, advocacy, and referral services. It also removes the Client Assistance Program which serves an ombudsman role for this department. It also removes the Independent Living program which includes our assistive technology equipment and teaches people the skills they need to remain in their homes. J.G. Scott

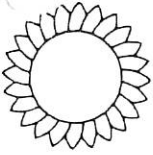


**Kansas State Board of Education**

**Learn & Serve and Americorps, Line 45**-The numbers reported by KWIP were based on actually FY 2000 expenditures, including grants awarded to other state agencies. In the state budget system, transfers between agencies are not reported as expenditures. (This happens so the expenditure will not be doubly reported by both agencies.) Since Legislative Research's numbers were taken from our department's FY 2001 budget request, their numbers do not include grants awarded to other state agencies. Ron Nitcher

**Carl Perkins Leadership Funds, Line 47**-Based on the format that was given to us by the Division of Budget, we reported state leadership funds that were allocated to support the Kansas Competency Based Curriculum Center and training for non-traditional occupations. Those amounts were \$456,324 for FY 2000 and \$445,273 for FY 2001, which are very similar to the amounts reported by Legislative Research. As you are aware, when you contacted [a KSDE staff member], she gave you the entire estimated allocations for State Leadership. Since all of the state leadership funds are ultimately used in one form or another to support workforce development and training, we believe it is appropriate to use the numbers [currently] reported by KWIP. Ron Nitcher

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TESTIMONY PRESENTED TO THE SENATE COMMERCE COMMITTEE  
ON BEHALF OF THE BOARD OF COUNTY COMMISSIONERS  
JOHNSON COUNTY, KANSAS IN SUPPORT OF H.B. 2573  
APRIL 4, 2001

\* \* \*

TO: THE HONORABLE CHAIRMAN AND MEMBERS:

Good Morning. My name is Doug Wood. I am the current chairman of the Board of County Commissioners of Johnson County and appear here today on behalf of the Board. We greatly appreciate the Committee holding this hearing and providing us the opportunity to present testimony in support of H.B. 2573.

Our Board initiated the passage of H.B. 2573, and we respectfully request that this Committee support the bill and recommend its passage to the full Senate. The bill, as we propose it, would extend the deadline contained in K.S.A. 74-8922 for obtaining Redevelopment Plan approval for a period of 12 months, from July 1, 2001 to July 1, 2002. As you are aware, that statute is the framework for consideration of the Oz Entertainment Company proposal to acquire and redevelop the Sunflower Army Ammunition Plant. This extension of time is requested by our Board so that we may take additional time to obtain an independent financial analysis of the project feasibility.

The issues surrounding the redevelopment of the Sunflower Army Ammunition Plant are very important for the citizens of the County and the State, and the proposal of the Oz Entertainment Company for that redevelopment is very complex. We have committed substantial hours to a review and study of that proposal. We have conducted six public comment sessions to obtain comments and information from the citizens. Our Board and State Officials need to ensure that we have carefully, thoroughly, and fully considered this project and arrived at a deliberate decision that is in the best interests of a majority of our citizens. We believe that that can best happen with an extension of the time and an independent financial review of the project.

Senate Commerce Committee  
April 4, 2001  
Attachment 2-1

We realize, in hindsight, that an independent feasibility study could or should have already been undertaken. However, in our initial considerations of the project we were coordinating our review with the Kansas Development Finance Authority, which was intending to retain the Deloitte, Touche firm to do such a study. Last summer, when KDFA decided, for legal reasons, not to conduct the study, we also concluded that an independent study might not be necessary.

Now, after our months of review, we believe that independent study can resolve many of the remaining questions about the project – one way or the other. We believe that a study is the best course of action for us to reach a considered decision, and we are pursuing that course expeditiously; to define the extent of the study and to retain our financial advisor to coordinate the review.

We ask for your support and request that you recommend passage of H.B. 2573.

March 23, 2001

State of Kansas Legislators  
Capitol Building  
Topeka, Kansas 66603

Dear Legislators:

I am writing to you as the Mayor of De Soto, Kansas concerning the Wonderful World of Oz project. The City of De Soto borders the area that is currently under consideration to be redeveloped by the Oz Entertainment Company. Attached to this letter is a Resolution by the City Council in support of Oz Entertainment Company redeveloping the Sunflower Army Ammunition Plant. For the welfare of the City and all of its residents, I urge you to extend the legislation authorizing the use of Star Bonds for redevelopment districts. The Oz project cannot move forward without this legislation and our great City of De Soto needs the project to maintain and build on the City's prosperity and continued growth.

Sincerely,

*Steve Prudden*

Steve Prudden

**RESOLUTION NO. 544**

**A RESOLUTION OF SUPPORT FOR THE JOHNSON COUNTY COMPREHENSIVE PLAN FOR SUNFLOWER ARMY AMMUNITION PLANT PROPERTY AND THE WONDERFUL WORLD OF OZ THEME PARK**

WHEREAS, the Federal Government via the United States Army has placed the Sunflower Army Ammunition Plant on "excess" and is in the process of disposing the property; and

WHEREAS, the Board of County Commissioners of Johnson County through their Planning and Development staff developed conducted public and informational hearings and adopted a Comprehensive Land Use Plan for the Sunflower Plant located in unincorporated Johnson County; and

WHEREAS, the Wonderful World of Oz, an Oz Entertainment Company, through its President, Mr. Skip Palmer, has proposed, planned and announced potentially using a portion of the Sunflower property for the location and development of a multi-use theme park entitled, the "Wonderful World of Oz"; and

WHEREAS, the City of DeSoto's current corporate boundary abuts the Sunflower property and proposed Oz park and the City has proposed an annexation of other land abutting said Sunflower Property; and

WHEREAS, the City has entered into a lease with Alliant Techsystems, Property Manager of the Sunflower property for lease and operation of its water treatment and sewer facilities located on the property and is currently serving all the existing tenants of the Plant and is hopeful of acquiring the water treatment facility and water rights from the General Services Administration for the benefit of the City of DeSoto, including providing water services to all development within the Sunflower Plant, including the Oz Park; and

WHEREAS, the City has reviewed the Comprehensive Plan for the future growth and development of the Sunflower Plant by Johnson County, Kansas, reviewed and studied the proposal by Mr. Palmer for the Wonderful World of Oz, and is extremely concerned that the Sunflower Plant be properly utilized for the future with anticipation that the City of DeSoto will be the governing jurisdiction over the Sunflower Plant at some date in the future.

NOW, THEREFORE, BE IT RESOLVED BY GOVERNING BODY OF THE CITY OF DESOTO:

SECTION 1: That the City supports, approves and endorses the Comprehensive Land Use Plan prepared and adopted by the Board of County Commissioners of Johnson County, Kansas as a guide for the future growth and development of the Sunflower Plant property.

SECTION 2: The City strongly endorses and supports the proposed Wonderful World of Oz theme park on the Sunflower property as a tremendous asset to the State of Kansas, Johnson County, and the DeSoto community.

SECTION 3: The City recognizes that without the proposed Oz theme park and the remediation proposed as part of that development, the development and remediation of the Sunflower Plant could take decades to adequately reclaim for future development.

SECTION 4: The City, therefore encourages the federal government, the United States Army, General Services Administration, Alliant Techsystems, the State of Kansas and Johnson County, Kansas to cooperate in the swift processing of all necessary plans, permits and agreements to permit the development of the Oz theme park.


ADOPTED by the City Council and APPROVED by the Mayor on this 23 day of July, 1998.

CITY OF DESOTO

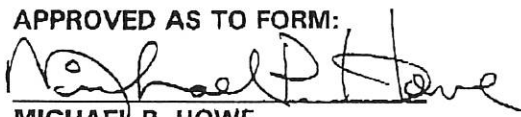
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STEVE A. PRUDDEN  
Mayor

ATTEST:

  
Lana R. McPherson  
City Clerk

APPROVED AS TO FORM:

  
MICHAEL P. HOWE  
City Attorney

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# CHAMBER OF COMMERCE

*"Building on Small Town Values"*

April 4, 2001

Re: Oz Redevelopment Plan Extension Requested by Johnson County  
Commissioners

Good Morning Senators:

My name is Marge Morse and I serve as Executive Director for both the De Soto Chamber of Commerce and De Soto Economic Development Council.

Monday, I delivered to all Senators and Representatives a packet containing endorsements for the Oz Redevelopment Plan from De Soto Chamber and Economic Development Council, Lenexa Chamber of Commerce, Olathe Chamber of Commerce, Overland Park Chamber of Commerce, Shawnee Area Chamber of Commerce and the K-10 Corridor Association, Inc. These organizations represent several thousand businesses.

Our members recognize the tremendous impact the Oz project can have on the local economy. De Soto U.S.D. 232 school district covers over 100 square miles and will experience growth in the next 5 years, which could increase our student population by as much as 10,000 additional students. Our district has a number of people on fixed incomes, lower incomes and senior citizens. Tourism dollars generated could provide much needed property tax relief for a district, which currently has the highest school tax in the county. We must have economic development to offset this residential growth.

The Oz Redevelopment Plan is the best of all possible worlds, with land for parks, schools, research facilities for Universities, golf courses, a world class technology center (which students can have access to) and, yes, a Theme Park for families in the Midwest to have a Disney like experience, close enough they can afford to attend.

We have united as one voice to ask that you vote to extend for one year the Star Bond Extension requested by the Johnson County Commissioners.

Thank you for your time and consideration of our request.

Senate Commerce Committee  
April 4, 2001  
Attachment 4-1

Gayla F. Frazier  
10015 Rosehill Road  
Lenexa, KS 66215  
913-888-2385

April 4, 2001

### STATEMENT FOR THE KANSAS SENATE COMMERCE COMMITTEE

I am Gayla Frazier, Plant Manager for Alliant Techsystems Inc., operating contractor of the Sunflower Army Ammunition Plant. I have worked at the plant for 33 years and have been plant manager since June 1995. First I would like to say I appreciate this opportunity to present my opinion to the Senate Commerce Committee.

Most, if not all of the sixty-seven employees at the Sunflower Army Ammunition Plant support the Wonderful World of Oz. There are several reasons:

- This project is the best and fastest way to achieve environmental cleanup of the plant, currently estimated at \$40 to \$50 million. If Oz were responsible for cleanup, a respected, experienced contractor with extensive knowledge of the plant would be employed to complete cleanup under a Consent Order with KDHE. Cleanup would start when construction of the theme park and resort begins and would be scheduled for completion within 15 years. If the Army has to fund clean up, funding would come from taxes paid by you and me, and since the Army routinely reprioritizes funds, I would be surprised if cleanup were completed within 25 years.
- The Oz Entertainment Company has agreed to transfer over 3000 acres around the plant boundary for the Johnson County Parks System, providing a buffer between neighboring properties and the resort boundary. Neighbors would still have their view of natural areas that now surround the plant. Other public benefit transfers, including land for K-State, DeSoto and the DeSoto School District are planned.
- The Oz project includes building a facility that would be a center of technical excellence for commercial and military digital arts and science. Technically skilled individuals would be employed to develop, build and maintain the high-tech features of the park.
- Finally, as a taxpayer, I believe Oz would attract visitors to this area who would contribute significantly to the economy. If Branson, Missouri can attract 5.9 million visitors each year in its seasonal environment, a world-class theme park and resort can easily attract as many.

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4 APRIL 2001

SUBJECT: SALE OF SUNFLOWER ARMY AMMUNITION PLANT

GOOD MORNING, MY NAME IS TOM STUTZ.

I HAVE LIVED LAWRENCE KANSAS FOR THE PAST 26 YEARS AND AM RECENTLY RETIRED FROM A FEDERAL CIVIL SERVICE CAREER OF OVER 41 YEARS.

I WAS THE ARMY'S INSTALLATION MANAGER AT THE SUNFLOWER ARMY AMMUNITION PLANT. AS THE COMMANDER'S REPRESENTATIVE AND ADMINISTRATIVE CONTRACTING OFFICER FOR THE PAST 20 YEARS, I WAS RESPONSIBLE FOR OVERSIGHT OF INSTALLATION OPERATIONS AND ADMINISTRATION OF VARIOUS CONTRACTS BETWEEN HERCULES INCORPORATED/ALLIANT TECHSYSTEMS AND THE U.S. ARMY.

NOW SPEAKING AS A CITIZEN OF THE LAWRENCE COMMUNITY, I FEEL IT WOULD BE WISE TO TRANSFER/SELL SUNFLOWER ARMY AMMUNITION PLANT IN ONE TRANSACTION.

