

MINUTES OF THE SENATE COMMERCE COMMITTEE

The meeting was called to order by Chairman Karin Brownlee at 8:30 a.m. on March 24, 2010, in Room 548-S of the Capitol.

All members were present except:

Senator Oletha Faust-Goudeau- excused
Senator Roger Reitz- excused

Committee staff present:

Ken Wilke, Office of the Revisor of Statutes
Reed Holwegner, Kansas Legislative Research Department
Kathie Sparks, Kansas Legislative Research Department
Marilyn Arnone, Committee Assistant

Conferees appearing before the Committee:

Bill Thornton, Secretary of Commerce
Robert North, General Counsel, Department of Commerce

Others attending:

See attached list.

Chairperson Brownlee welcomed Secretary Bill Thornton of the Commerce Department to present a Summary of the Wizards/Cerner Project to the Commerce Committee. (Attachment 1)

Sec. Thornton said the \$414 million project consisted of three primary components: an 18,500 seat major multisport athletic facility to be the home of the Kansas City Wizards; a 600,000 square foot Class A office complex; and approximately 21 youth soccer fields of tournament quality. The return on this investment includes new jobs, wages, sales tax, and capital investment.

This project is predicted to host 800 events annually and draw more than \$2.5 million visitors. The soccer fields are predicted to host 543 of those events. Over the next 30 years, this project is predicted to produce a net new direct private spending in Kansas of \$3.2 billion with \$85.8 million in net new tax revenue to Kansas. The Office Park will produce 5,888 new permanent jobs with more than \$280 million in wages and benefits annually.

The state approved \$147 million in STAR bonds for the Wizards soccer stadium. The state imposed a cap on its investment of \$144.5 million which is unique to this project but insures the state has no real interest risk. The STAR bonds are about 35% of the total project costs and their approval was contingent upon several requirements by the state. The return on these investments will be realized as the jobs are created and the project is completed. The soccer stadium and tournament fields are to be completed by the end of 2012. The IMPACT award will be transferred to Cerner in early 2011 and requires Cerner to have created 4,500 jobs by December 2017.

The state successfully negotiated significant clawback provisions for both IMPACT and STAR bonds.

There are state incentives involved in this project including the HPIP tax credits, Enterprise Zone tax credits and may also qualify for the Business and Equipment property tax exemption.

As part of the STAR bond approval process, the state ensured the Unified Government pledged all available local sales and transient guest taxes to repayment of the bonds as well as certain property taxes and other payments to the success of the project. Unified Government has a greater proportion of risk in this project than with any other STAR bond project, but this risk is commensurate with the level of investment the state was asked to make through STAR bonds and the other incentive programs.

There was some discussion and questions were answered by Secretary Thornton and Robert North.

The next meeting is not scheduled.

The meeting was adjourned at 09:00 a.m.

COMMERCE COMMITTEE GUEST LIST

DATE: 3-24-10

NAME	REPRESENTING
Liam Keck	Hein Law Firm
Steve Albert	Kansas, Inc
Bob North	Commerce
Steve Kelly	Commerce
Jeff Conway	" "
Bill Sneed	Kansas Speedway

**Testimony on the Cerner-Wizards Project
to
The Senate Commerce Committee**

**By William R. Thornton, Secretary
Kansas Department of Commerce**

March 24, 2010

SUMMARY OF WIZARDS/CERNER PROJECT

1. Project Description. This \$414 million project consists of three primary components including:
 - (A) An 18,500 seat major multisport athletic facility, financed in part with up to \$147 million in STAR bonds, which will be the home to the Kansas City Wizards professional soccer franchise - total development cost of approximately \$267 million;
 - (B) An office complex consisting of at least 600,000 square feet Class A office space which will house a minimum of 4,500 Cerner jobs with an average annual wage of \$65,000 each – total development cost of approximately \$153 million – IMPACT used to finance this component; and
 - (C) Approximately 21 youth soccer fields of tournament quality and configuration sufficient to allow for the hosting of national youth soccer tournaments – no STAR bonds used to finance this component.

2. Return on Investment (based on Alvarez & Marshall report). Return on investment information includes new jobs, wages, sales tax, and capital investment.
 - Major Multi-Sport Stadium, Offices and Tournament Fields.
 - Over a 30 year period: the net new direct private spending in Kansas is \$3.2 billion with \$2 billion of that amount in Wyandotte County
 - \$85.8 million in net new tax revenue to Kansas over 30 years
 - \$59.5 million in net new tax revenue to Wyandotte County over 30 years
 - 2,090 new full and part time jobs in the State of Kansas
 - 910 construction jobs in Wyandotte County
 - Project will host 800 events annually and draw more than 2.5 million visitors

- Office Park.
 - 5,888 new permanent jobs with more than \$280 million in wages and benefits annually
 - 56,800 out of town business travelers generating \$12 million in new income, sales and property taxes to Kansas and Wyandotte County taxing jurisdictions. The state's share is \$10.8 million annually.
 - These jobs are estimated to generate \$11,993,320 in existing hotel revenues and \$22,477,080 from retail and dining establishments
 - Combined direct, indirect, and induced impact in 2009 dollars is \$527 million annually (labor income, proprietor income, property income, indirect business taxes)
 - 1,151 temporary, i.e. construction jobs – income of \$51 million wages annually
3. STAR Bonds. The state approved the issuance of up to \$147 million in STAR bonds for the soccer stadium. Recognizing that existing sales tax revenues from the Village West District are being used to retire the bonds, the state imposed a cap on its investment of \$144.5 million. This type of cap is unique to this project and insures the state has no real interest rate risk.

