

March 4, 2018

The Honorable Julia Lynn, Chair  
The Honorable Gene Suellentrop, Vice Chair  
and Members of the Senate Commerce Committee

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RE: Testimony for SB 432

Dear Sirs and Mesdames:

I am writing to you as a private citizen regarding the STAR Bond program and the proposed amendments thereto, pursuant to SB 432.

This bill primarily pertains to STAR Bond transparency and program oversight.

My preference would be to see the STAR Bond program eliminated. However, if the program will not currently be eliminated, then I support much of this bill, as an improvement to the existing operations. It is to the taxpayers' benefit to have greater transparency and oversight of the STAR Bond program.

### **My Background**

I have substantial experience in capital markets. I will note that not all of my experience is directly relevant to STAR Bonds or other municipal financings. However, my overall capital markets experience provides a helpful framework for me in understanding the STAR Bond program. For your reference, my credentials are summarized in **Exhibit A**. I emphasize that I write this testimony as a private citizen and not in my professional capacity or on behalf of my employer.

From 1994 to 2005, I lived in Southern California (Orange County), in the first decade of my professional career. In 2005, my family and I moved to Johnson County, Kansas, to get back to our Midwest roots and to start a business.

Upon moving to Kansas in 2005, I was struck by two things:

- a) Overall taxes were higher than I expected. Property tax and sales tax were both at substantially higher rates than I paid in California; only income tax was lower. (e.g. sales tax in the 8s (now 9s-10s), versus in the 7s in California), and
- b) The proliferation of public subsidies (either direct or via abatement etc.) for private real estate development.

*Such public subsidies and special government incentives just didn't exist in Southern California at that time, yet plenty of impressive real estate development occurred,*

*including entertainment / tourist-related enterprises, funded through traditional private channels.*

### **Watching the STAR Bond Program Grow, and My Tipping Points**

As a private citizen here in Kansas since 2005, I have observed the expansion of various government subsidy schemes for private economic / real estate development. This expansion generally does not strike me as favorable for the Kansas economy, and more importantly, I have realized that the STAR Bond program in particular has numerous “fatal flaws” that make it very unfair to Kansas taxpayers and to current Kansas business owners.

The program also has numerous operational flaws, many of which I am happy to see addressed in SB432.

I would like to cite that the “tipping points” which called me to action as a private citizen. My tipping points are three particularly egregious (in my opinion) STAR Bond applications:

- a) The Pinnacle Training Center and related projects in Kansas City, Kansas.
- b) The American Royal relocation to Kansas City, Kansas, and
- c) The proposed development at the site of the former “Great Mall of the Great Plains” in Olathe (mixed use, including another KC-area hockey arena)

All three of these projects will siphon state sales tax to pay for speculative ventures and/or pet projects of very wealthy private citizens who could well-afford to fund their own private adventures rather than relying on taxpayer subsidies to do so. These projects are also geographically enormous, which substantially reduce prospective Kansas state sales tax revenue for these large footprints.

Further commentary about these projects:

#### **a) Pinnacle Training Center and related projects (Wyandotte County)**

The very wealthy owners of Sporting KC have learned how to navigate the STAR Bond program for their benefit. Subsequent to obtaining STAR Bond financing for Sporting KC’s stadium, they came back for more, to seek taxpayer funding for Sporting KC’s new training center (Pinnacle). A recent Kansas City Star article (see **Exhibit B**) describes the over-the-top amenities of the Pinnacle training center. I would find these amenities to be really fantastic if they were properly paid for by the billionaire owners of Sporting KC. But since the Kansas taxpayers have to pay for much of this cost, I am much less enthused...in fact, I’m downright offended.

To be clear, Kansas taxpayers are paying for part of this project, insofar as the state’s bills have to be paid, and our overall taxes are higher because projects like this divert tax revenue *from* the Kansas treasury *to* the private net worth of the project owners.

**b) American Royal (Wyandotte County)**

I have been dismayed to see the American Royal's disloyalty to its 100+ year home in KC MO's West Bottoms, and incredulous at the prospective STAR Bond venture. I am skeptical as to the economic viability of the proposed plans (Ag Education Center, etc...I find it unlikely that these will be viable tourist destinations). If taxpayers weren't subsidizing this venture, then my skepticism wouldn't really matter, but since the American Royal is seeking public financing (taxpayer subsidies), now I have skin in the game and I'm not happy about it.