BACKGROUND: SUNFLOWER WAS DETERMINED EXCESS TO ARMY REQUIREMENTS 27 SEPTEMBER 1997 ALONG WITH FOUR OTHER ARMY AMMUNITION PLANTS UNDER THE OPERATIONS SUPPORT COMMAND. THESE INSTALLATIONS, ALONG WITH SEVERAL OTHER EXCESS AMMUNITION PLANTS, ARE IN VARIOUS STAGES OF THE DISPOSAL PROCESS.

WHEN THE GENERAL SERVICES ADMINISTRATION ACCEPTED THE RESPONSIBILITY TO DISPOSE OF SUNFLOWER, THEIR INITIAL PLAN WAS TO DISPOSE OF THE ENTIRE INSTALLATION IN ONE ACTION. I BELIEVE THEIR DECISION WAS BASED ON LESS THAN DESIRABLE EXPERIENCES WHERE INSTALLATIONS ARE BEING SOLD/TRANSFERRED, ONE PARCEL AT A TIME. THIS HAS LEAD TO EXTENDED PERIODS OF TIME TO COMPLETE THE TRANSFERS/SALES.

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ONE OF THOSE INSTALLATIONS WAS DETERMINED EXCESS PRIOR TO MY TRANSFER TO SUNFLOWER AND THE DISPOSAL ACTION IS STILL NOT COMPLETE. OF THE INSTALLATIONS DETERMINED EXCESS WHEN SUNFLOWER WAS DECLARED EXCESS, ONLY PARCELS OF TWO OF THEM HAVE BEEN SOLD/TRANSFERRED.

FROM 1995 THROUGH 2001, THE ARMY WILL SPEND OVER \$35,000,000 FOR EXPLOSIVE DECONTAMINATION OF FORMER PRODUCTION FACILITIES. ESTIMATED COSTS TO COMPLETE THE EXPLOSIVE DECONTAMINATION WERE NOT FINALIZED WHEN I RETIRED. IN ADDITION, SINCE 1993 THE ARMY WILL HAVE SPENT JUST OVER \$15,000,000 FOR ENVIRONMENTAL INVESTIGATION AND REMEDIATION. AS I RECALL, THE ESTIMATED COST TO COMPLETE ENVIRONMENTAL REMEDIATION IS APPROXIMATELY \$38,000,000. BASED ON THE RATE SUNFLOWER HAS RECEIVED ENVIRONMENTAL REMEDIATION FUNDING, IT MAY BE 2020 BEFORE THE RESTORATION IS COMPLETE. AND THAT ASSUMES REQUIRED FUNDING FOR COMPLETION OF EXPLOSIVE DECONTAMINATION IS RECEIVED IN A TIMELY FASHION.

I WOULD CONCLUDE BY SAYING THAT, BASED ON MY EXPERIENCE, ONE SHOULD NOT EXPECT AN INCREASE IN APPROPRIATED FUNDING TO COMPLETE EXPLOSIVE DECONTAMINATION AND ENVIRONMENTAL REMEDIATION FOR SUNFLOWER. SUNFLOWER SIMPLY DOES NOT HAVE AS SERIOUS A CONTAMINATION PROBLEM AS MANY OTHER INSTALLATIONS COMPETING FOR REQUIRED FUNDING.

THANK YOU FOR THE OPPORTUNITY TO COMMENT ON THIS VERY IMPORTANT ISSUE IN OUR COMMUNITY.

TO: Senate Commerce Committee  
FROM: Michael Cain, law student, University of Kansas  
DATE: April 4, 2001  
RE: Testimony in support of Board of Johnson County Commissioners request for legislative extension concerning project proposed by the OZ Entertainment Company.

My name is Michael Cain and I am a law student at the University of Kansas, Lawrence, KS. I would like to thank the Senate Commerce Committee for the opportunity to express my views today. I would like to begin by commending the BOJCC, and this Committee, for their diligence and instance that the Sunflower Ammunition plant be re-developed in a manner most beneficial to all citizens of the great state of Kansas. I come before this Committee today to offer a student's prospective on the OZ project and to voice support for both the OZ Entertainment Company and the Johnson County Board of Commissioner's request for an extension of the legislation concerning the proposed OZ land development project.

As a student at KU I first became interested in the OZ project over two years ago. I have long been interested in pursuing a career in the entertainment and digital media industries, and saw an opportunity to supplement my legal education by studying this project and the various issues concerning it. As a college student in the mid-west, opportunity for exposures to the entertainment/digital media industries, as well as the jobs and internships these industries provide, is limited. During my time at KU, I have seen many of my classmates leave this state because jobs in their chosen career fields have not been available or have simply not existed. Additionally, many Kansas high school students choose to continue their studies or begin their chosen careers outside of the state for the same reason. The public debate over the OZ project has generated much discussion concerning the monetary value of the land in question. I believe, however, that keeping the brilliant and creative minds that continually leave the state of Kansas upon high school or college graduation has a value that cannot be measured in dollars. I am not suggesting that the construction of a theme park in DeSoto will cause all students interested in careers in digital media and entertainment to make homes in the state of Kansas. I would argue, however, that if the OZ project is allowed to proceed to its completion, it would provide valuable educational and employment opportunities for students which currently do not exist. These opportunities will positively effect not only individual students, but also the State of Kansas as a whole. This cannot happen, however, if the BOJCC's request for a legislative extension is not granted, and I encourage this Committee to support the Commissioners' request.

I would now like to address what I believe to be unjustified personal attacks and attempts at character assassination by opponents of the OZ project aimed at the OZ management team, which have received much media attention. Opponents of OZ are quick to tell any newspaper or reporter who will listen that the directors of this company are difficult to work with and guilty of unethical business practices. In my experiences with the OZ Company nothing could be further from the truth. As I stated earlier, I first became interested in this project as a means to supplement my personal education concerning these industries. At this time, I contacted various OZ directors and asked to "pick their brains" on various

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subjects I could not learn in the classroom. Every representative of this company that I have had the opportunity to speak with have enthusiastically met with me, answered any questions I have had, and generally encouraged me as I seek to begin my career. I find it difficult to believe that a company, which is supposedly so difficult to work with, would be so forthcoming and helpful to a college student who has no money to invest in the company and no real political influence. While I am sure that the directors of OZ have more pressing issues on their agenda than dealing with a college student, the fact that this company has been so up front with me is why I am here today. I would encourage this Committee to disregard any mudslinging tactics employed by OZ opponents and support an extension.

I would like to thank the Committee for the opportunity to express my views today, and would encourage you all to do what is in the best interest of the State of Kansas and support an extension of the legislation concerning this project.



**Testimony for the Senate Commerce Committee**

**Regarding the extension of the sunset pertaining to the Oz Legislation**

April 3, 2001

Madam Chair and members of the Committee:

On behalf of the Overland Park Chamber of Commerce, I urge your support for extending the special Wonderful World of OZ STAR bond legislation for a period of one year. Our Board of Directors supports the decision of the Johnson County Commission to requests this extension.

As you may know, the redevelopment project proposed by OZ Entertainment Company, Inc. could be a significant economic boost to the Johnson County and Kansas economies. The Overland Park Chamber of Commerce supports the proposed redevelopment project and would appreciate your assistance in extending the sunset provision.

The Wonderful World of OZ project has seen substantial improvements since first introduced to the Kansas Legislature. This extension would allow for a thorough independent feasibility study of the project.

Please contact Ed O'Malley, Governmental Relations Manager for the Overland Park Chamber of Commerce at (913) 706-0684, if you have any questions.

Sincerely,

A handwritten signature in black ink that reads "Jon Stewart". The signature is fluid and cursive.

Jon Stewart  
Chairman of the Board

**KANSAS SENATE COMMERCE COMMITTEE  
SENATOR KARIN S. BROWNLEE (CHAIR)  
SENATOR NICK JORDAN (VICE-CHAIR)**

**Wednesday, April 4, 2001**

Jerry Cook, President

Overland Park Convention & Visitors Bureau

9001 W 110<sup>th</sup> Street, Suite 100

Overland Park, Kansas 66210

Chair Senator Brownlee, Vice-Chair Senator Jordan and Senate members of the Commerce Committee, thank you for the opportunity to appear before you this morning in testimony supporting the extension of the Kansas Legislation enabling the "Land of Oz" project to move ahead within the approval process.

The "Land of Oz" project is an enormous undertaking that includes several complicated facets to comprehend and multiple difficult strategies, which need to be enacted to ensure a successful completion. Such a process takes time. Likewise, the Sunflower Ammunition Site includes the entanglement of several governmental bodies, each possessing a set of expectations and resultant outcomes. Such resolve takes time.

Let me illustrate with an interesting analogy. The Sprint World Headquarters Campus in Overland Park is on approximately 265 acres of privately held land. The approval process took two years. The developmental process anticipated

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seven years thereafter. Upon completion, the Campus projects to house almost 16,000 employees generating an annual payroll of \$1.12 billion. I believe we each understand the economic impact that such a project has upon Johnson County and the State of Kansas.

The "Land of Oz" is a 9,000-acre project that is publicly owned. Its current plan calls for multi-dimensional use rather than a single-purpose use. The site contains a contamination factor as opposed to a "clean" Sprint Campus site. While the "Oz" project is similar to the "Sprint Campus" in size and cost, the remaining detail, not to be overlooked, is that 8,775 acres remain for development and resultant economic impact to cities, school districts, the county and state.

My simple point is, that as clean as the "Sprint World Headquarters Campus Project" was, it will take multiple years to complete, including two years of approval. The proposal to redevelop 9,000 acres in a master plan including multi-dimensional use, not to mention an extensive clean-up process, certainly merits a similar, if not a longer period of time. The Commissioners of Johnson County are requesting additional time to conduct an independent economic impact study to validate or deny projections by The Oz Entertainment Company. Such a process takes time. Such a project, a one of a kind project, deserves additional time. Thank you for your consideration.

## SOME THOUGHTS ABOUT OZ

An examination of Part Five of Project Financing in the papers received from the county counselor's office fails to show any information regarding the financial ability of the promoters of the Oz Project to make any contribution to the cost or improvement of the Sunflower area.

The "Private Funding" sources suggest "Investor Capital" and issuance of stock.

They propose a bank loan for major construction.

They propose capital lease funds from amusement companies and rental space.

They propose sponsorship agreements, although no specific dollar amount is attached to the source".

They propose funded capital improvements by unknown private companies for infrastructure costs.

And, they propose revenue from project financing for a Resort Hotel, etc. by unknown developers.

No information is given as to the net worth financial backing by any of the promoters of Oz or any corporations supporting them. None.

The Oz promoters depend upon development incentives through public financing sources.

They propose use of Star Bonds which are sales tax revenue bonds, which include:

- \* Retailers sales tax at rate of 4.9%.
- \* Additional 2% sales tax in the redevelopment district.
- \* Transient guest tax of 2% in the district.
- \* The county's general sales tax of one half of one cent-0.5%

Oz also proposes T.I.F. - Tax Incentive Financing of \$38,990,000.

The T.I.F. Bonds, if approved, would be issued for 30 years and would be repaid by real estate taxes from O.E.C. to the county. (Taxes paid to the school district will not be used for T.I.F. funding. Other real estate taxes in the county would be used for such financing).

Oz also anticipates grant money and hopes to receive Federal and State grants in the millions of dollars.



And Oz proposes the Federal, State and the City of DeSoto to pay for highway improvement in an estimated amount of \$29,000,000 for the Federal government, \$6,000,000 for the county and \$2,000,000 by the City of DeSoto.

There are many reasons why the Oz proposal should be denied by the Board of County Commissioners.

There is no proof or showing that the project can be started or begun in such manner as to bring financial support to result in success. With no net worth showing on the part of the promoters of Oz, why or how can private financing be brought about by sale of bonds by Salomon, Smith Barney or any other investment broker? Certainly nothing in papers given by Oz would cause a person to buy bonds which are not backed by some other source than the developer. Thus, the issuance of bonds may likely fail, and where is the money to pay a builder or contractor?

Even if money could be found somewhere to build a theme park with amusement vehicles, who knows whether it will attract families from Indiana or Kentucky and elsewhere in adequate numbers to make it a successful venture. With Worlds of Fun close by in Missouri, other amusement centers, and the established East and West coast of Disneyland places; it is, at best, a questionable and skeptical project. If private for profit corporations wish to run the risk, they should bear the financial risk rather than seek the support and risk from the taxpayers of the county.

The 9,000 acres of land, on which the Sunflower Ordinance is located, is public property. It is now owned by the Federal Government. If it wasn't burdened by the environmental contamination from the long-time use of the land for munitions production, the land would most likely be deeded to the county government through the state, and the matter would be ended. Now, however, the trade-off of the clean up of the land allows for the intervention of Oz and privately paid costs of remediation. And, Oz then wants title to the entire tract when, it is said, they only plan on a 500 acre theme park. This brings value and costs into play.

