

SESSION OF 2016

**CONFERENCE COMMITTEE REPORT BRIEF
HOUSE BILL NO. 2632**

As Agreed to April 30, 2016

Brief*

HB 2632 would authorize the State Finance Council to oversee the sale of the Kansas Bioscience Authority (KBA) or substantially all of its assets. The authorization would apply regardless of whether the Legislature is in session.

The bill also would revise provisions of the Sales Tax and Revenue (STAR) Financing Act pertaining to the annexation of area into a STAR Bond district, pledges for future financial support from the State, an “eligible area,” and annual reporting to legislative committees.

STAR bond districts would be prohibited from including real property that was part of another STAR bond project and district unless that STAR bond project and district have been approved by the Secretary of Commerce (Secretary) prior to March 1, 2016. A STAR Bond district would be limited to those areas being developed by the STAR Bond project and any areas reasonably anticipated to directly benefit the project. However, STAR Bond districts created and approved by the Secretary by January 1, 2017, or later would exclude tax increment financing derived from any sales tax revenues from retail automobile dealers. When a district adds area, the base tax year for the newly annexed area would be the 12-month period immediately prior to the month in which the new area was added to the STAR Bond district. The Secretary and the Secretary of Revenue would certify the amount of base year revenue for taxpayers relocating from within the state into a STAR Bond district.

*Conference committee report briefs are prepared by the Legislative Research Department and do not express legislative intent. No summary is prepared when the report is an agreement to disagree. Conference committee report briefs may be accessed on the Internet at <http://www.kslegislature.org/kldr>

“Eligible area” would be redefined to include buildings that are 65 years old or older and contiguous lots which are vacant or condemned. Currently the term means a blighted, conservation, enterprise zone, intermodal transportation, major tourism, or a major commercial entertainment and tourism area.

The bill would allow the Secretary to pledge a portion of state sales and use tax revenues to a STAR bond district; under current law, the pledge must be all state sales and use tax revenues.

By January 31 of each Legislative Session, the Department of Commerce, with cooperation from the Department of Revenue, would report to the Senate Committee on Commerce and the House Committee on Commerce, Labor and Economic Development the following information on each STAR Bond district for the past three calendar years and year to date:

- The amount of sales and use tax collected;
- The amount of bond payments and other expenses incurred;
- The amount of bonds issued and the balance of the bonds, by district and by project;
- The remaining cash balance in the project to pay for future debt service and other permissible expenses;
- Any new income producing properties which are brought into a district, identifying the base amount of revenue the State would retain and incremental amount that would go to the district;
- The amount of bonds issued to repay private investors, identifying the share of indebtedness which is financed by private and public financing;

- The percentages of state and local effort committed to the district; and
- The number of visitors to the district, identifying the number of in-state and out-of-state visitors.

The above standing committees of the House and Senate would be permitted to request additional information as necessary.

The bill would be in effect upon publication in the *Kansas Register*.

Conference Committee Action

The Conference Committee deleted the language of HB 2632, as amended by the Senate Committee of the Whole, which would have established the Pooled Money Investment Board (PMIB) as a separate state agency. Legislation pertaining to PMIB is found in the Conference Committee report for SB 378. The Conference Committee inserted language largely based on the version of SB 474 as amended by the Senate Committee on Ways and Means and further amended the bill to:

- Specify the method to determine the tax base year for a STAR Bond district that adds area, looking at the past 12 months of sales and use tax history;
- Allow the Secretary the discretion to pledge a portion of state sales and use tax;
- Exempt sales tax from certain automobile dealers to be used for financing STAR Bonds, starting after January 1, 2017;
- Redefine “eligible area” to include buildings 65 years old or older and certain adjacent lots; and

- Specify the information about STAR Bond districts and projects, which is to be reported annually to certain standing committees of the Senate and House.

Background

The background on HB 2632, as amended by the Senate Committee of the Whole can be found in the Conference Committee report for HB 378 and in the Supplemental Note for HB 2632. The following provides the background of SB 474 as amended by the Senate Committee.

A representative from the KBA provided an update on its status. KBA anticipated receiving the expected transfers but did not receive the full amount this year. KBA began working on creative solutions to how it can operate in the future given the circumstances. The representative noted four activities KBA needs to adjust:

- Scale down operations due to reduced transfers by decreasing from 14 to 3 staff;
- Work with the newly appointed Secretary of Commerce to explore options;
- Privatize KBA functions, which include outstanding grant commitments, real estate, investment portfolio, and
- Alignment within the Board itself.

The representative noted KBA wanted the transition to be an open and transparent process and to seek a final solution with options for all purposes, but mainly to operate for the good of Kansas. The representative noted originally the funding for the KBA was to sunset in 2019.

The KBA representative also noted the following:

- It would be preferable to proceed with any sale of assets sooner rather than later, because KBA is investing in small start-up companies and not having the funds to see them through maturity will put the companies at a disadvantage;
- An investment banker has analyzed assets as KBA is ready to market them to potential bidders, and KBA has given the investment banker characteristics and requirements for the bids, including the option of retaining an equity position;
- Any buyer would be unlikely to agree to a requirement that new capital not dilute the State's position;
- KBA's current grant commitment liabilities on the balance sheet now most likely would transfer;
- Long-term solutions for the building and land will be developed; and
- Any funds left over will be transferred to the State General Fund. The representative quantified the liabilities as of today to be \$28.0 million in commitments (building, land, outstanding grants) and noted sale of the building probably will pay off the debt.

The Department of Commerce provided written testimony in support of SB 474, stating the Department would work with KBA to ensure the State receives a fair return on the sale of the assets.

The Senate Ways and Means amended the bill to:

- Prohibit sharing of revenue from one STAR Bond district to another, excluding projects approved prior to March 1, 2016;
- Provide an annual Legislative Post Audit performance audit of the STAR Bond Projects, which would be paid by the city or county of the project district; and
- Void certain provisos in 2016 House Sub. for SB 161.

[Note: The Conference Committee report for HB 2632 contains amendment listed above. The other Senate Committee amendments were omitted.]

The fiscal note indicates SB 474 as introduced would have no fiscal effect. However, *The FY 2017 Governor's Budget Report* does include \$25.0 million in State General Fund revenue from the sale of KBA assets.

economic development; STAR bonds; bioscience; revenue; sales tax

ccrb_hb2632_01_0000.odt