**c) Great Mall Redevelopment (Olathe)**

The application for STAR bonds to support the Great Mall redevelopment is a bridge too far. Here we have a failed "destination" – a spectacular failure, from dust to dust in 2 decades! – seeking public financing for the next version of a regional tourist/entertainment destination in the exact same location. I am all for terrific real estate development, and I like shiny new buildings as much as anyone, but to seek public financing for yet another "entertainment destination" in the exact spot as a previous

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*...to seek public financing for yet another "entertainment destination" in the exact spot as a previous spectacular bust is downright audacious.*

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spectacular bust is downright audacious.

For a trip down memory lane, please refer to news articles in the 1997 timeframe, heralding the wonderful new "Great Mall of the Great Plains" and the tourism that would come with it. For example, from the Kansas City Business Journal in 1997 (see **Exhibit C**):

"Drawing motor coaches from afar will be a big part of business as the mall strives to become the Breadbasket's ultimate shopping and entertainment experience. More than 500 coaches are expected to visit during the Great Mall's first year of operations, [General Manager Jeff Dozier] said. 'This is a tourist attraction,' he said."

The failed Great Mall of the Great Plains is a poignant reminder that not all projections pan out. If a project fails with STAR Bonds outstanding, that means that the bondholders will incur a default (unless the local government unwittingly bails them out) and that Kansas taxpayers never received the incremental revenue that was projected.

I don't fault the original Great Mall for going bust – that happens sometimes in a free market – but please don't ask taxpayers to subsidize yet another "ultimate shopping and entertainment experience".



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### **STAR Bonds are Tax Subsidies, and Understanding Cannibalization**

I want to emphasize that STAR Bond projects are indeed taxpayer subsidies. I have often heard that because STAR Bonds only capture “incremental” sales tax above a starting point (i.e. the “base”), this is all revenue that Kansas wouldn’t have enjoyed anyway. This is a false presumption (and a fatal fatal of the program in my opinion), insofar as much STAR Bond program revenue is likely cannibalizing from elsewhere in the state of Kansas. This is what I call “moving money around on the map”...e.g. if, on a given Saturday, I am taking my family to STAR Bond-subsidized Schlitterbahn or STAR Bond-subsidized Cabela’s, then I am not taking them to non-subsidized KC Watersports or to the local Academy Sporting Goods in Olathe. In these examples, Kansas was shortchanged the sales tax receipts that it should have received, and the non-STAR Bond business owners were shortchanged the revenue that they might have otherwise enjoyed. More galling, however, is that these same non-STAR Bond business owners are themselves Kansas taxpayers, and thus are indirectly *subsidizing their own competition*. That is not a friendly business environment for hardworking, risk-taking Kansas business owners.

### **Fatal Flaws with the STAR Bond Program**

I believe the STAR Bond program is inherently, fatally flawed, and thus, I believe that the state of Kansas would be better off if the program were terminated for any future use. However, this is not the subject of SB432 and I will not further address these fatal flaws in my testimony. I am including a summary discussion of “fatal flaws” as **Exhibit D** for your reference.

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### **Operational Flaws that SB 432 and 434 Improve Upon**

#### **a) Undue concentration of approval authority with the Commerce Secretary**

The Commerce Secretary may not have (and often has not had) sufficient capital markets and/or commercial lending experience to appropriately evaluate the complex financial structure of the STAR Bond applications.

**Solution, as set forth in SB 432:** Underwriting Commission, consisting of appropriately-skilled professionals from the private sector. I am happy to see this improvement to the program, whereby a 3-person commission will be established to review the STAR Bond applications. This approach is an



adaption from the private sector, in which most banks and asset managers utilize a multi-person approach to evaluating prospective loans or investments. This approach benefits from the basic concept of “two (or three) heads are better than one”. Moreover, this approach increases the likelihood that the evaluators have sufficient, appropriate professional experience in order to consider the complex financial arrangements inherent in the STAR Bond program.

**Suggested modification to SB 432:** I am concerned about the limitation of meeting for no more than 21 calendar days. My concern is that there may be numerous STAR Bond projects “stacked up” for the commission to review in a short amount of time, leading to hasty conclusions. To fix this problem, I suggest that the commission meet not more than 28 calendar days per year, which shall be configured as at least 5 calendar days and not more than 10 calendar days during each calendar quarter. Therefore, a proposed project that wasn’t quite ready for submission “this quarter” could submit within the next three months, rather than have to wait an entire year.

