

**Kansas Department of Commerce  
Proponent Testimony on HB 2529  
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Prepared for House Commerce, Labor and Economic Development  
February 17, 2020, 1:30 p.m.**

Sales Tax Revenue (STAR) Bonds provide Kansas municipalities the opportunity to issue bonds to finance the development of major commercial, entertainment and tourism areas and use the sales tax revenue generated by the development to pay off the bonds. Currently there are 19 projects at various stages of completion and repayment throughout the state.

STAR Bonds are a municipal financing program intended to create tourism and entertainment attractions, drawing visitors from across the region and out of state. The new sales taxes generated by the tourist or entertainment attraction go toward paying down bonds that were issued to help finance the project. There has never been a default in the 20-year history of the STAR Bond program.

In order to be considered a major commercial entertainment and tourism area, a proposed project must be a statewide and regional destination, and include a high quality innovative entertainment and tourism attraction, containing unique features which will increase tourism, generate significant positive and diverse economic and fiscal impacts and be capable of sustainable development over time. Public benefits must exceed public costs.

STAR Bond financing must constitute less than 50% of total project costs. Additionally, retail tenants of projects financed by STAR Bonds must comply with all Kansas laws, including the Kansas “affiliate nexus” law, and collect sales tax on remote sales to Kansas residents.

Under current law, the STAR Bonds program is set to sunset on June 30<sup>th</sup>, 2020. STAR Bonds play an important role in growing the Kansas economy, as they’re designed to increase tourism and generate significant positive economic and fiscal impacts for our state. **HB 2529** was introduced Jan. 29, 2020, to extend the STAR Bonds program for an additional five years and implement important changes to the program. The proposed reforms and enhancements are intended to create more opportunities for qualified investment while increasing transparency and accountability.

Economic growth in Kansas has lagged the U.S. over the past decade. From 2008-2018, Kansas GDP growth rank fell from 14 to 35<sup>th</sup> in the nation. We’ve also seen our overall employment growth rank fall from 24 to 43 in that same time period. Addressing this profound challenge will

require tools to address both *economic* development and *community* development. STAR Bonds do just that. By creating construction, restaurant and retail jobs and spurring major capital investments in communities, STAR Bonds are clearly an economic development tool. But the larger benefit of having more vibrant communities that are attractive to existing and prospective residents and businesses cannot be overlooked. Dynamic, high quality places are key to retaining talented young people in our state as well as attracting a range of new residents into Kansas. STAR bonds are key to the economic well-being of our state and to communities large and small.

Currently there are seven reforms and two enhancements that are being proposed in HB 2529. The seven reforms are as follows:

- I. Department of Commerce will now commission the third-party feasibility study
  - The Developer will still pay for the feasibility study, but the Department will be the customer. This will eliminate any influence the developer may have on the study
- II. Cities and/or developers will be required to submit visitor tracking plan and data to Department of Commerce
  - This must be added to the current statute so we can begin to enforce visitor tracking on projects moving forward
- III. Restrictions have been added on land acquisition to limit the use of STAR Bond proceeds to only the land included in the attraction
  - STAR Bonds proceeds have been used liberally to acquire land in a STAR Bonds district. This reform tightens up the program to eliminate land speculation by developers using public funds.
- IV. Non-contiguous districts in MSAs are prohibited
  - In MSA's, this forces the attraction to be a major tourist draw in order for the STAR Bonds project to succeed
- V. Capital investment and annual sales threshold has been raised from \$50 million to \$75 million for urban projects
  - The current thresholds were over a decade ago. This sets a higher threshold that frankly is tougher to achieve. We want the bar to be raised and we are looking for truly unique projects that have a very high ceiling.
- VI. Cities and/or developers will be required to submit a summary of community engagement and support of the project as part of their application
  - We have heard from individuals who say we are not properly accounting for the community's feelings on a project. We will require a full summary of the engagement and a showing of local support for a specific project as part of our review process.

VII. Ten percent of sales tax for all existing businesses will be taken off the increment and go back to the taxing entities.

- At the time a STAR bond district is created, the sales tax revenues from any businesses already operating in the district are considered part of the “base” and not available for the project. However, the incremental gain of sales tax over the base is available for the project.
- Under the proposed bill, the first 10% of that incremental sales tax would go to the state and local unit. This allows the state to participate in the upside created by the project.

There are also two modifications to what type of projects STAR Bonds can be used for:

I. Eligibility should be extended to businesses and medical facilities with potential to attract sizable out-of-state visitation, allowing for even greater economic impact for the region and the state

- One realization from the Kansas Framework for Growth is that Kansas outperforms U.S. trends in attracting corporate headquarters jobs. The state has 25,600 jobs in this sector currently, and we have outperformed both our peers and the nation in headquarters attraction over the last decade (11% annual increase in HQ jobs from 2013-18 versus national average of 2.4%). We should push this advantage. Because headquarters of large companies are magnets for business travelers—auditors, accountants, suppliers, etc.—this would accomplish the same intent as traditional STAR Bonds: bringing new visitors and their money to the state. Business travelers spend significant sums on hotel stays and restaurants, and a single business traveler with an expense accounts may be likely to spend nearly the same as a family of four traveling to an amusement park, for example.
- Medical facility projects would be considered similarly to business facilities. A visitor who comes to the state for a medical procedure or medical consultation spends similarly to a visit by businesspeople to a corporate headquarters and is analogous to traditional tourism attraction visitors and spending. The goal is to enhance overall visitors and Kansas tourism.

II. A rural-only component that allows for vertical building and rehabilitation, and creates a pay as-you-go option where no bonds are issued

- Allow for vertical building and rehabilitation
- Set a capital investment floor that reflects realistic expectation for rural projects
- Add a Pay as You Go option. No bonds are issued in these cases and sales tax is used to help offset a developer’s costs (Cap for this would be \$4 Million)

With these reforms and modifications, STAR Bonds can become a more meaningful and efficient program to help grow the Kansas economy at a faster rate. Ultimately the goal is increasing the size of the pie for the State of Kansas through tourism and spending by people

visiting our attractions from out of state. These reforms and modifications are intended to create more opportunities for tourism and capital investment, while increasing transparency and accountability.

Thank you for allowing us to testify on the importance of renewing STAR Bonds and passing HB2529.