It is said the cost of bringing the plant to a level of household use of the land will cost \$36,000,000. If this amount is made available from funds based upon public financing and taxes with no terminal date or time established, many questions are left in limbo as to the ultimate use of the bulk of the 9,000 acres.

The public should not be placed in a position of dependency on the promoters of Oz to develop parks on any part of the land. Yet, that is what is now proposed.

When the land is finally cleaned up for future use, who will be the owner, and who will benefit? The farm land in the vicinity of the plant is now selling for as much as \$10,000 per acre. This would result in \$90,000,000 in value. And certainly, if that is high today, it may well not be high within the next few years.

It is not reasonable to believe that the taxpayers of Johnson County should be called upon to support a long range program of trading \$36,000,000 for \$90,000,000 with the difference to be turned over to Oz.

The county should deny the Oz proposal - let the government continue and complete the cleanup. Much, if not all, of the 9,000 acres can be utilized by the county for parks and by the State University and Kansas State University for government use.

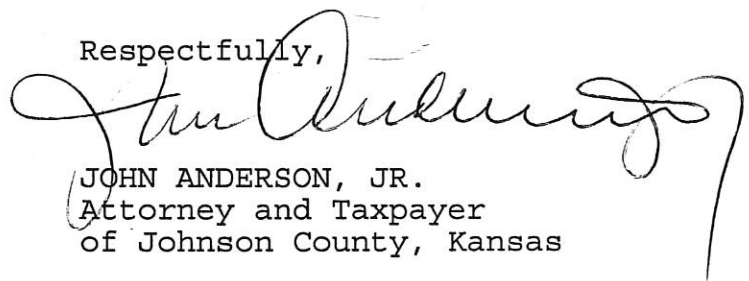
Based upon any review of the entire matter of turning over title to the 9,000 acres of Sunflower land in Johnson County to promoters for a for-profit recreation or theme park project, is pure nonsense. The Oz promoters haven't shown any simple facts or proof that they have any ability or expertise in making a success of a theme park. They show absolutely no money backing to carry on a private for-profit activity that could succeed as a business activity.

This Oz group and all its actions truly appear to have come down a yellow brick road with play animals from fantasy land.

The tax payer of Johnson County and the State of Kansas should not be asked to support this matter with tax funds and contribute 9,000 acres of valuable land in Johnson County to such a program.

It is respectfully submitted this committee of the Kansas Legislature should not lend and/or support to the continuation of the entire matter of "Land of Oz" and deny any further or future state actions.

Respectfully,



JOHN ANDERSON, JR.  
Attorney and Taxpayer  
of Johnson County, Kansas

## TESTIMONY PRESENTED ON APRIL 4, 2001 TO THE KANSAS SENATE COMMERCE COMMITTEE

Honorable Sen. Karin Brownlee, Chairperson; and  
Members of the Senate Commerce Committee,

I speak in opposition to the adoption of HB 2573, the request for an extension on the STAR Bond legislation for OZ!!!

In addition to the City of Countryside, I also represent five other Northeast Johnson County cities, including Fairway, Mission Woods, Roeland Park, Westwood, and Westwood Hills. For the past two years, these and other cities in the first district have lacked representation on the Board of Johnson County Commissioners, because Commissioner Gary Anderson has had a conflict of interest concerning the county's debate about this Federal land transfer.

For whatever reason, the State of Kansas has chosen not to consider other alternatives for disposition of this Federal enclave. The original reason for choosing Oz Entertainment Co. (OEC), a group lacking any substantial track record, has never been clear and defies all notion of responsible stewardship for these 9065 acres of land.

It's time for the State of Kansas to ask the United States General Services Administration (GSA) to consider a post-Oz scenario, and look at all available options for the use of the Sunflower Army Ammunition Plant in DeSoto, KS.

Here are eighteen reasons why you should not perpetuate the OZ charade:

1. No residential development can take place at the Sunflower Army Ammunition Plant until this contaminated land is restored to residential standards; which OEC is slated to take 10 to 12 years to accomplish. However, the Army states they are on schedule to complete the cleanup within the next 10 years.
2. Eleven new contaminated sites have recently been added to the fifty-four (54) identified in the consent order between Kansas Department of Health and Environment and Oz Entertainment Co. (OEC), raising the total number of contaminated sites to sixty-five (65); most of these sites are where the proposed residential housing is to be built.
3. The level of contamination and estimated cost for remediation is expected to exceed the \$45 million in surety bonds, negotiated in the consent order; in addition, annual funding for additional cleanup is dependent upon OEC having enough money left from operations after paying debt service, taxes and other expenses.

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4. The US Army issued its Findings of Suitability for Early Transfer (FOSET) for the Sunflower property, without allowing the public to comment on a complete document, containing the terms of the KDHE / OEC consent order for remediation of the land. This was published prematurely in July 1999 and did not take into account the current knowledge of contaminated levels on this property.
5. The OEC proposal is an exchange of 9,065 acres of land for a commitment to remediate the property to residential standards, consistent with its intended use; however, the Army is also obligated to clean up the land to an equivalent standard.
6. OEC has only budgeted for the purchase of surety bonds and insurance instruments to cover the liability in case they default on their obligation. They are counting on operating margins from the OZ Theme Park to pay for the actual remediation of the land.
7. The OEC operating profit margins will only be available if, and this is a BIG IF, their projected attendance levels actually achieve (never are less than) the 2.8 million ticket sales per year, certainly an extraordinary feat by local seasonal track records at Worlds of Fun (1.1 million/year).
8. The infrastructure costs associated with the OEC proposal are to be funded by \$12,000,000 bonds, using the good credit of Johnson County. If a default on these bonds were to occur, it would be the County's credit, not OEC's, which would be on the line.
9. Wyandotte County had to pay a \$5,000,000 bond on the Sandstone project, when Mr. Robert Kory, OEC chairman and his colleagues shepherded the project into bankruptcy.
10. The OEC recently presented projected benefits to Johnson County, which are inflated with indirect revenues, and understated county costs, lacking the standard inflationary factors over the projected ten-year period.
11. The OEC budget conveniently pays back pre-1999 investor costs at a tune of \$14,500,000 without including any direct remediation expenses in the budget.
12. Under the current Star Bond agreement, annual excess sales tax revenues can be diverted to pay private investor debt, for up to thirty years.
13. The OEC credibility has been called into question on numerous occasions, and their \$775,000 debt to Wyandotte County has not been repaid, even though the company claims that it has invested \$35 million into this project.
14. OEC intends on taking tax breaks for donating the public land to public entities (ie., K-State, KU, City of DeSoto, Johnson County Parks & Recs., DeSoto

School District), even though they would be receiving these 9,065 acres of land in exchange for a PROMISE to remediate the contamination.

15. OEC initially claimed it was not going to request TIF financing, then reversed itself and requested \$40 million in TIF.

16. OEC wants KDOT to pay \$29 million for an interchange on K-10 highway, which hasn't even been approved through the prioritization process.

17. A pending lawsuit against GSA must be resolved, before any transfer of land can take place.

18. OEC has had ample opportunity to promote its project. To-date, they have been unconvincing and have wasted thousands of hours of our public officials' precious time and energy (read \$\$\$).

I trust that you will make the right decision, and pull the plug on this project!!! I urge you to vote NO on HB 2573.

Thank you,  
Ken Davis, Mayor  
City of Countryside, KS

5808 W. 61<sup>st</sup> Terrace  
Countryside, KS 66202  
(913) 831-4388



Office of the Mayor

April 3, 2001

Senator Karin Brownlee  
State Senate  
State Capital  
Topeka, KS 66612

Dear Senator Brownlee:

It is difficult to find fault with a proposal to study in more detail a project of the magnitude of the Oz theme park development. However, given the scale of the project, the State should join in the concerns the Johnson County Commission expressed by their vote and subsequent decision for additional study. Shouldn't the State also be concerned about assuring that its financial stake in this project still makes sense? If the subject of the underlying stability of the Oz project is to be examined, then isn't it appropriate that the State's interest also be subjected to continuing and contemporaneous scrutiny that would reflect such factors as the changing economy, changing demands on State resources, etc.?

I respectfully suggest that if a study is to be completed, HB 2573 should be amended to include a study of the information necessary for the State to make a determination that its present commitment to the Oz project remains reasonable in light of circumstances that have changed since the plan was first approved.

Sincerely,

  
C. Edward Peterson

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April 4, 2001  
Attachment 12-1

Wednesday, April 4, 2001



Warren P. Koeller

26561 W. 109<sup>th</sup> Street  
Olathe, Kansas 66061

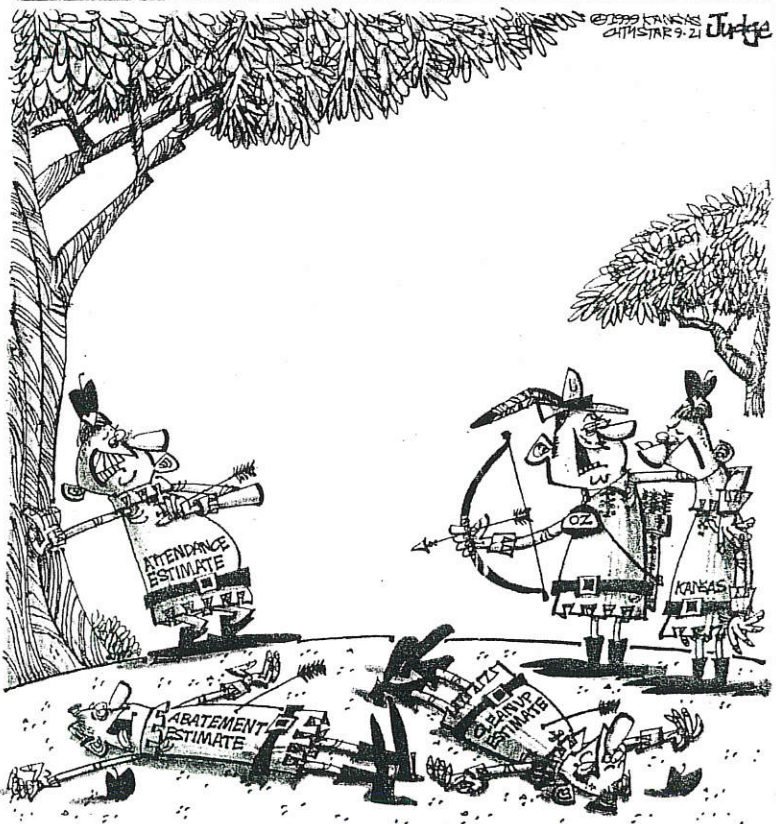
True Kansas native  
Lenexa business owner



- STAR bond legislation was passed for a two year period – in two years, the Oz promoters have **not** convinced the citizens of Johnson County or the Commissioners of Johnson County to proceed ahead on the project. The STAR bond legislation **should not** be extended.
- HB 2573 contains an amendment that will essentially “force” OEC to pay back the feasibility money of some \$750,000 to Wyandotte County 120 days after the bill is filed. Doesn’t it seem kind of strange that OEC has supposedly invested some \$30million in pre-development costs yet they must be **forced** to pay Wyandotte? OEC can afford to hire a lobbyist, the finest PR firm, have a full-time payroll in Kansas City and yet cannot pay Wyandotte. Also note: The “source and use of funds” budget calls for OEC to re-imburse themselves from the STAR bond proceeds for “Pre-development costs” – guess what the first check written will be?
- OEC will use 82% of the 8% sales tax generated to fund the initial STAR bonds. If, in fact, the STAR bonds are paid in the 16 years they predict, they get to use 82% of the 8% to buy “improvements”. To put this in perspective, paying for a new ferris wheel increases the “equity” of OEC – this is the same as someone paying for the house you live in and giving you the title.
- The financial projections from OZ (OEC) were obviously prepared “from the bottom up”, that is, they made the revenue projections and gross operating margins whatever number they needed to make the projections work. This starts with “attendance” – they predict the park will pull in 50% more people per day than San Diego’s Sea World – this assumes 185 days open with no accountability for “heat days”, “rain days”, “snow days” or any weather related hazards. They also predict they will generate gross operating profit at a level that exceeds Worlds of Fun, Six Flags and Disney by some 35%. Ask yourself “how could a company with zero experience out perform Disney with 50 years experience and Worlds of Fun with 25 years experience?”.
- Why is OEC willing to pay \$32million and possibly more for the cleanup? First of all, Sunflower will get cleaned with or without OZ and in the same time frame. OEC has admitted the residential real estate development will be a separate entity so if the theme park fails, the development will continue. Simple math shows that if you develop 6,500+ acres, the bottom line could easily be \$200+million. Why would anybody put a theme park in a location that does not have the freeway infrastructure to support it? This is a pure and simple “land grab” disguised as a tourist attraction.
- To make this park work, 35% of the entire KC metro area **must** visit the park **each year** and spend almost \$60 per person - Traffic on K10 will increase by almost 50% - fact.
- What about the K10 interchange? What about the infrastructure roads? Statements like “Oh by the way” will be prevalent.