**b) Inconsistent and incomplete reporting**

**SB 432 substantially remedies this flaw.**

The historical reporting on STAR Bonds, at least what I can see in the Annual Reports on “Kanview”, is very inconsistent and incomplete. The provisions within SB432 seem to do a great job of improving this, for the benefit of Kansas taxpayers. In addition to providing more taxpayer transparency, the proposed provisions should help to standardize the expectations for future preparers of the reports.

It should be noted that financial reporting for investment products sold to the public (e.g. stocks, bonds, registered private placements, mutual funds, etc.) require very clear, regular, thorough financial reporting. While the STAR Bonds themselves are not necessarily registered investment products, they represent a usage of the public treasury for private purposes, and thus it is very reasonable to expect a high standard of care for transparency to the public. Let it be noted that unlike with registered investment products, the taxpayers don’t get a choice as to whether or not they “participate” with the STAR Bond fundings – taxpayers are “in”, like it or not (They’re “in” by way of incurring higher taxes due to the re-directed STAR Bond sales tax.) To not provide sufficient transparency is a misuse of the public trust.

**c) Failure to hold projects accountable to their original projections, or even to revisit and compare to original projections**

**SB 432 largely remedies these flaws.**

I am very pleased with the proposed language in this bill. This bill addresses the accountability for revenue projections via the improved reporting requirements, and addresses the consequences of failure via section (g) and (h) on pages 18-19.

Thank you for adding some “teeth” into the program, for the benefit of Kansas taxpayers. Kansas should not continue to give away its tax base in areas where even 50% of original projections cannot be met.

**Suggested modifications to SB 432:**

I will suggest some language clarifications to tighten up and add clarity:

1. Last sentence of (g), top of page 19: Suggested language “...or the STAR Bonds associated with the project have incurred any monetary defaults.”

*Key point: clarifying that the STAR Bond special revenue district is the entity that issues the bonds, not the city or county.*

2. Last sentence of (h), page 19: Suggested language “...district project were 50% less than the original projected revenues of the final approved STAR Bond application.”

*Key point: clarifying which “projected revenues” are being considered.*

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### **Operational Flaws that SB 432 does not address**

- a) **Failure to track and report visitor data, namely out-of-state visitor data as currently required by law.**

This is related to my previous item (b). One item that seems to have fallen from view, in the STAR Bond annual reporting, is the existing requirement per KSA Section 127-17,169(l) that the Commerce Secretary’s reporting (due by January 31) include “a discussion of the visitor attraction properties of projects in the districts, and a comparison of the number of out-of-state visitors with the number of in-state visitors”.

**This is critical data. This is foundational to the notion that STAR Bonds create incremental revenue to Kansas, i.e. the hope that STAR Bond projects draw out-of-state visitors, and not just “moving money around on the map”.** Incidentally, I am skeptical that STAR Bonds do in fact draw large numbers of visitors who *otherwise wouldn’t have patronized Kansas businesses*, but regardless of my skepticism, it is foundational (and currently required) that such data be tracked and reported. However, most of the Annual Reports that I’ve reviewed omit this data, despite the statutory requirement.

### **Suggested modifications to SB 432:**

I believe it would be more helpful to require the local STAR Bond districts to report this data on an ongoing periodic basis, rather than to require it solely of the Commerce Secretary annually (which simply isn’t feasible). As such, I would recommend that consideration be given to specifically requiring STAR Bond districts to submit a quarterly report to the Commerce Secretary that analyzes and summarizes visitor data. I would suggest that this data be accounted simply by reviewing license plates, with a data table prepared from one Saturday per month, each month, summarizing license plates by state, with parking lot samples to be of an appropriate size as to be statistically valid (further detail needed on this). I will further suggest that this data be submitted by and vouched for the appropriate executive personnel on behalf of the STAR Bond district, under penalty of criminal prosecution for willful omission or mis-statement. Records for such data counts should be subject to annual audit. I emphasize this because counting license plates is not fun work, but ***this data is critical to your***



*evaluation* of the program's success or failure.

**b) Ability for projects to proceed without having all capital committed and ready for the entire proposed STAR Bond district.**

Result: incomplete projects, with potentially the money-losing portion of the project built before the supposed money-making projects are even started. The STAR Bond funding should not be the first money spent when ground is broken; the project needs to be lined up and ready to go in its entirety, as per the STAR Bond application.