STAR bonds are only about 35 percent of total project costs which complies with K.S.A. 12-17,168. STAR bond approval is also contingent upon: (i) Commerce approving a line item budget for STAR bond proceeds; (ii) a requirement that Wyandotte County pledge all available local revenue towards STAR bonds; (iii) STAR bonds can only be used to pay for “eligible project costs;” and (iv) that any disposition of STAR bond proceeds be subject to prior approval of the Secretary of Commerce. Both the Secretary of Revenue and Secretary of Commerce agreed to raise the statutory limit on STAR bonds in the 400 acres from \$308 million to \$455 million.

4. Timeline of Economic Benefits. As with most projects, the state and local incentives will be invested on the front end of the project with return on those investments to be realized as the jobs are created and project is completed. It is anticipated STAR bonds will be issued no later than June 30, 2010 and that the soccer stadium be complete by the end of 2012. The deadline for the tournament fields is December 1, 2012 and the recreation fields by 2011.

The IMPACT award will be transferred at the request of Cerner. We anticipate this transfer in early 2011, at which time the state will begin to retain withholding tax on new jobs. Cerner will then be committed to repay up to \$64.8 million. The IMPACT agreement requires Cerner to have created 4,500 jobs no later than December 31, 2017.

5. Claw-Backs.

IMPACT. The state successfully negotiated significant claw-back provisions. For IMPACT, the agreement has a unique requirement that Cerner will be obligated to pay the state approximately \$16.3 million even if the IMPACT award is never transferred to Cerner. This was done in recognition that STAR bonds will be issued prior to creation of any jobs and insures that Cerner has a significant financial motive to create the 4,500 jobs

which was an integral part of this transaction. If the IMPACT award is transferred to Cerner, then Cerner is obligated for up to \$64.8 million which must be repaid if job creation and withholding taxes are insufficient. Total claw-back could range from \$16.3 million to \$64.8 million depending upon the number of jobs actually created and the actual amount of withholding generated by those jobs. Estimated withholding will retire the IMPACT obligation in a little over nine years. The \$16.3 million could be payable as soon as 2012 if STAR bonds have not been issued by that date and if the IMPACT award has not been transferred to Cerner.

STAR Bonds. There are also significant claw-back and repayment provisions associated with the STAR bonds and construction of the soccer stadium. These claw-backs have never been imposed on any other STAR bond project and include: (i) an approximately \$30 million repayment obligation, (ii) restrictions on transfer of the stadium, (iii) personal guarantees of Cerner/OnGoal principals, and (iv) reversionary interest on the stadium site.

- (i) The developers must pay the state approximately \$30 million in ten installments beginning January 1, 2017. The payments can be waived if the deadlines for construction of the stadium and tournament fields are satisfied and if at least 4,000 FTE's at \$65,000 per year shall work at the office complex on or before December 31, 2016 and on each anniversary date thereafter.
- (ii) Restrictions on transfer of the stadium unless OnGoal has satisfied contractual obligations.
- (iii) A personal guarantee was obtained from the OnGoal principals including an opportunity to review financial statements on a quarterly basis, local businesses and contractors, women and local minority owned business goals and a requirement that OnGoal is adequately capitalized at all times pertinent to the agreement.
- (iv) The stadium site and Tournament Fields are also subject to transfer back to the UG if contractual obligations are not satisfied.

6. State Incentives. There are a variety of state incentives involved in this project. These include the IMPACT program, from which the state committed up to \$48.5 million based on the Cerner commitment to create 4,500 jobs at an annual average wage of \$65,000 per year. The office complex is eligible for the High Performance Incentive Program (HPIP) and preliminary estimates are that the project will be eligible for approximately \$17.0 million in HPIP tax credits. The project may also qualify for sales tax exemption status with a value of up to \$12.7 million and Enterprise Zone tax credits of up to \$1,500 per job for an estimated \$6.7 million. Parts of the project may also qualify for the Business Machinery and Equipment property tax exemption.

7. Local Incentives. As part of the STAR bond approval process, the state ensured the Unified Government (UG) pledged all available local sales and transient guest taxes to repayment of bonds. UG has also agreed to pledge certain property taxes and other payments to the success of the project. The estimated total investment will exceed \$117

7. Local Incentives. As part of the STAR bond approval process, the state ensured the Unified Government (UG) pledged all available local sales and transient guest taxes to repayment of bonds. UG has also agreed to pledge certain property taxes and other payments to the success of the project. The estimated total investment will exceed \$117 million which is vastly greater than the typical proportion of state/local investment for a STAR bond project. UG has a greater proportion of risk in this project than with any other STAR bond project. This risk is commensurate with the level of investment the state was asked to make through STAR bonds and the other incentive programs.