# z Theme Park Traffic analysis

Attendance	3,800,000	Days	185		
Average per day	20,541				
Attendance is estimated at 3.8 million visitors per year (stable year - expected level)					
Number of days open is estimated at 185 see page 66 "Business Viability" - Feasibility Study					
	people per car average	<b>4</b>	<b>3.5</b>	<b>3</b>	
Cars for regular visitors - both directions		10,270	11,737	13,694	
Cars for employees - both directions		4,000	4,000	4,000	
Vendors - deliveries, maintenance, etc.		<u>500</u>	<u>500</u>	<u>500</u>	
Total additional cars per day on K10		<b>14,770</b>	<b>16,237</b>	<b>18,194</b>	
Present traffic per KDOT - East from I35 to K7		<u>36,000</u>	<u>36,000</u>	<u>36,000</u>	
Total cars with OZ - "stable year"		50,770	52,237	54,194	
<b>Percent increase over present level</b>		<b>41%</b>	<b>45%</b>	<b>51%</b>	
According to Skip Palmer, Oz President "We've done a lot of traffic planning" "The most important question, the one people ask the most, is what it will mean for K10. There will be no need, now or in the future to add additional capacity to K10". "Our peak arrival and departure time will be Saturday at 10am, a noncommuter time".					
Have any of you ever witnessed traffic on K10 at 10am, Saturday morning, game day in Lawrence?					



"OF COURSE THE KEY TO OUR RELATIONSHIP IS TRUST!"



"AND AS LONG AS WE HIT IT, EVERYTHING SHOULD BE OK!"



13-3

**End of OZ - traffic analysis based on a reasonable gross profit per patron: \$28 ticket plus \$10 on "stuff"**

(1) Patrons daily = <b>18,543</b> (for six months)	(2) Price per admission = <b>\$28</b>	(3) Additional gross profit per patron (food, etc.) = <b>\$10</b>	
(4) Employees work just 6 mo	<b>2,500</b>	Employees that work all 12 months = <b>400</b>	
Average monthly wage including fringes - 6 mo people	<b>\$2,333</b>	Avg mo. wage for 12 mo. people = <b>\$4,400</b>	
<b>Cash flow</b>			
<b>Annual Amt.</b>			
Wages - 6 mo employees	\$ 34,995,000		
Wages - 12 month employees	\$ 21,120,000	<b>Patrons necessary based upon the above amounts and cash flow:</b>	
Fringe benefits @ 20%	\$ 11,223,000		
Maint - equip - guessed @ \$200k/mo	\$ 2,400,000		
Capital Lease pmts \$57m @ 10%, 7 yr	\$ 11,355,000	Gr Profit per	
Utilities - guessed @ \$400k/month - 6	\$ 2,400,000	Patron	
Repay \$189m bonds @ 6% - 30 yrs	\$ 13,580,000	<b>Annual Patrons</b>	
Less: Sales tax revenue - bonds	\$ (13,580,000)	<b>3,337,711</b> (5)	OR
Remediation - cleanup *	\$ 3,500,000		<b>556,285</b> Monthly for 6 months
\$44 mil Preferred stock at 10%	\$ 4,400,000		
Infrastructure & JO. Co.	\$ 5,000,000		
All other expenses (adv., legal, etc.)	\$ 8,000,000	Cash in must	\$ 126,833,000
		Gross sales =	\$ 190,249,500
Sub-Total	\$ 104,393,000		18,543 daily for 6 months
			1,545 hourly (12 hrs)
		People per car	26 per minute
Interest-Junk bonds-\$187 million @ 12% (see (8) below)	\$ 22,440,000	Cars per hour	3
		Both directions	515
<b>Total cash flow outgoing</b>	<b>\$ 126,833,000</b>		1,030
		12 hrs per day	12,362 additional cars per day + employees & vendors
Patrons required to break even (5)	<b>3,337,711</b>	employees	2,900 and vendors
Gross profit required per patron (6)	\$ 38	<b>Total cars</b>	<b>15,262</b> (7) per day including employees and vendors

\* Based upon \$40million cost divided by 12 years

(1) This is derived from calculating the total number of patrons at \$38 gross profit each to "break even" divided by 185 days.

(2) Averaged from adult and child ticket - per OZ officials.

(3) Assumes every patron will spend \$10 for food, novelties and so on. OEC claims every patron will spend an additional \$32 on "stuff".

(4) Oz estimates around 3,000 full time equivalents of which 400 or so would work 12 months of the year.

(5) This calculation results by simply dividing "Total cash flow outgoing" above by the Gross Profit per patron (6 above).

(6) This is the average ticket price (2 above) plus the additional gross profit per patron (3 above).

(7) Oz claims around 8,000 cars per day, I think they overlooked employees and vendors.

(8) No allowance for amortization of the principal

This analysis was prepared with data derived from the two, public meetings and "guesses" on my part. If the pro-forma prepared by OZ and Bear-Stearns looks anything like this, there isn't a chance that anyone would buy the bonds when they understand the attendance figures required for "break even" are more than double what Worlds of Fun now pulls.



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April 03, 2001

To: The Senate Commerce Committee.  
From: Pat Ireland, Olathe, Kansas

I am against the extension for Oz because like the majority of Johnson countians, I do not want a theme park at Sunflower or anywhere in the county.

Just as importantly, this 9,000 acres of prairie land provides an unusual opportunity for public use such as parks and preserves which is how 4 other former contaminated Army sites are being used. And non-developed, or wild or open space, parkland does not cost anything to maintain according to Bill Mosen of the Johnson county park department. The county was talked out of applying for its original 5,800 acre park request due to the Oz plan, and is giving up 1,000 acres of the 2,800 acres approved for park use by the U.S. Park Service to accomodate the Oz plan.

But regardless of what the land is used for, the Oz plan is bad for the county and the state. It is state business because the Oz group has showed a lack of good faith. Would the Kansas Legislature knowingly have approved this bond plan for Oz in 1999 if it had known the Oz group had owed Wyandotte county \$750,000 for several years and still would not have paid back the \$750,000 by April of 2001?

Would the Legislature have approved the bond plan if you had known that the Kansas Development Finance Authority would have to hold up work on the plan more than once because Oz had not paid their attorney's fees?

Would the Legislature have approved the bond plan if you had known that the plan would be tied up for years in lawsuits, or that there would be overwhelming opposition to the plan by the citizens of Johnson county.

There has been other bad faith in the pursuit of the Oz plan.

1. Much false or misleading information has been presented by Oz backers. I was formerly the Director of Community Corrections for the state of Kansas and of a statewide SRS grant program for children and youth. So I am used to independently researching information presented to justify programs. I called federal officials in the administrative offices and researched the federal regulations related to conveying surplus federal property which is contaminated. I discovered that the following misinformation had been presented by the Oz backers.

- a. that the land will only be cleaned up to industrial standards without the Oz plan.
- b. that the land is not suitable for parks.
- c. that the county will not have control over what happens to Sunflower if Oz is not approved
- d. that the county will not get the park land if Oz is not approved.
- e. that it will an indefinite amount of time to clean up Sunflower without Oz.
- e. Rebecca Floyd of the Kansas Development Finance Authority told Oz for 3 or 4 months before the county vote in March that they needed to get an extension from the legislature because even if the county approved Oz, there would not be time for the work to be completed by KDFA by the legislative deadline of July 1st. No word was ever spoken of this by Oz or its backers. And you Senators were not given the opportunity early in the session to consider an extension even though Oz knew by then that the KDFA had told them they would have to get an extension.

2. The county has also had bad faith in regard to this project.

- a. the commissioners said if the vote last fall was tied that would be the last of Oz
- b. Commissioner Wood said at a meeting in February of 2001 that if the vote was tied in March

Senate Commerce Committee  
April 4, 2001  
Attachment 14-1

that would be the last of Oz.

- c. Commissioners wishing an economic feasibility study were told this winter that there was not time by Commissioner Wood and Gross. But when the vote was tied in March, then suddenly an economic feasibility study and a request for an extension to the legislature was possible.
- d. The community in a park plan which the county came up with for Sunflower which accomodates the Oz plan is presented as if it were a well studied plan with lots of citizen input. The reality is that it was quickly drawn up, had little publicity, and had less than 20 citizens at the public hearing compared to 250 citizens at the last hearing on Oz the overwhelming majority of whom were opposed to Oz.

3. The problem is that before citizens and other businesses had an opportunity to even think about what would be a good plan for Sunflower, Oz was already out the gait, and we have been reacting to Oz rather than looking at the alternatives. Other states have had real planning processes which so far have ended up with 4 major sites going primarily for public use.

Please pull the plug on this misguided project and process, and let us start over again. Let us have the same opportunity other states have had with contaminated sites for all the alternatives to be examined, not just the first and most grandiose idea being shoved down the throats of Kansas citizens.

Senate Commerce Committee  
Sen. Karin Brownlee, Chairperson

RE: Extension of the enabling legislation relating to the OZ Entertainment Company (OEC)

Thank you for allowing me to testify today. My name is Greg Wilson and I am a businessman in Johnson County and the State of Kansas. I would like to provide you with the logic and reasons for not extending the enabling legislation that grants the OEC special treatment in return for the cleanup of the Sunflower Army Ammunition Plant (Sunflower).

To begin, three of five Johnson County Commissioners have voted no on the OEC development proposal. Commissioners Surbaugh, Lingle and Wolf all have voted no on the proposal. Of course, Commissioner Wolf replaced Commissioner Lingle on the county commission this past January. But still, three elected representatives of Johnson County voted not to go forward with this developers proposal.

To allow the extension would delay other options that may be available to the developer, such as, moving the project to another location. In fact, Commissioner Wolf has indicated she will vote no irrespective of the results of a feasibility study. Commissioner Surbaugh has voted no twice. Another tie vote would delay not only the developers options but the option available to Johnson County to request development proposals.

The legislation was designed to accelerate the cleanup of the Sunflower site. In fact, the Department of the Army is ahead of schedule and anticipates the site will be cleaned prior to their original target date, without using a private developer. Therefore, if a private developer assumes the responsibility now being performed, ahead of schedule by the Department of the Army, the site may actual take longer and become mired in legal finger pointing. By not granting the extension, the Department of the Army can move forward with their plan to cleanup the site, request annual funding and retain contractors and personnel.

Finally, this developer has presented their proposal. It was reviewed, analyzed and found not to be the type of development three of five Johnson County commissioners wanted for the Sunflower site. The Department of the Army is ahead of schedule in the cleanup process. Many local residents have voiced their opinion that the proposal is not the type of development they want for their area. For these reasons I ask that you not grant an extension of the enabling legislation.

Thank You

Gregory L. Wilson  
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913-856-4731

Senate Commerce Committee  
April 4, 2001  
Attachment 15-1

# 21st Century Mgt Consultants

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## Facsimile

To: Senator Karin Brownlee  
@Fax: 785-368-7119  
From: Gregory L. Wilson  
Date: Thursday, March 29, 2001 @ 5:13PM  
Re: Review of OZ - Summary  
Pages: 3, including this

Senator

I am sending several items, the first is a summary of the feasibility review presented to the Johnson County commissioners. Next I will send, under separate FAX cover, the full review. Issues raised with the Johnson County commissioners relating to their objectives compared to the developers plan. An attendance analysis prepared by Chuck Dehner, an economist, that identifies the flaws in the developers attendance projections. This analysis was presented to the KDFA. Finally, I will send a review of VSI Holdings SEC 10-K Form for the year ending September 30, 2000. What is interesting about this information is that the largest investor in OEC is a Mr. Steven Toth, Jr who is 76 years old and has invested over \$ 14.5 million in OEC. The SEC filing shows that VSI's bank covenants prohibit VSI from making additional investments in OEC. Also, the filing shows that it is necessary to receive title to the land for the park investment to be successful.

I know this is a lot of information in a somewhat disjointed presentation, but, the overall message is that OEC is out of money, VSI is prohibited from making additional investments and the end result is that OEC needs STAR Bond proceeds. They have very limited capital for a project of this magnitude.