**I don't believe that SB 432 addresses or improves this flaw.**

**c) Ever-expanding geographic parameters for STAR Bond districts.**

STAR Bond programs tend to "sweep in" assets that in should not need STAR financing in order to redirect sales tax collection away from the state, and towards the (sometimes questionable) STAR projects. E.g. traditional retail in a STAR district: there are vast amounts of capital to fund new retail development for viable projects.

**I believe that SB 434 helps to curtail the "retail sweep" concern, and I am glad to see this.**

**However, I don't believe that either 432 or 434 directly address the ever-expanding geography, and I would suggest that this be considered.** For example, the original "Great Mall of the Great Plains" in Olathe sat was a 112 acre destination (circa 1997). At this size, it was large enough to be considered a regional shopping destination and to bear the moniker "Great Mall". By contrast, the proposed STAR Bond district for its redevelopment is 270 acres! That's 270 acres of real estate for which the Kansas treasury will forego sales tax collection for up to 20 years. That is not fair to the taxpayers of Kansas.

An even more egregious example is the American Royal, at 550 acres. And this is adjacent to many hundreds of acres of existing STAR Bond districts in Wyandotte County...that's an enormous footprint for an area that would otherwise naturally see economic growth and Kansas revenue. This enormous area will be substantially "decommissioned" from a Kansas revenue standpoint, thanks to the STAR Bond program. Indeed, Wyandotte County has "decommissioned" a substantial portion of its state sales tax footprint.

**Suggested modifications:** Impose a geographic limit on the size of a STAR Bond district and on the total amount of STAR Bond acreage in a given municipality (city or county). For example, no STAR Bond district shall exceed 150 acres, and there shall not be greater than 500 acres of STAR Bond districts collectively in a given municipal entity. Existing districts would need to be grandfathered.

**d) Putting taxpayers directly on the hook for "major motorsports complexes"**



While it is bad enough for state taxpayers to subsidize private projects via tax revenue redirection to the bond repayments, it is especially egregious when the full faith and credit of a municipality is placed on the line in support of speculative private ventures. This occurred at the Kansas Speedway and Heartland Park, and is allowed for “major motorsports projects” according to the STAR Bond statutes.

**Neither SB 432 or 434 address this flaw.** I would highly recommend that no more major motorsports projects be considered under the STAR Bond program, and/or that the ability for local governments to put their full faith and credit behind such bond issuances be eliminated, except for refinancing existing STAR Bonds. Kansas is batting 0.500 for major motorsports STAR Bonds programs. While an impressive batting average in baseball, in capital markets that is a major failure. State and local taxpayers should no longer be put at risk for any future major motorsports projects.

**e) Willingness to subsidize “pet projects” of very rich private citizens (VRPCs).**

My “tipping points” as explained previously relates to this. Historically in Kansas and elsewhere, wealthy businesspeople took risks with their own capital (and other qualified equity investors) for new for-profit projects. For non-profit projects, the charitable community was led by wealthy businesspeople who blessed their communities with their beneficence.

In recent years, the STAR Bond program has been co-opted by certain wealthy private citizens to fund their own pet projects. This is a distortion of the model that has served Kansas and our country very well. Again, my “tipping points” discussion addresses these concerns.

I have heard that sometimes, the VRPCs purchase the STAR Bonds (essentially, loaning themselves/their projects the money for the project). I have concluded that this may be problematic, insofar as this may evidence that the bonds would not otherwise “clear the market” upon issuance – i.e. the bonds are not attractive enough for unrelated parties to purchase them. If that is the case, that is the bond market telling us loudly that the project is not good, from a debt (bond) perspective. Moreover, if a VRPC purchases the bond at issuance, then he is essentially putting up the equity for the project (i.e. he is committing the “equity risk” via the bonds), but he gets to have his investment repaid with *sales tax collection*, rather than with operating cash flow, as would otherwise (normally) be the case. He gets to put up substantially less equity than would likely otherwise occur in free capital markets, and gets a tax-free revenue stream (as an investor, owning the municipal bond) of *the state’s money* (sales tax) to repay himself. That is a nice deal if you can get it.

This is both a “fatal flaw” and an “operational flaw”, and **it is not addressed in SB 432 or 434**. I believe that this could be mitigated by requiring an open market process for the STAR Bond issuance. However, I do not feel qualified to further opine on this. This is an area for municipal bond investment bankers to provide guidance.

