

Testimony of Commerce Secretary Pat George In Support of House Bill No. 2561

House Commerce Committee
1:30 p.m., Wednesday, March 6, 2012
785 Docking State Office Building

Mr. Chairman and members of the Committee, I would like to again express my support for the reauthorization of the Kansas Sales Tax Revenue (STAR) Bonds Act through July 1, 2017. I believe some historical perspective is appropriate regarding the evolution of STAR Bonds as you consider whether to reauthorize.

As you know, STAR Bonds were first considered by the Legislature during the 1997 and 1998 sessions. STAR Bonds are a financing tool that allows cities and counties to issue special revenue bonds for certain infrastructure costs for major entertainment and tourism attraction projects. The state authorized the use of STAR Bonds for seven projects across the state. Those include the Kansas Speedway, Village West, and Livestrong Stadium (all in Wyandotte County); the Salt Museum (Hutchinson); Heartland Park Topeka, Wichita Water Walk; and the Flint Hills Discovery Center (Manhattan).

As the state's experience with STAR Bonds has evolved over the years, the law has been amended several times to provide greater oversight and accountability. The primary focus of those changes involved restrictions on the use of STAR Bond proceeds (prohibiting acquisition of personal property and payments to developers and certain other professionals), as well as the general oversight of STAR Bonds by local and state governments.

In 2005, the Legislature passed significant amendments to the law. These changes included:

- Requiring more detailed feasibility, visitation and similar economic impact studies for STAR Bond projects.
- Requiring the Commerce Secretary to approve, in advance, payments for certain project costs.
- Prohibiting STAR Bonds from being used for real estate commissions, local salaries, lobbying costs and bond origination fees.
- Requiring each city to obtain an annual, independent certified public accountant audit of STAR Bond expenditures.
- Requiring each city using STAR Bonds to file with the Secretary an annual report detailing expenditures of bond proceeds and that the report then be filed with the Governor and Legislature.
- A prohibition on using STAR Bond proceeds for personal property.
- A requirement that no more than 50 percent of a project could be paid with STAR Bonds, making the state a minority partner in all future projects.

The next major amendment to STAR Bonds came in 2007, when several substantive changes were made, including:

- Separating the STAR Bonds law from tax increment financing (TIF) law.
- Clarifying that only the incremental gain in sales and other tax revenues could be used to fund projects.
- Adding museums to the list of eligible projects/costs.
- Adding further oversight in the project approval process.

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

I firmly believe that STAR Bonds have provided significant benefits to the state and local communities across Kansas. This tool has been remarkably effective in Kansas and has directly led to development of several major destination attractions, mentioned previously, that have had a huge impact on the state’s economy. Collectively these projects have generated approximately \$2 billion in capital investment, 10,000 direct and 20,000 indirect and induced jobs in Kansas.

In addition to the projects already listed, there are three additional projects that have been approved for STAR Bonds use, but that have not actually issued bonds. There also are additional projects in various stages of seeking approval to use STAR Bonds. All these projects could be in jeopardy if reauthorization is not extended past June 30.

As I stated before, the primary objective of STAR Bonds is to develop entertainment and tourism attractions in order to bring new visitors and new sales tax dollars to the state. The program has been successful from that perspective, and the projects previously identified are bringing an estimated 10-12 million new visitors annually to Kansas. The STAR Bond program is widely considered to be a model for other states.

Kansas has a rigorous project evaluation process, and the Commerce Secretary has the discretion to fully screen projects and insure the state’s interests are being protected. Along with the Legislature’s changes over the years, all but one of the projects mentioned has exceeded revenue projections and will be able to retire their STAR Bonds before the end of the bond term.

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

I believe it is critical that the Legislature reauthorize STAR Bonds to continue to give the state a strong “economic tool box” with which to grow the state’s economy and create jobs. Please support HB 2561. Thank you.

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