Greg Wilson

# Review of the Comprehensive Feasibility Study

## The Wonderful World of Oz Project



### Executive Summary

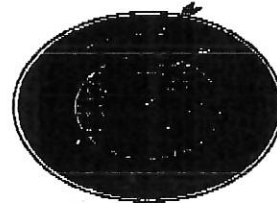
- A common sense review of the critical assumptions is the first step in evaluating the financial feasibility of the proposed OZ development
- Of the seven "Key" assumptions contained in the feasibility study, two stand out as more important than the others
- First, how was the attendance estimate developed and what is the impact on the project's financial viability if this estimate is wrong ?

### Executive Summary

- If the attendance estimate can be relied upon, then, the second critical assumption that must be analyzed is the developers estimate of their Net Operating Margins

### Market Capture Rate

#### Market Size



### Market Size -Table 3 Page 17, Aug. 1999

- Stable Year Market Size
- 12,757 million
- It is assumed that the market size estimate is based on a 185 day operating year not on a 365 day year



### Market Penetration Rate

- Projection used in financial plan - 22 %
- 2.8 million annually
- Average penetration rate of the 19 theme parks used in the study, table 4, page 18 is 14.5 %



### Using the Average Penetration Rate

- If the project achieves only the average capture rate of the other 19 theme parks identified in the study, then, the number of visitors drop by 1 million, theme park revenues will be \$ 57 million less, resulting in sales tax revenues used to repay STAR bonds of \$ 7 million less than projected
- The result, both public and private issued debt will be in default

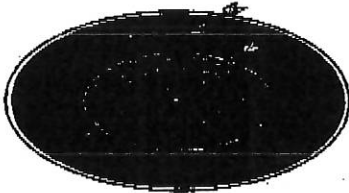


### Johnson County and KDFA

- Both the Board of County Commissioners and the Kansas Development Finance Authority have a critical role in confirming the reasonableness of the attendance projections !

### Net Operating Margins

Theme Park



### Net Operating Margins

- Net Operating Margin is the difference between gross revenues and the operating costs required to produce a product
- The March, 2000 feasibility study shows net operating margins ranging from 33 % up to 40 %
- Net operating margins are used to pay most of the financing costs of the project, taxes, dividends and for retained earnings

### Net Operating Margins

- What the study's estimates imply is that the OEC management team can deliver their product at a cost of 65 cents for every dollar of projected gross theme park revenue
- It makes common sense therefore to see what it costs other theme park owners to deliver their product

### Net Operating Margins

- The Walt Disney Company spends 77 cents of every dollar from theme parks and resort revenues to produce their product
- The owners of Worlds of Fun, CedarFair, LP, just completed a quarter with record revenues and their cost to deliver their product was 78 cents of every dollar



### Net Operating Margins

- This indicates that the OEC's management team will deliver their product at a rate 16 % more efficiently than either the Disney Company's management team or the Worlds Of Fun's management team
- Worlds of Fun has been operating for over 20 years
- Disneyland has been operating for over 55 years

### Net Operating Margins

- What is the impact if the projected margins are not realized?
- The developer would be in default on their privately issued debt and the ability to repay TIF bonds would be jeopardized

### Net Operating Margins

- Finally, between the August, 1999 study and the March, 2000 study the Break-even Performance scenario's Operating Margin INCREASED from 27 % to 33 %
- What changed?
- The privately issued debt increased by \$ 50 million to replace \$ 45 million of STAR and TIF bond financing
- Therefore, the study had to increase net operating margins to produce adequate coverage factors for their privately issued debt

### Tax Break for Developer

GSA gives away federal and state income tax break



### Donated Land

- GSA required that ALL of the land be transferred to the OEC through the KSPDC
- GSA also required that the OEC "donate" certain portions of the land to public entities
- By requiring all of the land be transferred through the private developer, GSA created a minimum \$12.5 million dollar federal and state tax deduction for the developer
- GSA should transfer the public land directly to the public sector entities requesting the land

## **Review of the "Comprehensive Feasibility Study for The Wonderful World of OZ Project in Johnson County, Kansas"**

### **EXECUTIVE SUMMARY**

A common sense review of the assumptions and estimates contained in the Comprehensive Feasibility Study for The Wonderful World of Oz Project leads one to question the motivation of the developer and the State of Kansas. For example, among the hundreds of variables and assumptions used in the study, if just two are critically evaluated the financial feasibility of the project is questioned and the ability to repay publicly and privately issued debt would be jeopardized.

The first assumption that should be critiqued is the capture rate used to support the attendance estimate. The study uses 22 % as the expected capture rate. The study list 19 theme parks with captures rates ranging from 10 % to a high of 26.8%. The 22 % used in the study is the third highest capture rate. If the OZ project achieved the average capture rate of the 19 theme parks, the attendance would be 1 million less than the 2.8 million visitors used in the financial plan. The resulting lower attendance produces \$ 57 million less in theme park revenues and \$ 7 million less in total sales tax revenues. This would place both public and private issued debt in default. The ability to capture 22 % of the estimated tourist market is critical to the financial viability of the proposed project. The Kansas Development Finance Authority (KDFFA) has a fiduciary responsibility to potential bond investors to confirm the reasonableness of this important assumption.

The second assumption that must be analyzed for reasonableness is the projected operating margins of the proposed project. OZ has estimated an operating margin between 30 % and 35 % for their conservative performance level. This level of margins are required to provide adequate debt coverage. The Walt Disney Company's operating margins for theme parks and resorts have been approximately 23 % over the last three years. Therefore, if the OZ project is able to achieve the margins realized by the Disney company, they would not be able to pay the debt service obligations on their privately issued debt and TIF bonds. The financial viability of the project would be questioned.

There are many additional examples of assumptions and variables that if analyzed from a common sense point of view indicate the proposed project is not financially viable. The most obvious is that the City of DeSoto, Kansas must become a "destination complex" and that the OZ company must "create" a destination area if the OZ plan is to be successful.

Finally, the OZ developers have no "at risk" capital. In fact, the \$ 4.5 million invested by VSI Holdings, Inc. could be reimbursed through consulting contracts or through the tax break OZ will carry on their books for donated land. In addition, it appears the Senior Preferred Stock has not been issued and may never be issued reducing any equity contributions further.

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## Review of the "Comprehensive Feasibility Study for The Wonderful World of OZ Project in Johnson County, Kansas"

- I. Review the economic development laws used by the OZ developers.
  - a. Kansas Redevelopment Statute - K.S.A. 1998 Supp. 74-8901
    - i. Sales Tax Revenue Bonds (STAR)
    - ii. Kansas Statewide Projects Development Corporation (KSPDC)
    - iii. Kansas Development Finance Authority (KDFA)
  - b. Tax Increment Financing (TIF) - K.S.A. 12-1774
- II. Redevelopment Plan - Feasibility Review - General Observations
  - a. Economics Research Associates (ERA) was hired to develop a comprehensive feasibility study that shows the benefits derived from the OZ project will exceed the public cost and that the income from the OZ project will be sufficient to pay for the project's annual operating, interest and other expenses as well as generate sufficient tax revenue to repay publicly assisted debt obligations.
  - b. ERA relied on numerous studies developed by others in arriving at their opinion of the feasibility of the proposed OZ project. Appendix G, of the ERA March, 2000 Comprehensive Feasibility Study listed 55 summaries of studies performed for the OZ project. However, ERA provides no assurances that the data contained in any of the listed studies can be actually achieved. ( See General Limiting Conditions - ERA's March, 2000 Study)
  - c. The OZ project's financial plan relies on STAR and TIF bonds as the "seed" money. The only "equity" at risk has already been spent. (\$ 4,500,000 loaned by VSI Holdings, Inc.) The Sources and Uses statement indicates senior and junior preferred stock will be used, however, these shares have not been issued and may never be issued. Therefore, the most the Oz developers are "at risk" of losing is the \$ 4.5 million already invested in the ten year development phase of the OZ concept. In fact, The Sources and Uses Statement shows over \$ 14 million will be used to "repay" investors for the "Pre-1999 Development Costs". This indicates OZ will repay VSI Holdings, Inc. their \$ 4.5 million leaving no equity capital at risk.
  - d. The ERA study is replete with variable "qualifiers" such as;
    - i. based on expectation
    - ii. did not conduct
    - iii. data indicates
    - iv. plan to
    - v. are planned to be
    - vi. further assumes
    - vii. will become

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15-7

## **Review of the "Comprehensive Feasibility Study for The Wonderful World of OZ Project in Johnson County, Kansas"**

e. ERA identified several "Key" assumptions. These assumptions are fundamental to the feasibility of the OZ project.

1. A basic assumption is that the OZ project will become a "Destination Complex". Visitors will travel over 100 miles to attend the OZ project and will stay overnight. ERA states, "A destination theme park must be located in a destination area". ERA admits that the City of DeSoto, Kansas and the Sunflower Army Ammunition Plant (SAAP) is not currently a "Destination Complex". They suggest OZ "create" a "Destination Complex" through the combination of attractions, lodging, entertainment, amenities, restaurants, and entertainment retail. ERA further states, the assumption that the OZ project will continue to be a destination complex is based on receiving additional incentives from the Kansas Redevelopment Statute and continued development of the theme park attractions and land.

2. A second basic assumption is that the theme park will be marketed effectively and aggressively within the KC metro area and within the super-regional Midwest market. ERA believes the OZ theme park can have awareness comparable to other destination theme parks such as Disneyland, Universal Studios and Sea World. They base this opinion on the marketing programs envisioned and the use of the Internet to create brand recognition.

3. A pivotal aspect of the OZ plan is the need for high capital investments. The assumption is that the OZ project is a high quality concept.

4. Another key assumption is the "Experienced Management" team. Management team members will include or are expected to include key personnel from Disney's theme parks.

5. The OZ capital structure relies on incentives from Federal, State and Local governments to make this project financially viable.

6. The OZ plan assumes that the expanse of land available from the Sunflower Army Ammunition Plant is "key" to the success of the plan.

7. Finally, one last "key" assumption is that a entertainment and retail sales complex along with a resort hotel is required to make the OZ plan work.

f. Key assumption review. The above assumptions have been identified by ERA as "Critical" to the viability of the proposed project. An analysis of these assumptions follow.

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15-8

## **Review of the "Comprehensive Feasibility Study for The Wonderful World of OZ Project in Johnson County, Kansas"**

### **Assumption Number 1 - Oz as a "Destination Complex".**

ERA states a Destination Complex must be in a destination area. The City of DeSoto, Kansas, population 2,500, is not a "Destination Area". ERA states that OZ must "create" a destination area if the OZ plan is to be successful. Destination areas are places like Orlando, Florida or Anaheim, California that have numerous sites for visitors to attend. In addition, the weather is conducive to outdoor attractions year around. While DeSoto, Kansas is a wonderful rural community, it does not have the attractions, visitor infrastructure or weather required for comparison to Orlando or Anaheim. However, ERA uses these locations as examples of what the OZ project must become to be successful.

Finally, ERA makes the point that the OZ project must continue to develop the site and receive development incentives if they are to draw visitors from major metro areas such as Dallas, Chicago or Denver. A key component of this assumption is that the OZ project will have a market size large enough to make this project a destination area. However, ERA does not include as a "key" assumption the attendance projections. Which are used to develop the revenue projections. Which is also used to develop the tax revenue projections, that will be used to repay investors for the bonds that are required to make this project financially viable.

ERA uses a consultants estimate of the size of the market and estimated market capture rate as the basis for their opinion that the OZ project can become a "Destination Complex". Therefore, understanding how the consultants arrived at their attendance estimates is critical to the projects viability. Also, ERA should have performed a sensitivity analysis on these critical attendance assumptions.

To begin, the consultants estimated the market size at 12.757 million people. Of this total, 8.8 million are overnight visitors. The overall capture rate used in the study is 22 %, which is the third highest capture rate among the 19 theme parks identified. If the OZ project only achieves the average capture rate of the 19 theme parks, the capture rate would be 14.5 %. Assuming the same market size as the consultants used, OZ could expect 1.8 million visitors vs. their Break-even Performance Level attendance of 2.5 million. Also, the OZ project assumes there will be 3.2 million visitors through induced marketing creating a 29.8 % capture rate, twice the average capture of the 19 theme parks. However, the OZ financial plan does lower the attendance to 2.8 million beginning in the first year of operations.

If OZ only achieves the average capture rate of 14.5 % of the market, then, total theme park revenues will be \$ 57 million less, total resort revenues will be \$ 7 million less and total tax revenues will be \$ 7 million less. Revenue available for tax-exempt debt will be \$ 6.3 million less. This would place the STAR and TIF bonds in default. The ability to capture 22 % or 29 % of the estimated market is critical to the financial viability of the project and must be confirmed by the Kansas Development Finance Authority (K DFA) prior to authorizing any bond issue.