I will suggest two additional areas for improvement in this category:

- 1. Require personal guarantees** for STAR Bond projects by principals who own or personally benefit from, directly or indirectly, > [20%] of the proposed project. It would be reasonable for such guarantees to phase out over time. I would suggest a phase-out of the personal guarantees over time, subject to certain percentages of the STAR Bond repayment.

Personal guarantees such as this are standard practice in commercial real estate development for all but the most “plain vanilla” developments such as multi-family (apartments).

2. **Prohibit STAR Bond financing for projects that are not generally open to the public.** For example, the Pinnacle Training Center. It is not fair to Kansas taxpayers to fund a building that they themselves do not have access to. I would suggest that STAR Bonds cannot be used to fund development which includes any building that is not open to the public for at least [200] days per year.

If my proposed improvements would be considered too restrictive by prospective applicants, then the simple solution is for them to use other sources of capital (namely, equity). No party has a God-given right to use STAR Bonds.

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#### **Additional Improvements in SB 432 (Positive in my view)**

- **No felon principals (section i, page 19):**

I am glad to see the prohibition against principals who have a felony conviction. A felony conviction is a ban for life in my profession; it is reasonable to me that such a conviction would prohibit substantial ownership in a STAR Bond project.

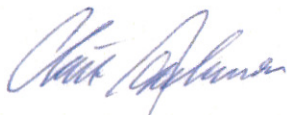
- **Comparable Viability Analysis (section 16, page 22):**

This is an excellent addition to the program. This ensures that the proposed STAR Bond funded project is not the very first successful project of its kind in the United States. This is not too much to ask of the taxpayers’ treasury. Without this requirement, the STAR Bonds can literally be considered on par with venture capital, from a risk standpoint...yet, taxpayers do not receive the “equity upside” that would be associated with venture capital. So again, this requirement is certainly not too much to ask, from a taxpayers’ standpoint.

## Conclusion

Thank you for the opportunity to provide input on SB 432. I have spent a lot of time in the past six weeks digging into the STAR Bond program. As I have done so, I have generally become more frustrated at the flaws in the program, from the taxpayers' standpoint. Indeed, the Kansas taxpayer is the person who is least likely to show up to these hearings, yet it is the taxpayer who bears the cost of the STAR Bond program (via overall tax revenue that must be collected elsewhere, i.e. from the taxpayer). I hope that my input is helpful as you consider improvements to the program.

Sincerely,



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## Exhibits

**A:** Clint Anderson background and professional credentials

**B:** "‘They Thought of Everything.’ Check out Sporting KC’s new national training center.", Sam McDowell, Kansas City Star, February 5, 2018.

**C:** "Work Bustles at Great Mall of the Great Plains", Stephen Roth, Kansas City Business Journal, August 10, 1997.

**D:** Fatal Flaws of the STAR Bond Program, by Clint Anderson



## Exhibit A

### Clint Anderson Background and Relevant Experience

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I grew up in Marshalltown, Iowa, graduated from the University of Northern Iowa in 1994, and moved to Southern California for my first job after college, in commercial real estate analysis. While in California, I went to graduate school, got married, and had our first child. In 2005, we decided to move to Johnson County, Kansas, to get back to our Midwest roots (my wife is from St. Louis), and to start a business.

Summary:

- Bachelor's degree in Finance (Northern Iowa '94)
- MBA with Corporate Finance emphasis (Univ. of Southern California, 2002)
- 2 years' experience in commercial real estate financial analysis
- 10 years' experience in commercial banking: understanding capital structure and providing debt for businesses. Experience ranging from Silicon Valley VC-funding to middle and upper-middle market. (Financings up to \$600 million, both publicly-traded and private companies)
- 1 year as a business owner (Lenexa, 2005): I bought the KC-area franchise for a California-based company. I personally funded the business, created jobs, but wound down when I concluded that the business was not viable.
- 12 years as Financial Advisor (2006-present) with a major Wall Street investment firm.
- I live in Olathe with my wife and 2 sons (ages 13 and 11).

California

Johnson  
County, KS



SPORTING KC

## ‘They thought of everything.’ Check out Sporting KC's new national training center

BY SAM MCDOWELL  
[smcdowell@kcstar.com](mailto:smcdowell@kcstar.com)

February 05, 2018 05:08 PM  
Updated February 05, 2018 05:53 PM

Sporting Kansas City coach Peter Vermes directed a group of 35 people down a passageway Monday, serving as the unofficial tour guide for a \$75 million structure. On his left, he pointed toward a cryotherapy room, designed to accelerate muscle recovery. On his right, there was a hypobaric chamber, a room with adjustable altitude. After a step backward, he explained the benefits of another space with motion analysis.

