

March 28, 2016

The Honorable Marvin Kleeb, Chairperson
House Committee on Taxation
Statehouse, Room 185-N
Topeka, Kansas 66612

Dear Representative Kleeb:

SUBJECT: Fiscal Note for HB 2625 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2625 is respectfully submitted to your committee.

HB 2625 would make a number of changes to the Sales Tax and Revenue (STAR) Bond Financing Act. The bill would require any city or county proposing to undertake a STAR bond project to prepare an economic impact study. The study would be conducted by an independent economic consultant selected by the Secretary of Commerce and the city or county would be responsible for the payment of the consultant. A city or county approved for STAR bond project financing would be required to pay to the State General Fund any amount in which the project financing exceeds 50.0 percent of the total cost, including all project costs and any other cost related to the project. For any additional STAR bond project financing sought, the city or county would be required to pay any amount in which the financing exceeds 50.0 percent of the total cost of the addition or expansion to the STAR bond project.

The bill would allow STAR bond project costs to include expenses for an urban redevelopment complex; aquarium facility; athletic facility; meeting space (if part of an urban STAR bond project); economic impact study; statues; and historic theater. The bill would change the definition of a STAR bond project to include a major urban STAR bond project and certain blighted areas. The major urban STAR bond project would be located within the boundaries of a city and not exceeding 24 contiguous or not contiguous square blocks or 50 acres it total size with at least \$25.0 million in capital investment and \$10.0 million in projected annual gross sales. The bill includes requirements for establishing a major urban STAR bond district. The blighted area STAR bond project would be located within a metropolitan statistical area with at least \$25.0 million in capital investment and \$25.0 million in projected annual gross sales. The project would be required to be of regional or statewide importance. The Secretary of Commerce would be required to review and determine the eligibility of each project.

Current law defines “tax increment” as that portion of the revenue derived from state and local sales, use and transient guest tax collected from taxpayers doing business within that portion of a STAR bond project district occupied by a project that is in excess of the amount of base year revenue. The bill would amend this definition to clarify that the base year of a STAR bond project district following the addition of area to the STAR bond project would be the base year of the original area. For a major urban STAR bond project, the base year revenue would be set to zero for real estate and buildings acquired by a developer from a city or county. For a period of five years from the date that the STAR bonds are sold, the bill would prevent businesses located in the state to relocate to the STAR bond district, unless the businesses are owned by the developer or are located more than 50 miles away from the STAR bond district.

Under current law, local governments that issue a special obligation bond to finance a STAR bond project are required to use all state retail sales and compensating use taxes collected in the STAR bond project district to make principal and interest payments on the bonds. The bill allows for all or partial state retail sales and compensating use taxes collections to be pledged for principal and interest payments on the bonds. The bill would create the Department of Commerce STAR Bond Administration Fund and the Department of Revenue STAR Bond Administration Fund. Each of these new funds would receive 0.05 percent of the state sales tax collected from a STAR bond project district to finance administration costs.

The bill would also amend the definition of eligible area of a tax incremental financing (TIF) district to include buildings that are 65 years of age or older and any contiguous vacant or condemned lots.

The Department of Revenue indicates that HB 2625 would not have a direct fiscal effect on State General Fund revenues. The State General Fund and the State Highway Fund would not receive any growth in retail sales and compensating uses taxes collected in STAR bond districts until after the STAR bonds are paid back. The bill would allow local governments, with the approval of the Secretary of Commerce, to issue bonds to finance new STAR bond projects. The state does not lose any revenue when these projects are created because the revenue would not be generated if the project did not exist. The bill has the potential to increase state revenues if a STAR bond project is approved that uses only part of the state retail sales and compensating use tax collections from a STAR bond project district to be pledged for principal and interest payments on the bonds.

The Department of Revenue estimates that the bill would increase revenues by a total of \$60,000 in FY 2017, including \$30,000 for the Department of Commerce STAR Bond Administration Fund and \$30,000 for the Department of Revenue STAR Bond Administration Fund. To formulate these estimates, the Department of Revenue reviewed data on retail sales and compensating use taxes collected from STAR bond project districts. The bill would allow a total of 0.10 percent of state retail sales and compensating use taxes collected from STAR bond project districts to finance administration costs of the Department of Commerce and the Department of Revenue. The state revenue would no longer be retained in the STAR bond project to help pay off principal and interest costs on STAR bond projects, which has the potential to increase the time to complete paying off a STAR bond project.

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The Department of Revenue indicates that the bill would require \$11,805 from the State General Fund in FY 2017 to implement the bill and to modify the sales tax processing system. The required programming for this bill by itself would be performed by existing staff of the Department of Revenue. However, if the combined effect of implementing this bill and other enacted legislation exceeds the Department's programming resources, or if the time for implementing the changes is too short, expenditures for outside contract programmer services beyond the Department's current budget may be required. The Department indicates that the Department of Revenue STAR Bond Administration Fund and dedicated funding stream would not be sufficient to pay for its administrative costs to administer the STAR Bond Financing Act which are estimated to be \$120,000 per year.

The Department of Commerce indicates that it is currently responsible for reviewing and approving STAR bond applications. The Department indicates that the additional administrative costs associated with the oversight requirements proposed in the bill would be negligible and could be absorbed within existing staff levels and resources. The Department indicates that the Department of Commerce STAR Bond Administration Fund and dedicated funding stream would not be sufficient to pay for its administrative costs to administer the STAR Bond Financing Act.

The League of Kansas Municipalities and the Kansas Association of Counties indicate the bill would increase STAR bond project costs by requiring local governments to pay for an economic impact study on each potential STAR bond project for the Department of Commerce. The bill has the potential to reduce future STAR bond projects by limiting the ability of the state's share for future STAR bond project costs and requiring local governments to pay the State General Fund any amount in which the project financing exceeds 50.0 percent of the total cost. The bill would expand eligible STAR bond projects and adds additional eligible STAR bond projects costs that could enhance economic development in local communities. However, the League of Kansas Municipalities and the Kansas Association of Counties do not have data on future STAR bond projects that would be proposed to provide a precise estimate of the fiscal effect on local governments. Any fiscal effect associated with HB 2625 is not reflected in *The FY 2017 Governor's Budget Report*.

Sincerely,



Shawn Sullivan,
Director of the Budget

cc: Bob North, Commerce
Jack Smith, Department of Revenue
Larry Baer, League of Municipalities
Melissa Wangemann, Association of Counties