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## **Review of the "Comprehensive Feasibility Study for The Wonderful World of OZ Project in Johnson County, Kansas"**

### **Assumption Number 2 - Marketing**

ERA states that the OZ project can become comparable to Disneyland through effective and aggressive marketing. They site a super-regional marketing program and a Internet-oriented marketing effort as the basis for their opinion that OZ can be comparable to Disneyland.

The Anaheim / Orange County area has a population of over 2.4 million people. Disneyland has been located in Anaheim since 1955. Orange county has 42 miles of coastline and beaches. There are over 46,139 guest rooms in the Anaheim area. There is a 985,000 gross square foot Anaheim Convention Center that is one of the leading convention centers in the nation. Anaheim hosts nearly 1 million convention delegates annually, while the Anaheim area attracts over 38 million visitors annually. The area has over 5,000 restaurants, 36 daily tours to such places as Universal Studios, Sea World, Hollywood and Beverly Hills with a gross national product that ranks 33rd in the world if it were a nation.

The OZ plan's proposed pre-opening Marketing and Advertising budget is set at \$ 18.5 million. Based on the estimated first year attendance of 2.8 million, the average marketing expenditure per visitor is six dollars and sixty cents (\$6.60). ERA states that an "aggressive marketing program will be executed" resulting in awareness comparable to other destination theme parks such as Disneyland and Universal Studios.

The Disney Company's annual report and management discussion states that all of the theme parks and the associated resort facilities are operated on a year-round basis. Also, the company's theme parks and resorts compete with all other forms of entertainment, lodging, tourism and recreational activities. The profitability of the leisure-time industry is influenced by various factors that are not directly controllable, such as economic conditions including business cycles, amount of available leisure time, transportation prices and weather patterns.

## **Review of the "Comprehensive Feasibility Study for The Wonderful World of OZ Project in Johnson County, Kansas"**

### **Assumption Number 3 - High Capital Investment**

ERA states that the ability of an attraction to gain consumer mind share and spur visits to DeSoto, Kansas is pivotal to becoming a destination. They assume the OZ project is a high quality concept. They assume design and production qualities to be world-class. Finally, they correlate the OZ development budget with attendance to prove that OZ's commitment to design and production quality will produce the desired attendance.

The Walt Disney Company has invested over 11 Billion in theme parks, resorts and other property. ERA estimates Disney has invested only 984 Million. If the actual investment of 11 Billion is used, then, the Cost per Attendee is \$785 to \$1,375 not the \$ 100 to \$ 123 reported in the ERA Theme Park Capital Investment Study. Applying this level per attendee to the proposed OZ project would require an investment between \$ 2.5 Billion and \$ 3.8 Billion not the proposed investment of \$ 410 million.

The revised Sources and Uses Statement eliminated \$ 40 million in theme park design & show production. Also, the revised budget for OZ digital media and story team has been reduced by 65 % to 3.3 million. Finally, pre-opening staffing and training has been reduced by 40% to 9.5 million. These reductions in funding directly impact the assumption that the design and production qualities are "world-class".

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## **Review of the "Comprehensive Feasibility Study for The Wonderful World of OZ Project in Johnson County, Kansas"**

### **Assumption Number 4 - Experienced Management Team**

ERA's feasibility study assumes the OZ project can compete effectively due to the collective experience of its management and consulting teams. ERA states the OZ project management team is expected to include key personnel from Disney and Universal Studios. Finally, ERA's feasibility opinion assumes the OZ project will be high quality and professionally managed.

The OZ project is the dream of one man, Robert Kory, who is an entertainment lawyer. He does not have any theme park operating experience. Roy Bension, the executive with the most theme park experience is no longer with OZ. Finally, Harold Palmer, who comes from Management Resources, a paid consultant for the OZ project, has had some theme park operating experience.

In addition to developing a \$ 660 million dollar theme park, a destination resort and 300,000 square feet of retail and entertainment facilities, this management team is also responsible for the management of a \$ 40 million dollar remediation project on land the EPA has scored 50 out of a possible 58 for inclusion on the National Priority List ( super fund list). The implication is that this site requires extensive cleanup and management oversight.

No management team member is a resident of Kansas. The OZ project is being developed from California by developers who have no track record to scrutinize, no local ties and must rely on State assistance for the financial viability of the project.

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15-12



## **Review of the "Comprehensive Feasibility Study for The Wonderful World of OZ Project in Johnson County, Kansas"**

### **Assumption Number 5 - OZ Capital Structure**

The OZ financial plan relies on incentives from Federal, State and Local governments. ERA states the financial plan is based on a combination of equity, construction debt, capitalized and securitized redevelopment district incentives (STAR and TIF Bonds), and economic development and job grants.

The only "equity" invested in this project comes from a vendor who will be repaid their \$ 4.5 million investment. The repayment will be made from pre-1999 development expense reimbursements included in the sources and uses statements or from contracts to provide future animation services. VSI Holdings, Inc. has indicated in regulatory filings that they have invested \$ 4.5 million in the OZ concept and currently record an account receivable due from OZ of over \$ 1 million.

The other equity listed in the sources of funds statement is stock that has not been issued and may never be issued. There is no "at risk" capital if the State of Kansas issues bonds for this project. The only "at risk" funds are the STAR and TIF bonds and the private issued construction debt. The private issued construction debt is collateralized with the assets of the theme park. Therefore, these investors may get a portion of their investment back when OZ defaults. The STAR and TIF bond holders have no protection.

Finally, OZ projects an annual operating margin between 30 and 37 %. For 1997, 1998 and 1999, the Walt Disney Company's average operating margin on their theme park operations was 23 %. The implications of the OZ operating margin projections is that they will be more efficient at delivering their product than the Disney company. For every dollar of revenue generated, the OZ company will spend 65 cents, while the Disney company must spend 77 cents. OZ projects they will be 15 % more efficient at delivering their product than the Walt Disney Company.

The revised sources and uses statement also increased private financing by more than \$ 44 million while reducing public financing by the same amount. Based on OZ's projected operating margins, the revised debt service schedule indicates that the debt service coverage ratio is below 1.0 for several years. The Walt Disney Company's theme park and resort operating margin average 23 %. If the OZ project can only accomplish the operating margin achieved by the Disney company, then, the OZ private sector bonds would be in default every year they are outstanding. Also, the net operating income required to repay TIF bonds would not be available unless the projected margins are realized.

**TWENTY-FIRST CENTURY MANAGEMENT CONSULTANTS  
GREGORY L. WILSON, CPA**

15-13

## **Review of the "Comprehensive Feasibility Study for The Wonderful World of OZ Project in Johnson County, Kansas"**

Assumption Number 6 - All of Sunflower Army Ammunition Plant land is available for the success of the plan.

The ERA study assumes the OZ project will continue to grow and therefore will need the "expanse of land" for future theme parks and additional attractions. However, the Johnson County Master Land Use plan envisions a planned residential community not a ever expanding theme park. ERA states the expansion is "pivotal" to creating a destination complex, but, the need for continued expansion is at odds with the desires of the community and the land use plan.

Neither the ERA study or the MARC fiscal impact study included the cost of income tax breaks the OZ developers or assignees will receive for "donating" federal land to other governmental entities. The Sunflower Plant is currently owned by the Federal government. The proposed transfer includes all 9,065 acres being transferred to the Kansas Statewide Projects Development Corporation (KSPDC) and then to the OZ Entertainment Company (OEC). Included in Phase I of the project is the transfer of 1,750 acres, in addition, Phase I includes the 2,828 acres identified for public entities that are to be donated.

The GSA has handed the OEC a tax break estimated to be between \$ 5 million and \$ 7 million depending on the value of the land being donated. The GSA should have transferred the public lands directly to the public entities requesting the land. If the GSA is allowed to structure similar deals across the nation the costs to the taxpayer could be in the billions of dollars of lost tax revenues.

**TWENTY-FIRST CENTURY MANAGEMENT CONSULTANTS  
GREGORY L. WILSON, CPA**

15-14

**Review of the "Comprehensive Feasibility Study for The Wonderful World of OZ Project in Johnson County, Kansas"**

**Assumption Number 7 - Entertainment Retail Complex**

ERA assumes the development of a retail complex and resort facilities. It is also assumed that a developer can be found who will invest \$ 200 million to develop the complex and resort. However, to date, OZ has not identified the developer.

The repayment of over \$ 188 million in STAR bonds is predicated on the sales tax revenues generated at the proposed resort, theme park and retail complex. The fact that a developer has not committed to developing the site places the repayment of the STAR bonds in jeopardy.

There are numerous assumptions in the OZ plan that, if a developer is found, should be examined. For example, OZ's financial plan projects the resort occupancy rate at 74 %. The metro Kansas City hotel occupancy rate in 1998 was 62.5 % (per CERI). The average daily rate in the metro area for 1998 was \$ 45.45. The OZ financial plan estimates hotel occupancy revenues at \$ 263.00 per rented room. Another assumption used to support the sales tax revenue estimate is the Entertainment Village projected occupancy rate. OZ estimates that 95 % of the available retail space will be occupied throughout the 30 year analysis. The average retail occupancy rate in metro Kansas City area is 92 % (per CERI). Finally, the projected retail sales is estimated at over \$ 122 million or \$ 371.00 per occupied square foot per year and increases to \$ 995.00 at the end of the 30 year period. The average revenue per occupied square foot in Johnson County in 1998 was \$ 364.00 (per CERI).

**TWENTY-FIRST CENTURY MANAGEMENT CONSULTANTS  
GREGORY L. WILSON, CPA**

### Stated County Objectives

The site development plan submitted by the developer is not consistent with the County's Future Use Plan and therefore does not meet the stated objective that the developer plan be consistent with the County's plan for the following reason.

The developer site plan shows the theme park stretching from the K- 10 corridor on the north to 143rd street on the south. This area represents approximately 5 miles of development. The County's plan envisioned this type of business would be held closer to the K-10 corridor. In fact, the County's temporary approval was based on the developers original site plan that held the proposed development close to the K - 10 corridor. Therefore, the revised site plan does not meet the objective of the County's Future Use Plan.

Another objective that has not been met is the full funding of remediation costs. The developer is given 12 years to clean up the property. However, only a portion of the funding is included in the projects Phase I financing estimates. The remaining remediation costs are assumed to be paid from positive operating margins. The developer has relied on insurance policies to assure the County that the clean up will be completed. But, the developer has not purchased the insurance policies. The cost of the policies are to be paid up front. The County's review indicated on page 4, item 17 of the financial review section that, " OZ Entertainment Company does have a substantial cash flow shortage and is dependent upon future investment." Since the insurance policies have not been purchased and the developer does not have the cash available to purchase them, the stated objective that the costs of environmental remediation be fully funded has not been met.

### Theme Park Development

What project has this developer created and completed that leads this Commission to the conclusion that they can simultaneously do all of the following tasks;

1. Oversee and pay for the remediation of 9,065 acres of land that scored 50 out of a possible 58 rating for inclusion as a super fund site, and
2. Develop 400 acres into a "Destination Theme Park" capable of attracting over 3 million visitors to De Soto, Kansas within a 185 day operating year and within 3 years, and
3. Find, hire and train 7,500 employees by 2003, and
4. Oversee the development of a resort hotel, golf complex and RV park by 2003, and
5. Obtain infrastructure commitments, develop adequate infrastructure to support the park, resort and RV park, and
6. Obtain adequate financing for each aspect of the project.

The answer is obvious, the developer does not have the experience or financial wherewithal to successfully manage these projects simultaneously.

#### Finance Plan

The developer has stated that they require STAR bond excess tax receipts as collateral for their private sector debt. The reason they need tax receipts as collateral is that investors would not loan them the money because there is no "equity" available for collateral.

A detailed analysis of the flow of funds from the proposed sources and uses statement provides a clear picture of what the developer has planned.

1. Bond proceeds of \$ 14.5 million will be used to repay OEC for pre-development costs. Also, another \$8.3 million of bond proceeds are ear marked for repayment of Outside Consultant fees.

2. The OEC has \$ 21 million of pre-development costs booked as an asset.

3. The \$ 21 million in cash spent on pre-development costs came from investors.

4. By repaying themselves for pre-development costs and consultants fees from bond proceeds, the developer has replaced a noncash asset with cash. What can the developer do with this cash?

5. The developer can use the cash to retire the Senior and Junior Preferred stock and thereby repay their investors. They will have converted "at risk equity" into "debt", made VSI Holdings equity contribution increase to almost 100 % from 30 %, and removed KC Investors from the capital structure.