And on it went.

“You see the blueprints and the renderings and you have a vision, but seeing it and walking in here, it’s still hard to believe,” he said. “I’m still amazed every time I walk in here.”

The national soccer training center, a vision spearheaded by Sporting KC nearly six years in the making, was officially unveiled to media members on Monday. It will be referred to as Pinnacle.



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Pinnacle, funded primarily through Kansas sales tax revenue (STAR) bonds, will serve as the new full-time training home for Sporting KC, which previously occupied Swope Soccer Village. Located on the southeast corner of 98th Street and Parallel Parkway, it will house three tenants. U.S. Soccer has moved its coaching and refereeing training programs to the 50-acre site. And Children's Mercy Sports Medicine Center occupies a branch of the lower floor, with a planned completion in April.

What truly makes Pinnacle stand out are its details — cameras lining the fields for audio and visual components, ventilation in the lockers, check-in fobs for players that alert them to daily responsibilities and a trophy wall with several openings for future hardware.

Months ago, Vermes wondered if they should add a barber shop for the players. On Monday, while guiding the tour, he proudly identified the barber chair and mirror.



“As you can see, no stone has been left unturned,” Sporting KC defender Graham Zusi said. “They thought of everything.”

The players saw the space for the first time last month. On Tuesday, they hope to practice at the facility for the first time, weather pending.

On the back side of the building sits the “super pitch,” a seven-acre setting for three natural

grass fields that mimic the playing surface at Children's Mercy Park, located one mile away. The super pitch is lined with WiFi and eight cameras.

Two weeks ago, ownership from a future Miami MLS team toured the facilities. Sporting KC president Jake Reid said he asked prospective owner and former soccer star David Beckham how they compared to overseas offerings.

“As good as any I've been to,” Reid recalled Beckham replying.



Reid added, “The Miami reaction is actually funny because the owners were like, ‘Wow, we haven’t budgeted enough for what we need to do.’”

“To that extent, it is an arms race at some point, and I think we’ve put ourselves in position (just) as we did with the stadium. We’ve got now the best asset, in our opinion, in the sport.”

Asked about using the place as a tool for recruiting players, Vermes quipped, “If we get a player here, he’s probably signing ... and probably for less money.”

Using Populous as the architect, Sporting KC took on the heavy lifting for the project, but the plan — and hope — is for U.S. Soccer to utilize it frequently. Adjacent to the main building, two synthetic fields dubbed “the pitch lab” will be the site of year-round training for U.S. Soccer coaches and referees. A pavilion is nestled between the two fields, complete with video technology to capture the movements on the field.

The U.S. men’s and women’s national teams have open invitations to use the fields, and there are locker rooms, coaching offices and training rooms reserved for them. While none have yet committed to a specific training schedule, U.S. Soccer CEO Dan Flynn previously told The Star they will likely be here regularly during the summer. But much of that will depend on the preferences of each individual coach. Flynn last took a tour in September, when Sporting KC was playing host to the U.S. Open Cup Final.

“Even for them, I think it was hard for them to visualize what this was going to be like, let alone how they’d use it,” Vermes said. “I think now that they’ve been here and they’re seeing (everything), I think they’re starting to realize they’re going to have a lot of use. I think that’s just going to evolve over time.”

The main facility will be split among Sporting KC and U.S. Soccer personnel, along with the Children’s Mercy Sports Medicine Center. The latter includes a radiology center, an indoor turf field and basketball court, a gait lab and a workout room shared with Sporting KC players.

The primary innovation lies in the sports-medicine wing of the building. Sporting KC midfielder Roger Espinoza said the recovery options could allow players to “stay in the game longer than what you expected.”

As Sporting KC director of sports performance Mateus Manoel put it, “This is like Disney World for trainers.”

The project’s estimated \$75 million price tag is separate from the \$12 million bill for 12 new youth soccer fields that opened a mile to the east last June. STAR bonds contributed a total of \$63 million to those two projects.

