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GOVERNOR JEFF COLYER, M.D.
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March 7, 2018

The Honorable Julia Lynn, Chairperson
Senate Committee on Commerce
Statehouse, Room 445-S
Topeka, Kansas 66612

Dear Senator Lynn:

SUBJECT: Fiscal Note for SB 434 by Senate Committee on Assessment and Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning SB 434 is respectfully submitted to your committee.

Under SB 434, STAR bond projects financed from a pledge of tax increment revenues received from state sales taxes collected within a STAR bond district could be used for only the project costs associated with the tourist attraction component of the project plan. This requirement would be for all STAR bond projects approved on or after July 1, 2018. The bill defines "tourist attraction," which would include a visitation requirement. For cities with populations greater than 50,000, 30.0 percent of all visitors must be tourists from more than 100 miles away from the project and 30.0 percent of all visitors must be tourists from outside of Kansas. For cities with populations less than 50,000, 20.0 percent of all visitors must be tourists from more than 100 miles away from the project.

The bill would amend the definition of "STAR bond project district" by prohibiting STAR bond project districts from adding real property, unless it is associated with a new STAR bond project to develop a new tourist attraction that is separate and distinct from any tourist attraction developed or being developed in the STAR bond project district.

The bill would prohibit businesses from locating or relocating within a STAR bond project district under the following conditions:

1. The business is an establishment defined by 2017 North American Industry Classification System (NAIC) code 452311, which includes warehouse clubs and supercenters; is an establishment primarily engaged in retailing one or more general lines of new merchandise, such as apparel, furniture and appliances, and is 75,000 square feet or more in size; or is a department store defined by 2017 NAICS code 452210; and
2. The business is located within 25 miles of an established business that retails the same or similar merchandise.

Businesses would be exempt from the provisions above if none of the sales and compensating use tax revenue derived from the businesses is used to pay for any STAR bonds,

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and if the business is not receiving benefits from any city, county or state economic development program.

SB 434 would place limits on the amount of tax increment revenue from state sales taxes from a STAR bond project district that are pledged for a STAR bond project. The maximum amount of tax increment revenue received from state sales taxes that are pledged would be determined as follows:

1. If a city or county pledges sales and use tax revenues at a rate that is less than 2.0 percent, the maximum portion of revenue received from state sales taxes would be capped at a rate that is 60.0 percent of the state sales tax rate; or if a city or county pledges sales and use tax revenues at a rate that is more than 2.0 percent, the maximum portion of revenue received from state sales taxes would be capped at a rate that is 85.0 percent of the state sales tax rate; and
2. When an existing business located in the state relocates into or becomes part of a STAR bond district, the sales and use tax increment revenue from the business in excess of the base year revenue determined for that business would be allocated between the state and STAR bond district as provided in item one above.

The Kansas Association of Counties indicates the bill could affect the ability of counties to finance development projects by placing limitations on the use of STAR bonds financed from the increment in state sales taxes and the amount that could be pledged for projects. However, the Association was unable to estimate the fiscal effect. Under a scenario in which certain projects would be approved under the current STAR bond regulations but not under SB 434, the League of Kansas Municipalities indicates the bill could cause local governments to miss opportunities for additional tax revenue they might have otherwise received over the long term from the STAR bond project.

The Department of Commerce estimates the bill would not have a fiscal effect on agency operations. The changes made to certain criteria for STAR bond projects would not require the Department to alter any processes related to STAR bond applications and issues. The Department of Revenue notes that while the bill would add a layer of complexity in collecting and distributing state sales and used taxes for future STAR bond projects, there would be no fiscal effect from the bill.

Sincerely,



Larry L. Campbell
Chief Budget Officer

cc: Bob North, Commerce
Ben Cleaves, Transportation
Chardae Caine, League of Municipalities
Lynn Robinson, Department of Revenue
Melissa Wangemann, Association of Counties