The end result is that VSI Holdings will control the developer with minimal "at risk capital" pledged to the project.

15.17

Chuck Dehner  
11730 Clare Road  
Olathe, Kansas 66061-9302

---

October 11, 1999

Kansas Development Finance Authority  
700 S.W. Jackson Ave.  
Topeka, Kansas 66603

Re: Oz Theme Park

Dear Board Members:

My sister, who lives in view of the Sunflower plant, asked me, an economist with a background in real estate, to look at the comprehensive study submitted by OZ, and see what I thought. I did the type of report I typically do in my work. In the process I found some key issues and major concerns.

I don't come out for or against the project but I do identify issues that may be important to your decision-making and critical to the success or failure of the project. Thank you for your consideration.

Sincerely,



Chuck Dehner  
Economist, K-10 Corridor resident

Enclosure

15-18

## Issues, Concerns, and Questions about the OEC Plan

These comments are based on a review of the August 1999 "Comprehensive Feasibility Study for The Wonderful World of OZ Project" submitted by OZ Entertainment Company (OEC), to the State of Kansas financing agency. The page and table numbers referred to below come from that document.

In that Study, OEC presents a Master Plan for the OZ development and the results of three analyses: 1) Economic Impact on the local and regional economy, 2) Fiscal Impact on state and local government budgets/services, and 3) financial analysis of the Business Viability to pay operating costs, financing, and environmental remediation expenses.

A review of the Study raises a number of concerns and questions. Specific issues raised are about market projections, the assumptions used in the impact analyses, critical components of the project and the commitment to their completion, the need for additional State funding, and the remediation of the environmental hazard.

**1) Market size, capture rates, and attendance are the most critical variables forecasted. A number of estimates are used in the Study. The capture rates forecasted for OZ are all on the high end and even off the scale when compared to a sample of other parks in the nation.**

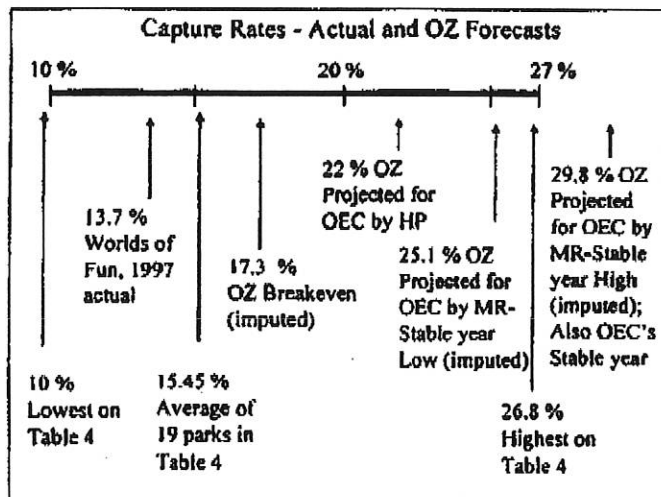
Estimates of market size and capture rate are the key variables forecasted in the Study. These numbers are used to forecast attendance ( $\text{Marketsize} \times \text{CaptureRate} = \text{Attendance}$ ). Attendance numbers are then used to forecast revenues and are given to consultants to use as input parameters in the impact analyses and financial feasibility studies.

The attendance forecasts used in the Study go through a series of revisions. Each revision increases the estimate. In the first set of estimates (p. 17, 19 of the Study) Harrison Price, consultant to OEC, estimates the OZ marketsize as 12,757,000, a capture rate of 22%, and attendance of 2,810,000 yearly.

The 22% capture rate forecast for OZ can be compared to the parks listed in Table 4 on p. 18 of the OEC Study. Table 4 in the Study was created by Harrison Price and presents a sample of 19 theme parks across the nation. HP presents their market size, capture rate, and attendance. Using Table 4, an average performance can be calculated: Average Gross Capture Rate = 15.45%. The Table provides a framework to compare the level of success which the OEC project forecasts, and the level it needs to succeed. The 22% capture rate that HP projects would place OZ third highest in the sample of 19 parks in Table 4, an optimistic projection.

HP's estimates are then revised upward by Management Resources (MR, consultants to OEC). The revisions are based on 1) estimates of "induced demand" and 2) by adding 20 more days to the theme park operating season (from 165 to 185 days). MR forecasts a range of attendance, from a stable year Low of 3,200,000 to a stable year High of 3,800,000 (Table 6, p. 20). This is an implied capture rate of 25.1% and 29.8% respectively on the 12,757,000 market. 29.8% is higher than any park listed in Table 4 of the Study.

The following chart shows a range of capture rate figures. The capture rate forecasts generated for OEC and OZ are all at the high end and even off the scale. The Table referred to is Table 4, p.18 of the Study, a sample of 19 parks.



15.20



OEC then generates a third set of estimates, called the Expected Performance. Expected Performance takes the range of stable year estimates given by MR: 3,200,000 Low to 3,800,000 High and transforms it into a projection of 3,200,000 in the first year and 3,800,000 in the stable year of operations (assumed to be reached in the third year). A 3,800,000 attendance would place OZ 10th in the list of all theme parks in the nation (1998 data), surpassing Sea World of California to become number 10, and doing it on a short six-month season and a relatively small market size.

Salomon Smith Barney calculates a break-even attendance of 2.2 million (though apparently not including remediation costs). This implies a capture rate of 17.3% on a 12,757,000 market. This is higher than the Worlds of Fun 13.7% and higher than the average of 15.45% for the 19 parks listed in Table 4.

If the average capture rate of 15.45% is used with the 12.757 million market size estimate, an attendance of 1.971 million is forecast for OZ. This is less than the break-even level.

There is little room for failure or even average performance for OZ to pay operating costs and bond financing, and remediation funding is still not specified.

The following table shows the various revisions of estimates and presents comparative data. (1) is Harrison Price's first estimate for OEC. (2) is MR's revision of HP's estimate. (3) is OEC's own revised estimate. (4) is World of Fun (Kansas City) actual 1997 data. (5) is the OZ break-even level as calculated by Salomon Smith Barney. And (6) is an average capture rate from Table 4 of the OEC Study.

	Period	Market (000's)			Total	Capture Rate	Attendance (000's)
		Resident 0-100 MI	Tourist Overnight	Tourist Pass-Thru			
Harrison Price Projected for OEC - OZ (1)	stable year	2,757	8,800	1,200	12,757	22.0%	2,810
Management Resources Projected for OEC - OZ (2)	stable year - Low						3,200
	stable year - High						3,800
OEC Projected for OZ (3)	First year						2,200
	Stable year						3,800
Worlds of Fun HP, 1997 data (4)	1997	2,638	5,400		8,038	13.7%	1,100
Break-even (5)	stable year						2,200
Average (6)					12,757	15.45%	1,971

Notes to table:

- (1) Table 5, p. 19; Harrison Price consultants for OEC; pass-through for Branson, Missouri)
- (2) Table 6, p. 20, Management Resources for OEC. Revisions of Harrison Price. Add "induced demand" and expand by 20 the number of operating days (165 - 185).
- (3) p. 52, "from OEC management analysis."
- (4) Table 4, p. 18, 1997, figures by Harrison Price for OEC
- (5) Calculated by Salomon Smith Barney, p. 52
- (6) The average capture rate for the 19 parks listed by Harrison Price in Table 4, p. 18

2) Market size, capture rates, and attendance estimates are used inconsistently in the Study. The consultants who did the impact studies use different sets of assumptions. Effects should be considered on a consistent set of assumptions across all three feasibility/impact studies (Economic Impact, Fiscal Impact, Business Viability) and the scenarios considered should include average performance as well as breakeven levels of operation. It appears unknown what the Fiscal Impact of OZ would be at a breakeven level of attendance. It could lead to a scenario where OZ profits are a subsidy from local governments.

Three feasibility/impact analyses (summaries) are presented in the Study:

- 1) Salomon Smith Barney evaluates the feasibility of the business operations of OZ/OEC (Business Viability),
- 2) MARC uses a REMI economic model and calculates the effects of the project on the local and regional economy (Economic Impact), and
- 3) ERA evaluates the effects on local government budgets and services (Fiscal Impact).

All three studies begin with assumptions on attendance and operations. Different sets of assumptions are used in the analyses.

The financial analysis of Business Viability by Salomon Smith Barney (p. 32) uses 3 scenarios of attendance: 1) OEC's Expected Performance - 3.2 opening year and 3.8 million in stable year, 2) 2.8 million attendance stable year (approximately HP), and, 3) the reverse calculated break-even level of 2.2 million attendance (stable year).

The Economic Impact analysis by MARC appears to be calculated under just one scenario, an attendance assumption of 2.9 million for the first year (p. 37) and some larger number for stable years (unspecified in the Study).

The Fiscal Effects by ERA also appear to be calculated under just one scenario, the OEC Expected Performance (p. 42) - the most optimistic projection of attendance (3.8 million attendance, stable year).

To reveal the level of risk and the sensitivity to attendance levels, effects should be considered on a standard set of assumptions. The scenario ranges should include an assumption of average performance and a band around it, as well as a breakeven level of operations. The Fiscal Effect of a break-even level of performance appears to result with the profit of OEC being in part a subsidy from local governments.

**3) The success of the plan depends on OZ becoming a super-regional destination. This requires the financing and construction of the resort complex and the retail/entertainment complex (p. 34). These components are not funded under Phase 1. They are assumed to be owned and built by third parties. No developers for these components are identified, yet they are critical components to the project success. Who will build and finance these components?**

The success of the Plan depends on a number of critical assumptions being realized. The "base" assumption is described on page 30 of the Study:

"The base assumption for the Project is that The Wonderful World of Oz theme park will become a destination theme park. This assumption is crucial to distinguish The Wonderful World of OZ theme park as a super-regional destination theme park from the regional thrill-ride parks that are located in Kansas City and other U.S. metro areas. A super-regional destination theme park draws a majority of its guests from over 100 miles away, and guests tend to stay overnight. Regional thrill parks primarily draw from within a 100-mile radius and tend to be day visitors.

A destination theme park must be located in a destination area. Destination locations are created by bringing together a critical mass of attractions, lodging, entertainment, amenities, restaurants, and entertainment retail. The Project entertainment retail destination is a component of this strategy. The assumption that the Project is a destination location is based on the continued development of the Project land and the continued availability of development incentives contained in KSA 74-89011 et. seq. " (p. 30)

Being a super-regional destination (drawing from Dallas, Denver, and Chicago) requires the construction of the Hotel/Conference Center (Emerald Resort, \$67,874,000) and of a 500,000 square foot entertainment/retail center (p. 7 Table 2). Neither is funded in Phase I financing. These are projected to be financed, built, and operated by third-party developers:

"A key assumption is the development of the entertainment retail complex and the Emerald Resort in Phase I of the Project development. Although OEC does not anticipate owning these components, it is expected that they are developed in accordance with OEC's standards for design, quality and customer experience. ERA expects that the high profile of the Project, the superior location within the Project and the potential financial incentives that OEC can offer a third-party developer support this assumption." (p. 34)

Neither a hotel developer nor an entertainment/retail developer owner is identified nor is funding identified for these projects, yet they are critical to the project success. The fact that the park is only a part-year operation (six months), and given the competition in the area for that business (Cedar Creek, Overland Park), the hotel and retail operators may face a difficult task. There is a large risk if the hotel developer/operator or retail developer is not yet identified.

Being a destination park also depends on the uniqueness of the OZ brand label. The Plan describes that OEC has a 400 mile exclusive (p. 12). It is unclear what this means for the super-regional assumption. Can other OZ parks be built?

**4) The Study describes the need for further public funding under KSA 74-89011 et. seq. How much, What type, and When?**

The establishment of the site as a destination complex depends on further State of Kansas financing as described in the OEC Study:

The assumption that the Project is a destination location is based on the continued development of the Project land and the continued availability of development incentives contained in KSA 74-89011 et. seq. (p. 30, underlining added)

The statute listed appears to be the same one governing the STAR and TIF financing requested in Phase 1. If more Kansas commitments are expected, then How much, What type, and When? How would they be paid, and How would they effect the impact analyses and the business feasibility of the project?

**5) The character of the theme park may preclude single family development on the rest of the site.**

Phase 1 of the project includes a 600-space (50-acre) RV park as well as a 30-acre campground (p. 11). The Expected Performance scenario includes capturing some of a 1,200,000 market of tourists who pass through on their way to or from Branson, Missouri. The park has a capacity of 31,500 per day (p. 9) and the entertainment includes nightly laser light shows and "fireworks spectacles" (p. 3 of Appendix). Whether the nature of this activity will result in a residential environment for the surrounding areas is open to debate.

