

HB 1592 -- STAR BONDS FINANCING ACT

SPONSOR: Jones (89)

COMMITTEE ACTION: Voted "do pass" by the Committee on Economic Development by a vote of 21 to 0.

This bill establishes the STAR Bonds Financing Act which allows the governing body of a city or county to issue a bond that is to be repaid by the revenues received by the city or county from any transient guest tax and state and local sales and use taxes that are collected from taxpayers doing business within that portion of the city or county redevelopment district to retire a special obligation bond. A STAR bond is a sales tax revenue bond with a 20-year repayment period. Bonds issued under these provisions are not general obligations of the city or county nor do they give rise to a charge against the entity's general credit or taxing power and the bonds must state this on their face.

STAR bond financing can be used for a project with at least a \$50 million capital investment and \$50 million in projected gross annual sales revenues. A project located outside of a metropolitan statistical area that has been found by the Director of the Department of Economic Development to be in an eligible area under the provisions regarding tax increment financing and is of regional or statewide importance or a major tourism area and the department director has found that capital improvements totaling not less than \$100 million will be built in the state. No project can include a project for a gambling casino.

The governing body of a city or county is allowed to establish one or more STAR bond projects in any area in the city or outside of a city's boundaries with the passage of a resolution by the county commission of its approval. However, each special bond project must be approved by the department director, based on the required feasibility study, prior to utilizing STAR bonds.

The entity must prepare a project plan, hold a hearing on the plan, and adopt the project plan. A marketing study must be conducted to examine the impact of the special bond project on similar businesses in the projected market area and the department director must not approve any project if the project would have a substantial negative impact on business in the project market area or cause a default on any outstanding special obligation bonds. An entity may acquire property by eminent domain with a two-thirds vote of the governing body but must compensate the property owner consistent with state law and provide for the payment of relocation assistance.

The feasibility study must include:

- (1) Whether a project's revenue and tax increment revenue and other available revenues are expected to exceed or be sufficient to pay for the project costs;
- (2) The effect, if any, the project will have on any outstanding special obligation bonds payable from the revenues used to fund the project;
- (3) A statement of how the jobs and taxes obtained from the project will contribute significantly to the economic development of the state and region;
- (4) Visitation expectations;
- (5) The unique quality of the project;
- (6) An economic impact study;
- (7) Integration and collaboration with other resources or businesses;
- (8) The quality of service and experience provided, as measured against national consumer standards for the specific target market;
- (9) Project accountability, measured according to best industry practices;
- (10) The expected return on state and local investment that the project is anticipated to produce;
- (11) A statement concerning whether a portion of the local sales and use taxes are pledged to other uses and are unavailable as revenue for the project and if the revenues are so committed, a detailed explanation of the commitment and the effect; and
- (12) An anticipated principal and interest payment schedule on the bond issue.

The department director is required to set a limit on the total amount of STAR bonds that may be issued for any project. The entity is also required to have an annual certified public accountant audit of each project.

The developer of a special bond project is required to commence work on the project within two years from the date of the adoption of the project plan. If the developer does not commence work on the project within the two-year period, funding for the project ceases and the developer has one year to appeal to the department director for re-approval of the project. If the

project is re-approved, the two-year period for commencement applies. Missouri residents must be given priority consideration for employment in construction projects located in a special bond project area. Proceeds from STAR bonds may be used for:

- (1) Property acquisition;
- (2) Relocation assistance for property owners moving out of the project district;
- (3) Site preparation including utility relocations;
- (4) Drainage conduits, channels, levees, and river walk canal facilities;
- (5) Parking facilities, including multilevel parking structures devoted to parking only;
- (6) Street improvements;
- (7) Street light fixtures, connection, and facilities;
- (8) Utilities located within the public right-of-way;
- (9) Landscaping, fountains, and decorations;
- (10) Sidewalks and pedestrian underpasses or overpasses;
- (11) Drives and driveway approaches located within the public right-of-way;
- (12) Multi-sport athletic complex; and
- (13) Museum facility.

Proceeds from STAR bonds may not be used to pay the costs incurred in connection with the construction of buildings or other structures. Proceeds are not available for fees and commissions paid to real estate agents, financial advisors, or any other consultants who represent the developer or any other businesses considering locating in or located in a redevelopment district; salaries for local government employees; moving expenses for employees of the businesses locating within the redevelopment district; property taxes for businesses that locate in the redevelopment district; lobbying costs; any bond origination fee charged by the city or county; any personal property subject to taxation under state law; or travel, entertainment, and hospitality.

Each entity that has a project financed with STAR bonds must

prepare and submit an annual report by October 1 to the department director and the department must compile this information and submit an annual report to the Governor and the legislature by February 1. A project using state sales tax funding must be independently audited annually to determine if bond funds are being used for authorized purposes and the audit must be reported to the Governor, department director, and specified legislative committees during the legislative session following the audit.

These provisions expire June 30, 2017.

FISCAL NOTE: Estimated Net Cost on General Revenue Fund of \$60,447 in FY 2013, \$65,917 in FY 2014, and \$66,634 in FY 2015. No impact on Other State Funds in FY 2013, FY 2014, and FY 2015.

PROPOSERS: Supporters say that the STAR Bonds Financing Act provides another important economic development tool for local governments. The bill provides a number of safeguards to make sure that a project is worthy of bonding and can produce enough revenue to pay back the bonds. It will only be allowed in areas that the Department of Economic Development determines meet the criteria of the act.

Testifying for the bill were Representatives Jones (89) and Talbot; Missouri Chamber of Commerce; City of Kansas City; and Greater Kansas City Chamber of Commerce.

OPPOSERS: Those who oppose the bill say that tax credits and tax incentive programs are unconstitutional. There is no basis in the Missouri Constitution for these programs. The state would be better served to stop the competition among states trying to lure businesses through incentives.

Testifying against the bill was Bruce Hillis.