*Sam McDowell: 816-234-4869, @SamMcDowell11*



# Work bustles at Great Mall of the Great Plains

SAVE

IN THIS ARTICLE

**By Stephen Roth**  
– Staff Writer

**Aug 10, 1997, 11:00pm CDT**

**Updated Aug 10, 1997, 11:00pm**

In the center of the Great Mall of the Great Plains, beyond the scaffolding and Sheetrock that line its wide unfinished hallways, Jeff Dozier sits in his office, counting the days to the Aug. 14 grand opening.

"Doesn't look like we're just two-and-a-half weeks from finishing, does it?" the general manager cheerfully observed.

Indeed, most of the Great Mall's 140 storefronts are dark and bare, and construction workers still ride golf carts over sheets of plywood that cover the floors.

But Dozier confidently predicted 90 to 100 of the stores will be ready by the time doors open to the mammoth mall, which strives to put Olathe on the map as a tourist and retail attraction.

They'd better be, he added. Eleven motor coaches from throughout the Midwest are scheduled to visit the Great Mall on opening day.

Drawing motor coaches from afar will be a big part of business as the mall strives to become the Breadbasket's ultimate shopping and entertainment experience.

More than 500 coaches are expected to visit during the Great Mall's first year of operations, Dozier said. The mall expects to draw regular customers from a 60-mile radius.

"This is a tourist attraction," Dozier said.

## **Different from other malls**

The Great Mall's dimensions are enough to inspire Herculean analogies: more than a million square feet of retail space; 2,000 to 3,000 retail jobs; seven anchor stores including Dillard's, Marshalls, Oshman's SuperSports and Burlington Coat Factory; and a 16-screen Dickinson Cinema that opened on July 25.

The mall will have an oval "racetrack" layout with futuristic floor-to-ceiling glass storefronts.

For Kansas City shoppers, the Great Mall will try to differentiate itself from Oak Park and Bannister malls by offering a mix of discount and factory outlet wares with traditional brands like Eddie Bauer and Tommy Hilfiger.

"It's a value-oriented mega-mall," Dozier said. "It's going to have designer labels that appeal to Johnson County residents and outlet stores that appeal to Miami County people and Kansas City people."

For many months, staffing the Great Mall was a great concern among tenant stores. Johnson County, with a jobless rate hovering just more than 2 percent, couldn't fill the positions by itself.

So the mall and the Olathe Chamber sponsored a July 23 job fair in which several workers were bused from Kansas City, Kan., and the Bannister Mall area in Kansas City. More than 2,000 people showed up.

"Before the job fair, everybody was freaked out about employment. Afterward, tenants were, like, 'We've got enough people where we can do it,'" Dozier said. "So we must have filled at least 1,000 positions."

#### **Working with other stores**

Behemoth that it is, the Great Mall doesn't intend to divert customers from other Olathe retailers to its location at Interstate 35 and Kansas Highway 7, Dozier said.

In fact, the mall has sent out feelers to other retailers about forming a cohesive marketing strategy. Dozier met with 30 other retailers in July to talk about how each could benefit from joint advertising and promotional activities. A second meeting is planned for some time in September.

Melody Gatti, owner of Pat's Place, a women's clothing store near the intersection of Santa Fe and Mur-Len, said she was excited about having a regional tourist attraction like the Great Mall in the area.

The mall, which plans to promote Olathe to cities throughout the Midwest, packs a bigger punch than small retailers that try to advertise independently, Gatti said.

"I think the mall wants us to view them as a partner and not as an opponent," she said.

When asked why the Great Mall would be interested in promoting Olathe as a whole, Dozier shrugged and said it just makes good business sense.

"I think every developer recognizes that when you come into a community, it's just smart business for you to work with people who know the community best," Dozier said.



## Exhibit D: STAR Bond Fatal Flaws

By Clint Anderson, March 4, 2018

While I appreciate the reforms in SB 432 and 434 in the spirit of transparency and operational improvement, ultimately I believe that the STAR Bond program suffers from several fatal flaws, and thus should be ended for any further bond issuance. This Exhibit will briefly summarize these fatal flaws.