**6) Potential failure of remediation on the full site.**

The remediation of the full site is unclear and not specified in the Study. According to the Study, environmental remediation is to come in part from Federal agencies (\$29,000,000 from the U.S. Army, p. 48) and in part from OEC (\$40,000,000, p. 49). Phase 1 of the project uses a 1,750 acre parcel of the 9,065 acre site. OEC projects to spend \$300,000 to \$500,000 on the minimal cleanup this parcel requires (though all 9,065 acres is transferred to OEC). Funds for the cleanup of the remainder of the site (the \$40,000,000) is unspecified in the Study and does not appear to be incorporated in the Business Viability analysis. If the cleanup funds are expected to come from OEC operating profits, they should be projected in the forecasts and used in financial analyses. Even if OZ performs to the break-even level of 2,200,000 attendance, the remediation effort may be unfunded.

The Study describes a number of insurance policies which OEC will purchase with the proceeds of the Phase 1 financing (p. 48). However, the actual operation of these policies and their linkage should OEC fail to have the funds to pay for cleanup is unclear and should be described in detail. Also, the practicality of which companies would issue

# 21st Century Mgt Consultants

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Phone: 913-856-4731  
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## Facsimile

To: Senator Karin Brownlee  
@Fax: 785-368-7119  
From: Gregory L. Wilson  
Date: Thursday, March 29, 2001 @ 5:13PM  
Re: Review of OZ - Summary  
Pages: 3, including this

Senator

I am sending several items, the first is a summary of the feasibility review presented to the Johnson County commissioners. Next I will send, under separate FAX cover, the full review. Issues raised with the Johnson County commissioners relating to their objectives compared to the developers plan. An attendance analysis prepared by Chuck Dehner, an economist, that identifies the flaws in the developers attendance projections. This analysis was presented to the KDFA. Finally, I will send a review of VSI Holdings SEC 10-K Form for the year ending September 30, 2000. What is interesting about this information is that the largest investor in OEC is a Mr. Steven Toth, Jr who is 76 years old and has invested over \$ 14.5 million in OEC. The SEC filing shows that VSI's bank covenants prohibit VSI from making additional investments in OEC. Also, the filing shows that it is necessary to receive title to the land for the park investment to be successful.

I know this is a lot of information in a somewhat disjointed presentation, but, the overall message is that OEC is out of money, VSI is prohibited from making additional investments and the end result is that OEC needs STAR Bond proceeds. They have very limited capital for a project of this magnitude.

Greg Wilson

*This should be added to the pages sent  
last evening  
Greg*

15-28



#### 6) Potential failure of remediation on the full site.

The remediation of the full site is unclear and not specified in the Study. According to the Study, environmental remediation is to come in part from Federal agencies (\$29,000,000 from the U.S. Army, p. 48) and in part from OEC (\$40,000,000, p. 49). Phase 1 of the project uses a 1,750 acre parcel of the 9,065 acre site. OEC projects to spend \$300,000 to \$500,000 on the minimal cleanup this parcel requires (though all 9,065 acres is transferred to OEC). Funds for the cleanup of the remainder of the site (the \$40,000,000) is unspecified in the Study and does not appear to be incorporated in the Business Viability analysis. If the cleanup funds are expected to come from OEC operating profits, they should be projected in the forecasts and used in financial analyses. Even if OZ performs to the break-even level of 2,200,000 attendance, the remediation effort may be unfunded.

The Study describes a number of insurance policies which OEC will purchase with the proceeds of the Phase 1 financing (p. 48). However, the actual operation of these policies and their linkage should OEC fail to have the funds to pay for cleanup is unclear and should be described in detail. Also, the practicality of which companies would issue these policies is not discussed in the Study and should be described.

#### Conclusion

In the initial funding of the OEC project over 307 million (of a 761 million dollar investment) is State and local Kansas financing (STAR, TIF, Economic Development Incentives, and State and Local Financing, p. 29 Table 7). This is a substantial commitment by the public of financial resources and tax payments to this development and a risk for the residents and taxpayers of the State. Risks of the project include:

- 1) a substandard or incomplete use of the land,
- 2) a failure of the plan for remediation of the environmental hazards, and
- 3) a failure on bond payment as well as a need for further public financing.

Whether or not a "super-regional destination park"/resort complex, as OEC envisions OZ, is possible on the basis of the OZ theme alone and without other natural resources at the

site, is a subject of debate. Whether the OZ project can become one of the top 10 sites in the nation as OEC forecasts, surpassing Sea World of California to become number 10, despite its short six-month season and small market, is a risk. At the least it will take an ongoing and extended commitment from private sources and the State of Kansas.

What is not debated is the need for the OZ complex to be one of the most successful parks in the nation in order to pay operating costs and financing (environmental remediation is not specified). OEC is building perhaps the most expensive park in the nation (Table 8, p. 32 of the OEC Study). Kansas must consider that it may need to guarantee that all components are completed and that the ongoing commitment to make the park succeed is in place.

The performance assumed by OEC (3.8 million attendance) is unlikely, at least not without a much larger, as yet unspecified, financial commitment to the project. When a level of average performance is used (15.45% average capture rate of Table 4), the attendance scenario is  $15.45\% \times 12,757,000 \text{ market} = 1,971,000 \text{ attendance}$ , less than the break-even level of 2.2 million. If the site fails to become a super-regional destination, its market size may more accurately be the 8,038,000 of the Kansas City market for Worlds of Fun (p. 18, Table 4). Assuming an average performance, the attendance forecast is  $15.45\% \times 8,038,000 \text{ market} = 1.242 \text{ million}$ . One million less than the 2,200,000 break even point.

Whether or not a theme park is a good use of the land and whether the public financing is a good use of our financial resources and tax payments, are difficult questions. This is a valuable piece of ground in a key location, perhaps the largest contiguous ownership piece of ground in the greater metropolitan Kansas City region. Other options can be expected in terms of alternative cleanup and development plans. The risks under the OEC plan are too great to bear without much further clarification.

Chuck Dehner

Economist and K-10 Corridor Resident 913-782-4640

From: Woodbury Dehner To: Terri Jones

Date: 10/19/99 Time: 8:45:10 AM

Page 2 of 2



# KANSAS

KANSAS DEVELOPMENT FINANCE AUTHORITY

October 15, 1999

Chuck Dehner  
11730 Clare Road  
Olathe, Kansas 66061-9302

Dear Mr. Dehner:

Thank you for sending the copy of the analysis that you did for your sister of the comprehensive feasibility study of the Oz theme park. Staff members here at KDFA have read your report and we have sent it to our board members.

You raise some interesting issues and present them in a nicely organized package. We appreciate your consideration in making a copy available to us.

Sincerely,

A handwritten signature in black ink, appearing to read "Kenneth Frahm".

Kenneth Frahm

15.31

## VSI HOLDINGS, INC

### OPERATING DATA

Net Sales @ Sept. 30, 2000	=	\$ 187,255,000
Net Income	=	5,550,000

### INVESTING ACTIVITIES

In 2000, VSI invested an additional \$ 500,000 in Oz Entertainment Company (OEC), bringing VSI's total investment in OEC to \$ 4.5 million, of which, \$ 4 million is invested in K.C. Investors, L.P. VSI recognized losses of \$ 658,000 in 2000 and \$ 530,000 in 1999 relating to VSI's investment in OEC. This investment is currently valued at \$ 3,312,000.

PLEASE NOTE: VSI'S BANK COVENANTS PROHIBIT THE COMPANY FROM MAKING ADDITIONAL INVESTMENTS IN OEC.

VSI expects to see continued losses until the opening of the proposed park, currently schedule for 2004. The park is planned to be constructed on 9,000 acres of land owned by the federal government. IT IS NECESSARY TO RECEIVE TITLE TO THE LAND. THE SUCCESS OF THE PARK, AS AN INVESTMENT, IS DEPENDENT UPON RECEIVING TITLE TO THE LAND. As well as, certain infrastructure improvements be completed by or paid by governmental agencies, financing arranged through governmental agencies, as well as, additional public or private financing.

Mr. Steve Toth, Jr., is a 76 year old who became President and CEO of VSI in April, 1997. Mr. Toth served as President of subsidiary Visual Services, Inc since 1962.

Mr. Toth and family members own 84.10 % of VSI stock.

Mr. Toth and family members are trustees of certain trusts that control shares in VSI.

Mr. Toth also controls a Michigan partnership, CLT, that owns VSI shares.

CLT Associates, L.P., has invested \$ 7.63 million in the OEC and KC Investors, L.P.

The combined investments by entities controlled by Mr. Toth is;

VSI Holdings	-	\$ 4.5 million
CLT Associates	-	<u>7.63 million</u>
Total OEC Investment		\$ 12.13 million

## VSI HOLDINGS, INC

During 2000, VSI, in connection with OEC, formed eCity Studios, Inc., a corporation in which VSI acquired a 70 % interest in the stock.

In addition to the cash invested, VSI has provided web-site development and promotional services totaling \$ 2.247 million to OEC.

As of Sept. 30, 2000, VSI had receivable from OEC of approximately \$ 1.4 million and \$ 147,000. These amounts were paid from additional funds invested by CLT. CLT's investment increased to \$9.177 million.

CLT Associates, L.P., is a partnership controlled by Mr. Toth, who owns an additional 6 % interest in K.C. Investors, L.P. And a direct interest in OEC preferred stock.

VSI owns 1,342 shares of Senior Preferred Stock in OEC valued at \$ 500,000. This stock was received in exchange for a reduction of an accounts receivable due from OEC.

**VSI HOLDINGS, INC**  
**FORM 10-K REVIEW**  
**FISCAL YEAR ENDING**  
**SEPTEMBER 30, 2000**

VSI Holdings, Inc. (VSI) helps corporations improve their performance. In today's media marketplace a consumer has a choice of hundreds of cable television, channels, digital broadcasting, satellite television and radio and over the Internet. This has forced many companies to reevaluate their marketing strategies. VSI helps companies do just that. VSI employs approximately 1,000 individuals in all operations. VSI operates their business through two separate business segments;

- |   |   |                                     |
|---|---|-------------------------------------|
| 1 | - | Marketing Services Segment          |
| 2 | - | Entertainment / Edutainment Segment |

The Marketing Services Segment is comprised of four (4) companies;

- |   |   |                         |
|---|---|-------------------------|
| 1 | - | Visual Services, Inc.   |
| 2 | - | VisPac, Inc.            |
| 3 | - | PSG International, Inc. |
| 4 | - | eCity Studios, Inc.     |

VSI clients come primarily from the automobile industry.

VSI's products and services can be divided into four broad categories;

- |   |   |                             |
|---|---|-----------------------------|
| 1 | - | Education and Training      |
| 2 | - | Back-End Services           |
| 3 | - | Marketing Services          |
| 4 | - | Edutainment / Entertainment |

The Entertainment / Edutainment Segment is comprised of one company - Advance Animation's, Inc.

Advance Animations' products are sold on a custom, made-to-order basis directly to companies. VSI does not own material patents, trademarks, franchises or concessions.

Competition in this segment is intense, and VSI expects that competition will increase.

15.34

## VSI HOLDINGS, INC

### THE HISTORY OF VSI HOLDINGS, INC.

In 1981, Mr. Suchik, founded a public company called The Banker's Note, Inc. (TBN)

Mr. Suchik's uncle, Mr. Steve Toth, Jr., invested in TBN, and held a 33 % interest in TBN.

In February, 1997, TBN acquired Advanced Animation's, Inc., a company controlled by Mr. Toth, for shares of TBN stock. Mr. Toth became TBN's controlling shareholder.

In April, 1997, VSI reincorporated in Georgia from Texas, changed its corporate name to VSI Holdings, Inc from The Banker's Note, Inc., and placed some of TBN's holdings in an operating subsidiary.

In July and September, 1997, VSI acquired two more companies for shares in VSI,

1. - VisPac, Inc.
2. - Visual Services, Inc.

Both companies were controlled by Mr. Toth.

In September, 1998, the TBN's holdings were sold to Mr. Suchik.

VSI headquarters are located in Bloomfield Hills, Michigan.

The common stock trades on the American Stock Exchange under the "VIS" symbol. The stock price has ranged from \$ 7.25 in the second quarter of 1999 to \$ 2.13 in the fourth quarter of 2000. The stock price on January 29, 2001 was \$ 2.87.

### SELECTED FINANCIAL DATA

#### BALANCE SHEET DATA:

Total Assets @ Sept. 30, 2000	=	\$ 116,129,000
Total Liabilities	=	88,578,000
Stockholders Equity	=	27,551,000

Mr. Toth controls 84.10 % of the shares outstanding.

15.35