



March 6, 2018

The Honorable Julia Lynn, Chair
Special Committee on Commerce
Kansas State Capitol
Topeka, KS 66612

Re: SB 434

Madame Chair:

Please accept this as Kansas Speedway's testimony regarding the above bill. Instead of addressing specific points in the bill please accept our comments regarding the use of STAR Bonds in Kansas, from the perspective of an organization that was literally one of the first successful STAR Bond projects. We applaud the Senate for considering and addressing many of our concerns and including measures to address them in SB 434.

Initially, allow me to state for the record that my organization absolutely understands that the use, in whatever form, of STAR Bonds is one of public policy and should be directed by the Kansas Legislature. Our comments are just that, comments on our view on STAR Bonds as we have seen major oversight by the Kansas Legislature and less oversight by local units of government to major oversight by state agencies and local units of government and less oversight by the Kansas Legislature, to everything in between.

We believe that STAR Bonds as an economic development tool are reliant on three critical components – metaphorically three legs of a stool – all of which are required for the stool to balance and for STAR Bonds to serve their purpose.

First, STAR Bonds originally only captured incremental sales tax revenue directly associated with a specific project. This was accomplished by drawing geographic boundaries around a STAR Bond District and capturing only the growth in revenue inside that district, all of which could be reasonably attributed to the project itself. The idea that STAR Bond projects effectively pay for themselves through this method is an important concept that we believe has been lost in recent years.

The relatively new practice of gerrymandering new STAR Bond Districts to include existing businesses and the growth in tax revenue from those businesses is inconsistent with the promise made to taxpayers that STAR Bond projects pay for themselves with new sales tax revenue directly resulting from the project itself. It is effectively impossible to determine how much growth in the sales tax revenue from an existing business is due to broad factors such as economic growth and inflation, not to mention changes in business strategy or investments by the business itself. Therefore, including any existing business through a gerrymandered STAR Bond District breaks the underlying promise made by governing bodies when STAR Bonds were introduced that they would **only capture new revenue directly attributable** to the project.

Second, we know from experience that taxpayers were promised that after a finite period of time, all revenue from the project would become available to city, county, and state government. This is a critical part of the understanding between citizens and government, as the STAR Bond project would eventually contribute new (and likely growing) sales tax revenues for the use by the communities involved.

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Page Two

Unfortunately, the gerrymandering process for creating new STAR Bond Districts allows a new and unrelated project to capture some or all of the normal growth in sales tax revenue to fund the project. A STAR Bond project that has actual economic viability does not need to cannibalize the growth in sales tax revenues from existing businesses using a gerrymandered boundary designed to capture enough revenue to make the project appear financially viable.

Gerrymandering new STAR Bond Districts effectively removes much of the financial discipline from the process; if a new project cannot generate enough revenue on its own, the new STAR Bond District can simply expand geographically to capture enough existing businesses to make the financial model work. Allowing a STAR Bond project to capture revenue that is not directly connected to the project itself is unfair to taxpayers, not to mention businesses that are subsidizing potential competitors through unfairly captured sales tax revenue due to a gerrymandered STAR Bond District.

Third, all governing bodies needed to have a financial stake in the project. This meant that a project would not rely on only a portion (city, county, or state) of sales tax revenue, but that all governing bodies had to agree that the project was important enough to dedicate some or all of the incremental tax revenue associated with the project to the payment of STAR Bonds used to finance the project.

Aside from the common-sense approach that each governing body should believe in a project enough to have a financial stake, without a financial commitment from each level of government that shares in sales tax revenue, the "gerrymandering" problem described above becomes much easier for developers to exploit. As an example, A STAR Bond project that uses overwhelmingly (or exclusively) the state portion of sales tax revenue naturally creates incentives for the local governing bodies to find a way to create boundaries for a STAR Bond district that will allow the project to proceed, regardless of its actual financial benefit.

Because the STAR Bond process places the primary responsibility on the city or county for determining the economic viability of a project (the feasibility study), if neither of these governing bodies has a financial stake, a local government may actually be motivated to gerrymander a new STAR Bond district in order to pay for a project using only state revenue.

Finally, when only the state portion of revenue is captured from existing businesses in a gerrymandered STAR Bond District, there is little or no incentive for the city or county government to oppose or closely scrutinize a project.

In conclusion, we would urge the Senate to incorporate the above items in whatever bill your committee works on. It might well be appropriate to continue the moratorium for an additional year in order to fully integrate all of the changes being considered by the 2018 Legislature. Regardless we encourage the Kansas Legislature to work toward the goals as we have outlined.

We appreciate your questions and would be happy to provide any additional information at your request.

Very Truly Yours,

A handwritten signature in blue ink, appearing to read "Patrick C. Warren".

Patrick C Warren
President
Kansas Speedway