### I. The false presumption that STAR Bonds are necessary to spur new real estate development

I have heard repeatedly that STAR Bonds were helpful to “jump start” certain areas – most notably, the Speedway / Legends area (as the “granddaddy” of STAR Bonds and project most often pointed to as a “success”). I challenge this notion. Most of the STAR Bond-financed development could have attracted traditional private capital (equity for the riskier aspects of a project, debt for the less risky, clear cash-flow generating aspects). Indeed, the vast majority of all STAR Bond fundings have gone into “traditional retail”, for which there is decades of history of financing in the U.S. and in Kansas. In other words, STAR Bonds have largely been used to fund traditional assets (retail etc.) for which there should have been ample capital available. What STAR Bonds have often actually been used for is a cheap source of capital in order to fund a particular “pet project”, using traditional cash flow (retail & restaurants) to pay for the “pet project” that is part of the STAR Bond district and which would not otherwise be able to stand on its own. That’s not appropriate, and points back to the false presumption that this paragraph addresses.

Now, it may be true that a certain location or certain project wouldn’t otherwise be developed were it not for STAR Bonds. In short, that tells us that the proposed project *shouldn’t be developed as proposed*.

### II. The false presumption that STAR Bonds’ project revenue (incremental sales tax) is in fact “incremental” to the state of Kansas, and thus is fair to be redirected towards bond repayment.

Most STAR Bond project revenue comes from either cannibalization or from the natural evolution of economic growth, which would happen without STAR Bonds.

Cannibalization happens both with retail (e.g. I’ll go to the STAR-Bond funded Cabela’s, instead of another sporting goods store), and with entertainment (if I’m going to STAR Bond-funded Schlitterbahn on a given Saturday, I’m not going to another water park or any other entertainment option on that same particular day). Cannibalization is especially troubling because it means that existing taxpaying enterprises are subsidizing their new competition. The STAR Bond program as written lightly attempts to address this, but in reality, **this is an inevitable “fatal flaw”** and is a reason the program should no longer exist.

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In addition to the cannibalization problem, STAR Bonds give away the tax base where logical retail growth would otherwise occur naturally. Economic growth and suburban geographic expansion are natural features of a normal economy over time. Just because a certain parcel had not been previously developed (thus a \$0 "base") does not mean that no tax-generating assets would ever occur on that parcel. Why give away the tax base?

### **III. The false presumption that there is a shortage of private capital for good projects.**

As I have noted previously, equity should be used for speculative/unproven ventures, not debt. "Equity" means the funds that the project owners contribute – the skin in the game. There is no shortage of equity capital in Kansas or the US for viable projects. For more certain / less risky development (multi-family residential or traditional retail), there is no shortage of debt capital available, again for viable projects.

For bad business plans or unproven management, there will always be a shortage of capital. Taxpayers shouldn't have to subsidize this gap.

For reference, the annual PwC / CB Insights "Money Tree Report" for Q4 2017 (a prominent report regarding national venture capital trends) noted that 2017 saw venture capital funding in excess of \$71 billion, spread across over 5,000 deals. That is the second-highest dollar volume in history, behind 2015's \$76.8 billion.<sup>ii</sup>

### **IV. Putting taxpayers in the place of venture capitalists**

Projects that are unproven and speculative should be funded with equity. That could include professional venture capital / private equity if a concept is very attractive (example: iFly), or the equity investment from an entertainment operator or wealthy developer (this is how most of America's entertainment venues have been built).

Taxpayers should not be funding (via redirected "incremental" sales tax) speculative, unproven ventures. Taxpayers do not receive equity ownership in these projects, yet the bonds are repaid from

sales tax collection – right off the top – not with operating cash flow. That means that a project doesn't even have to have positive cash flow, as long as it has some sales, in order to repay the STAR Bonds. This has created a capital vehicle that is “neither fish nor fowl”, and really ought to be ended.

**V. Inherent complexity that elected officials and state employees are not equipped to manage**

With the STAR Bond program, the state has entered the arena of providing capital in place of traditional capital market channels. Providing capital and monitoring portfolios is complex business. Traditional capital providers include banks, insurance companies, credit funds, pension funds, venture capital funds, private equity funds, mutual funds, and simply wealthy individuals. Capital providers have sophisticated processes in place to analyze projects, structure deals, and monitor portfolios. Such activity is performed by experienced financial professionals, many of whom possess advanced degrees in finance and the like. It is ill-advised to provide private capital “via statute” or bureaucratic program. This is a fatal flaw of the STAR Bond program, and is another reason why it should no longer be continued.

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<sup>i</sup> KSA Section 12-17,164(f)

<sup>ii</sup> PwC / CB Insights MoneyTree™ Report, Q4 2017 (available online: <https://www.pwc.com/us/en/industries/technology/moneytree.html> )