

## STATE OF KANSAS

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### **Testimony of Interim Commerce Secretary Robert North On Senate Bill 432**

**Senate House Commerce Committee**  
8:30 a.m., Tuesday, March 6, 2018

Madam Chairman and members of the Committee, I would like to offer comments on STAR Bonds and Senate Bill 432. Some historical perspective is appropriate regarding the evolution of STAR Bonds as you consider whether to further amend the Act.

As you know, STAR Bonds were first considered by the Legislature during the 1997 and 1998 sessions. STAR Bonds are a significant 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 has authorized the use of STAR Bonds for many successful projects across the state. These include the Kansas Speedway, Village West, Livestrong Stadium, Schlitterbahn Waterpark and National Training Center (in Wyandotte County); the Salt Museum (Hutchinson); Heartland Park Topeka; Wichita Water Walk and K-96 Greenwich; Flint Hills Discovery Center (Manhattan); Prairiefire Museum (Overland Park); Heritage Area in Dodge City; and Goddard Aquatic Center (Goddard).

As the state's experience with STAR Bonds has evolved over the years, the law has been amended multiple 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.

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 that have had a huge impact on the state's economy.

SB 432 raises several technical and policy issues to be considered by the Committee.

#### Section 1

- In Section 1, a STAR Bond underwriting commission is created and tasked with analyzing the "financial viability" of a STAR Bond project. The commission must approve a project for it to move forward. First, the bill appears to require commission

approval prior to the Secretary of Commerce approving the project and District as an “eligible area.” This timing sequence creates potential concern as financial viability and feasibility typically occurs toward the end of the process a feasibility study can cost between \$50-\$75K and developers/cities may be hesitant to incur that expense prior to knowing whether the project will be approved.

- There is no definition of what “financial viability” means. Does it mean the project generates adequate revenue to pay off bonds? In a larger sense, the capital markets currently provide this analysis. If bonds can be successfully marketed, then the project is viable. Institutional bond buyers are extremely sophisticated. The true test of project viability is whether there is a market for the bonds.

#### Section 5

- 5(b)(1) the language in lines 38-40 is unclear and arguably applies to projects whose Districts have already been approved but haven’t yet sold bonds. This is potentially unfair to several projects which have been in process for several years. One remedy is to expressly “grandfather” projects which are already in process.
- 5(g) –the bill prohibits a STAR Bond project if the applicant has had a “failed” project within 5 years of any new project application. STAR Bond Districts have a 20- year term. A determination as to a “failure” seems to necessarily occur at the end of that 20-year term. This language may have extremely limited applicability.
- The bill uses term “the city or county has defaulted on any STAR bonds”. Cities and counties cannot, as a matter of law, default on STAR Bonds.

Thank you for your consideration.