8. Estimated Total State Incentives:

WIZARDS SPORTS PROJECT

1. STAR BONDS sales tax 144.5 million dollars

CERNER OFFICE PROJECT

1. IMPACT BONDS 48.5 million dollars

2 HPIP tax Credits 17.0 million dollars

3. Sales Tax Exemption 12.7 million dollars

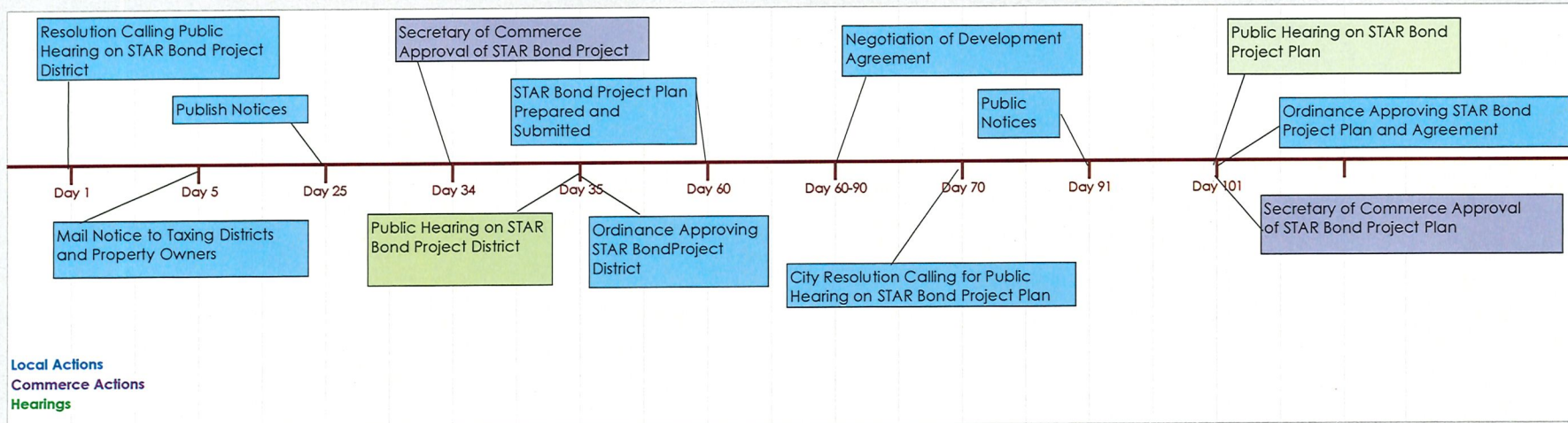
4. Interest Borrowed to Pay Bonds 16.3 million dollars

5. Enterprise Zone Job Credits 6.7 million dollars

4. Business Machinery/Equipment To be determined

Total: 244.7 million dollars

STAR BOND PROJECT PROCESS AND SAMPLE TIME LINE



4. Operations-Related Impacts

Utilization

The economic impacts of the proposed Project are predicated largely upon the number and type of events that are hosted annually as well as the number of annual patrons that utilize the facilities comprising the Project. It is currently envisioned that the stadium and tournament fields will host a wide variety of events on an annual basis. The following table outlines the estimated event and attendance levels assumed to take place annually for both the stadium and the tournament field complex.

**Exhibit 4-1
Event and Attendance Summary
Proposed Multi-Sport Stadium and Associated Tournament Field Complex**

Event	Annual Events/Days	Annual Attendance
<i>Multi-Sport Stadium:</i>		
Wizards	22	344,000
Concerts	11	200,000
International Soccer	2	37,000
Collegiate Soccer	16	188,000
Women's Professional Soccer	12	60,000
Major League Lacrosse	6	45,000
HS Soccer/Lacrosse	13	72,000
Football	14	171,000
Rugby	6	55,000
Other Sports	14	115,000
Ticketed Events (Stadium Plaza) ⁽¹⁾	51	248,500
Non-Ticketed Events (Stadium Plaza) ⁽²⁾	96	142,500
Special Events ⁽³⁾	14	152,300
Sub Total - Soccer Stadium	277	1,830,300
<i>Tournament Field Complex:</i>		
National Tournaments	21	175,000
Regional Tournaments	11	17,000
Local Tournaments	39	30,500
Camps/Clinics	12	6,000
League / Practices	343	210,750
Other Sports	110	196,000
Festivals	2	50,000
Special Events ⁽⁴⁾	5	8,700
Sub Total - Tournament Field Complex	543	693,950
Total	820	2,524,250

Notes:

(1) Includes such events held in the Stadium Plaza like extreme sports and concerts for which a ticket will be sold.

(2) Includes such events held in the Stadium Plaza like 5K runs, watch parties and farmers markets for which tickets will not be sold.

(3) Represents the average number of large-scale non-recurring events assumed to be hosted annually. Includes events such as CONCACAF events, various national championships and collegiate events, among others.

(4) Represents the average number of large-scale non-recurring events assumed to be hosted annually. Includes events such as various national and regional championships, among others.

Source: OnGoal

